MINUTES

To: Board Members

From: Arbuckle (ext. 275) and Kramer (ext. 273)

Subject: EBC Minutes of the September 8, 2004 Board Meeting **Date:** October 19, 2004

cc: Bielstein, Smith, Petrone, Leisenring, Project Team, Mahoney, MacDonald, Pinson, Thompson, Sutay, Gabriele, Swift, Polley, MacDonald, Pinson, Attmore, Bean, Crook (IASB), Getz, Willis, Richards, Golden, FASB Intranet

Topic:	Equity-Based Compensation: Employee Share Purchase Plans and Disclosures
Basis for Discussion:	Board memorandums dated September 2, 2004 (Nos. 83 and 84)
Length of Discussion:	10:05 a.m. to 11:25 a.m.
Attendance:	
Board members present:	Herz, Crooch, Schieneman, Schipper, Seidman, and Trott (by phone)
Board members absent:	Batavick
Staff in charge of topic:	Zeyher and Abbate
Other staff at Board table:	Cassel, Tovey, Arbuckle, and Kramer
Outside participants:	Diana Willis (Consultant)

Summary of Decisions Reached:

The Board continued its redeliberations of its March 2004 FASB Exposure Draft, *Share-Based Payment*, and made the following decisions:

Employee Share Purchase Plans (ESPPs)

The Board decided that an ESPP is not compensatory and does not give rise to recognizable compensation cost if all of the following conditions are met:

1. The ESPP satisfies one of the following criteria:
   a. The terms of the ESPP are no more favorable than those available to all holders of the same class of shares.
   b. Any discount for the purchase of shares provided under the plan results in proceeds to the employer that are not less than the proceeds it would receive in an offering of shares if the shares had been issued to third parties by other means, for example, through an underwriter. A discount of 5 percent or less from the market price should be considered to comply with this criterion without further justification.
2. Substantially all eligible employees that meet limited employment qualifications may participate on an equitable basis.
3. The ESPP does not incorporate option features. For example, a plan in which the purchase price is based on the share price at date of grant and that permits a participating employee to cancel participation before the purchase date and obtain a refund of amounts previously paid is a compensatory plan.

The Board also made the following decisions on implementation issues regarding ESPPs:

1. If an entity justifies a purchase discount in excess of 5 percent, it would be required to reassess that discount at least annually and no later than the first share purchase during that fiscal year. If upon reassessment that discount is not deemed justifiable, subsequent grants using that discount would be compensatory.

2. If an ESPP provides for a discount in excess of that specified in criterion 1(b) above, the entire discount associated with the grant, not just the portion in excess of that specified in criterion 1(b), is considered compensatory.

3. Compensation cost related to grants made under ESPPs should be recognized over the requisite service period. The Board agreed that the requisite service period generally would be the period over which cash is accumulated for the purchase of shares or the purchase date if there is no required cash accumulation period.

Disclosures

The Board reaffirmed its support for the disclosure objectives in paragraph 46 of the proposed Statement. Those objectives are as follows:

> An entity with one or more share-based payment arrangements with employees shall disclose information that enables users of the financial statements to understand:
>
> a. The nature and general terms of such arrangements that existed during the period and the potential effects of those arrangements on shareholders (for example, the transfer of value from existing shareholders to option holders upon exercise)
> b. The effect of compensation cost arising from share-based employee payment arrangements on the income statement
> c. The method of estimating the fair value of the goods or services received, or the fair value of the equity instruments granted, during the period
> d. The cash flow effects resulting from share-based payment arrangements.

Minimum Disclosure Requirements

With one exception, the Board reaffirmed its support for the minimum disclosure requirements described in paragraph B191 of the proposed Statement. The Board decided to modify the disclosure in paragraph B191(i) to require disclosure of the actual tax benefits realized from stock options exercised during the annual period. The Board also decided that the final Statement's basis for conclusions should explain that disclosures are subject to the Statement's general materiality provision, which states that the provisions of the Statement need not be applied to immaterial items. The Board considered whether to add any additional disclosure requirements beyond those described in paragraph B191 and decided against adding any such disclosures.

Sensitivity Analysis

The Board considered whether sensitivity analysis relating to certain parameters used for pricing stock options should be a required minimum disclosure and decided not to require it. The Board emphasized the guidance provided on this matter in paragraph B193 of the proposed Statement, which states that an entity may provide such analysis in the form of a supplemental disclosure if the entity believes that the analysis would be useful to investors and creditors.

Interim Disclosures

The Board agreed that the minimum disclosure requirements relate to annual periods and decided not to amend APB Opinion No. 28, *Interim Financial Reporting*, to require any interim disclosure for share-based payment awards. The Board agreed that the basis for conclusions of the final Statement should explain that entities refer to Opinion 28 in assessing whether any quarterly disclosures would be necessary for users of financial information to understand the impact of share-based payment transactions during a quarterly period.

Other Disclosures

The Board considered a variety of additional proposed disclosures and decided that none of them should be required.

Objective of Meeting:

The objective of the Board meeting was to make decisions regarding employee share purchase plans and disclosures, and this objective was accomplished.

Matters Discussed and Decisions Reached:

Employee Share Purchase Plans (ESPPs)

Ms. Zeyher asked the Board to reconfirm the tentative conclusion for accounting for ESPPs reached at the August 25, 2004 Board Meeting. She explained the following six views with respect to ESPPs:

View A: Retain the Exposure Draft Guidance

Paragraph 23 of the Exposure Draft states:

> If the terms of an employee share purchase plan are no more favorable than those available to all holders of the same class of shares and substantially all eligible employees that meet limited employment qualifications may participate on an equitable basis, the plan is not compensatory. Illustration 19 (paragraphs B177–B179) of Appendix B provides guidance on how to determine whether the terms of an employee share purchase plan are no more favorable than those available to all holders of the same class of shares and gives examples of limited employment qualifications. [Footnote reference omitted.]

View B: Retain the Guidance of FASB Statement No. 123, *Accounting for Stock-Based Compensation*

Paragraphs 23 and 24 of Statement 123 state:

> If an employee stock purchase plan satisfies all of the following criteria, the plan is not compensatory. Therefore, the discount from market price merely reduces the proceeds from issuing the related shares of stock.
>
> a. The plan incorporates no option features other than the following, which may be incorporated:
>
> (1) Employees are permitted a short period of time—not exceeding 31 days—after the purchase price has been fixed to enroll in the plan.
>
> (2) The purchase price is based solely on the stock's market price at date of purchase, and employees are permitted to cancel participation before the purchase date and obtain a refund of amounts previously paid (such as those paid by payroll withholdings).
>
> b. The discount from the market price does not exceed the greater of (1) a per-share discount that would be reasonable in a recurring offer of stock to stockholders or others or (2) the per-share amount of stock issuance costs avoided by not having to raise a significant amount of capital by a public offering. A discount of 5 percent or less from the market price shall be considered to comply with this criterion without further justification.
>
> c. Substantially all full-time employees that meet limited employment qualifications may participate on an equitable basis.

> A plan provision that establishes the purchase price as an amount based on the lesser of the stock's market price at date of grant or its market price at date of purchase is, for example, an option feature that causes the plan to be compensatory. Similarly, a plan in which the purchase price is based on the stock's market price at date of grant and that permits a participating employee to cancel participation before the purchase date and obtain a refund of amounts previously paid is a compensatory plan.

View B': Modify the Statement 123 Guidance

This view would retain the Statement 123 guidance in View B, above, but remove the 5 percent safe harbor and replace it with the notion of the proceeds being no less than what the company would otherwise receive in an offering to third parties. If the Board were to select this view, the staff would ask the Board if there is any other guidance from Statement 123 that they would want to revise as well. The Statement 123 guidance in paragraphs 23 and 24 would be modified as follows (additions are underscored and deletions are marked through):

> If an employee stock purchase plan satisfies all of the following criteria, the plan is not compensatory. Therefore, the discount from market price merely reduces the proceeds from issuing the related shares of stock.
>
> a. The plan incorporates no option features other than the following, which may be incorporated:
> (1) Employees are permitted a short period of time—not exceeding 31 days—after the purchase price has been fixed to enroll in the plan.
> (2) The purchase price is based solely on the stock's market price at date of purchase, and employees are permitted to cancel participation before the purchase date and obtain a refund of amounts previously paid (such as those paid by payroll withholdings).
>
> b. The discount from the market price does not exceed the greater of (1) a per-share discount that would be reasonable in a recurring offer of stock to stockholders or others or (2) the per-share amount of stock issuance costs avoided by not having to raise a significant amount of capital by a public offering. ~~A discount of 5 percent or less from the market price shall be considered to comply with this criterion without further justification~~. <u>Any discount for the purchase of shares provided under the plan results in proceeds to the employer that are not less than the proceeds it would receive in an offering of shares if the shares had been issued to third parties by other means, for example, through an underwriter.</u>
>
> c. Substantially all full-time employees that meet limited employment qualifications may participate on an equitable basis.

A plan provision that establishes the purchase price as an amount based on the lesser of the stock's market price at date of grant or its market price at date of purchase is, for example, an option feature that causes the plan to be compensatory. Similarly, a plan in which the purchase price is based on the stock's market price at date of grant and that permits a participating employee to cancel participation before the purchase date and obtain a refund of amounts previously paid is a compensatory plan.

View D: Modify the Guidance in the Exposure Draft

This was the tentative conclusion at the August 25, 2004 Board meeting. The September 2, 2004 FASB Action Alert states:

The Board decided than an ESPP is not compensatory and does not give rise to recognizable compensation cost if all of the following conditions are met:

1. The ESPP satisfies one of the following criteria:

   a. The terms of the ESPP are no more favorable than those available to all holders of the same class of shares.
   b. Any discount for the purchase of shares provided under the plan results in proceeds to the employer that are not less than the proceeds it would receive in an offering of shares if the shares had been issued to third parties by other means, for example, through an underwriter.

2. Substantially all eligible employees that meet limited employment qualifications may participate on an equitable basis.

3. The ESPP does not incorporate option features. For example, a plan in which the purchase price is based on the share price at date of grant and that permits a participating employee to cancel participation before the purchase date and obtain a refund of amounts previously paid is a compensatory plan. The Board will consider related implementation issues at a future Board meeting.

View D': Modify View D

View D' would continue the two-principle approach in View D but add a 5 percent safe harbor and a prohibition on share repurchases. That guidance would look like the following (additions from View D are underscored):

The Board decided that an ESPP is not compensatory and does not give rise to recognizable compensation cost if all of the following conditions are met:

1. The ESPP satisfies one of the following criteria:

a. The terms of the ESPP are no more favorable than those available to all holders of the same class of shares.

b. Any discount for the purchase of shares provided under the plan results in proceeds to the employer that are not less than the proceeds it would receive in an offering of shares if the shares had been issued to third parties by other means, for example, through an underwriter. <u>A discount of 5 percent or less from the market price shall be considered to comply with this criterion without further justification.</u>

2. Substantially all eligible employees that meet limited employment qualifications may participate on an equitable basis.
3. The ESPP does not incorporate option features. For example, a plan in which the purchase price is based on the share price at date of grant and that permits a participating employee to cancel participation before the purchase date and obtain a refund of amounts previously paid is a compensatory plan. The Board will consider related implementation issues at a future Board meeting.
4. <u>The company does not repurchases shares from others while offering employees the opportunity to purchase shares through an ESPP.</u>

View E: Modify View D’

View E would continue the two-principle approach in View D but add a 5 percent safe harbor. (View E would not have the prohibition on share repurchases that View D’ has.) That guidance would look like the following (additions from View D are underscored):

The Board decided that an ESPP is not compensatory and does not give rise to recognizable compensation cost if all of the following conditions are met:

1. The ESPP satisfies one of the following criteria:

   a. The terms of the ESPP are no more favorable than those available to all holders of the same class of shares.

   b. Any discount for the purchase of shares provided under the plan results in proceeds to the employer that are not less than the proceeds it would receive in an offering of shares if the shares had been issued to third parties by other means, for example, through an underwriter. <u>A discount of 5 percent or less from the market price shall be considered to comply with this criterion without further justification.</u>
2. Substantially all eligible employees that meet limited employment qualifications may participate on an equitable basis.
3. The ESPP does not incorporate option features. For example, a plan in which the purchase price is based on the share price at date of grant and that permits a participating employee to cancel participation before the purchase date and obtain a refund of amounts previously paid is a compensatory plan. The Board will consider related implementation issues at a future Board meeting.

Ms. Zeyher opened up the discussion by asking the Board for their views on the best alternative for accounting for ESPPs.

Ms. Schipper favored View A, to retain the treatment in the Exposure Draft. Part of the reason for her view is the weight she places on convergence. In addition, she indicated that ESPPs might be viewed as taking one of two forms: (a) a mechanism for raising capital or (b) a form of compensation that shares certain characteristics with option plans. Ms. Schipper believes the task to determine when an ESPP is compensatory is to distinguish between these two forms. She believes the right place to draw the line between these two forms is the guidance in the Exposure Draft and therefore continues to support View A.

Mr. Crooch restated his original preference for View A. An ESPP transfers equity to employees at a discount; therefore, the discount should be accounted for as compensation.

Ms. Seidman believes that View D is theoretically correct. She said that an ESPP is predominantly a capital raising transaction because there is a cash inflow from employees, just like any other shareholder. Viewing the discount as simply a reduction in capital proceeds is consistent with the fact that it is a capital raising transaction. Ms. Seidman feels that there is no substantive difference between View B and View D. She prefers View D without the 5 percent noncompensatory discount.

Mr. Schieneman stated that he prefers View E because retaining the 5 percent noncompensatory discount is more convenient and operationally efficient. He believes ESPPs are not primarily a means for raising capital, but they encourage employees to become shareholders of the company. The buyback provisions of View E reinforce the encouragement of employee ownership. Mr. Schieneman prefers View E, but is not opposed to View D.

Mr. Herz stated that he prefers View D, but would accept View E. He does not prefer the 5 percent noncompensatory discount because the cost of raising capital differs between companies and changes over time.

Mr. Trott stated that he prefers View A, but would accept View E.

Based on a written proxy, Mr. Batavick prefers View E, but would accept View D. Based on comments made at previous Board meetings and the education session, the Board assumed Mr. Batavick would object to View A. He later confirmed that this was accurate.

Board members were split on their preferences between Views A, D, and E. Because four Board members objected to View A (LS, GS, BH, and GB), the Board discussed whether or not to include 5 percent as a noncompensatory discount, which is the difference between Views D and E.

Ms. Seidman believes including 5 percent as a noncompensatory discount will result in less implementation issues and should be established for cost-benefit reasons.

Mr. Leisenring pointed out that Views D and E are not convergent with IFRS 2, *Share-based Payment*.

Ms. Schipper noted that if Views D, D', or E were to be adopted, it would be possible for a company following the proposed Statement or IFRS 2 to conform to both statements. The concept of "terms no more favorable than those available to outside shareholders" is included in both standards. She indicated that it is important to consider the number of detailed implementation questions that will arise without the 5 percent noncompensatory discount, which will have to be addressed by the Board as they arise.

Mr. Crooch believes that if the Board does not retain the guidance in the Exposure Draft (View A) it would be best to retain the 5 percent noncompensatory discount to eliminate many implementation issues.

Five Board members (BH, GB, GS, LS, and ET) agreed to include a 5 percent noncompensatory discount (View E). Mr. Crooch and Ms. Schipper objected to View E.

The Board then agreed to discuss the following five implementation issues addressed by the staff:

Issue 1: How frequently would a company need to determine whether or not the proceeds it received were no less than it would have otherwise received in an offering? If a company determined its issuance costs would be 3 percent on January 1 and employees could purchase shares through an ESPP throughout the year (or over the next two years), would the company need to constantly reassess the discount?

Ms. Zeyher stated that the staff believes that the reassessment should take place at least annually, and no later than the first purchase that needs to be recognized in that year.

Ms. Seidman believes the discount would need to be reassessed if there were any modifications to the plan. However, she said that reassessment should be applied prospectively.

Ms. Schipper agreed with the staff that a reassessment should take place at least annually but that the reassessment should be applied prospectively.

The Board agreed with the staff recommendation to reassess the discounts at least annually, and no later than the first purchase that needs to be recognized in that year. If upon reassessment that discount is not deemed justifiable, subsequent grants using that discount would be compensatory (i.e., compensatory status is applied prospectively).

Issue 2: If a company were to estimate its issuance costs at 7 percent and offered a 15 percent discount to employees, would only 8 percent be deemed compensatory? Or would the entire 15 percent be deemed compensatory?

Ms. Seidman disagreed with the staff recommendation because she believes that it is inconsistent with the non-compensatory nature of ESPPs that the Board agreed upon. If an ESPP is non-compensatory if the discount is the same as the issuance costs, then the only amount that should be considered compensatory is the amount of discount above the issuance costs. Mr. Herz and Mr. Batavick agreed with Ms. Seidman.

The remaining four Board members (MC, GS, KS, and ET) agreed with the staff recommendation. They generally agreed that if a company offers employees such a deep discount, management's intention is solely to compensate employees.

With the exception of Ms. Seidman, the Board agreed to accept the staff recommendation.

Issue 3: If a company repurchases shares from others while offering employees the opportunity to purchase shares though an ESPP, should the ESPP plan continue to be considered a capital raising transaction?

The Board decided that Issue 3 would not need to be addressed because the Board chose View E. View D', which addressed share repurchases, was rejected as an alternative.

Issue 4: What would be the attribution period for any expense recognized under an ESPP plan?

The staff believes that under the Statement 123 proforma disclosure requirements, companies have been including certain ESPP discounts as compensatory and have been recognizing this expense over the service period. The staff believes that generally the service period would be over the purchase period (that is, the cash accumulation period or the purchase date if there is no required accumulation).

The Board unanimously agreed to accept the staff recommendation

Issue 5: If a company could sell shares in two different markets, either in the U.S. or in another market such as Frankfurt (because its shares are already listed in those two markets) and the offering costs were different, which discount would they be allowed to take?

The staff believes that raising capital has to be a function of the economic environment of the parent entity. If a German employee is able to buy shares of the parent company that are registered in Germany, then the discount should relate to those shares registered in Germany. If a U.S. employee is able to buy shares of the parent company that are registered in the U.S., then the discount should relate to those shares registered in the U.S.

The Board discussed the staff recommendation but agreed not to issue specific guidance regarding this issue.

Disclosure Objectives

Mr. Abbate observed that paragraph 46 of the Exposure Draft contains the following disclosure objectives:

> An entity with one or more share-based payment arrangements with employees shall disclose information that enables users of the financial statements to understand:
>
> a. The nature and general terms of such arrangements that existed during the period and the potential effects of those arrangements on shareholders (for example, the transfer of value from existing shareholders to option holders upon exercise)
>
> b. The effect of compensation cost arising from share-based employee payment arrangements on the income statement
>
> c. The method of estimating the fair value of the goods or services received, or the fair value of the equity instruments granted, during the period
>
> d. The cash flow effects resulting from share-based payment arrangements.

Mr. Abbate explained that the staff discussed disclosure objectives and minimum required disclosures in Board Memo No. 84. He also explained that the staff provided the Board with a summary of constituent responses from comment letters and noted that few responded to the disclosure issue from the Notice for Recipients of the Exposure Draft. However, the overwhelming majority of those who did respond believe that the disclosure objectives set forth in paragraph 46 of the Exposure Draft are appropriate and complete.

Mr. Abbate explained that based on the information provided to the Board, the staff believes that the disclosure objectives set forth in the Exposure Draft are appropriate and complete and therefore should be retained by the Board. Mr. Abbate asked the Board if it wished to retain the disclosure objectives from the Exposure Draft.

The Board unanimously decided to retain the disclosure objectives in paragraph 46 of the Exposure Draft.

Exposure Draft Minimum Required Disclosures

Mr. Abbate noted that in the discussion of minimum required disclosures, the staff provided the Board with a summary of feedback that was received from comment letters, public roundtable meetings, and other user representatives. Based on the analysis of the constituent feedback, the staff recommended that the Board, at a minimum, retain the current disclosures as prescribed in the Exposure Draft. Mr. Abbate asked the Board if it wished to retain, as a minimum, the current disclosures as prescribed in the Exposure Draft.

Mr. Schieneman said that he would retain all the minimum required disclosures but made a suggestion regarding paragraph B191(i) of the Exposure Draft, which would require the disclosure of the amount of cash received from the exercise of share options and similar instruments granted under share-based payment arrangements and the excess tax benefits recognized in equity for accounting purposes. Ms. Schieneman observed that the objective of the disclosures relating to cash flows arising from share-based payment awards is to allow the users to understand the net cash inflows and outflows from issuing those awards. He observed that the cash implications occur at the exercise date. He noted that currently the disclosure requires the actual tax deduction taken over the deferred tax asset previously recognized to be disclosed. Mr. Schieneman believes that disclosure should be changed so that it is required to reveal the actual tax benefit realized for tax purposes from stock options exercised during the annual period. He believes that change will better suit users of financial statements, in particular, since the proposed Statement would change the location of those cash flows in the statement of cash flows.

The other Board members agreed with Mr. Schieneman’s suggestion.

Mr. Herz asked the Board members to comment on whether they agreed with the minimum disclosures requirements.

Ms. Seidman said she was sympathetic to the comment letters that expressed that there should be fewer disclosures for share-based payment awards now that the compensation expense would be recognized in the income statement. She observed that when compared with other financial instruments, share-based payment awards have a more significant amount of required disclosures than the others. Specifically, Ms. Seidman was primarily concerned with the instrument specific and term-related disclosures in paragraph B191(b) of Appendix B in the Exposure Draft. She believes that those disclosures are provided to help users recalculate the expense calculated by management. Ms. Seidman noted that disclosures should enhance understandability of the number reported and not necessarily provide the data necessary to recalculate it. Therefore, she proposed deleting the disclosure required by paragraph B191(b). Ms. Seidman did agree that the other minimum required disclosures would be necessary to satisfy the disclosure objectives.

Mr. Schieneman agreed with Ms. Seidman and observed that those disclosures are all important for entities in which share-based payment awards are a significant item for financial reporting purposes. Ms. Seidman questioned if there was a way to ensure that disclosures be required only for those entities for which the compensation cost recognized arising from share-based payment awards was significant. Mr. Trott observed that this is similar to the materiality threshold used for financial reporting.

Mr. Cassel suggested that the Board explain in the basis for conclusions of the final Statement that it considered establishing some qualitative considerations as to when the extent of disclosures would be required, but concluded that the existing materiality threshold was adequate for that issue.

The Board was not persuaded by Ms. Seidman's suggestion to remove paragraph B191(b) from the minimum disclosure requirements. Mr. Tovey explained that analysts had specifically commented on the use of those disclosures to determine overhangs and other information that they use, and that eliminating that disclosure requirement would eliminate the information needed to do those calculations.

With one exception, the Board reaffirmed its support for the minimum disclosure requirements described in paragraph B191 of the proposed Statement. The Board decided to modify the disclosure in paragraph B191(i) of the proposed Statement to require disclosure of the actual tax benefits realized from stock options exercised during the annual period. The Board also decided that the final Statement's basis for conclusions should explain that disclosures are subject to its general materiality provision, which states that the provisions of the Statement need not be applied to immaterial items.

Sensitivity Analysis

Mr. Abbate observed that several constituents suggested that a sensitivity analysis for volatility and expected term assumptions be required. The staff assessed this suggestion and noted that paragraph B193 in the Exposure Draft prescribes that an entity may provide such analysis in the form of supplemental disclosure if the entity believes that the analysis would be useful to investors and creditors. In addition, other accounting estimates do not require such disclosure. The staff recommended that sensitivity analysis should not be a required minimum disclosure, but rather be retained in paragraph B193. Mr. Abbate asked the Board if it wanted to require the disclosure of sensitivity analysis.

Mr. Trott said he did not favor requiring the disclosure of sensitivity analysis. He believes that an entity may find it appropriate to include a sensitivity analysis with the information it provides about significant assumptions for accounting policies.

Mr. Schienenman believes that a sensitivity analysis would be appropriate when a binomial model is used. He observed that when an entity uses a binomial model, even though the other assumptions may be disclosed, a user might not have the ability to reperform the fair value calculation. He believes that a sensitivity analysis would benefit analysts and users of financial statements, and therefore should be included in the disclosures.

Ms. Schipper said that it was not the intent of disclosures to provide information for users to recalculate items in financial statements. She observed that the current disclosure requirements would not require an entity to disclose a sensitivity analysis, but they would permit an entity to disclose a sensitivity analysis if the entity concludes that the sensitivity analysis would be useful in meeting the disclosure objectives of the Statement.

Mr. Schieneman said that he would only require the sensitivity analysis for share-based payment transactions, not to disclosures of other items. He believes that financial statement users are less familiar with the fair value measurements for share-based payment awards.

Mr. Herz said that if the sensitivity analysis is significant an entity may include it in the critical accounting policies of management's discussion and analysis. He expressed sympathy toward those constituents that would use the information, but he does not believe the Board should include it as a required disclosure item.

The Board considered whether sensitivity analysis relating to certain parameters used for pricing stock options should be a required minimum disclosure and decided not to require it. The Board reemphasized the guidance provided on this matter in paragraph B193 of the proposed Statement, which states that an entity may provide such analysis in the form of a supplemental disclosure if the entity believes that the analysis would be useful to investors and creditors. Mr. Schieneman objected.

Interim Disclosures

Mr. Abbate observed that the Exposure Draft does not require quarterly disclosures and noted that the staff has mixed views on this issue. Some of the staff members believe that the recognition of EBC represents a significant income statement item. Therefore, the staff believes that paragraph 30 of Opinion 28 should be amended to add equity-based compensation to the list of required interim disclosures.

Other staff members question the need to require such a disclosure. Those staff members believe that companies will voluntarily provide quarterly information. Mr. Abbate asked the Board if it wished to amend paragraph 30 of Opinion 28 to add equity-based compensation to the list of required interim disclosures.

Mr. Trott questioned the need to have explicit quarterly disclosures for share-based payment transactions.Mr. Schieneman responded that it would be beneficial to have quarterly disclosures for those investors that may add the expense back to the income of the entity. He believes that it would help users in their analysis of the enterprise and help them in forecasts and projections.

Ms. Schipper observed that if share-based payment awards were significant to an entity, she believes that that entity would provide the information in its quarterly disclosures for its constituents.

Mr. Cassel suggested that the Board state in the basis for conclusions of the final Statement that an entity should refer to Opinion 28.

Six Board members [RHH, GJB, GMC, KAS, LFS, and EWT] agreed that the minimum disclosure requirements relate to annual periods and decided not to amend Opinion 28 to require any interim disclosure for share-based payment awards. The Board agreed that the basis for conclusions of the final Statement should explain that entities should refer to Opinion 28 in assessing whether any quarterly disclosures would be necessary for users of financial information to understand the impact of share-based payment transactions during a quarterly period. Mr. Schieneman disagreed with the Board’s decision.

Other Disclosures

Mr. Abbate observed that the staff provided a summarization of the additional disclosures suggested by constituents in an appendix to the Board memo. Mr. Abbate asked the Board if it wished to add any of the additional disclosures to the minimum required disclosures of the Exposure Draft.

Mr. Herz expressed interest in requiring a disclosure of an entity’s strategy and policy to repurchase outstanding shares to control the dilution of share-based payment awards.

Mr. Trott said that he would let entities disclose that information if theyit felt such information was pertinent for their constituents. Ms Seidman agreed, and observed that the disclosure would likely follow a customary wording and not provide users with the intended information.

The Board unanimously decided not to add any additional required disclosures beyond the disclosures required in paragraphs B191(a)–(k) of the proposed Statement.

Follow-Up Items:

None.

General Announcements:

None.