

PROPOSED FASB STAFF POSITION

No. FAS 123(R)-b

Title: Practical Exception to the Application of Grant Date as Defined in FASB Statement No. 123(R)

Comment Deadline: October 1, 2005

Introduction

1. This FSP is in response to recent inquiries from constituents to provide guidance on the application of grant date as defined in FASB Statement No. 123 (revised 2004), *Share-Based Payment*.

Background

2. The definition of grant date in Appendix E of Statement 123(R) includes criteria for determining that a share-based payment award has been granted. One of the criteria is a mutual understanding by the employer and employee of the key terms and conditions of a share-based payment award.

3. The notion of “mutual understanding” was included in the definition of grant date in FASB Statement No. 123, *Accounting for Stock-Based Compensation*. Practice has developed such that the grant date of an award is generally the date the award is approved in accordance with an entity’s corporate governance provisions, so long as the approved grant is communicated to employees within a reasonable period of time from the date of approval. For many preparers, the number and geographic dispersion of employees receiving share-based payment awards limit the ability to communicate with each employee immediately after the awards have been approved by the board of directors (or its equivalent). Though the use of technology could mitigate many obstacles to timely communication, many preparers have elected to continue personal communication with grantees due to human resource considerations (for example, the personalization of employee compensation).

4. Considering the practical difficulties of personally communicating the key terms and conditions of a share-based payment award, the Board believes a practical solution is warranted related to application of the concept of mutual understanding.

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5. In determining the grant date of an award subject to Statement 123(R), assuming all other criteria have been met, a mutual understanding of the key terms and conditions of an award to individual employees shall be presumed to exist at the date the award is approved in accordance with the relevant corporate governance requirements (that is, by the Board or management with the relevant authority) if both of the following conditions are met:

- a. The recipient does not have the ability to negotiate the key terms and conditions of the award with the employer.
- b. The key terms of the award are expected to be communicated to all of the recipients within a relatively short time period¹ from the date of approval.

Effective Date and Transition

6. The guidance in this FSP shall be applied upon initial adoption of Statement 123(R). An entity that adopted Statement 123(R) prior to the issuance of this FSP shall apply the guidance in this FSP in the first reporting period beginning after the date the FSP is posted to the FASB website.

¹ A relatively short time period is that period an entity could plausibly complete all actions necessary to communicate the awards to the recipients in accordance with the entity's customary human resource practices.