

PROPOSED FASB STAFF POSITION

No. FAS 150-d

Title: Issuers' Accounting for Employee Stock Ownership Plans under FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*

Comment Deadline: October 31, 2003

Background

As defined in AICPA Statement of Position No. 93-6, *Employers' Accounting for Employee Stock Ownership Plans*, an employee stock ownership plan (ESOP) is an "employee benefit plan that is described by the Employee Retirement Income Security Act of 1974 (ERISA) and the Internal Revenue Code (IRC) of 1986 as a stock bonus plan, or combination stock bonus and money purchase pension plan, designed to invest primarily in employer stock." By law, employers with ESOPs must provide the employee with a put option or other redemption feature if the shares are not readily tradable; often, the plan requires that upon death, retirement, or the employee's reaching a certain age the shares *must* be sold back to the employer at fair value. If the employer *must* redeem, then the shares meet the definition of mandatorily redeemable shares under Statement 150. Although Statement 150 "does not apply to obligations under stock-based compensation arrangements if those arrangements are accounted for under APB Opinion No. 25, *Accounting for Stock Issued to Employees*, FASB Statement No. 123, *Accounting for Stock-Based Compensation*, AICPA Statement of Position (SOP) 93-6, *Employers' Accounting for Employee Stock Ownership Plans*, or related guidance," it includes within its scope a "freestanding financial instrument that was issued under a stock-based compensation arrangement but is no longer subject to Opinion 25, Statement 123, SOP 93-6, or related guidance" (paragraph 17).

Q—Are ESOP shares that are mandatorily redeemable or freestanding agreements to repurchase ESOP shares within the scope of Statement 150?

A—No, ESOP shares or freestanding agreements to repurchase those shares are not within the scope of Statement 150, because those shares are accounted for under SOP 93-6 or its related guidance through the point of redemption. For example, SOP 93-6 provides accounting guidance for dividends on allocated shares, redemption of shares, recognition of expense, and computing earnings per share.

However, ESOP shares that are mandatorily redeemable or freestanding agreements to repurchase those shares continue to be subject to other applicable guidance related to SOP 93-6, for example, EITF Issue No. 89-11, "Sponsor's Balance Sheet Classification of Capital Stock with a Put Option Held by an Employee Stock Ownership Plan." As discussed in Issue 89-11, SEC registrants are required to comply with SEC Accounting Series Release No. 268,

Presentation in Financial Statements of "Redeemable Preferred Stocks," which requires certain amounts to be classified outside of permanent equity.

Transition

The guidance in this FASB Staff Position (FSP) is effective for financial statements issued after the final FSP is posted to the FASB website. If applying this FSP results in changes to previously reported information, the cumulative effect of the accounting change shall be reported as of the beginning of the first period ending after the final FSP is posted to the FASB website.