

Discussion Document E

Topic: FAS 123(R) Disclosures in Interim Periods during the Year of Adoption

Background

Section H of SAB 107, *First Time Adoption of Statement 123R in an Interim Period*, states that the disclosures required by paragraphs 64-65 (annual disclosures), 84 (transition disclosures), and A240-242 (minimum disclosure requirements and illustrative disclosures) of FAS 123R should be included in the Form 10-Q for the interim period when FAS 123R is first adopted. If a company applies the modified retrospective method of adoption in other than the first interim period in a fiscal year, the Form 10-Q should include disclosure of the effects of the adoption of FAS 123R on previously reported interim periods. If a company applies the modified prospective method, the financial statements for the prior interim periods and fiscal years when presented for comparative purposes should not reflect any retrospectively-adjusted amounts.

SAB 107 does not address whether such disclosures should also be included in the subsequent Form 10-Qs filed after the quarter of adoption.

The minimum disclosure requirements and illustrative disclosures included in paragraphs A240-A242 provide guidance related to annual periods and requires disclosures for the most recent year or for each year that an income statement is presented. For example, paragraph A240 includes the following guidance (not all inclusive):

A240. The minimum information needed to achieve the disclosure objectives in paragraph 64 of this Statement is set forth below. To achieve those objectives, an entity should disclose the following information:

- a. A description of the share-based payment arrangement(s), including the general terms of awards under the arrangement(s), such as the requisite service period(s) and any other substantive conditions (including those related to vesting), the maximum contractual term of equity (or liability) share options or similar instruments, and the number of shares authorized for awards of equity share options or other equity instruments. An entity shall disclose the method it uses for measuring compensation cost from share-based payment arrangements with employees.
- b. For the most recent year for which an income statement is provided:
 - (1) The number and weighted-average exercise prices (or conversion ratios) for each of the following groups of share options (or share units): (a) those outstanding at the beginning of the year, (b) those outstanding at the end of the year, (c) those exercisable or convertible at the end of the year, and those (d) granted, (e) exercised or converted, (f) forfeited, or (g) expired during the year.

- (2) The number and weighted-average grant-date fair value (or calculated value for a nonpublic entity that uses that method or intrinsic value for awards measured pursuant to paragraphs 24 and 25 of this Statement) of equity instruments not specified in paragraph A240(b)(1) (for example, shares of nonvested stock), for each of the following groups of equity instruments: (a) those nonvested at the beginning of the year, (b) those nonvested at the end of the year, and those (c) granted, (d) vested, or (e) forfeited during the year.

c. For each year for which an income statement is provided:

- (1) The weighted-average grant-date fair value (or calculated value for a nonpublic entity that uses that method or intrinsic value for awards measured at that value pursuant to paragraphs 24 and 25 of this Statement) of equity options or other equity instruments granted during the year.
- (2) The total intrinsic value of options exercised (or share units converted), share-based liabilities paid, and the total fair value of shares vested during the year.

Neither FAS 123R nor SAB 107 provides guidance on how the minimum disclosure requirements in paragraph A240 should be applied to interim periods other than the interim period of adoption.

Questions

Q1: Should the disclosures included in the Form 10-Q in the first quarter of adoption of FAS 123R continue to be included in each subsequent Form 10-Q filed until the first Form 10-K after adoption that contains the required disclosures is filed?

Recommended Response:

Yes - Based upon our discussions with the SEC staff, we believe the disclosures required in the first quarter of adoption are also required in the subsequent Form 10-Qs filed until the first Form 10-K after adoption that includes the disclosures is filed.

SEC Staff Response: The staff agrees with the above response. The staff noted that this question is not unique to the disclosure requirements of FAS 123(R), adding that if any new accounting pronouncement is adopted in an interim period, registrants should continue to include disclosures in their interim periodic reports until the Form 10-K is filed.

Q2: If the answer to Q1 is yes, and also for purposes of the Form 10-Q in the first quarter of adoption, should prior period comparable information (e.g., June 30, 2005 information in a June 30, 2006 Form 10-Q) be provided?

Recommended Response:

No - Based upon our discussions with the SEC staff, we do not believe that prior period comparable information is required. However, companies may conclude such information is useful to investor understanding.

SEC Staff Response: The staff agreed with the above response.

Q3: If the answer to Q1 is yes, should the disclosures in the subsequent 10-Qs be made on a year to date basis only or include both quarter to date and year to date information?

Recommended Response:

Year to date only - Based upon our discussions with the SEC staff, our understanding is that year to date information is required and quarter to date is not required.

SEC Staff Response: The staff indicated that only year to date information disclosure is required.

Q4: Should the disclosures provided in the Form 10-Qs include comparable period disclosures previously required by FAS 123/148, including the quarter and year to date information, as illustrated in Illustration 7 of FAS 148?

Recommended Response:

Yes - Based upon our discussions with the SEC staff, we believe that the disclosures previously required by FAS 123/148, including the quarter to date and year to date information is required. However, if the company was non-public during the comparable period of the prior year and used the minimum value method for purposes of measuring the value of employee stock options, the company would be prohibited from presenting the pro forma disclosures pursuant to paragraph 85 of Statement 123(R).

SEC Staff Response: The staff agrees with the above response. The staff noted that a company which uses the minimum value method should remove all minimum value disclosures once the registrant presents the FAS 123(R) disclosures in the period of adoption. The staff indicated that it would not require registrants to file a Form 8-K to remove the minimum value disclosures from previously filed financial statements.