

SEC FLASH REPORT

No. 2007-1

To: All Assurance Professionals

Date: January 5, 2007

**Re: SEC Amends Reporting of Stock and Option Awards in
Executive Compensation Disclosures**

**From: Liza Prossnitz
Jeff Lenz
Debbie MacLaughlin**

On December 22, 2006, the SEC amended the disclosure requirements for stock and option awards to executives and directors to make the compensation disclosed more consistent with the amounts reported for financial statements purposes. This amendment is effective December 29, 2006 and revises the new executive and director compensation disclosure rules that are effective for Forms 10-K and 10-KSB for fiscal years ending on or after December 15, 2006. (See our September 2006 Financial Reporting letter on the new executive and director compensation rules.) The SEC issued the rules as interim final rules with a request for comments that are due by January 29, 2007.

The previous rules required the entire grant date fair value of option and stock awards to be reflected in the Summary Compensation Table and Director Compensation Table in the year of the grant, regardless of the extent to which the award had vested. The revised rules require registrants to instead report option and stock awards costs over the requisite service period in the Summary Compensation Table and Director Compensation Table in accordance with FASB Statement No. 123 (Revised 2004), *Share-Based Payment*. That is, if a named executive officer receives an option grant with a fair value of \$25 million with a 5-year cliff vesting, the amount reported in the Summary Compensation Table under option awards for each year of the vesting period would be \$5 million.

Disclosure of the entire grant date fair value will still be required, but in a different location. The SEC amended the Grants of Plan-Based Awards Table to add a column showing the entire grant date fair value of each equity award (grant by grant) computed in accordance with Statement 123R. Continuing the example, the amount reported in the Grants of Plan-Based Awards Table in the year of the grant would be \$25 million. For directors, the complete grant date fair value of each equity award granted during the year is now required to be reflected in a footnote to the Director Compensation Table.

The SEC also:

- Required that stock and option awards subject to performance conditions should be disclosed in the Summary Compensation Table when it is probable they will be earned;
- Specified that the amounts disclosed for stock and option awards in the Summary Compensation Table and Director Compensation Table must exclude estimates for forfeitures and reflect actual forfeitures as negative compensation in the award totals when they occur, and required registrants to disclose the actual forfeiture amounts in table footnotes;

- Noted that stock and option awards to retiree eligible individuals should be reported in the Summary Compensation Table in the year of grant as the requisite service period has already occurred;
- Required that the remeasurement of equity-based awards reported as liabilities be reported in the Summary Compensation Table;
- Revised the Grants of Plan-Based Awards Table to require disclosure of any option or stock appreciation right that was repriced or modified during the last fiscal year, including the incremental fair value, computed as of the modification date in accordance with Statement 123R. For directors, the repricing or modification is required to be reported in a footnote to the Director Compensation Table;
- Specified that the basis for determining the executives whose compensation must be reported in the Summary Compensation Table remains unchanged, although the presentation of stock and option awards in the table has been modified as discussed above;
- Provided transition guidance for reporting stock awards and option awards granted in years prior to the adoption of Statement 123R in the Summary Compensation Table and the Director Compensation Table. Registrants are required to use the Statement 123R modified prospective transition method for disclosure purposes regardless of the method they used for financial statement reporting purposes; and
- Eliminated the disclosure of total grant date fair value of individual equity awards for small business issuers.

To view the SEC's final release, click on the following link:
<http://www.sec.gov/rules/final/2006/33-8765.pdf>