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Adoption of rule 3-20 (d) of article 3 of regulation S-X

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For IMMEDIATE Release Tuesday, November 3, 1953

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C.

ACCOUNTING SERIES

Release No. 76

SECURITIES ACT OF 1933

Release No. 3491

SECURITIES EXCHANGE ACT OF 1934

Release No. 4958

INVESTMENT COMPANY ACT OF 1940

Release No. 1920

ADOPTION OF RULE 3-20 (d)
OF ARTICLE 3 OF REGULATION S-X

On February 25, 1953, the Commission announced, in Securities Exchange Act of 1934 Release No. 4803-X, that it had under consideration the adoption of a proposed rule concerning treatment of compensation in the form of stock options granted by corporations to their officers and employees. All interested persons were invited to submit views and comments on the proposal.

The rule was proposed because of the apparent lack of unanimity of opinion among corporate and public accountants as to the appropriate manner in which the amounts, if any, to be charged against income representing compensation to recipients of stock options should be determined. The principal point of disagreement was the time at which the determination should be made. Persuasive arguments were advanced for each of three dates, i.e., when the options were (1) granted, (2) exercisable, or (3) exercised.

The Commission considered the comments and suggestions received and concluded that the propriety of using any one of these dates in all cases had not been established, and that determination of, and accounting for, cost to the grantor based upon the excess of fair value of the optioned shares over the option price at any one of the three dates advocated might, in some cases, result in the presentation of misleading profit and loss or income statements.

In these circumstances the Commission deemed it inappropriate to prescribe a procedure for determining the amount of cost, if any, of these stock options to be reflected in profit and loss or income statements filed with the Commission. However, in order that investors may be apprised of the monetary significance of the concessions made by registrants to officers and employees through the granting of stock options, the Commission announced, on August 25, 1953, in Securities Exchange Act Release No. 4926-X, a proposal to adopt a rule to be added to Regulation S-X, and to be designated Rule 3-20(d), which will require full and complete disclosure of all stock option arrangements in financial statements filed with the Commission.

Only a small number of comments were received with respect to this latter proposal, and the Commission has determined that the rule should be

adopted with certain minor modifications in wording. The principal change in the rule as adopted is the addition to paragraph (2) of the sentence "The required information may be summarized as appropriate with respect to each of these categories."

The text of the Commission's action follows:

The Securities and Exchange Commission, acting pursuant to authority conferred upon it by the Securities Act of 1933, particularly Sections 6, 7, 8, 10 and 19(a) thereof, the Securities Exchange Act of 1934, particularly Sections 12, 13, 15(d) and 23(a) thereof, the Public Utility Holding Company Act of 1935, particularly Section 20 thereof, and the Investment Company Act of 1940, particularly Sections 8, 30, 31(c) and 38(a) thereof, and deeming such action necessary and appropriate in the public interest and for the protection of investors and necessary for the execution of the functions vested in it by the said Acts, hereby adopts the following rule to be added to Article 3 of Regulation S-X:

"Rule 3-20(d). Capital Stock Optioned to Officers and Employees.--

"(1) A brief description of the terms of each option arrangement shall be given, including (i) the title and amount of securities subject to option; (ii) the year or years during which the options were granted; and (iii) the year or years during which the optionees became, or will become, entitled to exercise the options.

"(2) State (a) the number of shares under option at the balance sheet date, and the option price and the fair value thereof, per share and in total, at the dates the options were granted; (b) the number of shares with respect to which options became exercisable during the period, and the option price and the fair value thereof, per share and in total, at the dates the options became exercisable; and (c) the number of shares with respect to which options were exercised during the period, and the option price and the fair value thereof, per share and in total, at the dates the options were exercised. The required information may be summarized as appropriate with respect to each of these categories.

"(3) State the basis of accounting for such option arrangements and the amount of charges, if any, reflected in income with respect thereto."

The foregoing action shall be effective with respect to financial statements for any fiscal year ending on or after December 31, 1953, filed as a part of any registration statement, application for registration, or report.

By the Commission.

Orval L. DuBois,
Secretary.

(SEAL)