



Proposed Accounting Standards Update

Issued: September 30, 2009
Comments Due: October 26, 2009

**Equity (Topic 505) and
Earnings per Share (Topic 260)**

**Accounting for Stock Dividends, Including Distributions
to Shareholders with Components of Stock and Cash
(A Consensus of the FASB Emerging Issues Task Force)**

This Exposure Draft of a proposed Accounting Standards Update of Topics 505 and 260 is issued by the Board for public comment. Written comments should be addressed to:

Technical Director
File Reference No. EITF090E

The *FASB Accounting Standards Codification*[™] is the single source of authoritative nongovernmental U.S. generally accepted accounting principles. An Accounting Standards Update is not authoritative; rather, it is a document that communicates the specific amendments that change the Accounting Standards Codification. It also provides other information to help a user of U.S. GAAP understand how and why U.S. GAAP is changing and when the changes will be effective.

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites individuals and organizations to send written comments on all matters in this Exposure Draft of a proposed Accounting Standards Update. Responses from those wishing to comment on the Exposure Draft must be received in writing by October 26, 2009. Interested parties should submit their comments by email to director@fasb.org, File Reference No. EITF090E. Those without email should send their comments to "Technical Director, File Reference No. EITF090E, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116." Do not send responses by fax.

All comments received constitute part of the FASB's public file. The FASB will make all comments publicly available by posting them to its website and by making them available in its public reference room in Norwalk, Connecticut.

An electronic copy of this Exposure Draft is available on the FASB's website until the FASB issues a final Accounting Standards Update.

Copyright © 2009 by Financial Accounting Foundation. All rights reserved. Permission is granted to make copies of this work provided that such copies are for personal or intraorganizational use only and are not sold or disseminated and provided further that each copy bears the following credit line: "Copyright © 2009 by Financial Accounting Foundation. All rights reserved. Used by permission."



Financial Accounting Standards Board
of the Financial Accounting Foundation
401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116

Proposed Accounting Standards Update

Equity (Topic 505) and Earnings per Share (Topic 260)

Accounting for Stock Dividends, Including Distributions to Shareholders with Components of Stock and Cash (A Consensus of the FASB Emerging Issues Task Force)

September 30, 2009

Comment Deadline: October 26, 2009

CONTENTS

	Page Numbers
Summary and Questions for Respondents.....	1–4
Amendments to the <i>FASB Accounting Standards Codification</i> TM	5–8
Amendments to the XBRL Taxonomy	9

Summary and Questions for Respondents

Why Is the FASB Issuing This EITF-Developed Proposed Accounting Standards Update (Update)?

The objective of this proposed Update is to address diversity in practice related to the accounting for a distribution to shareholders that offers them the ability to elect to receive their entire distribution in cash or stock of equivalent value with a limit on the amount of cash that will be distributed in total. Historically, some entities have accounted for the stock portion of the distribution as a new share issuance that is reflected in earning per share (EPS) prospectively. Other entities have accounted for the stock portion of the distribution as a stock dividend by retroactively restating shares outstanding and EPS for all periods presented.

This proposed Update also addresses diversity in practice that exists on the timing of when entities have recognized a stock dividend distribution in EPS. Historically, some entities have reflected a stock dividend in EPS on the date the dividend is declared. Other entities have reflected a stock dividend in EPS when the trading price of the shares has been adjusted to reflect the effects of the stock dividend (the ex-dividend date) or when the dividend is settled.

Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would affect entities that declare dividends to shareholders that may be paid in cash or shares at the election of the shareholders with a limitation on the amount of cash that will be distributed. Such a scenario is common for Real Estate Investment Trusts, but the amendments in this proposed Update apply to other kinds of entities as well.

The amendments to U.S. generally accepted accounting principles (GAAP) for EPS in this proposed Update would affect accounting and reporting by any entity that issues its financial statements after a stock dividend has been declared but before the ex-dividend date or the number of shares to be issued is known.

What Are the Main Provisions?

Accounting Guidance

The amendments in this proposed Update would clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a limit on the amount of cash that will be distributed is a stock dividend, regardless of whether the actual stock distribution is proportionate to each

individual shareholder. However, only the minimum portion that will be issued in shares (that is, the portion that cannot be issued in cash) would be accounted for as a stock dividend. For example, if the cash available to be distributed is limited to 40 percent of the total value of the distribution, 60 percent of the total value of the distribution would be considered a stock dividend. The remaining 40 percent of the total value of the distribution that is available to be distributed in cash would not be considered a stock dividend, even if 40 percent of shareholders do not elect to receive cash and, therefore, more than 60 percent of the distribution is in shares.

The amendments to U.S. GAAP for EPS in this proposed Update would clarify that the computation of diluted EPS should not include the stock portion of a distribution to shareholders (as described above) that is accounted for as a stock dividend that has not yet been retroactively reflected in EPS.

The amendments also would clarify that an entity should reflect a stock dividend in EPS in its financial statements on the later of the ex-dividend date or the date the number of shares to be issued is known. This guidance would apply to all stock dividends and not just arrangements in which a shareholder has an election to receive distributions in the form of cash or stock with a limitation on the amount of cash that will be distributed.

Disclosures

The amendments to U.S. GAAP for EPS in this proposed Update would require an entity to disclose that EPS for all periods presented is subject to change if EPS has not yet been adjusted retroactively for all periods presented to reflect the stock dividend. An entity also would be required to disclose the number of shares that would be issued if the stock dividend occurred on the reporting date (for example, the number of shares that would be issued using the period-end market price).

How Would the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Would They Be an Improvement?

The proposed amendments in this proposed Update would clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a limit on the amount of cash that will be distributed is considered a stock dividend, regardless of whether the actual stock distribution is proportionate to each individual shareholder. Providing this guidance would improve current U.S. GAAP by eliminating diversity in practice and providing users of financial statements who are evaluating EPS trends of an entity with retrospective EPS information that is representative of the economic substance of the distribution when considered from the perspective of the entity as a whole.

The proposed amendments also would clarify that an entity should reflect a stock dividend in EPS in its financial statements on the later of the ex-dividend date or the date the number of shares to be issued is known. If an entity issues financial statements before a stock dividend has been retroactively reflected in EPS, the entity would not be required to include the estimated shares that will be issued in the computation of diluted EPS. However, the entity would be required to disclose the number of shares that would be issued if the stock dividend occurred on the reporting date. Providing that guidance would improve current U.S. GAAP by eliminating diversity in practice and providing users with information about the future issuance of shares that will affect prior and future period EPS while limiting the costs to preparers by not requiring the restatement of EPS on multiple occasions for the same transaction.

When Would the Amendments Be Effective?

The amendments in this proposed Update would be effective for interim and annual periods ending on or after December, 15, 2009, and would be applied on a retrospective basis.

How Do The Proposed Provisions Compare with International Financial Reporting Standards (IFRS)?

The amendments in this proposed Update may result in differences in accounting and reporting between U.S. GAAP and IFRS. IFRS guidance for reflecting stock dividends in EPS is similar to that of U.S. GAAP. However, IFRS does not provide specific guidance for distributions to shareholders that give them the ability to elect to receive cash or stock with a limit on the total amount of cash that will be distributed or for determining when a stock dividend should be considered to have occurred and retroactively reflected in EPS.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Question 1: The Task Force decided (and the Board agreed) that the minimum stock portion of a distribution to shareholders that allows them to elect to receive cash or shares with a limit on the amount of cash that will be distributed should be accounted for as a stock dividend, regardless of whether the actual stock

distribution is proportionate to each individual shareholder. Task Force members who supported this view believe that the stock portion of these distributions should be considered a stock dividend because the aggregate value of the distribution (in the form of stock, cash, or both) is distributed to each shareholder proportionately based on the shareholder's relative ownership interests. Because there is a limitation on the total amount of cash that will be distributed, those Task Force members view the shareholder elections of their preferred form of the distribution as an entity's distributing a fixed ratio of cash and shares for each share of stock and subsequently facilitating exchanges of cash and shares among the shareholders, rather than an entity's changing the relative ownership interests.

Some Task Force members did not agree that the stock portion of a distribution to shareholders that allows them to select cash or shares with a limit on the total amount of cash that will be distributed in total should be considered a stock dividend. Those Task Force members note that U.S. GAAP on equity (Subtopic 505-20) specifies that a stock dividend does not give rise to any change in shareholders' proportionate interests in the entity. Therefore, because the proportional interest of each shareholder would change unless all shareholders elected to receive cash or all shareholders elected to receive shares, those Task Force members do not believe that such a distribution should be considered a stock dividend. Rather, those Task Force members believe that such a distribution should be accounted for as a share issuance. In a stock issuance, prior reporting periods are not affected by the issuance.

Do you agree that the stock portion of a distribution to shareholders that allows shareholders to elect to receive cash or shares with a limit on the amount of cash that will be distributed in total should be accounted for as a stock dividend?

Question 2: Do you agree that when shareholders are given the option to elect to receive cash or shares with a limit on the total amount of cash that will be distributed, only the minimum portion of the distribution that will be issued in shares should be accounted for as a stock dividend? For example, if the cash available to be distributed is limited to 40 percent of the total value of the distribution, 60 percent of the total value of the distribution would be considered a stock dividend.

Question 3: Do you agree that if an entity issues financial statements before a stock dividend has been retroactively reflected in EPS, the entity should not be required to include the estimated shares that will be issued in the computation of diluted EPS?

Question 4: Do you agree that an entity should reflect a stock dividend in EPS in its financial statements on the later of the ex-dividend date or the date the number of shares to be issued is known?

Question 5: Is the proposed effective date operational? If not, please explain why.

Amendments to the *FASB Accounting Standards Codification*TM

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–8. In some cases, not only are the amended paragraphs shown but also the preceding and following paragraphs are shown to put the change in context. Terms from the Master Glossary are in **bold** type. Added text is underlined and deleted text is ~~struck out~~.

Amendments to Subtopic 505-20

2. Amend paragraph 505-20-05-3, with a link to transition paragraph 505-20-65-1, as follows:

505-20-05-2 Many recipients of stock dividends look upon them as distributions of corporate earnings, and usually in an amount equivalent to the fair value of the additional shares received. If the issuances of stock dividends are so small in comparison with the shares previously outstanding, such issuances generally do not have any apparent effect on the share market price and, consequently, the market value of the shares previously held remains substantially unchanged.

505-20-05-3 However, a **stock dividend** really takes nothing from the property of the ~~corporation entity~~ and adds nothing to the interests of the stockholders; that is, the ~~corporation's entity's~~ property is not diminished and the interests of the stockholders are not increased. The Except as described in the following paragraph, the proportional interest of each shareholder remains the same. The only change is in the evidence that represents that interest; the new shares and the original shares together representing the same proportional interests that the original shares represented before the issuance of the new ones.

3. Add paragraph 505-20-05-3A, with a link to transition paragraph 505-20-65-1, as follows:

505-20-05-3A In certain situations, shareholders are given an election to receive their entire dividend distribution in cash or shares of equivalent value, with a limitation placed on the amount of cash that will be distributed in the aggregate to all shareholders (for example, the total amount of cash available to be distributed may be limited to 40 percent of the total distribution). If too many shareholders elect to receive cash, each shareholder electing to receive cash receives a pro rata amount of cash corresponding to its proportionate interest in the distribution. In those situations, although the proportional interest of each individual

shareholder may not remain the same, the minimum portion of the distribution that will be issued in shares shall be accounted for as a stock dividend. For example, if an entity with 1 million shares outstanding declares a \$10 per-share dividend to be issued in cash or shares at the election of the shareholder, but the cash available to be distributed is limited to 40 percent (\$4 million) of the total value of the distribution, 60 percent (\$6 million in shares) of the total value of the distribution shall be considered a stock dividend. The remaining 40 percent of the distribution would be considered a cash dividend or stock issuance on the basis of the elections of the shareholders.

4. Amend paragraph 505-20-15-3, with a link to transition paragraph 505-20-65-1, as follows:

505-20-15-3 The guidance in this Subtopic does not apply to the accounting for a distribution or issuance to shareholders of any of the following:

- a. Shares of another corporation held as an investment
- b. Shares of a different class
- c. Rights to subscribe for additional shares
- d. Shares of the same class in cases in which each shareholder is given an election to receive cash or shares. However, if a limitation is placed on the amount of cash available to be distributed in the aggregate to all shareholders, this Subtopic applies to the minimum portion of the distribution that will be issued in shares. For example, if the cash available to be distributed is limited to 40 percent of the total value of the distribution, this Subtopic applies to the 60 percent of the total value of the distribution that will be distributed in shares because each shareholder's option to receive greater than 40 percent in cash is contingent upon the outcome of elections made by other shareholders. This Subtopic does not apply to the 40 percent that may be distributed in cash because each shareholder has an option that is not contingent upon other shareholder elections to receive cash or shares for 40 percent of the total distribution.

Amendments to Subtopic 260-10

5. Add paragraph 260-10-45-57A and its related heading, with a link to transition paragraph 505-20-65-1, as follows:

> > Distributions to Shareholders with Components of Stock and Cash

260-10-45-57A For a stock dividend that meets the description in paragraph 505-20-05-3A that has not yet been retroactively reflected in EPS for all periods presented (see paragraph 260-10-55-12), an entity shall not include the shares to

be distributed in the computation of diluted EPS. However, the entity shall provide the disclosures required by paragraph 260-10-50-3.

6. Add paragraph 260-10-50-3, with a link to transition paragraph 505-20-65-1, as follows:

260-10-50-3 If EPS has not yet been adjusted retroactively for all periods presented to reflect a stock dividend (see paragraph 260-10-55-12), an entity shall disclose that EPS for all periods presented is subject to change to reflect the stock dividend. An entity also shall disclose the number of shares that would be issued if the stock dividend occurred on the reporting date (for example, the number of shares that would be issued using the period-end market price).

7. Amend paragraph 260-10-55-12, with a link to transition paragraph 505-20-65-1, as follows:

260-10-55-12 If the number of common shares outstanding increases as a result of a stock dividend or stock split (see Subtopic 505-20) or decreases as a result of a reverse stock split, the computations of basic and diluted EPS shall be adjusted retroactively for all periods presented to reflect that change in capital structure. If changes in common stock resulting from stock dividends, stock splits, or reverse stock splits occur after the close of the period but before the financial statements are issued or are available to be issued (as discussed in Section 855-10-25), the per-share computations for those and any prior-period financial statements presented shall be based on the new number of shares. Stock dividends shall be retroactively reflected in earnings per share on the later of the ex-dividend date or the date the number of shares to be issued is known. If per-share computations reflect such changes in the number of shares, that fact shall be disclosed.

Effective Date and Transition

8. Add paragraph 505-20-65-1 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2009-XX, Equity (Topic 505) and Earnings per Share (Topic 260): Accounting for Stock Dividends, Including Distributions to Shareholders with Components of Stock and Cash (A Consensus of the FASB Emerging Issues Task Force)

505-20-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2009-XX, *Equity (Topic 505) and Earnings per Share (Topic 260): Accounting for Stock Dividends, Including Distributions to Shareholders with Components of Stock and Cash (A Consensus of the FASB Emerging Issues Task Force)*:

- a. The pending content that links to this paragraph shall be effective for the first reporting period, including interim periods, ending after December 15, 2009.
- b. The pending content that links to this paragraph requires retrospective application for all periods presented.

Amendments to the XBRL Taxonomy

The following elements should be added to the XBRL taxonomy as a result of the amendments in this proposed Update.

Standard Label*	Definition	Codification Reference
Earnings Per Share, Impact of Unrecognized Stock Dividend on Number of Shares Outstanding	A discussion of the lack of retroactive adjustment of EPS for all periods presented in reflection of a stock dividend that has not been settled. This disclosure must include a statement that EPS for all periods presented is subject to change to reflect the stock dividend.	260-10-50-3
Earnings Per Share, Number of Additional Shares That Will Be Outstanding upon Recognition of Stock Dividend	The number of shares that would be issued if the stock dividend had occurred as of the reporting date.	260-10-50-3

*The Standard Label and the Element Name are the same (except that the Element Name does not include spaces). If they are different, the Element Name is shown in *italics* after the Standard Label.