

Interpretation of the Emerging Accounting Issues Working Group**INT 00-06: EITF 97-14: Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested****ISSUE NULLIFIED BY SSAP NO. 104****INT 00-06 Dates Discussed**

March 13, 2000; June 12, 2000; September 11, 2000

INT 00-06 References

SSAP No. 13—Stock Options and Stock Purchase Plans (SSAP No. 13)

INT 00-06 Issue

1. This issue addresses the accounting for deferred compensation arrangements where amounts earned by an employee are invested in the stock of the employer and placed in a “rabbi trust.” Certain of those plans allow the employee to immediately diversify into nonemployer securities or to diversify after a holding period (for example, six months); other plans do not allow for diversification. The deferred compensation obligation of some plans may be settled in (1) cash by having the trust sell the employer stock (or the diversified assets) in the open market, (2) shares of the employer's stock, or (3) diversified assets. In other plans, the deferred compensation obligation may be settled only by delivery of the shares of the employer stock.
2. Rabbi trusts are grantor trusts generally set up to fund compensation for a select group of management or highly paid executives. To qualify as a rabbi trust for income tax purposes, the terms of the trust agreement must explicitly state that the assets of the trust are available to satisfy the claims of general creditors in the event of bankruptcy of the employer.
3. This issue does not address the accounting for stock appreciation rights (SARs) even if they are funded through a rabbi trust.
4. The issues are:
 - a. Whether the rabbi trust in a deferred compensation arrangement should be consolidated in the financial statements of the employer
 - b. How the investment in the employer stock should be recorded
 - c. Whether and, if so, how changes in the value of the employer stock held as a trust asset and the deferred compensation obligation should be recorded
 - d. The impact on the accounting for assets held by the rabbi trust and the deferred compensation obligation if the employee elects to diversify into nonemployer securities.

INT 00-06 Discussion

5. The working group reached a consensus to adopt the consensus positions of EITF 97-14, *Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi*

Trust and Invested with minor modifications. Paragraphs 6-9 represent the adopted consensus positions as modified by the working group.

6. The Task Force observed that there are four potential scenarios for deferred compensation arrangements covered by this issue:

- Plan A-The plan does not permit diversification and must be settled by the delivery of a fixed number of shares of employer stock.
- Plan B-The plan does not permit diversification and may be settled by the delivery of cash or shares of employer stock.
- Plan C-The plan permits diversification; however, the employee has not diversified (the plan may be settled in cash, shares of employer stock, or diversified assets).
- Plan D-The plan permits diversification and the employee has diversified (the plan may be settled in cash, shares of employer stock, or diversified assets).

7. The Task Force reached a consensus that for all of these types of plans, the accounts of the rabbi trust should be consolidated with the accounts of the employer in the financial statements of the employer.

8. The Task Force reached the following consensus's with respect to the various types of plans above.

- a. For Plan A, employer stock held by the rabbi trust should be classified in equity in a manner similar to the manner in which treasury stock is accounted for. Subsequent changes in the fair value of the employer's stock should not be recognized. The deferred compensation obligation should be classified as an equity instrument and changes in the fair value of the amount owed to the employee should not be recognized.
- b. For Plans B and C, employer stock held by the rabbi trust should be classified in equity in a manner similar to the manner in which treasury stock is accounted for. Subsequent changes in the fair value of the employer's stock should not be recognized. The deferred compensation obligation should be classified as a liability and adjusted with a corresponding charge (or credit) to compensation cost, to reflect the changes in the fair value of the amount owed to the employee.
- c. For Plan D, assets held by the rabbi trust should be accounted for in accordance with statutory accounting principles for the particular asset (for example, if the diversified asset is a marketable equity security, that security would be accounted for in accordance with Statement No. 30). The deferred compensation obligation should be classified as a liability and adjusted, with a corresponding charge (or credit) to compensation cost, to reflect changes in the fair value of the amount owed to the employee. Changes in the fair value of the deferred compensation obligation should not be recorded in unrealized gains or losses, even if changes in the fair value of the assets held by the rabbi trust are recorded, pursuant to Statement No. 30, in surplus.

9. This consensus applies to all new awards (including new awards made pursuant to existing arrangements) after January 1, 2001.

INT 00-06 Status

10. No further discussion is planned.