The Economic Consequences of the Statement of Financial Accounting Standards (SFAS) No. 150

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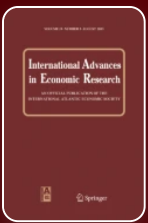

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Abstract

SFAS No. 150, "Accounting For Certain Financial Instruments with Characteristics of Both Liabilities and Equity" (SFAS 150), requires companies to report mandatorily redeemable preferred stock (MRPS) as a liability, and the dividends on these securities as interest expense. The purpose of this study is to examine the economic consequences of SFAS 150's adoption on a sample of public companies. Our analysis indicates that adoption resulted in both intended and possible unintended economic consequences. Specifically: (1) the impact of SFAS 150 on non-public companies caused the FASB to review its position on the disclosures concerning MRPS; (2) some companies redeemed their MRPS prior to the

adoption date of the standard; and (3) approximately 4% of sample firms were required to disclose MRPS as a liability.

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