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Compensation Contract Adjustments and the Economic Consequences of Financial Reporting in Response to FAS 123R: Accelerated Vesting of Employee Stock Options

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Abstract


Do mandated changes in accounting policy result in the reapportionment of executive equity compensation? Specifically, is this true for firms accounting for employee stock options (ESOs) under FAS 123R? This research addresses how this policy change motivated firms to substitute restricted stock awards (RSAs) and other non-option compensation for ESOs. Accelerating firms that overweighted options in their compensation structure are shown to utilize the implementation of FAS 123R as a deadline to reduce ESOs relative to RSAs. The evidence does not indicate that accelerating firms are managing option expense recognition in an effort to minimize management option compensation costs.

Keywords: Accelerating, Vesting, Employee Stock Options, FAS 123R

JEL Classification: M41

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