

Statement of Financial Accounting Standards No. 129

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Disclosure of Information about Capital Structure

February 1997



Financial Accounting Standards Board
of the Financial Accounting Foundation
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FAS 129: Disclosure of Information about Capital Structure

FAS 129 Summary

This Statement establishes standards for disclosing information about an entity's capital structure. It applies to all entities. This Statement continues the previous requirements to disclose certain information about an entity's capital structure found in APB Opinions No. 10, *Omnibus Opinion—1966*, and No. 15, *Earnings per Share*, and FASB Statement No. 47, *Disclosure of Long-Term Obligations*, for entities that were subject to the requirements of those standards. This Statement eliminates the exemption of nonpublic entities from certain disclosure requirements of Opinion 15 as provided by FASB Statement No. 21, *Suspension of the Reporting of Earnings per Share and Segment Information by Nonpublic Enterprises*. It supersedes specific disclosure requirements of Opinions 10 and 15 and Statement 47 and consolidates them in this Statement for ease of retrieval and for greater visibility to nonpublic entities.

This Statement is effective for financial statements for periods ending after December 15, 1997. It contains no change in disclosure requirements for entities that were previously subject to the requirements of Opinions 10 and 15 and Statement 47.

INTRODUCTION

1. In conjunction with its project to supersede the provisions for computing earnings per share (EPS) found in APB Opinion No. 15, *Earnings per Share*, the Board reviewed the disclosure requirements specified in that Opinion. The Board noted that although some of the disclosures were not necessarily related to the computation of earnings per share, they provided useful information. Because nonpublic entities were excluded from the scope of Opinion 15 and that Opinion's disclosure requirements regarding capital structure are not required elsewhere, the Board decided to include those disclosure requirements in this Statement and make them applicable to all entities. In addition, the Board decided to incorporate related disclosure requirements from other Opinions or Statements into this Statement for ease of use. The specific disclosures required by this Statement were previously required by APB Opinion No. 10, *Omnibus Opinion—1966*, Opinion 15, and FASB Statement No. 47, *Disclosure of Long-Term Obligations*, for entities that were subject to the requirements of those standards.

2. The following terms and definitions are used in this Statement:

- a. *Securities*—the evidence of debt or ownership or a related right. For purposes of this Statement, the term *securities* includes options and warrants as well as debt and stock.

- b. *Participation rights*—contractual rights of security holders to receive dividends or returns from the security issuer’s profits, cash flows, or returns on investments.
- c. *Preferred stock*—a security that has preferential rights compared to common stock.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Scope

3. This Statement applies to all entities, public and nonpublic, that have issued securities addressed by this Statement.

Information about Securities

4. An entity shall explain, in summary form within its financial statements, the pertinent rights and privileges of the various securities outstanding. Examples of information that shall be disclosed are dividend and liquidation preferences, participation rights, call prices and dates, conversion or exercise prices or rates and pertinent dates, sinking-fund requirements, unusual voting rights, and significant terms of contracts to issue additional shares. ¹

5. An entity shall disclose within its financial statements the number of shares issued upon conversion, exercise, or satisfaction of required conditions during at least the most recent annual fiscal period and any subsequent interim period presented. ²

Liquidation Preference of Preferred Stock

6. An entity that issues preferred stock (or other senior stock) that has a preference in involuntary liquidation considerably in excess of the par or stated value of the shares shall disclose the liquidation preference of the stock (the relationship between the preference in liquidation and the par or stated value of the shares). ³ That disclosure shall be made in the equity section of the statement of financial position in the aggregate, either parenthetically or “in short,” rather than on a per-share basis or through disclosure in the notes.

7. In addition, an entity shall disclose within its financial statements (either on the face of the statement of financial position or in the notes thereto):

- a. The aggregate or per-share amounts at which preferred stock may be called or is subject to redemption through sinking-fund operations or otherwise; and
- b. The aggregate and per-share amounts of arrearages in cumulative preferred dividends. ⁴

Redeemable Stock

8. An entity that issues redeemable stock shall disclose the amount of redemption requirements, separately by issue or combined, for all issues of capital stock that are redeemable at fixed or determinable prices on fixed or determinable dates in each of the five years following the date of the latest statement of financial position presented. ⁵

Amendments to Existing Pronouncements

9. Paragraphs 10 and 11 of Opinion 10 are deleted as well as the heading preceding paragraph 10.

10. Paragraph 10(c) of Statement 47 is deleted.

Effective Date and Transition

11. This Statement shall be effective for financial statements for periods ending after December 15, 1997. It contains no change in disclosure requirements for entities that were previously subject to the requirements of Opinions 10 and 15 and Statement 47.

<p style="text-align: center;">The provisions of this Statement need not be applied to immaterial items.</p>

This Statement was adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Dennis R. Beresford, *Chairman*
Joseph V. Anania
Anthony T. Cope
John M. Foster
Gaylen N. Larson
James J. Leisenring
Gerhard G. Mueller

Appendix

BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

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Appendix: BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

Introduction

12. This appendix summarizes considerations that were deemed significant by Board members in reaching the conclusions in this Statement. It includes reasons for accepting certain views and rejecting others. Individual Board members gave greater weight to some factors than to others.

Background Information

13. In March 1994, the Board added a project on earnings per share to its technical agenda to be pursued concurrently with a similar project of the International Accounting Standards Committee (IASC). The objective of the Board's project was twofold: (a) to improve and simplify U.S. generally accepted accounting principles and (b) to issue a standard that would be compatible with international standards.

14. In January 1996, the Board issued an FASB Exposure Draft, *Earnings per Share and Disclosure of Information about Capital Structure*. Part I of the proposed Statement included provisions related to the computation and presentation of earnings per share and was not applicable to nonpublic entities. Part II of the proposed Statement included disclosure requirements for information about capital structure and was applicable to all entities. The Board received 104 comment letters on the Exposure Draft, most of which commented only on the earnings per share provisions in Part I. The few letters that addressed Part II generally supported the Board's intent to centralize capital structure disclosure requirements.

15. The Board decided to issue Part II as a separate Statement because of its applicability to nonpublic entities. The Board was concerned that if it included those disclosure requirements in the final Statement on computing earnings per share, nonpublic entities might not be aware of the existence of those disclosure requirements and their wider applicability.

Conclusions on Basic Issues

Scope

16. This Statement is applicable to all entities that have issued securities addressed by this Statement. The Board believes that all of the required disclosures will be useful to users of financial statements of entities that have issued any type of security covered by this Statement, whether or not those securities are publicly held. The scope of this Statement is unchanged from

that of the standards that previously contained its disclosure requirements (Opinions 10 and 15 and Statement 47), except for the elimination of the exemption of nonpublic entities from the provisions of Opinion 15. That exemption was provided by FASB Statement No. 21, *Suspension of the Reporting of Earnings per Share and Segment Information by Nonpublic Enterprises*, which was amended by FASB Statement No. 128, *Earnings per Share*.

Disclosure Requirements

17. Opinion 15 required disclosure of descriptive information about securities that is not necessarily related to the computation of earnings per share. The Board considered limiting that disclosure to information about only those securities that affect or could affect the computation of basic and diluted EPS. However, the Board decided not to limit the disclosure requirement because it contains useful information about the capital structure of an entity that is not required elsewhere.

18. This Statement also requires disclosure of information about (a) the liquidation preference of preferred stock and (b) redeemable stock that previously had been required to be disclosed by Opinion 10 and Statement 47, respectively. Those disclosure requirements were incorporated into this Statement because the Board believes that it is useful to include all disclosure requirements related to an entity's capital structure in the same standard.

Effective Date

19. The Board decided that this Statement should be effective for financial statements for periods ending after December 15, 1997. That effective date corresponds to the effective date of Statement 128. This Statement contains no change in disclosure requirements for entities that were previously subject to the requirements of Opinions 10 and 15 and Statement 47.

Footnotes

FAS129, Footnote 1--Disclosure of this information about securities previously was required by Opinion 15, paragraph 19.

FAS129, Footnote 2--Disclosure of this information about changes in securities previously was required by Opinion 15, paragraph 20. Footnote 5 to Opinion 15 referred to paragraph 10 of APB Opinion No. 12, *Omnibus Opinion—1967*. That paragraph requires, among other things, disclosure of the changes in the number of shares of equity securities during at least the most recent annual fiscal period and any subsequent interim period presented to make the financial statements sufficiently informative. The disclosure required by paragraph 5 of this Statement meets that requirement.

FAS129, Footnote 3--Disclosure of this information about liquidation preferences previously was required by Opinion 10, paragraph 10.

FAS129, Footnote 4--Disclosure of this information about preferred stock previously was required by Opinion 10, paragraph 11.

FAS129, Footnote 5--Disclosure of this information about redemption requirements previously was required by Statement 47, paragraph 10(c).