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At a glance

A FASB proposal would effectively eliminate specific nonemployee share-based payment guidance. Existing employee guidance would apply for all share-based payment awards.

FASB proposal would align the accounting for all share-based payment awards

What happened?

On March 7, 2017, the FASB proposed guidance[1] that would align the accounting for share-based payment awards issued to nonemployees with the guidance applicable to grants to employees.

Under current GAAP, the accounting for nonemployee share-based payments is significantly different than the guidance for employee awards, particularly with regard to the measurement date and the impact of performance conditions. Under the proposal, entities would apply the existing employee guidance to nonemployee share-based transactions, with the exception of specific guidance related to the attribution of compensation cost.

Additionally, the proposal would align the post-vesting classification (equity or liability) requirements for employee and nonemployee awards, and remove the current requirement to reassess the classification for nonemployee awards upon vesting. It would also give private companies a one-time election to measure liability-classified nonemployee share-based payment awards at intrinsic value instead of fair value. Additionally, private companies would be able to value awards using an industry sector volatility index (referred to as a "calculated value") if determination of expected volatility is not practicable, consistent with the guidance for employee share-based payment awards.

Why is this important?

Aligning the accounting for employee and nonemployee share-based payment awards should reduce complexity. In particular, equity-classified share-based payment awards issued to non-employees would be measured on the grant date, instead of the current requirement to remeasure the awards through the performance completion date (generally the vesting date). The new model would also align the accounting for performance conditions in that compensation cost associated with the award would be recognized when achievement of the performance condition is probable, rather than upon achievement of the performance condition.

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[1] Proposed Accounting Standards Update, *Compensation—Stock Compensation (Topic 718) - Improvements to Nonemployee Share-Based Payment Accounting*

What's next?

The guidance would generally be applied on a modified retrospective basis to outstanding awards at the date of adoption, with a cumulative effect adjustment to opening retained earnings as of that date. The guidance on the use of a calculated value would be applied prospectively to new measurements of fair value after the effective date.

The effective date will be determined once the Board considers the feedback received from stakeholders. Stakeholders are encouraged to provide comments on the proposal. Comments are due June 5th.

Questions?

PwC clients who have questions about this *In brief* should contact their engagement team. Engagement teams who have questions should contact the National Professional Services Group.

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