

In brief

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At a glance

New FASB guidance clarifies that all changes to share-based payment awards are not necessarily accounted for as a modification.

FASB clarifies share-based payment modification guidance

What happened?

On May 10, 2017, the FASB issued guidance¹ to clarify when to account for a change to the terms or conditions of a share-based payment award as a modification.

Under the new guidance, modification accounting is required only if the fair value², the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions.

Why is this important?

The general model for modifications of share-based payment awards is to record the incremental value arising from the change as additional compensation cost. However, in situations in which the existing award is not probable of vesting, a modification gives rise to a new measurement date, which will result in a change in the total compensation cost recognized for an award. If an award is not probable of vesting at the time a change is made (for example, due to service or performance conditions that are not expected to be met), the new guidance clarifies that no new measurement date will be required if there is no change to the fair value, vesting conditions, and classification. Previously, judgments about whether certain changes to an award were substantive may have impacted whether or not modification accounting was applied in these situations.

Regardless of whether the change to the terms or conditions of the award requires modification accounting, the existing disclosure requirements and other aspects of GAAP associated with modifications, such as earnings per share, continue to apply.

What's next?

The guidance is effective prospectively for all companies for annual periods beginning on or after December 15, 2017. Early adoption is permitted.

¹ Accounting Standards Update 2017-09, *Compensation—Stock Compensation (Topic 718) - Scope of Modification Accounting*

² Or calculated or intrinsic value, if those amounts are being used to measure the award under ASC 718.

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