

FASB Stock Compensation Accounting Amendments (ASU 2016-09)

Summary of early adopters

*Update as of August
22, 2016*





Dear Clients and Friends,

PwC is pleased to share with you our updated FASB Stock Compensation Accounting Amendments (ASU 2016-09) *Summary of Early Adopters* study.

We've been on the lookout for companies that have early-adopted the new amendments¹. To-date, we've identified 160 companies as of August 22nd, 2016. This includes the 44 companies initially identified in our first version of this study released in June 2016. The findings in this report are based on the public filings on Forms 10-Q and 10-K made by those companies. These companies are from a diverse range of industries, including pharmaceutical and life services, retail and consumer, industrial products, and technology companies.

We hope you will find the results of our study useful as you and your organization consider whether to early adopt the amendments.

Ken Stoler
Partner

¹ For more on the FASB's amendments, see our Insight dated March 31, 2016 [Insight](#)

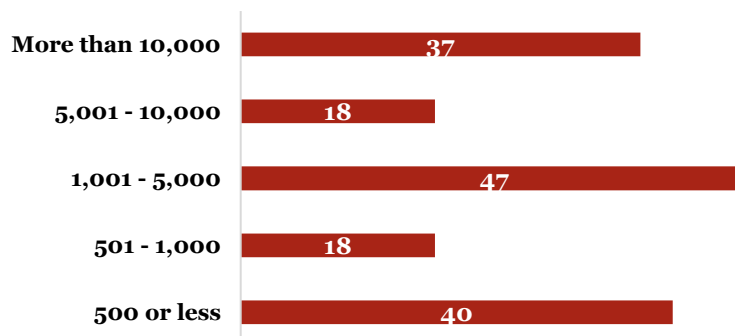
Sample demographics

On March 30, 2016, the FASB issued Accounting Standards Update (ASU) 2016-09, *Improvements to Employee Share-Based Payment Accounting* (the Amendments), which is intended to simplify and improve accounting for share-based payments. Early adoption is permitted in any interim or annual period.

In an effort to capture trends of early-adopters, we've been on the lookout for companies that have early-adopted the new amendments². To-date, we've identified 160 companies as of August 22nd, 2016. The findings in this report are based on the public filings on Forms 10-Q and 10-K made by those companies. These companies are from a diverse range of industries, including pharmaceutical and life services, retail and consumer, industrial products, technology, and banking and capital markets.

Sector	Number of Sampled Companies
Asset and Wealth Management	8
Automotive	4
Banking and Capital Markets	17
Energy	5
Entertainment, Media and Communications	7
Health Services	3
Industrial Products	31
Insurance	2
Pharmaceutical and Life Sciences	29
Power and Utilities	8
Retail and Consumer	22
Technology	24

Company Size (Employee Count)



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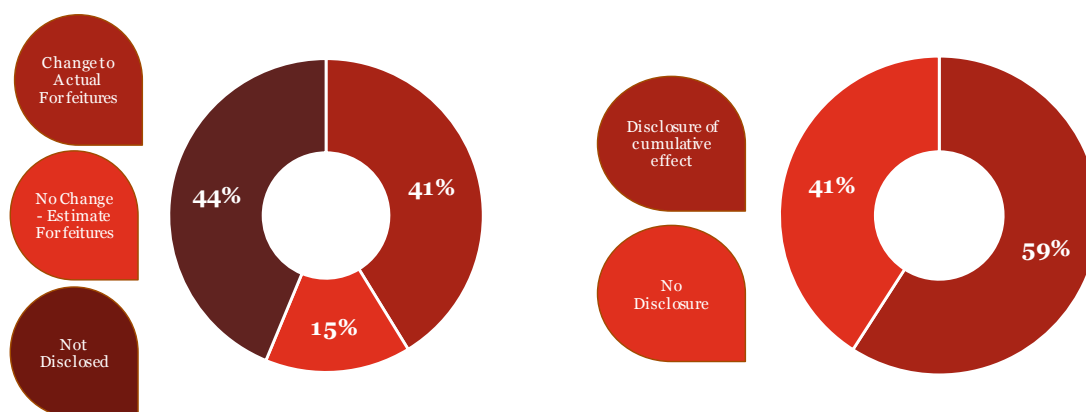
Accounting for forfeitures

The Amendments allow for a one-time accounting policy election to either 1) account for forfeitures as they occur or 2) continue to estimate forfeitures (as required under the current guidance).

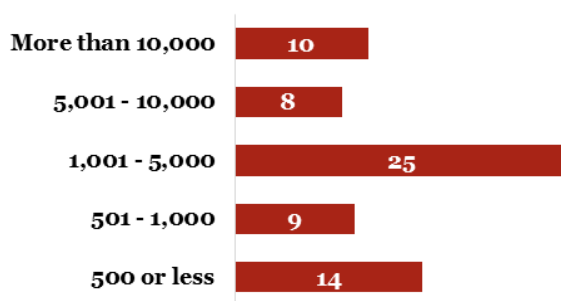
Of the 160 early-adopters, 41% have elected to account for forfeitures as they occur and 15% chose to continue estimating forfeitures under the current guidance. The remaining 44% of companies did not explicitly disclose their policy election (though we might infer from the lack of disclosure that these companies chose to continue their policy of estimating forfeitures).

Of the 41% of companies accounting for forfeitures as they occur, 59% disclosed the cumulative effect resulting from this change in accounting principle.

Forfeitures



Of the companies electing to recognize forfeitures as they occur, we looked at the breakdown by company size:



Sample Disclosure of Forfeiture Rate

Upon early adoption of ASU 2016-09, the Company elected to change its accounting policy to account for forfeitures as they occur. The change was applied on a modified retrospective basis with a cumulative effect adjustment to retained earnings of \$1.1 million as of January 1, 2016.

Income tax effect

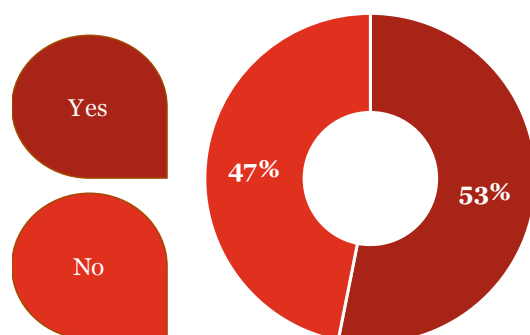
The ASU requires all excess tax benefits and tax deficiencies during the period to be recognized in income (rather than in equity) on a prospective basis.

In addition, the ASU removed the requirement to delay recognition of an excess tax benefit until it reduces current taxes payable. This update is required to be applied on a modified retrospective basis, resulting in a cumulative-effect adjustment to opening retained earnings in the period of adoption.

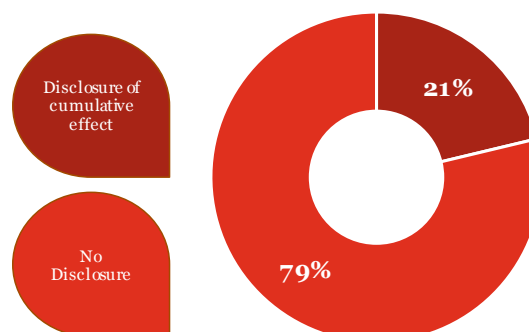
Of the 160 companies, 53% included footnote disclosure of the amount of excess tax benefit/deficiency recorded in the income during the period. This impact on income ranged from a benefit of under \$1 million to over \$400 million. We did not find any early adopters who had net tax deficiencies – and thus expense charges - resulting from “shortfalls”. For some, there is no impact on income because the company is in a net operating loss position with a full valuation allowance.

With respect to the cumulative-effect adjustment, 21% of companies disclosed the amount recorded to retained earnings (but remember that this only applies to companies that had previously delayed recognition of windfalls).

Disclosure of P&L Impact of Windfalls



Disclosure of Cumulative- Effect Adjustment



Sample Disclosure of P&L Impact of Windfalls

Amendments related to accounting for excess tax benefits have been adopted prospectively, resulting in recognition of excess tax benefits against income tax expenses rather than additional paid-in capital of \$1.2 million and \$3.0 million for the three and six months ended June 30, 2016, respectively.

Sample Disclosure of Cumulative-Effect Adjustment for Deferred Windfalls

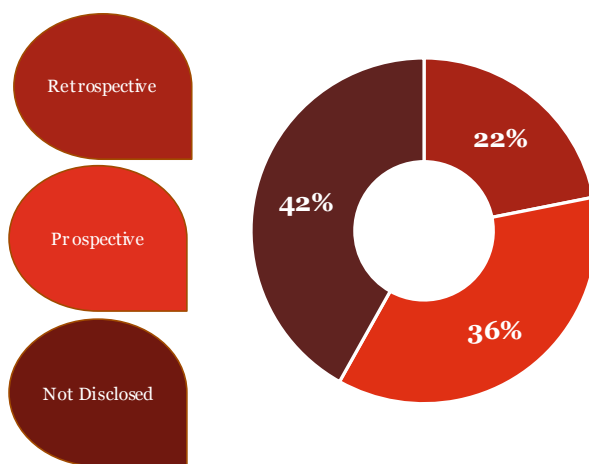
As a result of the adoption, we recorded an adjustment to retained earnings of \$1.0 million to recognize net operating loss carryforwards, net of a valuation allowance, attributable to excess tax benefits on stock compensation that had not been previously recognized to additional paid in capital.

Excess tax benefits – cash flows classification

Entities are now required to report all windfall tax benefit cash flows as operating activities, a change from the current requirement of reporting these benefits as financing inflows (and a corresponding operating outflow). The change can be applied on either a *prospective* or *retrospective* basis.

Out of the 160 early adopters, 36% of companies applied the update on a *prospective* basis and 22% on a *retrospective* basis. The remaining companies did not explicitly disclose the nature of application.

Retrospective vs. Prospective



Sample Cash Flows Disclosures

Prospective: Excess tax benefits for share-based payments are now included in Net operating cash rather than Net financing cash. The changes have been applied prospectively in accordance with the ASU and prior periods have not been adjusted.

Retrospective: Retrospective application of the cash flow presentation requirements resulted in increases to both net cash provided by operations and net cash required for financing activities of \$74 million for the six months ended August 1, 2015.

For more information contact

If you would like additional details on our analysis, please contact any of the authors listed below or your regional People and Organization professional:

Ken Stoler

(213) 270 8933

ken.stoler@pwc.com

Kevin Hassan

(203) 539 4049

kevin.hassan@pwc.com

Matt Foley

(646) 471 9837

matthew.e.foley@pwc.com

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