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No. 2017-06
9 March 2017

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FASB Proposes Improvements to Nonemployee Share-Based Payment Accounting

Background

On 7 March 2017, the FASB issued a proposed ASU, *Compensation – Stock Compensation (Topic 718).* The FASB issued this proposed ASU as a part of its Simplification Initiative to maintain or improve the usefulness of the information provided to the users of financial statements while reducing cost and complexity in financial reporting.

What's new?

The areas for simplification in this proposed ASU involve several aspects of the accounting for nonemployee share-based payment transactions resulting from expanding the scope of Topic 718, Compensation—Stock Compensation. The proposed ASU would include payments for goods and services to nonemployees which currently only includes payments to employees.

An entity would apply the requirements of Topic 718 to nonemployee awards except for specific guidance on inputs to an option-pricing model and the attribution of cost (that is, the period of time over which share-based payment awards vest and the pattern of cost recognition over that period). The share-based payments to nonemployees would need to be for goods or services purchased by the grantor for use or consumption in its own operations and not effectively issued to raise capital.

The amendments in this proposed ASU would affect all entities that enter into share-based payment transactions for acquiring goods and services from nonemployees.

The FASB invites individuals and organizations to comment on the proposed ASU. Of particular interest to the FASB is commentary that the proposed principle reduces cost and complexity without diminishing the usefulness of the information provided in the financial statements. Specifically, the FASB solicits comments on the measurement methods in the proposed ASU.

Effective dates and transition requirements

An entity would apply the amendments in this proposed ASU through a cumulative-effect adjustment to retained earnings as of the beginning of the annual period of adoption. However, a nonpublic entity that substitutes calculated value for expected volatility when measuring share-based payment awards would apply the proposed amendments prospectively to all awards that are measured at fair value after the effective date. The proposed amendments would be applied to only outstanding awards.

Disclosures required at transition would include the nature of and reason for the change in accounting principle and, if applicable, quantitative information about the cumulative effect of the change on retained earnings or other components of equity.

The effective date will be determined after the FASB considers stakeholder feedback on the amendments in this proposed ASU. The FASB acknowledges that the effective date of the proposed amendments could be linked to the effective date of Topic 606, Revenue from Contracts with Customers. The FASB will address this issue once it has received feedback from stakeholders on the anticipated time necessary to adopt the proposed amendments.

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