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Accounting Journal Entry

FASB to Issue Final Standard on Improvements to Employee Share-Based Payment Accounting

November 30, 2015 — At its meeting last week, the FASB discussed the feedback received on its proposed Accounting Standards Update (ASU) on improvements to employee share-based payment accounting. Respondents were largely supportive of the Board's efforts to reduce complexity in accounting for share-based payment transactions. As a result, the Board completed its redeliberations at the meeting and directed its staff to draft a final ASU for a vote by written ballot.

Below is a summary of (1) simplification decisions affirmed at the meeting; (2) new decisions made at the meeting, including those related to disclosure requirements; and (3) the effective date of the upcoming ASU.

Affirmed Decisions

Accounting for Income Taxes

The Board affirmed its decision to recognize all excess tax benefits and tax deficiencies in the income statement. The Board clarified that the tax effects are discrete items in the reporting period in which they occur (i.e., entities would not consider them in determining the annual estimated effective tax rate). Further, the Board affirmed its decision to remove the requirement that an entity delay recognition of an excess tax benefit until the benefit is realized through a reduction to taxes payable.

Transition

The Board decided on a modified retrospective approach under which entities would recognize previously unrecognized excess tax benefits upon adoption as a cumulative-effect adjustment in equity. This approach eliminates the need to track unrecognized excess tax benefits going forward for both new and existing awards.

Further, the Board decided that the recognition of all excess tax benefits/deficiencies in the income statement should be applied prospectively.

Classification of Excess Tax Benefits in the Statement of Cash Flows

The Board affirmed its decision that entities should classify the effect on cash flows related to excess tax benefits as an operating activity in the statement of cash flows.

Transition

The Board decided to provide an option to use either a prospective transition method or a retrospective transition method upon adoption of the new guidance. This represents a change from the proposed ASU, which had required a retrospective transition method.

Accounting for Forfeitures

The Board affirmed its decision to allow entities to elect as an accounting policy to either (1) continue estimating the total number of awards for which the requisite service period will not be rendered (as currently required) or (2) account for forfeitures when they occur.

Transition

The Board decided on a modified retrospective approach under which entities that elect to recognize forfeitures as they occur would record a cumulative-effect adjustment to opening retained earnings as of the date of adoption.

Tax Withholding Requirements

The Board affirmed its decision to expand the exception to liability classification related to the amount withheld for employees' taxes to the maximum rate for an employee in the jurisdiction(s) applicable to the employee. The Board did not expand the scope of this exception to situations in which the employer does not have a statutory withholding requirement.

Transition

The Board decided on a modified retrospective approach under which an entity would (1) reassess outstanding liability awards as of the date of adoption and (2) determine whether the awards should be reclassified as equity awards with a cumulative-effect adjustment to opening retained earnings.

Presentation of Employee Taxes Paid on the Statement of Cash Flows When an Employer Withholds Shares to Meet Minimum Statutory Withholding Requirements

The Board affirmed its decision that cash payments associated with shares withheld to meet withholding tax requirements should be presented as a financing activity in the statement of cash flows.

Transition

The Board decided that upon adoption, an entity should retrospectively apply this decision to all periods presented.

Expected-Term Practical Expedient (for Nonpublic Entities Only)

The Board affirmed its decision to allow nonpublic entities to use a simplified method to estimate the expected term for awards with performance or service conditions that meet certain requirements. This practical expedient would be applied as follows:

- For awards with only a service condition, entities can estimate the expected term as the midpoint between the requisite service period and the contractual term of the award.
- For awards with a performance condition, the simplified method that entities can use to estimate the expect term would depend on whether the performance condition is probable of being achieved:
    - When the performance condition is probable of being achieved, entities can estimate the expected term as the midpoint between the requisite service period and the contractual term.

- When the performance condition is not probable of being achieved, entities can estimate the expected term as (1) the contractual term if the award does not contain an explicit service period or (2) the midpoint between the requisite service period and the contractual term if the award does contain an explicit service period. This aspect of the practical expedient differs from the provisions in the proposed ASU.

Transition

The Board decided that nonpublic entities can apply the simplified method prospectively to new grants and modifications after the date of adoption.

Intrinsic Value Practical Expedient (for Nonpublic Entities Only)

The Board affirmed its decision to allow nonpublic entities to make a one-time election to switch from measuring liability-classified awards at fair value to measuring them at intrinsic value.

Transition

The Board decided on a modified retrospective approach under which private entities making the one-time election would measure outstanding liability awards as of the date of adoption at intrinsic value with a cumulative-effect adjustment to opening retained earnings. Further, the Board decided not to allow nonpublic entities to make this one-time election on an ongoing basis after the effective date of the new guidance.

Eliminating the Indefinite Deferral in ASC 718[1]

The Board affirmed its decision to eliminate the indefinite deferral of certain provisions in ASC 718. This decision will not result in a change to current U.S. GAAP since the amendment “only would remove guidance in the Codification that is indefinitely deferred.”

New Decisions

Classification of Awards With Repurchase Features

The Board decided not to proceed with its proposal to require an entity to consider “whether a contingent event that triggers a repurchase feature is probable of occurring” regardless of whether the contingent event is within the control of the employee or the entity. However, the Board noted that this issue may be addressed in the future as part of a project to distinguish equity from liabilities.

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[1] FASB Accounting Standards Codification Topic 718, *Compensation — Stock Compensation*.

Disclosures

Disclosures in the Period of Adoption (Applicable to All Entities)

The Board decided that the disclosures in ASC 250-10-50-1 through 50-3 related to a change in accounting principle will be required, except that entities will not be required to quantify the income statement effect of a change (direct or indirect) in the period of adoption.

Disclosures About Accounting for Forfeitures (Applicable to All Entities)

The disclosure requirements in ASC 718-10-50-2(e) will be amended to include information about unvested awards as opposed to awards expected to vest. The amendment would apply only to entities that elect to account for forfeitures as they occur.

Effective Date

For public entities, the guidance in the upcoming ASU will be effective in annual reporting periods beginning after December 15, 2016, and interim periods within those reporting periods.

For nonpublic entities, such guidance will be effective in annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018.

Early adoption will be permitted in any interim or annual period for which financial statements have not yet been issued or are not available to be issued.