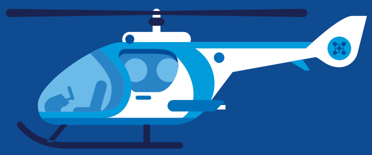

Defining Issues®

FASB proposes simplifying the accounting for share-based payments to nonemployees

March 8, 2017

KPMG reports on the FASB's proposed ASU[1], which would align the accounting for employee and nonemployee share-based payments.

Applicability

All companies that make share-based payments to nonemployees in exchange for goods or services.

Key facts and impacts

As part of the FASB's simplification initiative, share-based payment transactions with nonemployees would be accounted for in the same way as share-based payment transactions with employees.

The FASB concluded that there is no substantive difference between share-based payments awarded to nonemployees and those awarded to employees because they are economically similar. Therefore, a separate accounting model for nonemployee share-based payment awards is not needed. To achieve that result, the proposed ASU would eliminate, other than for attribution, the current guidance for equity-based payments to nonemployees.

Attribution of nonemployee awards

Attribution, which represents how the equity-based payment cost is recognized over the vesting period, would continue to be applied for nonemployee awards as if the company issuing equity had paid cash for the goods and/or services.

Valuation of nonemployee equity share options

Companies would be required to use the contractual term as an input, instead of using a determined expected term, for valuing nonemployee equity share options or similar instruments. Because nonemployee equity share options are generally transferable, the proposed ASU would relieve companies from the task of tracking down post-vesting transfers to determine the expected term for nonemployee equity share option awards.

Effective date election

Nonpublic companies would be permitted to elect as of the effective date to:

— change fair value measured liability-classified nonemployee awards to be measured at intrinsic value; and

— measure equity share options and similar instruments issued to nonemployees at a calculated value that uses historical volatility of an appropriate industry sector index, instead of the company's share price.

[1] Proposed ASU, Improvements to Nonemployee Share-Based Payment Accounting; issued March 7, 2017

The FASB believes that the proposed changes would:

- improve the consistency of information reported to financial statement users; and
- reduce the cost and complexity, and improve the accounting for share-based payment transactions with nonemployees.

Current guidance for equity-based payments to nonemployees[2]	FASB proposal	Aligned with stock compensation guidance[3]
Overall measurement objective		
Select the fair value of either the consideration received or the equity instruments issued, whichever is more reliable.	Use the fair value of the equity instruments that the company is obligated to issue.	✔
Measurement date (equity-classified)		
Measure equity-classified awards at the earlier of the commitment date for performance by the counterparty or the date when performance is complete.	Measure equity-classified awards at the grant date.	✔
Awards with performance conditions		
Measure awards at the lowest aggregate fair value, and remeasure them until all performance conditions are met.	Measure awards at the fair value associated with the probable outcome.	✔
Subsequent measurement		
Reassess classification under other US GAAP once awards are vested and no further performance is required.	Measure awards using stock compensation guidance unless they are modified after the nonemployee stops providing goods or services.	✔
Attribution of compensation expense		
Recognize in the same manner as if the company issuing equity had paid cash for the goods and/or services.	No change.	See note.
Note: Under the proposed ASU, the attribution guidance for share-based payment awards to nonemployees would move from ASC 505-50 to ASC 718 without change. Therefore, the attribution guidance for share-based payment awards to nonemployees will continue to be different from the attribution guidance for employee awards.		

[2] ASC 505-50, Equity-Based Payments to Non-Employees

[3] ASC 718, Compensation — Stock Compensation

Current guidance for equity-based payments to nonemployees[2]	FASB proposal	Aligned with stock compensation guidance[3]
Disclosures		
Provide disclosures similar to those required under stock compensation guidance to the extent they explain the effect of the share-based transactions on the financial statements.	No additional disclosures required; however, existing disclosure requirements within the stock compensation guidance would apply to nonemployee awards.	✔

KPMG observation

The proposed ASU would carry forward examples of employee awards from the existing stock compensation guidance and explain that they apply to nonemployee awards. However, the examples retain the attribution guidance for employee awards and do not further illustrate the difference between the attribution guidance for nonemployee awards and the attribution guidance for share-based employee awards.

Transition

All companies would apply a modified, retrospective approach to outstanding awards, with a cumulative effect adjustment to the opening balance of retained earnings as of the date of the adoption.

Nonpublic companies would apply a prospective approach to all awards granted or modified after the adoption date when electing to substitute calculated values for expected volatilities as inputs to measure nonemployee share-based payment awards.

Next steps

Comments to the FASB are due June 5.

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KPMG's Financial Reporting View

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