

## FASB Decides to Issue Proposed ASU on Improving the Accounting for Share-Based Payment Arrangements With Nonemployees

At its meeting today, the FASB discussed feedback received from an external fatal flaw review of a draft proposed Accounting Standards Update (ASU) on improving the accounting for share-based payment arrangements with nonemployees. The FASB staff noted that the external reviewers (1) were not opposed to the general notion that nonemployee share-based payments are not substantively different from employee share-based payments and (2) believed that separate models are therefore not warranted. In addition, the FASB did not receive comments that the draft's proposed amendments to ASC 718<sup>1</sup> would inadvertently change the accounting for employee share-based payments.

The Board also revised its May 4, 2016, tentative decision to require an entity to use an expected term as an input for measuring stock options and similar instruments granted to nonemployees. External reviewers indicated that determining an expected term for nonemployee awards may be difficult to implement and inoperable. Nonemployee awards often do not have features commonly found in employee awards (i.e., nontransferability, nonhedgability, and truncation of contractual term upon termination of employment),<sup>2</sup> and companies may have difficulty tracking postvesting behavior of nonemployees. As a result, the Board tentatively decided to require the use of contractual term (rather than expected term) as an input for measuring nonemployee stock options.

External reviewers also expressed concerns related to (1) the proposed transition requirement (i.e., it would be difficult to apply a modified retrospective method with a cumulative-effect adjustment to retained earnings) and (2) the effective date of the final guidance in this project relative to the effective date of ASC 606;<sup>3</sup> however, these issues will be discussed during redeliberations after comments are received on a proposed ASU.

### Next Steps

The FASB directed its staff to draft a proposed ASU with a 90-day comment period. The staff indicated that it expects to issue the proposal in the first quarter of 2017.

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<sup>1</sup> FASB Accounting Standards Codification Topic 718, *Compensation — Stock Compensation*.

<sup>2</sup> Under SAB Topic 14, "Share-Based Payment," SEC registrants are generally required to use contractual term for stock options granted to nonemployees when features commonly present in employee stock options are not present in the nonemployee stock options.

<sup>3</sup> FASB Accounting Standards Codification Topic 606, *Revenue From Contracts With Customers*.

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