Centri's Focus On: **FASB**

FASB Clarifies Accounting for Modifications of Share-Based Payments

Details

The FASB recently issued ASU 2017-09, Scope of Modification Accounting, to clarify which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting under ASC 718, Stock Compensation. The ASU is available here, and becomes effective for all entities for fiscal years beginning after December 15, 2017.

Overview

ASC 718 provides an accounting framework applicable to modifications of share-based payments, and currently defines a modification as "a change in any of the terms or conditions of a share-based payment award." This definition is open to a broad range of interpretation and has resulted in diversity in practice as to whether certain changes in terms or conditions are treated as modifications.

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Main Provisions

ASU 2017-09 provides clarification in that it details that an entity must apply modification accounting to changes in the terms or conditions of a share-based payment award *unless* all of the following criteria are met:

1. The fair value of the modified award is the same as the fair value of the original award immediately before the modification. (Note: in this sentence, references to "fair value" also include the calculated value or intrinsic value of an award, if such an alternative measurement method is used.) The standard indicates that if the modification does not affect any of the inputs to the valuation technique used to value the award, the entity is not required to estimate the value immediately before and after the modification.
2. The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the modification.
3. The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the modification.

The ASU also further clarifies that the disclosure requirements in paragraphs 718-10-50-1 through 50-2A and 718-10-50-4 apply regardless of whether an entity is required to apply modification accounting. If applicable, this includes disclosing a lack of incremental compensation cost resulting from a modification.

Centri's Insights

It was noted that the FASB decided not to specify whether the first test above is a binary assessment (that is, the value is either *exactly* the same immediately before and after the modification). Instead, entities will be able to apply judgment on this point, as they do in other areas of ASC 718.

As you may recall, in 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, to simplify the accounting for certain aspects of stock compensation. One of the amendments increased the allowable statutory tax withholding threshold to qualify for equity classification from the minimum statutory withholding rate up to the maximum statutory rate in the applicable jurisdiction(s). Based on the clarification in ASU 2017-09, a change to an award to increase the withholding amount from the minimum to the maximum would not constitute a modification under ASC 718, provided that the classification of the award does not change and that no other terms or conditions are revised.

In addition, the ASU includes examples of common changes to the terms or conditions of an award and indicates whether those changes typically require an entity to apply modification accounting:

Examples of changes to an award that generally do not require modification accounting:

- Changes that are administrative in nature, such as a change to the company name, company address, or plan name
- Changes in an award's net settlement provisions related to tax withholdings that do not affect the classification of the award.

Examples of changes to an award that generally require modification accounting include:

- Repricing of share options that results in a change in value of those share options
- Changes in a service condition
- Changes in a performance condition or a market condition
- Changes in an award that result in a reclassification of the award (equity to liability or vice versa)
- Adding an involuntary termination provision in anticipation of a sale of a business unit that accelerates vesting of the award.

Effective Date and Transition

Please note that the amendments in the ASU are effective for all entities for fiscal years beginning after December 15, 2017, including interim periods within those years. Early adoption is permitted, including adoption in an interim period.

It should also be noted that an entity should apply the amendments prospectively to a modification that occurs on or after the adoption date.