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Council (PCC) as an area of concern among private company stakeholders. The PCC worked with the FASB to discuss and analyze the issues that private companies have ...

Mar. 30, 2016

The Financial Accounting Standards Board (FASB) has issued an Accounting Standards Update (ASU) intended to improve the accounting for employee share-based payments. The ASU affects all organizations that issue share-based payment awards to their employees.

The ASU, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, simplifies several aspects of the accounting for share-based payment award transactions, including:

- The income tax consequences
- Classification of awards as either equity or liabilities, and
- Classification on the statement of cash flows.

The ASU also simplifies two areas specific to private companies:

- **Practical Expedient for Expected Term:** In lieu of estimating the period of time that a share-based award will be outstanding, private companies can now apply a practical expedient to estimate the expected term for all awards with performance or service conditions that have certain characteristics.
- **Intrinsic Value:** Private companies can now make a one-time election to switch from measuring all liability-classified awards at fair value to measuring them at intrinsic value. Previously, private companies were provided an option to measure all liability-classified awards at intrinsic value, but some private companies were unaware of that option.

“Both public and private company stakeholders identified a few aspects of

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encountered in this area when applying the standard. The PCC also asked the FASB staff to conduct outreach with users as a part of the FASB's pre-agenda research on the topic.

Concurrently, the FASB received feedback from stakeholders through its [Simplification Initiative](#) suggesting that the accounting for employee share-based awards could be simplified.

The FASB also considered the conclusions in the Financial Accounting Foundation's (FAF) [Post-Implementation Review \(PIR\) Report](#) on Statement 123(R), Share-Based Payment. Though the report concluded that the prior standard achieved its purpose, it noted that certain areas within Statement 123(R) may be costly and difficult to apply.

Based on this collective input, the FASB subsequently added the project to its agenda.

For public companies, the amendments in this ASU are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For private companies, the amendments are effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for any organization in any interim or annual period.

The ASU is available at [www.fasb.org](http://www.fasb.org).

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