

FASB Makes Tentative Decisions About Improving the Accounting for Share-Based Payment Arrangements With Nonemployees

May 4, 2016 — At today's meeting, the FASB tentatively decided to expand the scope of ASC 718¹ to include all share-based payment arrangements related to acquiring both goods and services from nonemployees. The Board's tentative decision would result in the classification and measurement of nonemployee share-based payments under the existing guidance in ASC 718 for employee awards. Nonemployee share-based payments initially within the scope of ASC 718 would remain within the scope of that guidance for classification and measurement purposes unless the share-based payments are modified after performance is complete.

However, the FASB tentatively decided that attribution of any cost associated with nonemployee share-based payments would continue to be accounted for under other applicable accounting literature as though the issuer had agreed to pay cash for the goods or services.

In reaching its tentative decision, the Board considered whether including nonemployee share-based payments within ASC 718's scope could create structuring opportunities for an issuer to achieve a desired classification outcome (liability versus equity) or circumvent other accounting literature (e.g., ASC 815²). The Board tentatively decided that an anti-abuse-type provision would mitigate this concern.

The Board also reached the following tentative decisions for consistency with existing guidance in ASC 718:

- The expected term should be used to measure the fair value of a share-based payment issued to a nonemployee. However, the Board noted that for nonemployee share-based payments that do not contain transfer or hedge restrictions, the expected term may be equal the contractual term.
- A nonpublic entity will be permitted to (1) use calculated value to measure the fair value of its nonemployee share-based payments if it is impracticable for the nonpublic entity to estimate the expected volatility of its share price and (2) use intrinsic value to measure liability classified nonemployee share-based payments.

The FASB staff is drafting disclosure and transition recommendations for consideration by the Board at a future meeting.

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

² FASB Accounting Standards Codification Topic 815, *Derivatives and Hedging*.

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