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Share-Based Payment

New Rules Issued for Recording Stock Award Modifications

The Financial Accounting Standards Board issued new rules May 10 to help companies determine which changes to the terms or conditions of a share based payment require a company to apply ''modification accounting'' in its share-based payment rules.

The rules, in ASC 718, Compensation—Stock Compensation, address changes to stock awards that preserve their fair value, vesting provisions and classification as equity or liability. They take effect next year.

''While such changes rarely have an immediate impact on accounting, in some cases stock compensation expense in future periods could be affected for some of the awards,''Aleks Zabreyko, head of professional practice at professional services firm Connor Group, told Bloomberg BNA. ''This also required tracking and revaluation of the potentially affected awards, which could become complex.''

The new rules might provide accounting relief to companies in areas like increases in tax withholding rates for the awards, administrative changes and other areas, Zabreyko said.

Not Far Enough Practitioners said FASB didn't go far enough, however.

''Though the new rules deliver a clearer means of determining which modifications should be run through the modification accounting framework of ASC 718 and which don't need to be, it won't substantially change how things are done in practice,''Takis Makridis, president and chief executive officer of Equity Methods LLC, told Bloomberg BNA. ''The toughest facets of modification accounting are still there, especially correctly determining the valuation of the transaction.''

FASB said the rules would help to eliminate differences in how companies interpret the term ''modification,'' which has led to complexity, costs and confusion. Under FASB's master glossary ''modification,'' is defined as a change in any of the terms or conditions of a share-based payment award. A company may change the terms or conditions of a share-based payment award for different reasons, and the nature and the effect of the change can vary significantly.

At the core of what caused confusion is the definition of ''modification″—said by most to be too broad. Its interpretation therefore results in differences in how companies evaluate the change to the terms or conditions of an award.

''In practice, the difficulty has been parsing through the dozens of different modification flavors, Makridis said. ''As companies respond to incentive and retention challenges, surprises in the capital markets and other curve balls, the variety of ways in which they need to modify awards is almost limitless.''

Effective Date, Transition Companies should apply the rules to annual periods and interim periods within those annual periods beginning after Dec. 15, 2017, FASB said. Early adoption is permitted, including adoption in any interim period if the company's financial statement hasn't yet been issued or haven't yet been made available for issuance.

The rules should be applied prospectively to awards modified on or after the adoption date.

The standard allows modification accounting to be skipped if all of the following are present in the modification:

- the fair value of the post-modified award is the same as the pre-modified version—none of the inputs to an accepted valuation model change as a result of the modification;
- there are no changes to the vesting conditions;
- the awards balance sheet classification is unchanged.

However, the disclosures in ASC 718 apply regardless of whether or not a company is required to apply modification accounting.

By Denise Lugo

To contact the reporter on this story: Denise Lugo in New York at dlugo@bna.com

To contact the editor responsible for this story: S. Ali Sartipzadeh at asartipzadeh@bna.com