

CEP AND SILICON VALLEY NASPP SYMPOSIUM

MARCH 24, 2015

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What in the FASB is changing now? *A look into the future of stock-based compensation accounting*

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Session Agenda

- Background, context, and purpose of ASC 718 revisions
- What's happened so far
- Summary of forthcoming revisions
- Deeper dives
 - Forfeiture rates
 - Income tax accounting
 - Withholding and liability accounting



What's Happened So Far

- Post-Implementation Review Report – Aug 19, 2014
- FASB Board Meeting – October 8, 2014
- FASB Board Meeting – December 17, 2014
- FASB Board Meeting – February 4, 2015
- *As of February 23, 2015, we are waiting for the next step: an Exposure Draft that is made available for public comment*



Overall Conclusions

- **ASC 718 achieved its initial objectives**
- **Cost of implementation is in line with expectations**
- **Cost is much higher for private companies**
- **Parallel analyses taking place for private vs. public companies**
- **Transition methodologies**
 - Retrospective, modified retrospective, prospective
- **Transition timing**



Summary of Proposed Revisions

Area Affected	High-level Proposal	Transition Method
APIC Pool	Remove	Prospective
Tax Benefit Realization Requirement	Remove	Modified retrospective
Forfeiture Rate Requirement	Remove	Modified retrospective
Minimum Statutory Withholding	Change	Modified retrospective
Non-employee Awards	TBD	TBD
Expected Term for Private Companies	Simplify	Prospective
Cashflow Designations	Change	Retrospective
Repurchase Rights	Change	Modified retrospective



Forfeiture Rate Application

- Estimating forfeitures can be complex and costly
- Board considered policy election on a grant by grant basis, but decided on an entity-level accounting policy election
- Proposed guidance provides two alternatives:
 - Utilize an estimated forfeiture rate
 - Account for forfeitures as they occur



Forfeiture Rate Application

- Choice to stop estimating forfeitures (ex ante) and, instead, record forfeiture reversals as they occur
- Example:
 - 100 RSUs granted at \$15 fair value
 - Cliff vesting over four years
 - Expense total value \$1500 evenly over four years (\$375/year) and separately record forfeiture reversals as they occur
- Not a requirement to stop using a forfeiture rate
- Impact on disclosures: 718-10-50-2e
- Pros and Cons



Income Tax Accounting

- Eliminate hypothetical APIC Pool (which allows excess benefits and shortfalls to not run through P&L)
- Run all excess benefits and shortfalls through income statement like IFRS
- Likely create more volatility
- No policy election – elimination of APIC Pool for all entities
- Prospective transition



Income Tax Accounting – Example

- 200 RSUs granted at fair value of \$15; 40% tax rate
- 2-year graded vesting; FMV at vest = \$20 tranche 1, \$5 tranche 2
- Assume APIC Pool with \$100,000,000 (sufficiently large)

Quarter ending	3/31/15	6/30/15	9/30/15	12/31/15	3/31/16	6/30/16	9/30/16	12/31/16	3/31/17
Compensation Cost	\$375	\$375	\$375	\$375	\$375	\$375	\$375	\$375	
Record DTA/DTB	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	
Unwind DTA					-\$600				-\$600
Excess Benefit/Shortfall					\$200				-\$400
Net Compensation Cost									
Current ASC 718	\$225	\$225	\$225	\$225	\$225	\$225	\$225	\$225	\$0
If Revised	\$225	\$225	\$225	\$225	\$25	\$225	\$225	\$225	\$400



Income Tax Accounting – How To Prepare

- **Socialize the accounting policy change**
 - Especially with internal colleagues who might not be known for being particularly proactive (ahem...)
- **Back test the impact**
- **Identify revisions to forecasting**
- **Understand impact of removing realization requirement**



Minimum Statutory Withholding

- **Net share settlement: employee receives the number of shares less the shares retained to satisfy the withholding taxes**
- **The employer pays, with company funds, the amount of tax equal to the FMV of the number of share not delivered to satisfy withholding taxes via the local country payrollb**
- **Current guidance triggers liability classification if award is net-settled and an amount is withheld in excess of the minimum statutory rate**



Minimum Statutory Withholding

- **Application can be complex; particularly in global environment**
- **Proposed guidance will:**
 - Allow equity classification as long as the amount withheld is the maximum marginal tax rate or less in a given jurisdiction
 - Require cash paid to meet the withholding requirements to be presented as a financing activity on the cash flow statement
- **Important simplification**
 - Countries without published minimum statutory rates
 - Employee mobility
 - Employee differences



More Information

- **Financial Accounting Foundation (FAF)**
 - <http://www.accountingfoundation.org/home>
- **Post-Implementation Review (PIR)**
 - <http://www.accountingfoundation.org/jsp/Foundation/Page/FAFBridgePage&cid=1351027541571>
- **FASB Simplification Initiative**
 - <http://www.fasb.org/simplification>
- **FASB Private Company Council (PCC)**
 - <http://www.fasb.org/pcc/aboutus>

