

June 7, 2017

ASU 2017-09 – Providing Clarity to Modifications to Share-based Compensation Arrangements

By [Brad Smith](#)

In May 2017, the FASB issued Accounting Standards Update 2017-09, *Scope of Modification Accounting*, which amended Accounting Standards Code Topic 718.

Topic 718 prescribes the accounting treatment of a modification in the terms or conditions of a share-based payment award. Prior to ASU 2017-09, FASB defined a modification as “a change in any of the terms or conditions of a share-based payment award.” The definition was thought to be broad and interpretation amongst accountants varied resulting in diversity in practice. Some entities would apply Topic 718 to all modifications while others would only apply it to substantive changes.

FASB issued ASU 2017-09 to reduce the cost and complexity when applying Topic 718 and standardize the practice of applying Topic 718 to financial reporting. The ASU was not developed to fundamentally change the definition of a modification, but instead to provide guidance for what changes would qualify as a modification. This was done by better defining what does **not** constitute a modification. In order for a change to a share-based arrangement to **not** require Topic 718 modification treatment, all of the following must be met:

- The fair value (or alternative measurement method used) of the modified award is the same as the fair value (or alternative measurement method used) of the original

award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification.

- The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified.
- 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 original award is modified.

Some examples of changes which would **not** require modification treatment include:

- Administrative changes (i.e., company name, company address, plan name, etc.), and
- Changes to net settlement provisions related to tax withholdings that don’t change the classification of the award. (In order for a modification to not change the classification of an award, the withholding amount may not exceed the statutory withholding rate.)

ASU 2017-09 is effective for all entities whose fiscal year begins after December 15, 2017.

If you have share-based compensation awards in your organization you may want to consider discussing, with your auditors or other advisors,

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any modifications you were considering sooner rather than later. Keep in mind that there are other relevant regulations, such as those under Internal Revenue Code Section 409A, that may prohibit you from making your desired modification.

Questions? Contact your Findley Davies | BPS&M consultant or Brad Smith at bsmith@findleydavies.com, or 419.327.4414.