

MINUTES



MEMORANDUM

To: Board Members

From: Share-Based Payment Accounting
Improvements Research Team
(McMillen x376)

Subject: Minutes of October 8, 2014,
Board Meeting

Date: October 29, 2014

cc: Sutay

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue an Accounting Standards Update or a Statement of Financial Accounting Concepts.

Topic: Employee Share-Based Payment Accounting Improvements

Basis for Discussion: Board Memorandum No. 1A

Length of Discussion: 10:25 a.m.to 12:00 p.m.

Attendance:

Board members present: Golden, Kroeker, Buck, Linsmeier, Schroeder, Siegel, and Smith

Board members absent: None

Staff in charge of topic: May

Other staff at Board table: Cosper, Walsh, and McMillen

Outside participants: None

Type of Document and Timing Based on the Technical Plan:

The Board met to discuss whether a project for improvements to share-based payment accounting should be added to the agenda.

The Board has not yet determined the timing of the release of an Exposure Draft.

Tentative Board Decisions:

The Board added a project to improve the accounting for share-based payment to employees in the following areas:

1. Minimum statutory withholding requirements (Vote: 7-0)
2. Presentation of employee taxes paid on the statement of cash flows when an employer withholds shares to meet minimum statutory withholding requirements (Vote: 7-0)
3. Accounting for forfeitures (Vote: 5-2)
4. Accounting for income taxes upon vesting or settlement of awards (Vote: 7-0)
5. Presentation of excess tax benefits on the statement of cash flows. (Vote: 7-0)

The Board directed the staff to perform further research in a few additional areas that could reduce the cost of application for private companies. The potential improvements discussed at the meeting include practical expedients for private companies related to intrinsic value, expected term, and formula value plans. The Board also asked the staff to perform research and analysis relating to the impact of certain features, such as repurchase features, on the classification of awards as a liability or equity. The Board directed the staff to obtain feedback on the research from the Private Company Council members that serve as advisors to the Board on the project.

Minimum Statutory Withholding Requirements

The Board decided to modify the current exception to liability classification when an employer uses a net-settlement feature to withhold shares to meet an employee's minimum statutory withholding requirements. Specifically, the partial cash settlement of an award for tax withholding purposes would not result, by itself, in liability classification of the award provided the amount withheld does not exceed the highest applicable marginal tax rate in the applicable jurisdictions. (Vote: 4-3)

Presentation of Employee Taxes Paid on the Statement of Cash Flows When an Employer Withholds Shares to Meet Minimum Statutory Withholding Requirements

The Board decided that an employer should classify the cash paid when directly withholding shares to meet minimum statutory withholding requirements as a financing activity on the statement of cash flows. (Vote: 6-1)

Accounting for Forfeitures

The Board decided to modify the requirement to estimate the number of awards that will ultimately vest when determining the amount of compensation cost to recognize over the vesting period. The Board decided to allow an entity an accounting policy election either to estimate the number of forfeitures (awards that will not vest because employees do not provide the necessary service to earn the awards) or to recognize forfeitures as they occur. The Board decided that the election should be made at the entity level rather than on an award-by-award basis. (Vote for accounting policy: 5-2; vote for entity level election: 6-1)

Accounting for Income Taxes upon Vesting or Settlement of Awards

The Board decided to propose that all excess tax benefits and tax deficiencies be recognized within the income statement. The Board also decided to remove the requirement to delay recognition of an excess tax benefit until the tax benefit is realized. (Vote: 5-2)

Presentation of Excess Tax Benefits on the Statement of Cash Flows

The Board decided to remove the requirement that employers present excess tax benefits as a cash inflow from financing activities and a cash outflow from operating activities. (Vote: 7-0)

Nonemployee Share-Based Payment Accounting Improvements

The Board decided to add a separate research project to its agenda to further research potential improvements to the accounting for share-based payment awards to nonemployees. The staff's research will include the scope of the nonemployee guidance and the accounting for awards with unresolved performance conditions.

General Announcements: None.