THE POWER OF BEING UNDERSTOOD

U.S. GAAP VS. IFRS: STOCK-BASED COMPENSATION AT-A-GLANCE

Increasing globalization coupled with related regulations continues to put pressure on moving towards a common global accounting framework – International Financial Reporting Standards (IFRS). Currently, more than 100 countries use IFRS, so if your business goals include global expansion, it is critical to educate yourself now about the impact of IFRS on your financial reporting processes and business. To gain a better understanding of what IFRS means for your organization, we have prepared a series of comparisons dedicated to highlighting significant differences between IFRS and U.S. generally accepted accounting principles (GAAP). This particular comparison focuses on the significant differences between U.S. GAAP and IFRS when accounting for stock-based compensation. For other comparisons available in this series, refer to our U.S. GAAP vs. IFRS comparisons at-a-glance series.

A discussion about U.S. GAAP and IFRS would not be complete without mentioning the status of the Securities and Exchange Commission's (SEC) activities focused on determining whether the application of IFRS by U.S. registrants should be required or allowed. The tone at the SEC on this matter changed recently when they indicated in their draft Strategic Plan for Fiscal Years 2014-2018 *that they will "consider…whether a single set of high-quality global accounting standards is achievable." As a result, it is not clear what the SEC's next steps and timetable are with respect to making a decision about the application of IFRS by U.S. registrants. For more information, refer to our* IFRS Resource Center.

The guidance related to stock-based compensation in U.S. GAAP is included in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718, *Compensation—Stock Compensation*, as well as in ASC Subtopic 505-50, *Equity – Equity-Based Payments to Non-Employees*. In IFRS, the guidance related to accounting for stock-based compensation is contained in IFRS 2, *Share-based Payment*.

There are a number of similarities between U.S. GAAP and IFRS in the accounting for stock-based compensation. For example, both address transactions with employees and nonemployees, and both require goods and services received in a stock-based compensation transaction to be measured at fair value. Additionally, under each standard, equity-classified transactions with employees are measured based on the grant date fair value of the equity instruments issued. While there are a number of similarities between U.S. GAAP and IFRS related to the accounting for stock-based compensation, there are also some significant differences, which are summarized in the following table.

	U.S. GAAP	IFRS
Relevant guidance	ASC 505-50 and 718	IFRS 2
Definition of employee	The definition of an employee is based on the common-law definition of the term. Awards to employees are treated differently than awards to nonemployees that provide employee-type services.	The definition of an employee focuses more on the nature of services provided (rather than a legal definition). Awards to employees are treated similarly to awards for nonemployees that provide employee-type services.

RSM

	U.S. GAAP	IFRS
Classification	If an award is based on a fixed monetary amount, but settleable in a variable number of shares, it is classified as a liability award. Puttable shares issued to employees may be classified as equity awards under certain conditions. Puttable shares issued to nonemployees are classified as liabilities in all circumstances.	If an award is based on a fixed monetary amount, but settleable in a variable number of shares, it is classified as an equity award. Settlement in shares requires classification as an equity award. Puttable shares are classified as liabilities in all circumstances.
Employee share purchase plans	An employee share purchase plan that meets certain criteria is not considered compensatory.	All employee share purchase plans are considered compensatory and within the scope of the share-based payment guidance.
Awards granted to employees of nonpublic entities	Nonpublic entities are permitted to measure equity-classified stock-based compensation awards using the fair value method or the calculated value method. Nonpublic entities may account for liability-classified stock-based compensation awards using the fair value method, the calculated value method or the intrinsic value method.	The fair value method must be used in all circumstances.
Grant date	The grant date is the date at which the employer and employee have a mutual understanding of the terms and conditions of the award and the employee begins to be affected by changes in the price of the entity's shares.	The grant date is the date at which the employer and employee have a mutual understanding of the terms and conditions of the award. Changes in the price of the entity's shares do not have to have started to affect the employee as of the grant date.
Measurement of awards granted to nonemployees	The transaction should be measured using the fair value of the consideration received or the fair value of the equity instruments issued, whichever can be measured more reliably.	The transaction should be measured at the fair value of the goods or services received because there is a rebuttable presumption that the fair value of the goods or services can be estimated reliably. If this rebuttable presumption can be overcome because the fair value of the goods or services cannot be estimated reliably, then the fair value of the transaction is measured by reference to the fair value of the equity instruments granted.
Measurement date for awards granted to nonemployees	The measurement date is the earlier of the date at which either: (a) a commitment is reached with the counterparty for performance or (b) the counterparty completes its performance.	The measurement date is the date at which the goods or services are received. No reference is made to counterparty commitment when determining the measurement date.

	U.S. GAAP	IFRS
Measurement date for awards granted to nonemployees (cont.)	In this context, ASC 505-50-30-12 indicates that a performance commitment is "a commitment under which performance by the counterparty to earn the equity instruments is probable because of sufficiently large disincentives for nonperformance. The disincentives must result from the relationship between the issuer and the counterparty. Forfeiture of the equity instruments as the sole remedy in the event of the counterparty's nonperformance is not considered a sufficiently large disincentive for purposes of applying this guidance. In addition, the ability to sue for nonperformance, in and of itself, does not represent a sufficiently large disincentive to ensure that performance is probable."	
Graded vesting	Entities are allowed to make an accounting policy election to recognize compensation cost for awards with graded vesting that contain solely service conditions either on a straight-line basis or an accelerated basis, regardless of the method used to value the award. Entities are required to use the graded vesting attribution approach for awards with graded vesting and that have performance or market conditions.	Entities are not allowed to make an accounting policy election for awards with graded vesting and performance conditions. Use of a straight-line attribution method is not permitted. Instead, each portion of an award that vests on a different date (i.e., each installment) is accounted for separately, which requires separate measurement and attribution.
Modifications—improbable to probable	If an equity instrument is modified and a result of the modification is that a service or performance condition that was previously considered improbable of achievement is now considered probable, the compensation cost is based on the fair value of the modified award at the date of modification. Any excess of the fair value of the modified award over the fair value of the original award immediately prior to modification is additional compensation cost.	If an equity instrument is modified and a result of the modification is that a service or performance condition that was previously considered improbable of achievement is now considered probable, the entity continues to recognize the remaining original grant date fair value, plus any incremental fair value at the date of modification.
Income tax effects	Entities are required to record deferred taxes as compensation cost is recognized. The deferred tax asset is measured based on the estimated future tax deduction. Upon realization, if the tax benefit exceeds the deferred tax asset, the resulting "windfall benefit" is credited directly to shareholders' equity. If the deferred tax asset exceeds the tax benefit, the resulting shortfall is charged to shareholders' equity to the extent of prior windfall benefits and then to tax expense for any remainder.	Entities calculate deferred taxes based on the estimated tax deduction at each reporting date. If the tax deduction exceeds cumulative compensation cost, deferred taxes based on the excess is credited to shareholders' equity. If the tax deduction is less than or equal to cumulative compensation cost, deferred taxes are recorded in income.

These are the significant differences between U.S. GAAP and IFRS when accounting for stock-based compensation. Refer to ASC 718 and 505-50 and IFRS 2 for all of the specific requirements applicable to accounting for stock-based compensation. Refer to our U.S. GAAP vs. IFRS comparisons at-a-glance series for more comparisons highlighting other significant differences between U.S. GAAP and IFRS.

Contact:

Richard Stuart, Partner
National Accounting Standards Group, RSM US LLP
+1 203 905 5027
richard.stuart@rsmus.com