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FASB Clarifies Stock Compensation Accounting for Performance Awards

By [Marc Stockwell](#)

The Financial Accounting Standards Board (FASB) released Update 2014-12 on June 19, 2014 which clarifies the accounting treatment for certain performance based share awards. This decision is helpful to employers who grant performance based stock awards that could potentially “vest” after the employee has separated from service (1). FASB has provided for expensing the award using date of grant price and the actual financial performance achieved during the performance period. Thus, the amount expensed is the date of grant value of the actual vested awards delivered. The treatment differs from International Accounting Standards (IASB) which require these types of awards to be valued at grant using complex statistical formulae based on probabilities of outcome, and then expensed over the service period (not the performance period) regardless of the actual number of awards that vest based on financial performance (similar to stock option accounting).

(1) This is the case for many performance based awards in the case of retirement or death where financial performance still determines the final shares delivered. For example, if an employee who is granted share awards which vest based on financial performance over a 3 year performance period, retires before the end of the 3 year performance period, the award may provide that the employee will still be able to receive part or all of the stock subject to the grant depending on financial performance achieved at the end of the 3 year performance period. In this case, the employee’s service period is shorter than the share award’s performance period.

This issue has been lurking for some time. We suspect most employers have been accounting for the awards using the methodology just blessed by this FASB decision.

[Read FASB Update 2014-12](#)

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