

U.S. GAAP vs. IFRS: Share-based compensation

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Introduction

Currently, more than 120 countries require or permit the use of International Financial Reporting Standards (IFRS), with a significant number of countries requiring IFRS (or some form of IFRS) by public entities (as defined by those specific countries). Of those countries that do not require use of IFRS by public entities, perhaps the most significant is the U.S. The U.S. Securities and Exchange Commission (SEC) requires domestic registrants to apply U.S. generally accepted accounting principles (GAAP), while foreign private issuers are allowed to use IFRS as issued by the International Accounting Standards Board (which is the IFRS focused on in this comparison). While the SEC continues to discuss the possibility of allowing domestic registrants to provide supplemental financial information based on IFRS (with a reconciliation to U.S. GAAP), there does not appear to be a specified timeline for moving forward with that possibility.

Although the SEC currently has no plans to permit the use of IFRS by domestic registrants, IFRS remains relevant to these entities, as well as private companies in the U.S., given the continued expansion of IFRS use across the globe. For example, many U.S. companies are part of multinational entities for which financial statements are prepared in accordance with IFRS, or may wish to compare themselves to such entities. Alternatively, a U.S. company's business goals might include international expansion through organic growth or acquisitions. For these and other reasons, it is critical to gain an understanding of the effects of IFRS on a company's financial statements. To start this process, we have prepared [a series of comparisons](#) dedicated to highlighting significant differences between U.S. GAAP and IFRS. This particular comparison focuses on the significant differences between U.S. GAAP and IFRS when accounting for share-based compensation.

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

Comparison

The significant differences between U.S. GAAP and IFRS related to accounting for share-based compensation are summarized in the following table.

	U.S. GAAP	IFRS
Relevant guidance	ASC 505-50 and 718	IFRS 2
Definition of an employee	The definition of an employee is based on the common law definition of the term. Prior to adoption of Accounting Standards Update (ASU) 2018-07, <i>Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting</i> , awards to employees are treated differently than awards to nonemployees that provide employee-type services (see Note 1).	The definition of an employee focuses more on the nature of services provided (rather than a legal definition). Awards to employees are treated similar to awards to nonemployees that provide employee-type services.
Classification	<p>Awards that are based on a fixed monetary amount but settleable by issuance of a variable number of shares are classified as liability awards.</p> <p>Share-based payment awards that can be settled in cash at the employee's option might not be a liability if settlement is contingent upon an event outside the employee's control and not considered probable.</p> <p>Puttable shares may be classified as an equity award if the grantee is required to bear the risks and rewards normally associated with share ownership for a reasonable period of time (i.e., six months).</p>	<p>Because IFRS places more emphasis on the manner of settlement than does U.S. GAAP, awards that are based on a fixed monetary amount but settleable by issuance of a variable number of shares are classified as equity awards.</p> <p>Puttable shares are classified as liabilities in all circumstances.</p>

Note 1: Upon adoption of ASU 2018-07, Topic 718 is applicable to both employee and nonemployee share-based payments issued to acquire goods and services to be used or consumed in a grantor's own operations. ASU 2018-07 is effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods therein. For all other entities, ASU 2018-07 is effective for fiscal years beginning after December 15, 2019, and interim periods thereafter.

These are the significant differences between U.S. GAAP and IFRS related to accounting for share-based compensation. Refer to ASC 505-50 and 718 and IFRS 2 for all of the specific requirements applicable to accounting for share-based compensation. In addition, refer to our [U.S. GAAP vs. IFRS comparisons series](#) for more comparisons highlighting other significant differences between U.S. GAAP and IFRS.

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U.S. GAAP vs. IFRS: Share-based compensation resulted from the efforts and ideas of various RSM US LLP professionals, including members of the National Professional Standards Group, as well as contributions from RSM UK and RSM Canada professionals.

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