

## Keep It Simple: FASB Issues Proposed Standard to Simplify Accounting for Private Company Stock Options

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Many privately-held companies use an independent valuation expert to value their common stock for purposes of establishing the exercise price for options granted to their employees, consultants, and outside directors. If this valuation is performed in accordance with Treasury Regulation 1.409A-1(b)(5)(iv)(B)(2), then the valuation is given a presumption of reasonableness under the Internal Revenue Code, making it easier for the granting company to prove to third parties (including the IRS) that the value used was the underlying stock's fair market value. However, even if a company used such a valuation to establish the exercise price, the company would not be able to use that valuation for purposes of accounting for the stock option awards under Financial Accounting Standards Board (FASB) Accounting Topic 718. Instead, for accounting purposes, private companies would typically use an option-pricing model that required the company to provide various inputs, including the fair value of the equity shares underlying a share-option award; something that was complex and difficult for private companies to do. In an attempt to simplify this process, on August 17, 2020, FASB issued an exposure draft of a proposed Accounting Standards Update (ASU) proposing to amend Accounting Standards Codification (ASC) 718, Compensation - Stock Compensation, to permit companies to use any of three different valuation methods to determine the current price of a share of common stock underlying an option, including a valuation method that complies with Treasury Regulation 1.409A-1(b)(5)(iv)(B)(2). FASB is accepting comments regarding the proposed ASU until October 1, 2020. The proposed ASU is available [here](#).