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December 20, 2013

Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. EITF-13D

Dear Ms. Cosper:

McGladrey LLP appreciates the opportunity to comment on the Proposed Accounting Standards Update, *Compensation–Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period* (the "proposed Update"). We support the FASB's efforts to provide guidance on accounting for share-based payments with terms that allow for a performance target to be achieved after an employee has rendered service. We believe this guidance is necessary to eliminate current diversity in the accounting for these types of awards seen in practice.

Our responses to the "Questions for Respondents" on which specific comment is sought are included below for your consideration.

Comments on Certain Questions for Respondents

Question 1: *Do you agree that a performance target that could be achieved after the requisite service period should be treated as a performance condition that affects vesting? If not, please explain why.*

> We agree that a performance target that can be achieved after an employee has rendered service should generally be treated as a performance condition that affects vesting. This is consistent with the treatment we have most commonly observed in practice and will accordingly not result in a significant change in practice. We also believe this is consistent with the rationale expressed in the basis for conclusions of FASB Statement 123(R), *Share-Based Payment*, for excluding the impact of performance conditions impacting vesting from the fair value calculation:
>
> > Although it would be possible, in theory, to estimate the grant-date fair value of an award with a performance condition, to do so would involve developing a probability distribution reflecting the likelihood that the entity will, for example, achieve a specified percentage increase in return on assets in a specified period of time. An entity might have little, if any, data on which to base such a probability distribution, and it would be unlikely to be able to obtain adequate pertinent information about similar awards made by similar entities. [B176]
>
> We do not believe the effects of performance targets that can be met after the requisite service period can be any more reliably measured for financial reporting purposes than those performance conditions considered by the Board in developing Statement 123(R).

While in general we agree with the proposed guidance, we are concerned about its application in circumstance in which awards allow for rights similar to equity holders and in substance more closely resemble an actual issued share than a stock option. For example, we have seen awards that do not expire, are transferable and include features such as dividends and voting rights, but specify that the awards are not exercisable until a liquidation event occurs. In these situations, it would seem like after the requisite service period, the holder has already earned (and is able to retain) benefits from the award, similar to an equity interest in the company. In these situations, we do not believe that performance targets are a substantive “vesting” provision, and it would be more appropriate to account for the compensation expense over the requisite service period without considering the impact of the performance target.

Question 2: *Are there circumstances in which a performance target that could be achieved after the requisite service period should be treated as a nonvesting condition? If yes, please explain why.*

Based upon the weight of the evidence, we believe there may be certain circumstances that indicate the employee has already been granted a substantive equity interest and treating the performance target as a vesting condition is not appropriate. See Question 1 for further discussion.

Question 3: *The amendments in the proposed Update do not require any incremental disclosures for share-based payments in which a performance target could be achieved after the requisite service period. Should incremental disclosures be required for those awards? If yes, please explain why.*

We do not believe incremental disclosures are required. However, we do believe it would be a good opportunity for the FASB to clarify existing disclosures, specifically those relating to unrecognized compensation. We have noted that it is common in practice to exclude awards for which achievement of service or performance conditions is not deemed probable from the unrecognized compensation amount disclosed. Given that this proposal technically extends this probability assessment to additional awards, we believe clarification should be considered.

Question 4: *Do you agree that the proposed amendments should be applied prospectively to all share-based payments granted or modified on or after the effective date? Should early adoption be permitted? Under the proposed Update, retrospective adoption would not be allowed. Should retrospective adoption be allowed? If yes, please explain why.*

We believe that optional retrospective application should be allowed for share-based payments that were not already accounted for in a manner consistent with the proposed Update. If companies have the information necessary to retrospectively apply this guidance and choose to do so, there is no benefit to financial statement users for companies to continue to record a share-based payment award pursuant to a superseded alterative (for example, as if the performance target impacted the fair value of the award) particularly given the already existing diversity in practice. We also encourage the Board to allow early adoption.

Question 5: *The proposed amendments would apply to public and nonpublic entities. Should the proposed amendments be different for nonpublic entities? If so, please describe how and why they should be different.*

We not believe the proposed amendments should be different for nonpublic entities.

Question 6: *What is the level of effort and time needed to implement the proposed amendments?*

We do not believe there will be significant time and effort to implement the proposed amendments. It has been our experience that many entities already follow similar accounting treatment. For those entities that have previously determined that such performance targets impact the fair value of the award, application of the proposed guidance will likely be simpler in that the measurement complexity related to incorporating the impact of the performance target in the determination of fair value would be eliminated.

We would be pleased to respond to any questions the FASB or its staff may have concerning our comments. Please direct any questions to Rick Day (563.888.4017) or Ginger Buechler (612.455.9411).

Sincerely,

McGladrey LLP

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