2015-270
Comment Letter No. 5

American Bankers Association
Building Success. Together.

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Russell G. Golden
Chairman
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Via email: director@fasb.org

File Reference: 2015-270 – *Improvements to Employee Share-Based Payment Accounting*

Dear Chairman Golden:

The American Bankers Association[1] (ABA) appreciates the opportunity to comment on the exposure draft *Improvements to Employee Share-Based Payment Accounting* (ED). The ED intends to reduce the complexity in accounting for share-based payments, including stock awards. The most significant simplifications the ED proposes are:

1. All excess tax benefits and tax deficiencies would be recognized in the income statement.
2. Entities would have the option to estimate the number of awards expected to vest or account for forfeitures when they occur.
3. The threshold to qualify for equity classification would permit an entity to withhold up to the employee's maximum individual statutory tax rate.

ABA supports the proposed changes relating to items 2 and 3 above. Such changes provide significant relief to financial statement preparers while maintaining the usefulness of information provided to users of financial statements.

However, ABA opposes the proposal to recognize excess tax benefits and tax deficiencies directly in the income statement, compared to the current standard whereby such amounts are largely recorded within additional paid-in capital (APIC). As acknowledged in the basis for conclusions, volatility in net income may increase for certain entities, and often such volatility will be the result of market activities that are essentially outside the control of the company and not be reflective of its operating results. Market performance of company stock should not have a direct impact on the income statement. Similar to the current treatment of fair value adjustments for "own credit," we foresee quarterly earnings announcements in which users of financial statements immediately back out a company's excess tax benefit (deficiency) to determine its results of operations. Although this proposal could streamline the

[1] The American Bankers Association represents banks of all sizes and charters and is the voice for the nation's $14 trillion banking industry and its two million employees.

specific accounting entries, it would make understanding a company's earnings more difficult and only increase the use of non-GAAP measures.

Recording the excess tax benefits or deficiencies directly in earnings is also conceptually troubling. Since the difference between the compensation expense recognized for financial reporting purposes and that based on the fair value of the stock award on its settlement date is appropriately not recognized in earnings, the related tax effect of that difference should also not be reflected in earnings. In addition, the exercise of a stock award results in the issuance of stock that is also appropriately recognized in equity rather than earnings. For these reasons, any subsequent differences in realized tax benefits, both excess tax benefits and tax deficiencies, should be recognized in additional paid-in capital. We believe this approach best reflects the economics and nature of the award and is more understandable for financial statement users.

By eliminating the APIC pools that are currently required to account for excess tax benefits and tax deficiencies, some believe the ED may alleviate certain complexity in the financial statement preparation process. However, the current processes have been in place for years and are generally well-understood by financial statement preparers. In fact, we believe that the efforts to convert from the current pool-based process to one that is individual-based would eliminate much of those foreseen efficiencies that the FASB may be anticipating.

Thank you for your attention to these matters and for considering our views. Please feel free to contact me (mgullette@aba.com; 202-663-4986) if you would like to discuss our views.

Sincerely,

Michael L. Gullette