Booz | Allen | Hamilton

Booz Allen Hamilton Inc.
8283 Greensboro Drive
McLean, VA 22102

Tel 1 703 902 5000
Fax 1 703 902 3333

www.boozallen.com

August 12, 2015

VIA E-MAIL

Russell G. Golden, Chairman
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Re: File Reference No. 2015-270: Exposure Draft: Compensation–Stock Compensation (Topic 718), *Improvements to Employee Share-Based Payment Accounting*

Dear Mr. Golden:

Booz Allen Hamilton appreciates the opportunity to provide comments on the Exposure Draft for the proposed Accounting Standards Update, **Compensation – Stock Compensation (Topic 718), *Improvements to Employee Share-Based Payment Accounting*** ("the proposed ASU"). Booz Allen provides management and technology consulting and engineering services to leading Fortune 500 corporations, governments, and not-for-profits across the globe. We partner with public and private sector clients to solve their most difficult challenges through a combination of consulting, analytics, mission operations, technology, systems delivery, cybersecurity, engineering, and innovation expertise. With international headquarters in McLean, Virginia, we employ more than 22,500 people globally, and had revenue of $5.27 billion for the 12 months ended March 31, 2015.

We support the efforts of the Board to reduce complexity in accounting standards as part of the Simplification Initiative. We believe the majority of the changes proposed in the ASU will accomplish this goal without negatively impacting the effectiveness of financial reporting.

* * * * *

Our responses to certain questions raised by the Board are included in the Appendix to this letter. Thank you for the opportunity to present our views. Please contact me at (202) 346-9186 if you have any questions.

Sincerely,

Laura S. Adams
Corporate Controller

Cc: Kevin L. Cook
Chief Financial Officer

APPENDIX: Questions from the proposed ASU

Question 1: *Do you agree that the proposed amendments result in a reduction (or potential reduction) of cost and complexity while maintaining or improving the usefulness of information provided to users of financial statements? If not, why?*

The proposed amendments will reduce costs and complexity in certain areas. Specifically, we anticipate that the process for determining the minimum withholding taxes will be simplified. Similarly, having the discretion to elect how to account for forfeitures may reduce the amount of time spent on estimating forfeitures and helps remove an area of management judgment which is inherent in such estimates. However, we believe the proposed changes impacting the tax consequences of equity based awards may increase costs in the short term due to process modifications that would be required for implementation.

Question 2: *Should excess tax benefits and tax deficiencies be recognized in the income statement? If not, why, and are there other alternatives that are more appropriate? Should an entity delay recognition of an excess tax benefit until the benefit is realized through a reduction to taxes payable? If yes, why?*

We do not support the proposed updates to recognize excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement. We believe these tax differences should be recorded in additional paid in capital. Excess tax benefits and tax deficiencies are not related to the compensation expense recognized for equity awards. Compensation expense is determined based on fair value information available on the grant date, while excess tax benefits and deficiencies are calculated using the fair value of the equity award on the settlement date. For this reason, we believe only the tax effect of the compensation expense determined based on the grant date fair value should be recognized in the income statement. Excess tax benefits and deficiencies relate to the vesting or exercise of equity awards, which is an equity transaction. Consequently, the tax effects of these transactions should be reflected in equity as additional paid in capital.

Further, recording excess tax benefits and tax deficiencies in the income statement would complicate the company's internal forecasting process and introduce unnecessary earnings volatility, as potential changes impacting earnings would be related to the market performance of the company's stock.

Regarding the timing of the recognition of an excess tax benefit, we support the proposal to recognize a tax benefit in the period incurred regardless of whether it is realized through income taxes payable in the current period (i.e., no delayed recognition). This approach would be consistent with the tax accounting in other areas where there are temporary differences.

Question 3: *Should the effect on tax cash flows related to excess tax benefits be classified as an operating activity on the statement of cash flows? If not, what classification is more appropriate and why?*

We support the proposed update to classify the cash flows related to excess tax benefits as an operating activity on the statement of cash flows.

Question 4: *Should entities be permitted to make an accounting policy election either to account for forfeitures when they occur or to estimate forfeitures? If not, why?*

We support the proposal to permit entities to make an accounting policy election to estimate forfeitures or to recognize forfeitures when they occur. This will allow entities with a well-established process of recognizing compensation costs only for awards that are expected to vest to continue with this practice, while also allowing entities that don't want to take on the additional financial statement risk inherent with estimates, or those that don't have sufficient historical data to arrive at an estimate, to recognize forfeitures as they occur.

Question 5: *Is the proposed expansion of the exception to liability classification related to the amount withheld for employee's taxes appropriate? If not, is there another exception that is more appropriate and why?*

We agree with the proposed update to allow entities to withhold taxes up to the maximum statutory tax rate in the applicable jurisdiction without the risk of liability classification. Under the current guidance, our process requires a great deal of resources to comply with the specific jurisdiction tax withholding requirements at the employee level for purposes of avoiding liability accounting. This does not align with the spirit of the liability accounting guidance in ASC 718. The proposal in this update would greatly simplify and improve the process.

Additionally, certain language in the proposed ASU still could be open to interpretation. The proposed edits to the guidance in ASC 718-10-25-18 imply that the withholding tax rate should be determined at the individual employee level; however, in the basis for conclusions in paragraph BC 16, it appears the Board's intent is to determine the withholding tax rate at the jurisdiction level. We believe the rate should be determined at the jurisdiction level and as such, the edits to the guidance in ASC 718-10-25-18 should be enhanced to clarify the withholding tax rate at the jurisdiction level. We believe this change would be more consistent with the Board's goal of reducing complexity.

Question 6: *Should the cash paid by an employer to the taxing authorities when directly withholding shares for tax-withholding purposes be classified as a financing activity on the statement of cash flows? If not, what classification is more appropriate and why?*

We support the proposal to classify as a financing activity on the statement of cash flows, cash paid to taxing authorities for shares withheld for tax purposes.

Question 10: *Are the transition requirements for each area appropriate? If not, what transition approach is more appropriate?*

We agree with the transition requirements specified for each area.

Question 11: *How much time will be necessary to adopt the amendments in this proposed Update? Should the amount of time needed to apply the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities?*

The amount time required for adoption will not be particularly significant for a majority of the proposed changes. We recommend the new guidance not be effective before January 1, 2017 for calendar year-end public and nonpublic reporting entities, with early adoption permitted.