plante moran

Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

August 14, 2015

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Via e-mail – **director@fasb.org**

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

Plante & Moran PLLC appreciates the opportunity to comment on the proposed Accounting Standards Update, *Improvements to Employee Share-Based Payment Accounting*. We support the efforts of the Financial Accounting Standards Board to continue to identify opportunities to reduce the cost and complexity associated with financial reporting requirements, without diminishing the decision-useful information provided to investors and other financial statement users. Following, please find our responses to the specific Questions for Respondents in the proposed Update.

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?

Response 1: In general, we agree the proposed amendments will result in a reduction, or potential reduction, in the cost and complexity of financial reporting while continuing to provide useful information to users of financial statements. While we generally agree with the proposed amendments, we have include items for the Board's additional consideration in the subsequent responses.

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?

Response 2: We agree with the Board's proposed guidance that excess tax benefits and tax deficiencies should be recognized in the income statement. Under current guidance, a significant source of complexity in accounting for share-based payment awards relates to tracking the amount of excess tax benefits and tax deficiencies and determining what needs to be recognized through APIC. We do not believe the current accounting for excess tax benefits and tax deficiencies provides information that significantly affects decisions reached by users of financial statements. While we acknowledge the Board's proposed guidance could result in increased volatility in net income, we do not believe the potential volatility will significantly affect the users of financial statements. The income statement volatility would be limited to the amount of reported income tax expense, and the requirement to disclose significant items that result in differences between an entity's effective tax rate and statutory tax rate would provide information necessary for users to understand the effects of excess tax benefits and tax deficiencies from the exercise of share-based payment awards on the financial statements.

We do not believe recognition of excess tax benefits should be delayed until the benefits are realized through a reduction to taxes payable. Instead, in circumstances where an immediate reduction of taxes payable does not occur, we believe a deferred tax asset should be recognized, which would be consistent with the principles for recognizing deferred tax items in ASC 740. Since entities are required to establish a valuation allowance for deferred tax assets when it is more likely than not that the asset will not be realized, any concerns over recognition of excess tax benefits that may not be realized will be mitigated.

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?

Response 3: Yes, we believe the effect on tax cash flows related to excess tax benefits should be classified as an operating activity. Current GAAP requires the amount of cash retained as a result of excess tax benefits to be classified as a financing activity. This treatment is inconsistent with the treatment of the cash flows related to other income tax items. As the proposed amendments would require excess tax benefits to be recognized in income tax expense, we believe changing the cash flow presentation to include the cash flows related to excess tax benefits in operating activities would be appropriate.

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?

Response 4: Yes, we believe entities should be permitted to make an accounting policy election to account for forfeitures either when they occur or to estimate forfeitures. For many smaller entities, when share-based payment awards are granted, they are only granted to a few employees who are expected to remain with the entity. In addition, as these entities do not have a significant amount of share-based payment activity, it is difficult for them to develop an estimate for forfeitures based on past experience. Rather than trying to develop an estimate of the number of awards to be forfeited, allowing entities to account for forfeitures as they occur will simplify the accounting for the these awards, without significantly affecting the result.

While the proposed guidance allows an entity to make an accounting policy election to account for forfeitures at the time an award is granted, the proposal does not allow an entity to make a similar election at the time an award is modified or when awards are exchanged in a business combination. We believe the Board should consider allowing an entity to elect to account for forfeitures as they occur when awards are modified or exchanged in a business combination. We believe the factors that make it difficult to estimate forfeitures when awards are initially granted continue to exist at the time an award is modified or exchanged in a business combination. We believe allowing entities to make an accounting policy election to account for forfeitures as incurred at the time of modification or exchange in business combination will assist in the Board's objective of simplifying the accounting for share-based payment arrangements.

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

Response 5: Yes, we believe the proposed expansion of the exception to liability classification related to amounts withheld for employee taxes is appropriate. Under current GAAP, two share-based awards with the same terms could be classified differently solely due to the amount being withheld for employee taxes being above the minimum statutory rate (but below the maximum rate) for one of the two awards. This can result in a conflict between an entity withholding enough taxes for an employee and achieving the desired accounting classification for the awards. By expanding this exception, it will allow entities to ensure they are withholding appropriate amounts for employee taxes, while still permitting equity classification for the award. We believe this expansion of the exception will also provide more useful information to users of financial statements as it will not result in awards having similar terms being classified differently due solely to differences in amounts withheld for employee taxes.

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?

Response 6: Yes, we believe the cash paid by an employer to taxing authorities when withholding shares for tax-withholding purposes should be classified as a financing activity on the statement of cash flow. We agree with the Board's rationale in the Basis for Conclusions that the transaction is similar in substance to a sale and repurchase of stock. Given the substance of the transaction, it would not meet the definition of cash flows from operating activities or cash flows from investing activities.

Question 7: When assessing the classification of an award with a repurchase feature that can only be exercised on the occurrence of a contingent event, should a contingent event within the employee's control be assessed in the same manner as a contingent event outside the employee's control? If not, why should there be a difference in the assessment?

Response 7: We disagree that a contingent event within an employee's control should be assessed in the same manner as a contingent event outside of an employee's control. Under the proposed amendments, an entity would assess the probability of contingent events both within an employee's control and outside an employee's control. We do not believe it is practical for an entity to assess the probability of a contingent event that is within an employee's control. The probability of a contingent event occurring would be specific to the individual employee; therefore, unless an entity has an established history of granting similar awards to the same employees, there may not be a supportable basis for the probabilities assigned. This could result in greater diversity in practice in how similar awards are classified by different entities.

In addition, ASC 718 has previously established that events that are within an employee's control should be treated differently from those events that are outside an employee's control. For example, the classification of share-based payment awards that have the option of being settled in cash is dependent on whether the method of exercise is within the control of the employee. Similarly, we believe a difference is appropriate when assessing the classification of awards with repurchase features that can only be exercised on the occurrence of a contingent event depending on whether the contingent event is within an employee's control.

Question 8: Is the practical expedient for nonpublic entities to estimate the expected term of all awards with performance conditions that affect vesting or service conditions appropriate? If not, are there other practical expedients that are more appropriate and why? Should the expedient be limited to nonpublic entities?

Response 8: We believe the proposed practical expedient for nonpublic entities to estimate the expected term for awards with performance conditions that affect vesting or service conditions is appropriate. For many smaller entities, share-based payment awards are issued infrequently. As a result, the entity would not have an established history to use when making an estimate of the expected term. We believe the practical expedient will simplify the process for determining the expected term while not diminishing the quality of information provided to users of financial statements.

We do not believe the practical expedient should be limited to nonpublic entities. Instead, we believe the Board should consider expanding the practical expedient to all companies that are not SEC registrants. The SEC has issued similar guidance for SEC registrants in Staff Accounting Bulletin No. 107; however, not all entities that meet the definition of a public entity, as defined by ASC 718, are SEC registrants. By limiting the practical expedient to nonpublic entities, the proposed guidance excludes entities that fall under the ASC 718 definition of public entities but are not eligible to apply the guidance in SAB 107 because they are not SEC registrants. In order to avoid excluding those public entities that are not SEC registrants from the benefits of the practical expedient, we believe the proposed guidance should expand the scope of the practical expedient to all entities that are not SEC registrants.

Question 9: Should nonpublic entities be allowed to make a one-time election to switch from measuring liability-classified awards at fair value to intrinsic value? If not, why? While not proposed, should the Board consider making the ability to elect intrinsic value an ongoing election alternative for nonpublic entities?

Response 9: We believe nonpublic entities should be allowed to make a one-time election to switch from measuring liability-classified awards at fair value to measuring them at intrinsic value. As this is an allowable method of accounting for liability-classified awards, we believe if a nonpublic entity had not realized that it could account for liability-classified awards at intrinsic value, the entity should be allowed to make a one-time election to account for these awards at intrinsic value going forward.

We believe allowing an ongoing election for nonpublic entities to account for liability-classified awards at intrinsic value would be appropriate. As this is an allowable method of accounting for share-based payment awards, we believe nonpublic entities should be eligible to elect that method of accounting at any time. However, should the Board conclude to make the ability to elect intrinsic value an ongoing alternative, we believe the Board to should also require disclosures when an entity makes this election. We believe including required disclosures when an election is made would be beneficial to users of financial statements to help them understand the impact of changing the measurement basis of these awards.

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

Response 10: Yes, we believe the transition requirements for each area are appropriate.

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?

Response 11: While the overall objective of the proposed amendments is to simplify the accounting for share-based payment awards, the proposed standard would result in significant changes in the accounting for these awards. We believe entities will need time to change their processes for accounting for share-based payment awards. Therefore, we believe the effective date of the standard should be for interim and annual periods ending after December 15, 2017 for public business entities, and annual periods ending after December 15, 2017, and interim periods in years ending after December 31, 2018 for all other entities.

Thank you again for the opportunity to comment on this exposure draft. We would be pleased to respond to any questions the Board or its staff may have about these comments. Please direct any questions to David Grubb at **david.grubb@plantemoran.com** or at 248.223.3745.

Very truly yours,

PLANTE & MORAN, PLLC

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