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Proposed Accounting Standards Update, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting

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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?	First, apologies for not providing this comment by the requested deadline. However, we just recently became aware of this potential practice issue. We agree with the proposal to allow companies to make an accounting policy election to account for forfeitures as and when they occur (or to continue today's requirement to estimate forfeitures). We believe that this policy election would greatly simplify the accounting for forfeitures, while allowing companies to still present representationally faithful information about share-based payment awards. However, we have anecdotal evidence (from an admittedly small sampling of reporting entities) that the proposed transition requirements in paragraph 38 of the proposed ASU may discourage companies from adopting a policy of accounting for forfeitures as and when they occur. Specifically, the proposed paragraph ASC 718-10-65-6(b) requires transition using a modified retrospective approach, through a cumulative-effect adjustment to retained earnings as of the beginning of the annual reporting period in which the guidance is effective. For companies that present comparative periods, this transition requirement may result in trends that are difficult to explain to users of financial statements. To demonstrate, assume that a company issues 100 share-based payment	Completed

	awards in Year 1. These awards cliff vest at the end of a 48 month period. Under today's GAAP, the company estimates forfeitures and only records compensation cost for awards that are expected to vest. Let's assume that for simplicity that the company assumes only 80 awards are expected to vest, and records compensation cost in Year 1 based on this assumption. Presume the company adopts the accounting policy election to record forfeitures as incurred in Year 2. As of the beginning of Year 2, two of the 100 awards had actually been forfeited. Furthermore, during Year 2, another 3 awards were forfeited. The company still believes that 15 additional awards will be forfeited over the remaining two-year vesting period (i.e., 20 awards in aggregate will be forfeited). In this fact pattern, the company would present compensation expense based on an estimate of 80 awards vesting in Year 1 - this presentation would not change when the Year 2 financials are presented since ASC 718-10-65-6(b) requires transition using a modified retrospective approach. In contrast, in Year 2 (following adoption of the accounting election), the company would record compensation assuming 95 awards will vest. Thus, the Year 2 financial statements will show a much larger compensation cost than the comparative period, simply due to the adoption of the new accounting policy election. This is true even though the company has not changed its evaluation of the number of awards it ultimately expects to vest. Accordingly, we would recommend that entities be permitted to transition to a policy of accounting forfeitures as incurred either (a) on a modified retrospective or (b) on a full retrospective basis. Alternatively, we wouldn't object to requiring companies to adopt the accounting policy election on a full retrospective basis, which is consistent with the principles in ASC 250-10-45-5.	