January 4, 2017

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

Re: File Reference No. 2016-360

Dear Ms. Cosper:

We appreciate the opportunity to respond to the FASB's Exposure Draft, *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting*.

We appreciate the Board's willingness to respond to questions regarding the determination of whether certain changes in the terms of share-based payment awards constitute a modification under Topic 718. However, we do not believe that changes to the existing guidance are necessary for practitioners to determine whether changes to the terms of an award are substantive. We have some concern that the proposed changes to Topic 718 may result in conclusions that are, in some cases, inconsistent with the Board's stated objectives for this guidance.

While we do not believe additional guidance is necessary, if the Board moves forward with the project, we have provided our detailed responses to the questions for respondents and other recommendations within the appendix.

If you have any questions, please contact Pat Durbin at 973-236-5152 or Jay Seliber at 973-236-7277.

Very truly yours,

PricewaterhouseCoopers LLP

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Appendix

Question 1: Do you agree with the amendments in this proposed Update about when an entity is required to apply modification accounting? If not, why?

We support the Board's intent to clarify the existing definition of a modification of a share-based payment award, but are concerned with certain aspects of the proposed Update. As proposed, modification accounting would not need to be applied to certain substantive changes to the terms or conditions of an award that impact its ongoing economics. One determinant focuses on whether the fair value of the award changes at the time of modification. We note that there are instances when a modification does not impact the overall fair value but significantly changes the economic characteristics of the award, exposing the holder to different risks and rewards. For example, exchanges of awards between entities as a result of an equity restructuring, exchanges of awards settled in parent shares for awards settled in subsidiary shares, repricing of stock options to a lower exercise price while simultaneously reducing the number of shares subject to the option, and exchanges of options for a lesser number of restricted shares would not result in modification accounting under the proposed Update as long as the fair value is the same immediately before and after the modification and no changes are made to the vesting conditions or classification of the award. However, in these types of modifications, either the award would be indexed to the stock of a different entity or changes in the share price of the underlying stock would affect the overall value of the award differently. As a result, these modifications impact the economic profile of the award and, therefore, we believe they should be considered substantive changes to the terms or conditions that should be evaluated under the existing modification framework.

Conversely, because the proposed guidance only excludes changes that result in no change to either vesting conditions or fair value, modification accounting would need to be applied to changes that produce only a nominal change to the fair value of an award or its vesting conditions. The stated intent of the proposed Update is to exclude non-substantive changes to the terms and conditions of an award from the application of modification accounting. Providing an explicit requirement for when such accounting does and does not apply, with no room for judgment, may require modification accounting to be applied to insignificant changes. If the Board proceeds with the Update, we recommend that the guidance include a more qualitative approach to evaluating the impact of changes in terms on the ongoing economic characteristics of the award, similar to the approach used in ASC 480-10-25-1 to distinguish substantive features from non-substantive features when evaluating the accounting for mandatorily redeemable financial instruments.

Separately, it is unclear to us why the proposed Update includes an amendment to Example 12 (ASC 718-20-55-97). This example addresses a settlement of an award as opposed to a modification. We believe the guidance on settlements in ASC 718-20-35-7 would be applied to either a cash or share settlement and our understanding is that the proposed Update would not impact this guidance.

We also believe that the conclusions described in paragraph BC11 should be revised. As currently drafted, paragraph BC11 indicates that the fair value of an award changes purely because there is a new measurement date in a Type IV modification. We believe that BC11 should instead refer to a comparison of the fair values immediately before and after the change in terms, without regard to any performance or service conditions.

From a drafting perspective, we recommend that paragraphs 718-20-35-5, 35-6, and 35-8 include the same reference to the added guidance in paragraph 718-20-35-2A, to conform to paragraph 718-20-35-3, as they all address modifications.

Finally, we recommend that the Board consider discussing the impact of changes in the terms of an award on the earnings per share treatment of that award under Topic 260 more explicitly. Similar to the Board's conclusions that the relevant disclosures of Topic 718 apply regardless of whether an entity is required to apply modification accounting, we believe that the relevant provisions of Topic 260 related to awards that are issued or cancelled during a period should also apply regardless of whether an entity is required to apply modification accounting (as a modification is viewed under ASC 718-20-35-3 and 718-20-35-8 as effectively a cancellation and reissuance of an award).

Question 2: Should new or different disclosures be included in Topic 718 as a result of the amendments in this proposed Update? If yes, what are those disclosures and why would they be useful to financial statement users?

We agree that the disclosure requirements in paragraphs 718-10-50-1 through 50-4 should apply regardless of whether modification accounting is applied. Disclosures about changes to the terms or conditions of awards provide useful information to the users of the financial statements. We do not believe any additional disclosures are necessary.

Question 3: Are the transition requirements appropriate? If not, what transition approach is more appropriate and why?

We agree with the Board's proposed transition requirements.

Question 4: How much time would be needed to adopt the amendments in this proposed Update? Should the amount of time needed to apply the amendments in this proposed Update by entities other than public business entities be different from the amount of time needed by public business entities? Should early adoption be permitted? If yes to either question, please explain why.

We do not believe that the proposed guidance would require significant time to adopt. We believe that the amount of time needed to apply the amendments in the proposed Update should be the same for public business entities and entities other than public business entities.

We believe that early adoption should be permitted.