



Tel: 312-856-9100
Fax: 312-856-1379
www.bdo.com

330 North Wabash, Suite 3200
Chicago, IL 60611

January 5, 2017

Via email to director@fasb.org

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

Re: Proposed Accounting Standards Update, Compensation—Stock Compensation (Topic 718):
Scope of Modification Accounting (File Reference No. 2016-360)

Dear Ms. Cospers:

We are pleased to provide comments on the proposed changes regarding certain aspects of modification accounting for share-based compensation arrangements.

BDO supports the Board's initiative to provide clarity and reduce diversity in practice, as well as reduce cost and complexity. We believe the proposal, as adjusted for our recommendations, would improve the guidance on modifications of share-based compensation arrangements.

Our responses to the Board's specific questions are provided in the Appendix to this letter.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Yosef Barbut (212) 885-8292 or Angela Newell at (214) 689-5669.

Very truly yours,

A handwritten signature in black ink that reads "BDO USA, LLP". The letters are written in a cursive, slightly slanted style.

BDO USA, LLP

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?

Yes. We agree the amendments help to clarify the circumstances in which modification accounting is required.

However, we have the following recommendations to better achieve the objective of clarifying when modification accounting is triggered and reducing cost and complexity:

First, we encourage the FASB to include language that explicitly allows preparers to use a qualitative analysis to determine whether a modification impacts the inputs to the value calculation and thus conclude whether the fair value before and after a modification are the same. This approach is consistent with BC14 and giving this guidance greater prominence by elevating it into the codification would be valuable to preparers and auditors.

Second, we would urge the Board to consider qualifying the proposed language in paragraph 718-20-35-2A (a) to make clear that insignificant changes in value also need not be accounted for as a modification. This could be achieved by amending the language in paragraph 718-20-35-2A as follows (added text is underlined): “. . . unless all of the following are substantially the same immediately before and after the modification”. We acknowledge that what is considered to be “substantially the same” would require judgment, but note that practice generally converges in this regard. We believe the application benefits of such a practicability exception to modification accounting justifies its inclusion. We also believe that the above clarification would reinforce that the ASC need not be applied to immaterial items.

Third, paragraphs BC9 and BC10 of the proposed Update contain several examples of changes that would and would not require modification accounting. Including the language contained within paragraphs BC9 and BC10 within the implementation guidance in subtopic 718-20-55 would also add valuable clarity.

As part of our review, we noted certain additional observations that we believe would improve the proposed amendments. Our observations are located at the end of this letter.

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 statements users?

We agree that no incremental disclosures are necessary as a result of this proposed Update. However, we also believe that the proposed Update could be enhanced further by eliminating the need to provide the disclosures required by ASC 718-10-50-2(h)(2) in situations in which the provisions in this Update are met (i.e., when the three conditions listed in paragraph 718-20-35-2A are the same before and after the change). Although we acknowledge that paragraph 50-2(h)(2) only requires disclosure of significant modifications, we nonetheless recognize that many preparers view stated disclosure requirements as minimums that must be met, and thus tend to include all disclosures indicated regardless of significance. Therefore, we recommend eliminating the required disclosures if modification accounting is not applied.

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

We support the Board's proposed transition provisions. We believe that the benefit of comparability as it relates to the proposal is marginal when compared to the cost of retrospective application.

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 believe that the Board's proposal would provide clarification for modifications and thus the amount of time needed to adopt the Board's proposals would be minimal. We believe that providing additional time to entities other than public business entities would be appropriate given the recent pace of updates to accounting standards and would be consistent with the Board's previous updates. We also believe that early adoption should be permitted as entities that actively modify their stock-based arrangements would benefit from the clarification provided by this Update.

Additional Observations:

In addition to our responses to the specific questions posed by the Board, we offer the following additional observations about the proposed Update:

- We believe that the proposed changes to ASC 718-20-55-97 may be confusing. Specifically, the new wording indicates that in this example, because there is no change in fair value or vesting provisions, the entity "would not account for the effects of the settlement". While we agree that the proposed Update would result in the entity not applying modification accounting to the settlement, there are accounting impacts of the settlement, including the impact to basic and adjusted earnings per share resulting from replacing unexercised stock options with equity shares. Therefore, we would recommend revising that language as follows (added text is underlined): "Entity T would not apply modification accounting to ~~for~~ the effects of the settlement."
- The guidance in ASC 718-20-35-6 and ASC 718-20-55-2 has not been amended by the proposed Update, and still refers solely to ASC 718-20-35-3 for modifications in conjunction with an equity restructuring other than changes to add antidilution provisions not made in contemplation of an equity restructuring. We believe this omission might have the unintended consequence of leading some to believe that the provisions of paragraph 35-2A should not be applied in situations in which the modification is in conjunction with an equity restructuring. Alternatively, others might conclude that the scope exception in paragraph 35-6 is inconsistent with the guidance in paragraph 35-2A, as the addition of an antidilution provision, even absent an expected equity restructuring, increases the value of the instrument to the holder (see previous comment about the need to specify that only significant changes in fair value need be accounted for, which might resolve this issue). We would recommend amending paragraphs 35-6 and 55-2 to indicate that the modification should be accounted for in accordance with

paragraphs 718-20-35-2A and 35-3. We would also recommend considering explicitly linking the scope exception in paragraph 35-6 to the guidance in paragraph 35-2A, for example by revising the language as follows (added text is underlined): “An entity shall account for the effects of a modification, as described in paragraphs 718-20-35-3 through 35-9, except for a modification to add an antidilution provision that is not made in contemplation of an equity restructuring as further discussed in paragraph 718-20-35-6, and unless all of the following . . .”

- The proposed Update eliminates a statement at the end of paragraph 718-20-55-105 which indicates that changes to the terms of an award in accordance with its antidilution provisions would generally not result in additional compensation cost if the antidilution provisions are properly structured. We believe that this is helpful information which should be retained.