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January 6, 2017

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

**File Reference No. 2016-360**  
**Re: Proposed Accounting Standards Update, *Scope of Modification Accounting***

Dear Ms. Cospers:

Deloitte & Touche LLP is pleased to comment on the FASB's proposed Accounting Standards Update (ASU) *Scope of Modification Accounting*.

We support the Board's efforts under its simplification initiative to improve aspects of U.S. GAAP that are unnecessarily complex and costly. We believe that the proposed ASU furthers these objectives and will reduce diversity in practice for financial statement preparers without adversely affecting the utility of the financial statements.

The appendix to this letter contains our responses to the proposed ASU's questions for respondents as well as additional suggestions for the Board's consideration.

\* \* \* \* \*

We appreciate the opportunity to comment on the proposed ASU. If you have any questions concerning our comments, please contact Sandie Kim at (415) 783-4848.

Yours truly,

Deloitte & Touche LLP

cc: Robert Uhl

## **Appendix Deloitte & Touche LLP Responses to Questions for Respondents**

**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 proposed amendments and believe that they will reduce cost and complexity while maintaining or improving the usefulness of the information provided to users of financial statements. However, we suggest revising paragraph BC11 of the proposed ASU.

Paragraph BC11 includes an example to clarify that the criterion in proposed ASC 718-20-35-2A(a) would require an entity to evaluate whether the fair value of the award changes immediately before and after the modification rather than whether the compensation cost recognized has changed. While we believe that this clarification is useful, paragraph BC11 also states that the fair value “typically would change because there is a new measurement date for the award for a Type IV modification,” and that “the entity would apply modification accounting under paragraph 718-20-35-2A.” This statement might suggest that even if incremental value is not conveyed upon a change to the terms of an award, modification accounting would be applied if the modification-date fair value differs from the grant-date fair value because any compensation cost that could be recognized (i.e., if the award is subsequently expected to vest or actually vests) is based on the fair-value-based measurement on the modification date rather than the original grant date.

The example in paragraph BC11 appears to conflict with the guidance in proposed ASC 718-20-35-2A(a) because the comparison in the proposed Codification paragraph is fair value immediately before and after the modification. Therefore, we recommend revising paragraph BC11 to clarify that the evaluation should be a comparison of the fair value of the award immediately before and after the modification without consideration of whether the award is expected to vest.

**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 no new or different disclosures should be required as a result of the proposed amendments. We believe that the requirements in ASC 718-10-50-1, ASC 718-10-50-2(h)(2), and ASC 718-10-50-4 are sufficient to provide users of financial statements with information on the effects of significant modifications.

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

We agree that the prospective transition requirement is appropriate given the implementation costs associated with retrospective application, which would require reassessment of previous modifications. In addition, one of the objectives of issuing the proposed ASU is to reduce the cost of applying the guidance on modification accounting.

**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.*

Given the limited nature of the proposed amendments and prospective transition requirement, we would not expect entities to need a significant amount of time to implement the proposed amendments. We also believe that the Board should permit early adoption in any interim period to allow entities to reduce the cost and complexity of applying modification accounting as soon as practicable.