FICPA

Florida Institute of Certified Public Accountants

September 14, 2020

Technical Director
File Reference No. 2020-200
Financial Accounting Standards Board (FASB)
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: FASB Proposed Accounting Standards Update, *Compensation—Stock Compensation (Topic 718): Determining the Current Price of an Underlying Share for Equity-Classified Share-Option Awards* (File Reference No. 2020-200)

Dear Technical Director:

The Accounting Principles and Auditing Standards Committee (the Committee) of the Florida Institute of Certified Public Accountants (FICPA) respectfully submits its comments on the referenced proposal. The Committee is a technical committee of the FICPA and has reviewed and discussed the above referenced proposed ASU. The FICPA has more than 19,600 members, with its membership comprising primarily CPAs in public practice and industry. The Committee comprises 26 members, of whom 42% are from local or regional firms, 19% are from large multi-office firms, 19% are sole practitioners, 4% are in international firms, 8% are in education, and 8% are in industry. The Committee has the following comments related to the questions numbered below:

Question 1: ***Is the practical expedient as drafted in this proposed Update operable? If not, please explain why.***

As drafted, the Committee believes that the practical expedient (PE) is operable. It can be distinguished from alternatives, including some referenced in BC15 to the proposal, that are premised on fixed and unreliable assumptions. The practical expedient, in effect, incorporates widely accepted and well-established processes, while remaining anchored to significant regulatory protections concerning the integrity of valuations. In addition, the Committee believes that its application on a prospective basis and the flexibility afforded by award-by-award determinations remove any meaningful impediments to entities otherwise reluctant to seek relief under the PE.

Finally, the Committee took particular notice of the suggestion in BC29 to the proposal, included in the alternative view of Ms. Botosan, that “the practical expedient will merely serve to codify widespread existing practice that is already clearly acceptable under GAAP.” To be sure, this suggestion seeks to call into question the overall value and cost-benefit balance of the proposal. (See the Committee’s response to Question 3 —re: benefits of explicitly linking the practices under the PE to authoritative GAAP.) But if accepted as true, it necessarily also follows that “existing practice,” however widespread, provides a positive indication that the essential workflows and processes contemplated by the PE can be successfully implemented.

Question 2: ***The practical expedient in this proposed Update is applicable only for equity classified share-option awards. Should the scope of the practical expedient in this proposed Update be expanded to include other equity-classified share-based compensation arrangements (for example, nonvested shares)? Please explain why or*** **why not.**

There was no meaningful consensus within the Committee on this question. Some supported a broader scope as a means of expanding relief. Others disagreed and did not believe the reasoning offered in the proposal was as persuasive when considered outside the context of equity classified share-option awards.

Question 3: ***Will the proposed practical expedient reduce costs, including audit costs or fees, associated with the current price input? Please explain why or why not.***

The Committee acknowledges that significant cost savings may not materialize in many, if not most, instances from the preparer perspective. However, the Committee believes that savings could be substantial in certain circumstances, most notably when entities would otherwise obtain two valuations. (See the Committee's response to Question 4.)

From the audit perspective, the Committee similarly recognizes that the PE's effects on the nature, extent, and timing of procedures performed during particular audit phases could vary widely. Certain unknowns, such as the approaches that nonpublic company auditors will adopt in applying "management's specialist" guidance in the coming years, are not amenable to prediction. (See e.g., reference to such guidance by the PCC in its memo to its December 16, 2019 meeting.)

Ultimately, though, the Committee believes that linking the practices under the PE to authoritative GAAP will invariably reduce costs associated with audit documentation. By virtue of the PE's availability, more nonpublic entities will support their current price input valuations by complying with the "presumption of reasonableness" requirements than would otherwise do so. Reviewing BC2 to the proposal, the Committee membership agrees with the "feedback [received by the PCC] that the current price input is typically the most difficult input for private companies to estimate and substantiate to their auditors," and this factor weighed heavily in the Committee's consideration. Those in the Committee with valuation backgrounds noted that this is particularly so in the case of private equity-backed companies that have complex capital structures.

Therefore, the practical effects of the PE may include lessening the pressures that some auditors feel to "over-document" in this area. Such excessive documentation, as the Committee reasons, was likely an unintended effect of no practical expedient being available for estimating the current price, in contrast to those available for estimating expected term and expected share price volatility.

Question 4: ***Do you or your clients obtain separate valuations to satisfy GAAP requirements (Topic 718) and tax regulations (Section 409A)?***

Members of the Committee cited multiple instances in which separate valuations were obtained by clients for such purposes. However, the Committee refrains from offering a broader characterization of the relative frequency of these occurrences.

Question 5: ***Do you agree with allowing the proposed practical expedient to be elected on an award-by-award basis?***

On the one hand, there was an acknowledgement within the Committee that a "policy election" approach would require more consistency of methods, thereby promoting greater comparability. However, the Committee believes that the flexibility afforded by an award-by-award basis will be a significant appeal and decisive factor for many nonpublic companies that are otherwise hesitant to adopt the PE.

Question 6: ***Will the proposed practical expedient compromise the decision usefulness of information related to equity-classified share-option awards? If yes, please explain how.***

On balance, the Committee does not believe the PE will significantly compromise the usefulness of such information. However, those with valuation expertise on the Committee urged caution, particularly regarding assumptions about the similarity in relevant measurement objectives. The Committee generally commends the steps taken by the PCC in exploring *Issue 1: Aligning the Measurement Philosophies*, as described in its memo to its December 16, 2019 meeting. If FASB determines that further outreach regarding the practical effect of this consideration is necessary, though, the Committee believes that emphasis should be placed on consulting with valuation experts.

Question 7: ***Do you agree with the proposed prospective transition requirements? If not, please explain why.***

The Committee generally agrees with the proposed prospective transition requirements for the reasons described in BC23 to the proposal.

The Committee appreciates the opportunity to respond to the exposure draft. Members of the Committee are available to discuss any questions you may have regarding the responses in this letter.

Respectfully submitted,

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