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September 30, 2020

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

**File Reference No. 2020-200**

**Re: Proposed Accounting Standards Update, *Compensation—Stock Compensation (Topic 718): Determining the Current Price of an Underlying Share for Equity-Classified Share-Option Awards* (a proposal of the Private Company Council)**

Dear Ms. Salo:

Deloitte & Touche LLP is pleased to comment on the FASB's proposed Accounting Standards Update (ASU) *Compensation — Stock Compensation (Topic 718): Determining the Current Price of an Underlying Share for Equity-Classified Share-Option Awards* (a proposal of the Private Company Council).

We appreciate the efforts of the FASB and Private Company Council (PCC) to address the accounting and financial reporting needs of private companies, and we believe that it is important to use the *Private Company Decision-Making Framework — A Guide for Evaluating Financial Accounting and Reporting Guidance for Private Companies* ("the Decision Framework"). The proposed ASU includes a practical expedient for determining the current price of an underlying share for equity-classified share-option awards that are within the scope of ASC 718. Paragraph 1.3 of the Decision Framework notes that a practical expedient may be appropriate if, after the needs of financial statement users are taken into account, the practical expedient reduces the "cost and complexity for preparers of those financial statements."

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Specifically, as outlined in paragraphs BC21 and BC22 of the proposed ASU, the practical expedient is expected to reduce costs and complexity by reducing (1) the number of valuations obtained by nonpublic entities<sup>1</sup> and (2) audit costs. However, because the proposed guidance does not change the audit requirements related to auditing estimates, the extent of audit evidence needed in the assessment of the estimated share price input and therefore the extent of audit procedures and associated audit costs would be unlikely to change as a result of the practical expedient. Further, on the basis of our experience, it is rare for nonpublic entities to obtain a separate valuation for tax and financial reporting purposes. In virtually all cases, such entities obtain a valuation that is used for both tax and financial reporting purposes. Because we do not believe that the threshold in the Decision Framework related to establishing a practical expedient has been met, we do not support the proposed practical expedient.

The appendix below contains our responses to the proposed ASU's questions for respondents.

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We appreciate the opportunity to comment on the proposed ASU. If you have any questions concerning our comments, please contact Sean May at (503) 312-0091.

Yours truly,

Deloitte & Touche LLP

cc: Robert Uhl

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<sup>1</sup> As defined in ASC 718-10-20.

**Appendix**  
**Deloitte & Touche LLP**  
**Responses to Proposed ASU's Questions for Respondents**

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

We believe that there may be some challenges related to the proposed practical expedient's operability.

The proposed ASU introduces into ASC 718 the tax concept of "grossly unreasonable,"<sup>2</sup> as described in Section 409A of the U.S. Internal Revenue Code. An entity could use a qualified valuation for up to 12 months unless the "valuation method or the application of such method is grossly unreasonable."<sup>3</sup> Since the "grossly unreasonable" threshold does not currently exist in GAAP, preparers and auditors will be required to make judgments related to determining what is considered "grossly unreasonable" if the proposed practical expedient is elected and, in doing so, they may refer to other related sections of the U.S. Internal Revenue Code or associated interpretations. Referring to these other sources may not be consistent with the intention of the FASB and PCC.

Further, changes in the tax law that affect the Treasury Regulations section that is cited in the proposed ASU would result in corresponding changes to GAAP. Preparers and auditors would need to determine whether such changes have been made and, if so, whether they would affect the application of the proposed practical expedient.

**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.*

For the reasons noted in our cover letter, we do not support the proposed practical expedient and therefore do not think that the scope of the practical expedient should be expanded beyond 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.*

No, audit costs associated with determining the current share price input in an option pricing model for private companies vary significantly depending on the facts and circumstances. However, because there is no corresponding amendment to AICPA Section 540, "Auditing Accounting Estimates and Related Disclosures," the extent of audit evidence required in the assessment of the estimated share price value (and therefore the audit procedures and associated audit costs) would be unlikely to change as a result of the proposed practical expedient.

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<sup>2</sup> Treasury Regulation Section 1.409A-1(b)(5)(iv)(B)(2).

<sup>3</sup> See footnote 2.

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

No, in our experience, it is rare for our clients to obtain separate valuations. They generally only receive one valuation, which is prepared in a manner that satisfies GAAP requirements under ASC 718 and tax regulations under Section 409A.

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

If the Board decides to move forward with a final ASU, we agree with allowing the proposed practical expedient to be elected on an award-by-award basis.

**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.*

We defer to the views of financial statement users with regard to whether the proposed amendments would affect the decision usefulness of information related to equity-classified share-option awards.

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

If the Board decides to move forward with a final ASU, we agree with the proposed prospective transition requirements.