VSCPA
Virginia Society of CPAs

September 30, 2020

Technical Director
File Reference No. 2020-200
FASB
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Submitted via e-mail to director@fasb.org

Re: *Proposed Accounting Standards Update: Compensation – Stock Compensation (Topic 718): Determining the Current price of an Underlying Share for Equity-Classified Share-Option Awards*

Dear Technical Director:

The Virginia Society of CPAs (VSCPA) Accounting and Auditing Advisory Committee has reviewed the proposed Accounting Standards Update (Proposed ASU), *Compensation —Stock Compensation (Topic 718): Determining the Current price of an Underlying Share for Equity-Classified Share-Option Awards,* issued by the Financial Accounting Standards Board (FASB). The VSCPA is a leading professional association dedicated to enhancing the success of all CPAs and their profession by communicating information and vision, promoting professionalism, and advocating members' interests. The VSCPA membership consists of more than 13,000 individual members who actively work in public accounting, private industry, government and education. We acknowledge FASB has issued the Proposed ASU in an effort to provide additional clarity as organizations prepare to adopt the new lease accounting requirements. The VSCPA appreciates the work FASB has undertaken on this effort and the opportunity to respond to the Proposed ASU.

The VSCPA offers the following comments related to the "Questions for Respondents" section of the Proposed ASU:

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

> It is operable, but there would be a learning curve for building familiarity around Section 409A's acceptable three valuation methodologies. The learning curve would be weighing the cost and benefit between existing GAAP and the new practical expedient, as well as related accounting and auditing concepts.

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.

> No. The guidance and nuances on accounting for other equity-classified, share-based compensation arrangements, such as in 718-20-35 and 55, are complex and, based on factors such as changes to nonvested shares, can have a substantial change to how these shares are accounted for. Adding an additional practical expedient could lead to:
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> 1. Additional costs in evaluating the outcomes from utilizing a practical expedient versus not utilizing it.
> 2. Diversity in practice (e.g., two similar scenarios with nonvested shares that, based on applying the practical expedient or not, may lead to different results on how the shares are accounted for, potentially to the extent that one could classified as a liability and the other as equity).

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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.

If the situation at hand is that two valuations are needed, one for GAAP and one for tax, then it will certainly save costs. However, based on the methods acceptable under Section 409A, it does not appear there are significant cost savings. The valuation inputs must be audited under legacy GAAP or under this proposed practical expedient. In theory, there could be increased costs in evaluating which of the proposed four methods would have the most desirable result.

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

Yes.

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

This appears to not be an easy yes or no question. It would make sense for a practical expedient to be able to be applied on an award-by-award basis. However, if the purpose of this ASU is to reduce costs, evaluating which method to use may increase costs on an award-by-award method. Also, in the same mindset, it may be better to be consistent with how all awards are valued.

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.

No.

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

Yes.

Again, the Committee appreciates the opportunity to respond to the ED. Please direct any questions or concerns to VSCPA Vice President of Advocacy Emily Walker at ewalker@vscpa.com or (804) 612-9428.

Sincerely,

Natalya Yashina, CPA
Chair