

December 21, 2016

Susan M. Cospers, CPA
Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: FASB November 17, 2016 Proposed Accounting Standards Update, *Compensation- Stock Compensation (Topic 718): Scope of Modification Accounting (File Reference No. 2016-360)*

Dear Ms. Cospers:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 418,000 members in 143 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the Proposed Accounting Standards Update, *Compensation- Stock Compensation (Topic 718): Scope of Modification Accounting* Exposure Draft (ED) and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC agrees with the main objective of this ED, which is to provide clarity and reduce diversity in practice, as well as to reduce cost and complexity, when applying the guidance in ASC 718, *Compensation—Stock Compensation*, about a change to the terms or conditions of a share-based payment award.

TIC agrees with the proposed changes, which would require modification accounting if there are changes in fair value, vesting conditions, or classification of the award. TIC also agrees with prospective application to a modification that occurs on or after the effective date. TIC members did not see a reason why a delayed effective date or a different effective date for private entities would be necessary as this ED provides some relief and simplification and should be relatively easy for an entity to adopt.

ADDITIONAL COMMENTS

While this ASU made some much-needed improvements in the area of stock compensation, TIC believes the FASB should look at additional relief for employee share-based payments for private entities. These additional suggestions were outlined in detail in our comment letter dated October 17, 2016 on the August 4, 2016 *Agenda Consultation Invitation to Comment* ED.

To summarize, TIC suggested that currently there is unwarranted cost and complexity around certain share-based payment disclosures. TIC then reviewed the required disclosures related to share-based payment awards issued to employees and identified opportunities to simplify or eliminate certain disclosures that do not provide useful information to users of nonpublic entity financial statements. TIC suggested that the Board eliminate the disclosures in paragraphs 2(c), 2(d), 2(e), and 2(i) of ASC 718-10-50.

A second issue related to employee share-based payments are forfeitures and clawback provisions. TIC members feel that there could be some simplification and relief for private companies in this area as well. TIC also suggested that the FASB take another look at the requirement to reverse cumulative compensation expense recognized for nonvested shares that have been forfeited.

The final issue relates to the recognition of deferred tax assets for underwater options. Under the current guidance in ASC 718, even when options become “underwater,” U.S. GAAP still requires any deferred tax assets related to those stock options to remain on the balance sheet. This seems counterintuitive and not in line with other accounting principles where assets must be written down once impairment is imminent. While TIC understands that addressing this issue also could have an effect on other areas of U.S. GAAP where deferred tax assets are not evaluated at each reporting cycle for impairment, TIC does feel this could be an area for the FASB to explore further as writing down those related deferred tax assets would present a better financial picture of the entity at a point in time.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,



Michael A. Westervelt, Chair
PCPS Technical Issues Committee
cc: PCPS Executive and Technical Issues Committees