

May 12, 2017

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

Re: FASB March 7, 2017 Proposed Accounting Standards Update *Compensation—Stock Compensation (Topic 718) Improvements to Nonemployee Share-Based Payment Accounting* [File Reference No. 2017-220]

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) Improvements to Nonemployee Share-Based Payment Accounting* (ED) and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC agrees with the overall objectives of this ED, which are to simplify the accounting for nonemployee share-based compensation. The amendments in this proposed Update would expand the scope of ASC 718 to include share-based payment transactions for acquiring goods and services from nonemployees.

TIC members believe the proposed changes in this ED will result in simplification by eliminating the two separate accounting models for share-based compensation under current GAAP. The changes also may result in less volatility in the cost of nonemployee awards as the grant date generally will occur earlier under ASC 718 than ASC 505-50. Accounting policy elections related to calculated value and intrinsic value available to certain nonpublic entities should be welcomed.

TIC members agree with the transition requirements that have been proposed and do not believe this standard would take longer for a private entity to adopt than it would for a public business entity as it is a simplification initiative.

ADDITIONAL COMMENTS

TIC members have communicated some suggestions in the past to the Board related to some additional improvements that could be made related to share-based compensation under GAAP.

In our comment letter dated October 17, 2016 on the Boards' August 4, 2016, *Agenda Consultation Invitation to Comment*, TIC identified 4 areas, in addition to those identified by the FASB in the ITC, that the FASB should consider adding to their agenda. One of those items was the accounting for share-based compensation for private entities.

TIC believes that the current guidance in ASC 718, *Compensation—Stock Compensation*, can be very onerous and costly to apply for private entities and does not necessarily result in useful information for stakeholders. TIC recognizes that in March 2016, the FASB issued ASU 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. 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.

In TIC's discussions on simplifications regarding recognition, measurement, and disclosure of share-based payment transactions, TIC discovered 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's conclusions, in part, are based on a number of factors which include, but are not limited to:

- the lack of marketability of the instruments (restrictions on transfer to third parties);
- infrequency of exercise (generally, exercise is due to a triggering event such as an IPO or sale.);
- disregard of the disclosures by investors and other users (viewed as not important);
- the tendency for users to "carve out" compensation expense from operating income to present, in their minds, "true" operating income; and
- frequency of errors in disclosures prepared by management. Share-based payment disclosure requirements can be extensive. In addition, preparers frequently do not place emphasis on the disclosures because they are not perceived to be significant to the users of the financial statements of

nonpublic entities. Therefore, the perceived lack of relevance and the complexity of the disclosure requirements lead to errors in practice.

TIC recommended in that letter that the Board eliminate certain specific required disclosures under ASC 718 for nonpublic entities.

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 suggests that the FASB take another look at the requirement to reverse cumulative compensation expense recognized for nonvested shares that have been forfeited. The basis of our recommendation is as follows:

- Nonpublic companies tend to disregard this requirement. In other words, they discontinue recognizing compensation expense associated with the forfeited awards but, generally, do not recapture the previously recognized compensation expense.
- Compensation expense should be recognized so long as the employee is providing services during the holding period of the award, regardless of vesting. Some TIC members viewed this as part of an employee's compensation and should be recognized as such regardless of any forfeitures.

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