June 5, 2017

Susan M. Cosper, Technical Director
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Via Email to director@fasb.org

Re: File reference 2017-220

Dear Ms. Cosper:

Grant Thornton LLP appreciates the opportunity to comment on proposed Accounting Standards Update, Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. We commend the Board on its efforts to simplify the accounting for nonemployee awards and agree that this has been a difficult area in practice. In our experience, difficulty often stems from awards to individual nonemployees serving in roles similar to employees or board members, and many awards we see are simultaneously granted to a number of employees and a few nonemployees. Bringing all of those awards into the scope of Topic 718 is an improvement.

Overall, we believe that the proposed guidance is clear and will be easier to apply than current guidance in Subtopic 505-50. We recommend that “nonemployee vesting period” be defined in the Master Glossary, because that term is often presented in the proposed amendments near the defined term “requisite service period.” As drafted, the definition of nonemployee vesting period is embedded in proposed paragraph 718-10-25-2B and somewhat more clearly stated in revised paragraph 805-30-55-9. We also suggest that the Board consider including an example or examples of how a grantor would determine a nonemployee vesting period. Paragraph 718-10-55-59 introduces an example of estimating an employee’s requisite service period, and this section would be an appropriate location for an example illustrating the estimation of a nonemployee vesting period.

Responses to questions for respondents

Question 1: Do you agree that the amendments in this proposed Update would result in a reduction (or potential reduction) of cost and complexity while maintaining or improving the usefulness of information provided to users of financial statements? If not, why?
We agree. With few exceptions, the proposal conforms nonemployee award accounting to existing employee award accounting. We believe that the proposal to replace two models with one would reduce cost and complexity. Despite Topic 718 being one of the more difficult areas in practice, many entities have experience applying that guidance, whereas Subtopic 505-50 seems to be a more frequent source of adjustments in financial statements.

**Question 2: Should entities be required to measure nonemployee share-based payment transactions by estimating the fair value of the equity instruments they are obligated to issue? If not, why should there be a difference in the measurement objective for employee awards and nonemployee awards, and are there other alternatives that are more appropriate?**

Yes, we believe entities should measure nonemployee share-based payments based on fair value of the equity instruments granted.

**Question 3: Should the measurement date for equity-classified nonemployee awards be the grant date? If not, why should there be a difference in the measurement date for employee and nonemployee share-based payment awards, and what other alternatives are more appropriate?**

Yes, we believe the measurement date should be the grant date. The existing guidance in Subtopic 505-50 requiring remeasurement until either a performance commitment is reached or performance is complete has its merit and we understand its genesis; however, we have never fully considered that the behavior of an employee would be significantly different from that of a nonemployee, at least in common nonemployee fact patterns, such as advisory board members or consultants who receive share-based awards for personal services.

Rather than conforming the measurement date guidance for nonemployee awards to the existing guidance on employee awards, one could argue that the employee model should have a measurement date other than the grant date based on a theory that employees, just like nonemployees, are very conscious of the change in value of awards in which they are vesting. Both employee and nonemployee service providers might be motivated to stay in the arrangement with the entity or leave association with the entity based on whether the share-based award is valuable over the vesting period. However, we would not support that argument because the existing grant date employee measurement model has been applied for many years and a converged model based on existing guidance in Topic 718 would be more straightforward for preparers to apply. We therefore believe that the direction to conform the nonemployee model to the existing employee model for grant date measurement is an improvement.

**Question 4: Should entities be required to use the contractual term of share options and similar instruments issued to nonemployees as an input to the measurement of those share-based payment awards? If not, what other alternatives are more appropriate?**

We do not believe that the bright line split approach of expected term for employees and contractual term for nonemployees is appropriate and instead suggest the use of the expected
term or contractual term based on the characteristics of the grantee and the terms of the award. This would be a matter of judgment dependent on facts and circumstances.

To illustrate our view, an expected term would be appropriate when a nonemployee has characteristics that are substantially the same as an employee and the award terms also are substantially the same. For example, a nonemployee award granted to an individual under the same option plan and with the same limitations on transferability as employee awards would be valued using an expected term. In our experience, many nonemployee awards would fit that fact pattern. In contrast, a contractual term would be appropriate when the grantee is an entity performing services, such as an investment bank or consulting firm, and the characteristics of those grantees are not at all similar to employees. A contractual term also would be appropriate if the terms of the award differ from employee award terms, even if the grantee is an individual.

**Question 5:** Should nonemployee share-based payment awards containing performance conditions consider the probability that the performance condition will be met in determining the appropriate period(s) of recognition? If not, why should there be a difference in the accounting for employee and nonemployee share-based payment awards with performance conditions, and what other alternatives are more appropriate?

We agree that the probability of meeting a performance condition should be considered in determining the pattern of recognition.

**Question 6:** Is the application of the classification guidance in Topic 718 to nonemployee share-based payment awards that have vested and for which the nonemployee is no longer providing goods or services appropriate? If not, why should there be a difference in the postvesting classification assessment for employee and nonemployee share-based payment awards?

We believe that conforming the nonemployee post-vesting classification guidance to the existing employee classification guidance is an improvement. In our experience, post-vesting and post-employment accounting under Topic 718 is relatively clear to understand and apply. However, the reassessment of nonemployee award classification under Subtopic 505-50, as referred to in BC16, has presented difficulties in practice.

**Question 7:** Is the application of forfeiture guidance in Topic 718 to nonemployee share-based payment awards appropriate? If not, why should there be a difference in accounting for forfeitures for employee and nonemployee share-based payment awards?

While we support the proposed guidance in this area, we can appreciate an alternative view about whether the employee accounting model for forfeitures is appropriate for nonemployees. This is because employees receive cash compensation throughout employment. If an employee terminates, the employer reverses expense related to forfeitures, but not the cash compensation paid for services. In contrast, a nonemployee consultant is more likely to be compensated solely in shares. If that consultant forfeits unvested shares, the grantor ultimately might recognize no costs at all even though services were provided.
In reaching our conclusion on this question, we considered whether and to what extent fact patterns exist wherein a nonemployee provides goods or services but vesting terms differ significantly from the pattern of performance. We thought, for example, about a grantee providing ten identical goods, but not vesting in an award until the tenth good is delivered. Failure to deliver that last good would result in forfeiture and essentially nine free goods to the grantor. This is applicable to repetitive services as well. While we struggled with the notion that a grantor might recognize no cost in these fact patterns, we concluded that this outcome would be rare because nonemployees are likely to negotiate award terms that closely align vesting with performance.

We also considered that paragraph 718-10-25-2C requires recognition in the periods and in the same manner as if cash were being paid for the goods or services, and note that in cash transactions there also can be lack of alignment between goods or services received and cash paid. For example, legal fees contingent on a favorable litigation outcome are not paid if the outcome is adverse. An entity might receive legal services but recognize no cost in these fact patterns. Whether the legal fees are settled in cash or a stock compensation award should not impact the recognition of expense.

**Question 8:** Is the practical expedient for nonpublic entities to substitute calculated values for expected volatilities when measuring share options and similar instruments issued to nonemployees appropriate? If not, why should there be a difference in the application of practical expedients for employee and nonemployee share-based payment awards?

We believe the practical expedient is appropriate.

**Question 9:** Should nonpublic entities be allowed to make a one-time election to switch from measuring liability-classified nonemployee share-based payment awards at fair value to intrinsic value? If not, why should there be a difference in accounting policy elections for employee and nonemployee share-based payment awards?

Yes, we believe the one-time election should be available.

**Question 10:** Are the transition requirements for the proposed amendments appropriate? If not, what transition approach is more appropriate?

Yes, we believe that the transition requirements are appropriate.

**Question 11:** Should the Board require an entity to adjust the basis of an asset that includes share-based payment costs when applying the transition requirements? If not, what transition approach is more appropriate?

Yes, we believe an entity should adjust the basis of an asset when applying the transition requirements.

**Question 12:** Should the Board require separate disclosures for nonemployee share-based payment transactions?
Yes, we believe there should be separate disclosures for nonemployee awards.

**Question 13: How much time will be necessary to adopt the proposed amendments?**
Should the amount of time needed to apply the proposed amendments by entities other than public entities be different from the amount of time needed by public entities?

We will defer to preparers to comment on the time needed to apply the proposed amendments. We believe that since this proposed guidance in most instances should simplify nonemployee award accounting, there need not be a delay in the effective date for public versus other than public entities.

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We would be pleased to discuss our comments with you. If you have any questions, please contact Doug Reynolds at 617-848-4877, doug.reynolds@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP