June 6, 2017

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

File Reference No. 2017-220

The Accounting Principles Committee of the Illinois CPA Society (“Committee”) appreciates the opportunity to provide its perspective on the Proposed Accounting Standards Update (“ASU”), Compensation—Stock Compensation (Topic 718)—Improvements to Nonemployee Share-Based Payment Accounting. The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of the Committee are outlined in Appendix A to this letter.

We support the Board’s proposal to expand the scope of ASC 718 to include share-based payments to nonemployees.

To evaluate the impact of superseding the guidance in ASC 505-50, we reviewed the issue summaries that led to the issuance of EITF Issue 96-18. Based on our review, we believe that one of the scenarios supporting the current measurement date model in ASC 505-50 involves an agreement between an entity and a service provider to perform services at the entity’s request in the future. For example, an entity might agree with an attorney that, if the entity requires legal services within the next two years, the entity could request that the attorney provide the services in exchange for a fixed number of stock options with fixed terms (including strike price), and the attorney could choose whether or not to provide those services in exchange for that consideration. The concern with applying a grant date measurement model to this type of arrangement appears to have been that, if the value of the options appreciated significantly between the date the agreement was entered into and the date the attorney agreed to provide legal services, the entity might understate its expense by using the value at the date the initial agreement was entered into rather than the value at the date the two parties agreed that services would in fact be performed.

Although the Codification currently includes guidance about accounting for arrangements in which the grant date precedes the service inception date (i.e. Example 3, Case A beginning at ASC 718-10-55-94), situations in which the grantee is providing no goods or services to the grantor between the grant date and the service inception date do not appear to be addressed. Therefore we encourage the Board to consider whether establishing a measurement date as of the date the initial agreement is entered into (i.e. the grant date) in this fact pattern is an unintended outcome of the proposed guidance. If so, then we believe the Board should consider amending the definition of “grant date” to clarify that a grant date is not established until a nonemployee grantee is committed to or has begun providing the requisite goods or services.

Other situations that appear to have caused concern with a grant date measurement model ahead of finalizing EITF Issue 96-18 are those where the terms of the stock awards are themselves variable based on the outcome of a contingent event (e.g. whether a lawsuit is won or lost). We believe that application of the guidance on awards with performance conditions would result in recognition of expense as services are provided, at an amount and over a period that reflects the probable outcome of the arrangement. While this marks a departure
from the current guidance in ASC 505-50 that requires recognition based on the lowest aggregate fair value, we believe this outcome is reasonable.

Nevertheless, we suggest to the Board an alternative approach that would preserve the dual employee – nonemployee model in US GAAP, but would include a principle whereby the guidance in ASC 718 would apply to awards issued to employees and to nonemployees in arrangements that are similar to arrangements with employees. We acknowledge that the Board considered a model that would distinguish between awards issued in exchange for goods versus awards issued in exchange for services, and decided not to pursue such a model due to concerns about complexity. We believe that a model could be developed on the basis of certain indicators noted in the proposed ASU that would provide a reasonable basis for entities to discern between awards issued to nonemployees that are and are not akin to awards issued to employees. For example, paragraph BC 11 provides two indicators that entities could apply to identify awards issued to nonemployees that would be accounted for under ASC 718 rather than under ASC 505-50: (1) the entity is paying for services from nonemployees that are also being provided by employees and (2) the terms of awards issued to nonemployees are the same as terms of awards issued to employees.

Finally, we are unclear about why the Board proposed to delete ASC 470-20-30-26, which currently requires the issuer of a convertible instrument that appears to include a beneficial conversion option, that also enters into an arrangement to provide (receive) goods or services to (from) the convertible instrument holder, to consider whether the proceeds allocated to the convertible instrument represent fair value. We believe that this guidance continues to be relevant and should be retained.

Our responses to the questions in the proposed ASU are included below.

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We appreciate the opportunity to provide our comments and observations on the proposed ASU and would be pleased to discuss them with the Board members or the FASB staff at your convenience.

Sincerely,

Ryan Brady, CPA  
Chair, Accounting Principles Committee

Brian Kot, CPA  
Vice Chair, Accounting Principles Committee
**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?

**Response:** We agree. We are not aware of arrangements in practice that are substantially distinct from awards commonly issued to employees that would warrant application of the current deferred measurement date model to provide better information to users. However, to the extent the Board identifies such awards through the feedback process, we encourage the Board to consider further developing our alternative approach suggested in the forepart of this letter.

**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?

**Response:** We believe that fair value is the appropriate measurement objective for nonemployee share-based payment transactions.

**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?

**Response:** We believe the measurement date for equity-classified nonemployee awards should be the grant date.

**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?

**Response:** We believe entities should be required to use the contractual term of share options and similar instruments issued to nonemployees as an input to their measurement.

**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?

**Response:** We believe that nonemployee share-based payment awards containing performance conditions should consider the probability that the performance condition will be met in determining the appropriate period(s) 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?

**Response:** We believe that 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 is appropriate.

**Question 7:** Is the application of the 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.
Response: We believe that application of the forfeiture guidance in Topic 718 to nonemployee share-based payment awards is appropriate.

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.

Response: We believe this practical expedient is appropriate for share options and similar instruments issued to nonemployees.

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.

Response: We believe this one-time election should be available to nonpublic entities.

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

Response: We believe 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?

Response: We believe entities should adjust the basis of an asset that includes share-based payment costs when applying the transition requirements.

Question 12: Should the Board require separate disclosures for nonemployee share-based payment transactions?

Response: We do not believe the Board should require separate disclosures for nonemployee share-based payment transactions.

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?

Response: We do not believe that a significant amount of time will be necessary for entities to adopt the proposed amendments. We believe that entities other than public entities should be provided a one year deferral relative to public entities.
The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee’s comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

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