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Russell G. Golden, Chairman
Financial Accounting Standards Board
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Submitted via electronic mail to director@fasb.org

Subject: File Reference No. 2015-270

Dear Mr. Golden,

Thank you for providing Red Hat, Inc. ("Red Hat") with the opportunity to review and comment on the FASB's Proposed Accounting Standards Update, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.* Red Hat is the world's leading provider of open source technology solutions and an S&P 500 company. Headquartered in Raleigh, NC, Red Hat has more than 85 offices worldwide.

We support the FASB's proposed changes to;

(a) Eliminate the *requirement* to estimate forfeitures at grant and instead permit entities to make an accounting policy *election* to either estimate forfeitures at grant or account for forfeitures as they actually occur.

However, we suggest that the FASB not require such an election to be made at an entity-wide level but rather allow registrants to make the election at a level that best approximates expected vesting. For example, if permitted, Red Hat would likely elect to estimate forfeitures for grants with cliff vesting but would likely not elect to estimate forfeitures for grants with graded vesting – given actual true-ups for awards with graded vesting happen throughout the vesting period rather than just once – at the end of the vesting period as with cliff vesting.

(b) Expand the exception to liability-classification accounting related to the amount withheld for employee's taxes.

The FASB's current employee-level assessment to ensure that only the minimum allowed statutory tax rate is applied to withholdings is extremely onerous, especially in foreign jurisdictions.

Also, while we appreciate the proposed change to allow an up-to-the-maximum statutory tax rate, meaningful simplification would result if the determination of a tax withholding rate were permitted at the jurisdiction level rather than the individual employee level.

(c) Classify the excess tax benefits from share-based payment arrangements as a source of operating cash flows rather than a source of financing cash flows.

While we agree with the conceptual merit for currently requiring excess tax benefits from share-based payment arrangements to be classified as a source of financing cash flows, we do not believe the distinction is useful or even understood by many financial statement users. Consequently, we support the FASB's proposed change to classify all cash flows related to income taxes as operating cash flows.

(d) Provide guidance on the classification (on the statement of cash flows) of cash paid by an employer to the taxing authorities when directly withholding shares for tax withholding purposes.

As proposed, we believe withholding shares for employee tax withholding purposes should be classified as a financing activity, consistent with the repurchase of an entity's equity.

Finally, we do not support the FASB's proposal to recognize all excess tax benefits and tax deficiencies as income statement expense or benefit.

We continue to support the FASB's previous conceptual basis as described in FAS 123(R) B209, that the tax effects of employee share-based awards affect both the income statement and additional paid in capital because the total tax deduction pertains to two separate transactions or events: (i) a *compensation transaction* in which employees render services as consideration for an award of equity shares or share options and (ii) an *equity transaction*, such as the exercise of options or vesting of shares.

We believe the use of employee services in an entity's operations, which results in compensation costs should continue to be reflected in the income statement and we believe the tax deductions in excess of recognized compensation costs, which result from increases in an awards intrinsic value after the grant date (that is, the excess tax deductions), should continue to be an adjustment to additional paid in capital.

Moreover, we do not believe eliminating the burden of tracking an APIC "Credit Pool" would offset the complexities associated with the introduction of increased volatility in earnings and estimating an annual effective tax rate.

Thank you again for the opportunity to comment on the proposed improvements to employee share-based payment accounting. If you have any questions regarding our comments, please contact us at 919-754-4007.

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Red Hat, Inc.