



August 13, 2015

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Via Email to [director@fasb.org](mailto:director@fasb.org)

Re: File reference number 2015-270

Dear Ms. Cospers:

Grant Thornton LLP appreciates the opportunity to comment on Proposed Accounting Standards Update, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. We commend the Board on its efforts to simplify share-based payment accounting and support the proposed simplifications as discussed below.

The proposed topics for simplification fall squarely in the range of practice issues we encounter on a regular basis. All too often, entities (primarily nonpublic) find it difficult to understand and apply certain of what might be referred to as “bright-line” rules in current guidance, such as the impact of net settlement for minimum tax withholding.

Responses to Invitation to Comment questions

**Question 1: Do you agree that the proposed amendments 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?**

Overall, we believe that the proposed changes would result in a potential reduction of cost and complexity while maintaining the usefulness of information, and we support the scope of the proposed simplifications.

**Question 2: Should excess tax benefits and tax deficiencies be recognized in the income statement? If not, why, and are there other alternatives that are more appropriate? Should an entity delay recognition of an excess tax benefit until the benefit is realized through a reduction to taxes payable? If yes, why?**

We agree with the proposed change to require entities to recognize excess tax benefits and deficiencies in the income statement. Income tax accounting is one of the most difficult topics in extant GAAP. We believe the benefits of this simplification would outweigh any possible negative effects, such as volatility in income tax expense that we agree could be explained through existing income tax disclosures as expressed in paragraph BC5.

We do not believe an entity should delay recognition of an excess tax benefit until the benefit is realized and therefore agree with the proposal to recognize that benefit subject to existing deferred tax asset valuation allowance guidance.

**Question 3: Should the effect on tax cash flows related to excess tax benefits be classified as an operating activity on the statement of cash flows? If not, what classification is more appropriate and why?**

We agree with the proposal that the effect on tax cash flows related to excess tax benefits should follow the cash flow treatment of income taxes.

**Question 4: Should entities be permitted to make an accounting policy election either to account for forfeitures when they occur or to estimate forfeitures? If not, why?**

We agree that entities should be permitted to make an accounting policy election to account for forfeitures when they occur or to estimate forfeitures. We acknowledge that providing this option could create diversity in practice and result in less comparability; however, we believe the benefits of simplification through an election outweigh those concerns since an entity ultimately would recognize the same amount of compensation cost for the awards that vest under either method selected.

**Question 5: Is the proposed expansion of the exception to liability classification related to the amount withheld for employee's taxes appropriate? If not, is there another exception that is more appropriate and why?**

We view this proposed change as a practical solution to an issue entities often encounter as a result of the existing bright-line requirement to withhold no more than the statutory minimum. We believe that fewer issues would arise if the threshold is raised to the maximum statutory rate, even with the requirement to determine an individual employee's maximum rate as opposed to the employer's minimum rate.

**Question 6: Should the cash paid by an employer to the taxing authorities when directly withholding shares for tax-withholding purposes be classified as a financing activity on the statement of cash flows? If not, what classification is more appropriate and why?**

We agree with this simplification in the form of providing guidance where current GAAP does not. Like the Board, we view the cash flows associated with shares withheld for tax-withholding purposes to be similar to a share repurchase and therefore agree with the proposed classification of these cash flows as a financing activity, consistent with other repurchases of an entity's equity instruments.

**Question 7: When assessing the classification of an award with a repurchase feature that can only be exercised on the occurrence of a contingent event, should a contingent event within the employee's control be assessed in the same manner as a contingent event outside the employee's control? If not, why should there be a difference in the assessment?**

We agree that contingent events within and outside an employee's control should be assessed similarly.

**Question 8: Is the practical expedient for nonpublic entities to estimate the expected term of all awards with performance conditions that affect vesting or service conditions appropriate? If not, are there other practical expedients that are more appropriate and why? Should the expedient be limited to nonpublic entities?**

We believe the practical expedient for nonpublic entities to estimate the expected term of those awards is appropriate and also simplifies nonpublic entity accounting through close alignment with the simplified method in SEC SAB Topic 14C.

We agree with limiting the expedient to nonpublic entities, as public entities already are, and nonpublic entities transitioning to public entities will become, subject to the SAB guidance.

**Question 9: Should nonpublic entities be allowed to make a one-time election to switch from measuring liability-classified awards at fair value to intrinsic value? If not, why? While not proposed, should the Board consider making the ability to elect intrinsic value an ongoing election alternative for nonpublic entities?**

We believe we understand the reason for allowing nonpublic entities a one-time policy election with regard to intrinsic value for liability awards but note that this election is an accommodation in conflict with the fair value basis underlying ASC 718 awards in general. Re-opening the election seems to be expanding the scope of a GAAP exception rather than a simplification per se. Ultimately, however, we are comfortable with this proposal.

We would support making the intrinsic value election an ongoing election only if it is a one-time election. In other words, we would not support allowing an entity to elect intrinsic value for existing liability awards, later change to the preferable fair value method for a reason such as an expected IPO, and then again elect intrinsic value if the need for fair value measurement no longer exists.

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

Yes, we believe the transition requirements are appropriate.

**Question 11: How much time will be necessary to adopt the amendments in this proposed Update? Should the amount of time needed to apply the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities?**

We defer to those in practice to comment on the time that will be required to adopt the amendments in this proposed Update.

We generally believe that nonpublic entities benefit from a later effective date because they learn from the experience of public entities that adopt earlier. Nonpublic entities as a whole often have fewer personnel and financial resources than public entities. However, as the proposed changes represent simplifications in the accounting, we do not believe that nonpublic entities should be precluded from early adoption in order to take full advantage of the simplifications provided.

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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](mailto:doug.reynolds@us.gt.com).

Sincerely,

/s/ Grant Thornton LLP