Edison Electric Institute
Power by Association℠

AGA
American Gas Association

August 14, 2015

Technical Director
File References: 2015-270
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference: 2015-270 – Proposed Accounting Standards Update, Compensation – Stock Compensation (Topic 718), *Improvements to Employee Share-Based Payment Accounting*

Dear Ms. Cosper:

The Edison Electric Institute (EEI) and the American Gas Association (AGA) appreciate the opportunity to comment on the Financial Accounting Standards Board's (FASB or Board) Exposure Draft on the Proposed Accounting Standard Update (ASU) on Stock Compensation (hereafter the "proposed Exposure Draft").

EEI is the association that represents all U.S. investor-owned electric companies. EEI members provide electricity for 220 million Americans, operate in all 50 states, and directly employ more than a 500,000 workers. With more than $90 billion in annual capital expenditures, the electric power industry is responsible for millions of additional jobs. EEI has 70 international electric companies as Affiliate Members and 250 industry suppliers and related organizations as associate Members. Organized in 1933, EEI provides public policy leadership, strategic business intelligence, and essential conferences and forums.

The AGA, founded in 1918, represents 202 local energy companies that deliver clean natural gas throughout the United States. There are more than 70 million residential, commercial and industrial natural gas customers in the U.S., of which almost 93 percent – more than 65 million customers – receive their gas from AGA members. AGA is an advocate for natural gas utility companies and their customers and provides a broad range of programs and services for member natural gas pipelines, marketers, gatherers, international gas companies and industry associates. Today, natural gas meets almost one-fourth of the United States' energy needs.

EEI and AGA regularly work together on projects of mutual interest and impact to the energy utility sector broadly, and the comments expressed herein represent the majority view of each organization's member companies and respond only to certain questions that are most relevant to our members.

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?

We agree with the Board that the proposals included in the Exposure Draft will result in a reduction of cost and complexity while maintaining the usefulness of information provided to users of financial statements. Further, EEI and AGA strongly support the Board's Simplification Initiative and are pleased to see the Initiative resulted in this Exposure Draft.

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 strongly support a simplification approach that eliminates the complex record-keeping associated with "APIC pools" and the resulting division of excess tax benefits and deficiencies between earnings and equity. It would greatly reduce the cost and complexity of the accounting, which is the stated purpose of this proposal. Significant time is currently spent computing and maintaining the pool of these tax amounts.

Further, we concur with the Board that there is no reason to delay the recognition of an excess tax benefit until the benefit is realized through a reduction of taxes payable. We believe that waiting until the tax benefit is realized does not accurately reflect the economics of these tax amounts.

However, we recommend that all excess tax benefits or tax deficiencies should be recognized in equity. While the tax effects of stock compensation are appropriately recorded in the income statement in the periods when compensation is charged to expense, there is no income statement transaction associated with the excess tax benefits and deficiencies that may arise thereafter. Rather, since such tax amounts arise in connection with a capital transaction (for example, the issuance of shares when stock options are exercised), we believe it is most appropriate to record all such amounts in equity as well.

Additionally, we believe that recording in earnings the tax effects associated with changes in the value of equity instruments after they have been granted to employees is less transparent from the perspective of users of our financial statements, who generally seek to identify ongoing operating results. Rather, such treatment is confusing because it includes taxes in earnings that have no associated pre-tax amount recorded in the same period.

Our suggested approach will provide symmetry between the recording of compensation expense for share-based awards to employees and the tax effects associated with those transactions. Recording the tax effects of share-based compensation expense in the income statement and recording subsequent tax effects associated with capital transactions and post-grant changes in value of those shares in equity is simple, less costly, and conceptually understandable for both financial statement users and preparers. For these reasons, we ask the Board to reconsider this aspect of the proposed amendment.

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 concur with the Board that the effect on tax cash flows related to excess tax benefits should be classified as an operating activity within the statement of cash flows because tax cash flows typically are presented as an operating activity. Further, we believe this proposal will simplify the accounting for these transactions on the statement of cash flows.

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 support the Board’s decision to permit an entity to make an entity-wide accounting policy election either to estimate the effect of forfeitures in its initial accrual of compensation cost each year or to account for forfeitures in compensation cost when they occur. We believe providing an opportunity to make an accounting policy election will simplify the accounting for stock-based compensation without having a material impact to the financial statements of our member companies.

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 support the proposed amendments to expand the exception to the liability classification relating to statutory tax withholding requirements. The amendments will improve and simplify the accounting for share-based payments. The current guidance results in inconsistent accounting treatment of similar awards and overly complex administration.

It is our understanding that the current guidance requires an entire award to be classified and accounted for as a liability if an amount in excess of the minimum statutory requirement may be withheld because this is deemed to create variable-plan treatment. However, this treatment fails to recognize the purpose of statutorily permissible tax withholding rates and does not change the amount of shares granted prior to tax withholding. Regardless of whether the tax withholding is at the minimum or at the maximum statutory rate, the overriding purpose is the same - to fulfill the employee's tax obligations. We believe this does not create a variable plan, and therefore we believe that the proposed amendments will properly expand the exception to liability classification and improve consistency in the accounting treatment of similar awards.

The amendments will further simplify the accounting treatment as minimum statutory tax rates vary by employee and jurisdiction. Entities currently are overburdened by applying and tracking these multiple minimum statutory tax rates for the purposes of applying the accounting treatment for each employee. The amendments will simplify this treatment as entities would only be required to determine the maximum withholding rate in each jurisdiction and would not need to determine a rate for each employee. This will also result in more consistent treatment of similar awards across jurisdictions.

We strongly support this proposed amendment as it both simplifies and improves the accounting for stock compensation.

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 concur with the Board that cash paid by an employer to the taxing authorities when directly withholding shares for tax-withholding purposes should be classified as a financing activity within the statement of cash flows since the withholding reduces the net proceeds from the issuance of shares, which itself is a financing activity. Further, we believe this proposal will eliminate diversity in practice with respect to the classification of these payments that exists under existing GAAP.

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

We concur with the Board's proposed transition requirements for each area noted within the proposed Exposure Draft.

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 do not expect most of the amendments included in the proposed Exposure Draft will take significant time or effort to adopt. As a result of the cost savings and expected improvements to financial reporting expected as a result of adopting the proposed Exposure Draft, we encourage the Board to make the proposals effective as soon as possible. We also encourage the Board to allow for early adoption.

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EEI and AGA appreciate the opportunity to provide our input on this Exposure Draft. We would be pleased to discuss our comments and to provide any additional information that you may find helpful.

Very truly yours,

/s/ Richard F. McMahon, Jr.

Richard F. McMahon, Jr.
Vice President, Edison Electric Institute

/s/ William R. Ford

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