Financial Security...for Life.

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Ms. Susan Cosper, Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
director@fasb.org

Re: Exposure Draft – Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting File Reference No. 2015-270

Dear Ms. Cosper:

The American Council of Life Insurers (ACLI)[1] appreciates the opportunity to comment on the FASB's Exposure Draft, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment* (the "Exposure Draft"). The update is part of the FASB's ongoing simplification initiative launched in June 2014 to reduce cost and complexity of complying with U.S. Generally Accepted Accounting Standards (GAAP) while maintaining or improving the usefulness of information provided to users of financial statements. We continue to appreciate the FASB's efforts to focus on simplification.

In general, we support the proposed changes for accounting for forfeitures, minimum statutory tax withholding requirements, and the treatment of stock compensation items in the statement of cash flows. Further, since implementation of the proposed expansion of the exception to liability classification related to the amount withheld for employee's taxes can be accomplished with minimal cost and complexity, we believe that early adoption should be permitted for this this proposed amendment so that entities may implement it upon issuance of the final ASU.

We do not agree with all aspects of the tax accounting proposals outlined in the exposure draft and have therefore narrowed our response to question two.

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?

Recognition of excess tax benefits and tax deficiencies

Entities generally account for equity awards under ASC 718 by recognizing compensation expense over the vesting period based on the fair value of the award on the grant date. The difference between

[1] The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with 284 member companies operating in the United States and abroad. ACLI advocates in federal, state, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers' products for financial and retirement security. ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing more than 90 percent of industry assets and premiums. Learn more at www.acli.com.

compensation expense recognized for financial reporting purposes and the fair value of the stock on the settlement date is not recognized in earnings as long as the conditions in ASC 718 are met for the award to be classified as equity. As compensation expense is recognized, a corresponding deferred tax asset (DTA) is established which accumulates until the award is settled. At settlement, the entity's tax deduction related to the award is compared to the DTA, which results in an excess tax benefit or a tax deficiency. All excess tax benefits are recognized in additional paid-in capital (APIC) and tax deficiencies are recognized either in the income tax provision or, to the extent there are previous excess tax benefits built up in additional paid-in capital (APIC pool), tax deficiencies are offset against the APIC pool, resulting in a decrease to equity, rather than recognizing additional tax expense.

The Exposure Draft proposes an approach to accounting for the income tax effects of share-based payments that would require that all excess tax benefits and tax deficiencies be recognized in the income statement. The ACLI does not believe that all tax consequences of a compensation arrangement should be recorded in the income statement, given that the fair value of the stock on the settlement date is never recognized in pretax earnings. To avoid creating a conceptual inconsistency within ASC 718, we believe that the tax benefit recognized in the income statement for an award should correspond to the amount recognized as compensation expense on a pretax basis. Accordingly, the tax effect of that difference (the excess tax benefit or tax deficiency) should not be reflected in earnings.

The current model whereby tax deficiencies are recognized to APIC to the extent there is a sufficient APIC pool to absorb the deficiencies involves some complexity. However, the ACLI would support an approach in which all excess tax benefits and tax deficiencies would be recorded in APIC. This would eliminate the need to track APIC pools and accomplish the Board's simplification objective.

Delayed recognition of excess tax benefits

Current guidance prohibits entities from recording the excess tax benefit in APIC until the corresponding tax deduction reduces current taxes payable. This requires entities to separately track these suspended excess tax benefits.

ACLI supports the Board's proposal to eliminate this requirement and allow entities to recognize an excess tax benefit regardless of whether the benefit reduces current taxes payable.

In conclusion, the American Council of Life Insurers is pleased to offer support for the FASB's focus on standards simplification. Towards that end, ACLI offers its foregoing views and suggestions relative to the tax issues raised in Question 2. We welcome the Board's feedback, and invite your questions on any viewpoints expressed herein.

Sincerely,

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