ALCOA

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August 19, 2015

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

Re: File Reference No. 2015-270, Exposure Draft, Proposed Accounting Standards Update, "Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting"

Dear Technical Director:

Alcoa Inc. appreciates the opportunity to comment on the Exposure Draft referenced above. Alcoa is a global leader in lightweight metals engineering and manufacturing. Alcoa is also the world leader in the production and management of primary aluminum, fabricated aluminum, and alumina combined.

We support the Board's effort to improve financial reporting by proposing to revise certain aspects of employee share-based payment accounting. We agree that the complexity that exists today is unnecessary and warrants simplification, which will benefit all constituents while maintaining the decision usefulness of such information. That being said we do have comments related to several of the questions put forth in the proposed Accounting Standards Update (ASU).

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?

Yes, we agree that overall the proposed amendments will result in a reduction of cost and complexity while maintaining or improving the usefulness of information provided to users of financial statements. However, we do believe that the proposed change to classify cash paid by an employer to the taxing authorities when directly withholding shares for tax-withholding purposes as a financing activity on the statement of cash flows will add complexity, as discussed further in our response to Question 6 below.

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 Board's original conclusions in Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, (Accounting Standards Codification 718) that the tax impacts associated with share-based payment awards result from both a compensatory transaction for services rendered and from an equity transaction that is affected by changes in the share price. As a result, we believe that current practice should remain with one change as follows. Tax deficiencies should be recorded in equity consistent with excess tax benefits thereby eliminating what is referred to as the APIC (additional-paid-in-capital) pool. As such, the tax impact related to stock-based compensation expense should be recorded in the income statement, and the tax impact, whether excess or deficiency, related to changes in the share price should be recorded permanently to APIC in the balance sheet. We firmly believe this will result in the highest reduction of complexity and enhance understandability for the users of financial statements.

We do not believe an entity should delay recognition of an excess tax benefit until the benefit is realized through a reduction to taxes payable. Under Accounting Standards Codification 740, deferred tax assets and liabilities are required to be recognized when the underlying temporary difference occurs. The issue of realizability is addressed on a periodic basis by an entity through analysis of many factors to determine if a valuation allowance is appropriate. As such, we do not see any reason that delaying the recognition of a deferred tax asset related to excess tax benefits associated with share-based compensation should be an exception to this principle.

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?

Yes, the effect on tax cash flows related to excess tax benefits should be classified as an operating activity on the statement of cash flows. Not only would this be consistent with where tax deficiencies are reflected currently in the statement of cash flows, but it would also be consistent with the Board's conclusions reached in Statement of Financial Accounting Standards No. 95, *Statement of Cash Flows*, that the cost of allocating income taxes amongst operating, financing, and investing would outweigh the benefits, if any.

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?

Yes, entities should be permitted to make an accounting policy election either to account for forfeitures when they occur or to estimate forfeitures. Generally, estimated forfeitures do not materially impact an entity's annual stock-based compensation expense. Additionally, estimating, and subsequently adjusting, forfeitures can be a complex process, even when using the assistance of a third-party service provider. Furthermore, entities are required currently to disclose in the notes to the financial statements the number of actual forfeitures during the most recent annual period. As such, if an entity would elect to account for forfeitures as they occur but a user of that entity's financial statements wants to estimate forfeitures, there is information available to do so.

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?

Yes, the proposed expansion of the exception to liability classification related to the amount withheld for employees' taxes is appropriate. Currently, we do not permit higher withholdings than our minimum statutory obligation as a result of the requirement to classify a share-based payment award as a liability; however, higher withholdings are often desired by both employees and taxing authorities. In the case of our company's employee share-based payment awards, it is clear that the intent is to settle the awards with shares of common stock, not cash. As such, withholding amounts for employees' taxes, within reasonable limits, should not dictate the accounting classification of such awards. This change will allow a beneficial outcome to all stakeholders (i.e. taxing authorities, employers, and employees) without sacrificing the credibility of the award classification on the balance sheet.

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?

Yes, the cash paid by an employer to the taxing authorities when directly withholding shares for tax-withholding purposes should be classified as a financing activity on the statement of cash flows. We agree that such a transaction is akin to the repurchase of equity and, therefore, would be more appropriately classified as a financing activity.

That being said, we would like to point out that this specific proposed change seems to contradict the simplification objective of the proposed ASU. As such, it may be worth considering that form over substance in this limited circumstance is more practical in light of the complexity of adding this item to the financing activity section on the statement of cash flows.

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?

As we are a public company, we do not have a view on the first two questions within Question 8; however, the following response addresses the third question within Question 8. The practical expedient being proposed should not be extended to public entities. Such entities should have relevant historical data to objectively support the expected term. Using the practical expedient will result in different compensation expense that may be significant. This shortcut would reduce comparability to other preferred valuation models, such as the lattice-pricing model, since information related to the expected term is embedded within the lattice model's calculations.

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

Yes, we agree the transition requirements for each area 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 believe a minimum of six months from the date that a final ASU is issued is appropriate. As a result, we foresee an effective date of no earlier than January 1, 2017 for calendar year-end companies. As we are a public company, we do not have a view on the amount of time needed to apply the proposed amendments by entities other than public business entities.

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Thank you for allowing us the opportunity to present our views on this Exposure Draft. Please contact me at (412) 553-1772 if you would like us to clarify any of our comments.

Sincerely,

Robert S. Collins
Vice President and Controller