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August 14, 2015
Via email

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

Re: File Reference No. 2015-270, Proposed Accounting Standards Update, Compensation - Stock Compensation (Topic 718)

Google Inc. ("Google", the "Company" or "we") appreciates the opportunity to provide feedback on the Proposed Accounting Standards Update, Compensation - Stock Compensation, Topic 718 (the "Proposed Standard"), exposed for comment by the Financial Accounting Standards Board ("FASB" or the "Board").

Google is a global technology leader focused on improving the ways people connect with information. Our goal is to develop services that significantly improve the lives of as many people as possible and we aspire to build products and provide services that improve the lives of billions of people globally. We generate revenue primarily by delivering relevant, cost-effective online advertising.

In the normal course of our operations, we regularly have transactions which are accounted for as share-based compensation arrangements under ASC 718. Overall, we support the Board's goal of simplifying the accounting for share-based compensation transactions and believe the Proposed Standard is a positive step toward this goal. We generally agree with the proposed simplifications relating to the classification of excess tax benefits on the statement of cash flows, treatment of forfeitures and increasing the tax-withholding threshold for equity classification.

However, we would like to share the following observations and suggestions relating to the Proposed Standard.

1. Accounting for Income Taxes

We support the Board's efforts to reduce the cost and complexity associated with the accounting for excess tax benefits and deficiencies while maintaining or improving the usefulness of the information provided to users of financial statements. However, we disagree with the proposal that excess tax benefits and deficiencies related to share-based compensation arrangements be recognized in the income statement.

We note the Board's discussion in the basis for conclusions for FASB Statement 123(R) and the Proposed Standard and we also believe that the accounting for share-based compensation arrangements encompasses two separate transactions:

1. A compensatory transaction determined at the grant date, in which employees render services in exchange for equity instruments. The associated compensation cost is an income statement item.
2. An equity transaction subsequent to the grant date, such as the exercise of share options or the vesting of shares. The associated impact is recorded as an equity item.

Accordingly, we believe the tax impact of the compensatory transaction should be recorded in the income statement, while the tax impact of the equity transaction should be recorded as an adjustment of additional paid-in capital ("APIC"). Further, we believe that recording both tax benefits and deficiencies as an adjustment to APIC would result in simplification as this will eliminate the need for tracking the APIC pool and the asymmetrical accounting for excess tax benefits versus excess tax deficiencies under the current rules.

If the Proposed Standard is implemented as currently drafted, we observe that the recording of all excess tax benefits and deficiencies in the income statement would introduce income tax expense and tax rate volatility as well as a corresponding volatility in net income and earnings per share. This volatility, which is purely driven by fluctuations in an entity's underlying share price, is not necessarily reflective of the fundamentals of the business operations. Consequently, some companies may consider additional GAAP and non-GAAP disclosures to explain period-over-period fluctuations. We believe that the desire for these additional metrics and disclosures calls into question the decision-usefulness of recording the tax impacts in net income.

Further, in the event excess tax benefits and deficiencies are included as a component of the annual estimated tax rate, it is not clear to us whether it would be necessary to estimate future movements in the entity's share price when determining annual effective tax rates. Doing so would introduce additional cost and complexity to the preparation of income tax disclosures. In contrast, if tax benefits and deficiencies are included as discrete items, the volatility and potential additional GAAP and non-GAAP disclosures described above indicate that the inclusion of such tax benefits and deficiencies in income tax expense would not provide additional useful information to users.

2. Minimum Statutory Tax Withholding Requirements

We support the Board's efforts in changing the threshold to qualify for equity classification from the employer's minimum statutory withholding requirements to the employee's maximum individual statutory tax rate. While we believe this change provides more flexibility, additional implementation guidance on the determination of the "maximum individual statutory rate" would ease transition requirements for affected financial statement preparers.

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We appreciate the opportunity to express our views on the Proposed Standard. If you have any questions or would like to discuss our responses further, please contact me at (650) 214-5529.

Kind Regards,

Amie Thuener
Chief Accountant