CLA (CliftonLarsonAllen LLP)
220 South Sixth Street, Suite 300
Minneapolis, MN 55402-1436
612-376-4500 | fax 612-376-4850
CLAconnect.com

October 1, 2020

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

Sent via email to: director@fasb.org, File Reference No. 2020-200

RE: Exposure Draft—*Determining the Current Price of an Underlying Share for Equity-Classified Share-Option Awards* (File Reference 2020-200)

Dear Technical Director:

CliftonLarsonAllen LLP appreciates the opportunity to comment on the Private Company Council's (PCC) August 17, 2020, proposed accounting standards update exposure draft, *Determining the Current Price of an Underlying Share for Equity-Classified Share-Option Awards*.

Our clients comprise private companies and not-for-profit entities. Although we believe revising the Codification would be beneficial by explicitly stating the use of U.S. Internal Revenue Code Section 409A valuations are acceptable for purposes of compliance with Topic 718, Compensation—Stock Compensation, we believe it is unlikely a majority of our clients would realize costs savings from the adoption of this practical expedient due to the following:

- The measurement philosophies in Section 409A and in generally accepted accounting principles (GAAP) are similar and, as such, companies are typically utilizing the valuation they are receiving for both financial reporting and tax purposes.

- The three specified valuation methods that qualify for the presumption of reasonableness in Section 409A are not precluded by existing Topic 718.

- The costs to audit a Section 409A valuation may not significantly differ from a valuation obtained for financial reporting purposes.

We have provided our responses to the questions for respondents included in the exposure draft in the attachment to this letter.

Sincerely,

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

A member of Nexia International

Exposure Draft: ***Determining the Current Price of an Underlying Share for Equity-Classified Share-Option Awards***

CliftonLarsonAllen LLP is pleased to provide the following responses to the specific questions for respondents in the Exposure Draft. In summary, in our client base we have not experienced companies obtaining separate valuations for financial reporting (Topic 718) and for tax regulations (Section 409A) and, as such, the practical expedient in using a Section 409A valuation would not necessarily provide cost savings to our clients. Further, the audit methodologies to audit a valuation for tax regulations (Section 409A) are not different from those to audit a valuation for financial reporting (Topic 718) and, as such, would not afford companies any cost savings in regards to audit fees.

1. **Is the practical expedient as drafted in the proposed Update operable? If not, please explain why.**

   Yes, the practical expedient is operable. Much of our client base is currently using the valuations used to satisfy tax regulations (Section 409A) for estimating the current price of underlying equity in equity-classified options to satisfy financial reporting requirements (Topic 718).

2. **The practical expedient in this proposed Update is applicable only for equity-classified share-option awards. Should the scope of the practical expedient in this proposed Update be expanded to include other equity-classified share-based compensation arrangements (for example, nonvested shares)? Please explain why or why not.**

   Yes, it would be reasonable to use the practical expedient for other equity-classified share-based compensation arrangements as long as the current price of the underlying equity instrument is the desired valuation objective.

3. **Will the proposed practical expedient reduce costs, including audit costs or fees, associated with the current price input? Please explain why or why not.**

   It is not expected the use of the practical expedient would reduce audit costs or fees as the auditor would be required to audit Section 409A valuations using similar auditing methodologies as used in auditing financial reporting (Topic 718) valuations.

4. **Do you or your clients obtain separate valuations to satisfy GAAP requirements (Topic 718) and tax regulations (Section 409A)?**

   We rarely have seen our clients obtain separate valuations to satisfy GAAP requirements (Topic 718) and tax regulations (Sections 409A).

5. **Do you agree with allowing the proposed practical expedient to be elected on an award-by-award basis?**

   Yes, we agree with the PCC that it would be illogical to disallow a nonpublic entity from using a valuation method that was otherwise compliant with Topic 718 for certain individual awards.

6. **Will the proposed practical expedient compromise the decision usefulness of information related to equity-classified share-option awards? If yes, please explain how.**

   As many of our clients currently deploy the use of Section 409A valuations to determine the current price of the underlying equity in equity-classified options for financial reporting purposes (Topic 718), we do not believe the adoption of the practical expedient would compromise the decision usefulness of information related to equity-classified share option awards.

7. **Do you agree with the proposed prospective transition requirements? If not, please explain why.**

   We would agree with the prospective application for all qualifying awards granted or modified during fiscal years beginning on or after the effective date and interim periods within the following years. We would also agree with the early adoption provision of this expedient as most companies in our client base are already applying this expedient.