



October 1, 2020

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

File Reference No. 2020-200

The Accounting Principles Committee of the Illinois CPA Society (“Committee”) appreciates the opportunity to provide its perspective on the *Proposed Accounting Standards Update, Compensation – Stock Compensation (Topic 718) – Determining the Current Price of an Underlying Share for Equity-Classified Share-Option Awards, a proposal of the Private Company Council* (herein referred to as the “Update”). The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of the Committee are outlined in Appendix A to this letter.

The Update addresses concerns expressed about the cost and complexity encountered with determining the fair value of share options with existing GAAP through a proposed practical expedient. A majority of the Committee members support the PCC and Boards’ efforts to propose the practical expedient for determining the current price input of equity-classified share-option awards issued to both employees and non-employees and believe the Update will meet the PCC’s objective while not diminishing the usefulness of financial reporting by nonpublic entities. They agree that the Update will likely reduce overall costs; however, we believe that the population of nonpublic entities which can benefit from the Update may not be significant compared to the entire population of nonpublic entities granting share-based compensation awards. As noted by the PCC, cost savings are likely to result from those nonpublic entities currently obtaining two independent valuations, one for tax and one for GAAP. However, those situations would be limited by the Update only to instances where nonpublic entities had valuations performed/obtained through methods outlined in the “rebuttable presumption of reasonableness method” in Section 409A, and where no information exists, subsequent to Section 409A valuation, that may materially affect the value of the entity (e.g., Section 409A valuations can be used for up to 12 months unless they are “grossly unreasonable” due to subsequent information). The scope of the Update excludes tax valuations performed under the second allowable method of Section 409A; namely, the “facts and circumstances method” (e.g., internal valuations). While many nonpublic entities obtain independent valuations under Section 409A, not all nonpublic entities do, especially those owned by venture capital or private equity firms. Some of the Committee members believe the Board should reconsider including in the scope of the Update those nonpublic entities using internal valuations consistent with Section 409A’s “facts and circumstances method,” given their wide use by venture capital and private equity back entities. As noted by the PCC staff, the primary difference between the two methods in Section 409A is that one requires an independent valuation and the other allows for an entity to perform an internal valuation, yet both must meet the same valuation concepts in Section 409A, and both are subject to a “grossly unreasonable” threshold. Those Committee members agree with the PCC’s staff recommendation

to include both allowable methods under Section 409A within the scope of the Update as that may increase the benefits of the Update to a broader group of nonpublic entities.

Because a Section 409A valuation only needs to be updated if it is ‘grossly unreasonable’ due to subsequent changes in the private company’s business, audit engagement teams may need to engage tax specialists to determine whether the subsequent changes in the private company’s business require an update to the prior 409A valuation. That assessment may differ from an assessment an auditor would normally perform under generally accepted auditing standards in determining whether subsequent changes in the private company’s business could have a material impact on the fair value of the common stock. Therefore, a Section 409A valuation may not require an update in situations where, absent the guidance in the Update, an auditor would insist on a new Section 409A valuation. Is that result consistent with the FASB’s intention in issuing this guidance? The FASB should consider clarifying the application of “grossly unreasonable” to avoid that outcome if that was not their intent.

While the practical expedient in the Update is applicable only for equity-classified share-option awards, we believe the practical expedient in the Update should be expanded to include other equity-classified share-based compensation arrangements, such as non-vested restricted shares, because these forms of compensation are frequently used in practice by nonpublic entities and this Update would address similar valuation issues for those awards. If a Section 409A valuation of the underlying shares is a sufficient input to an option-pricing model, it should be sufficient for non-vested restricted shares, which are essentially options with a strike price of zero.

We agree this Update should only apply to equity-classified share-based compensation arrangements on an award by award basis prospectively.

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We appreciate the opportunity to provide our comments and observations on the proposed Update and would be pleased to discuss them with the Board members or the FASB staff at your convenience.

Sincerely,

**William Keirse, CPA**  
Chair, Accounting Principles Committee

**Matt Mitzen, CPA**  
Vice Chair, Accounting Principles Committee

APPENDIX A  
ACCOUNTING PRINCIPLES COMMITTEE  
ORGANIZATION AND OPERATING PROCEDURES  
2020-2021

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

**Public Accounting Firms:**

**Large:** (national & regional)

Ryan Brady, CPA	Grant Thornton LLP
Ashley Carboni, CPA	KPMG LLP
Michael Couillard, CPA	Baker Tilly Virchow Krause LLP
Matthew Denton, CPA	Sikich LLP
Jason Eaves, CPA	Crowe LLP
William Keirse, CPA (Chair)	Ernst & Young LLP
Melissa Lynch, CPA	Plante Moran, PLLC
Jason Plourde, CPA	Grant Thornton LLP
Darshana Raigaga, CPA	BKD LLP
David Wentzel, CPA	Crowe LLP

**Medium:** (more than 40 professionals)

Danielle Martin, CPA	Porte Brown LLC
Jeffery Watson, CPA	Miller Cooper & Company Ltd

**Small:** (less than 40 professionals)

Peggy Brady, CPA	Selden Fox, Ltd.
Brian Kot, CPA	Cray Kaiser Ltd CPAs
Matthew Mitzen, CPA (Vice Chair)	Bronswick Benjamin P.C.

**Educators:**

Mollie Adams, CPA	Bradley University
John Hepp, CPA	University of Illinois at Urbana-Champaign

**Industry:**

John Bercerril, CPA	Elkay Manufacturing
Jeffrey Ellis, CPA	FTI Consulting, Inc.
Michael Maffei, CPA	GATX Corporation
Thomas Masterson, CPA	Medix
Elizabeth Prossnitz, CPA	Consultant
Lisa Sezonov, CPA	Northern Trust
Richard Tarapchak, CPA	Reynolds Group Holdings
William Wang, CPA	Union Tank Car Company
Daniel Wilfong, CPA	Ansira, Inc.

**Staff Representative:** Rafael Wiesenber, CPA      Illinois CPA Society