



RSM US LLP

One South Wacker Drive
Suite 500
Chicago, IL 60606
www.rsmus.com

October 1, 2020

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

File Reference No. 2020-200

Dear Ms. Salo:

RSM US LLP is pleased to provide feedback on the proposed Accounting Standards Update (ASU), *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)*. We appreciate the continued efforts the Financial Accounting Standards Board and the Private Company Council put forth to identify possible alternatives or practical expedients to reduce cost and complexity while also addressing the needs of users of private company financial statements. We are concerned, however, that the proposed amendments will not result in a sufficient reduction in costs or efforts that would justify the issuance of the proposed ASU. Further, we are concerned the ASU may introduce confusion, or potentially compromise the quality of decision useful information, in an area where practice is already well developed. Additional details related to these concerns are incorporated in our responses to the specific questions raised in the proposed ASU that follow.

Responses to Questions for Respondents

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

We generally believe the practical expedient in the proposed ASU is operable. Similar to a statement made in paragraph BC26 of the proposed ASU, we believe the measurement objectives of Topic 718 and Section 409A are generally aligned such that many nonpublic entities already rely upon a Section 409A valuation as the basis for the underlying share price for purposes of determining the fair value of stock option and other share-based payment transactions for financial reporting purposes.

While paragraph BC20 makes clear the expectation that most nonpublic entities would use a valuation determined by an independent appraisal to determine the current price of a share underlying a share-option award, and that other methods provided under the rebuttable presumption of reasonableness requirements of Section 409A will be limited in use, we are concerned that providing the practical expedient and introducing these other valuation methods may generate confusion about whether an independent appraisal is necessary and the extent to which companies can take advantage of the other methods.

Hillary H. Salo
Financial Accounting Standards Board
October 1, 2020
Page 2

Question 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.*

We believe it is appropriate to expand the use of the practical expedient to other forms of share-based payment arrangements, such as nonvested shares. In many cases, a valuation performed in accordance with Section 409A is deemed to be materially consistent with a valuation performed in accordance with Topic 718 such that, as previously indicated, many nonpublic entities rely upon a 409A valuation as the basis for the common stock value used in determining the fair value of various share-based payment transactions. These share-based payment arrangements may include stock options, stock appreciation rights and nonvested shares. By specifying that a 409A valuation cannot be used as the basis for determining the share price in share-based payments transactions other than stock options, the proposed ASU may actually increase the cost for nonpublic entities that utilize a 409A valuation for other share-based payment transactions. As such, we suggest the scope of the practical expedient be expanded to include other equity-classified share-based compensation arrangements, or at a minimum be clarified to ensure the issuance of this practical expedient does not prohibit the use of 409A valuations for other share-based payment transactions when the resulting estimate is materially consistent with Topic 718.

Question 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.*

We do not believe the practical expedient will reduce costs associated with the current price input. Most of our nonpublic entity clients do not obtain separate valuations for Section 409A and Topic 718. For the most part, they rely upon 409A valuations for financial reporting purposes or obtain dual purpose reports which cover both Section 409A and Topic 718. As such, we do not expect a reduction in the cost of obtaining an independent valuation.

We also have no expectation that audit costs will be significantly reduced. Absent a change in the auditing standards, we do not agree with the belief expressed in the basis for conclusions that the audit procedures currently required in practice related to the evaluation of management's estimate of the current price input will notably decrease. The AICPA auditing standards on the auditing of accounting estimates (AU-C Section 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*) would still be applicable. We are also concerned that the suggestion that there should be less rigorous application of the audit standards, or that Section 409A valuations would provide a "safe harbor" from the need for auditors to undertake appropriate audit procedures to assess the reasonableness of the method or inputs and assumptions as required by AU-C 540, may be detrimental to the quality of information in financial statements and cause confusion about auditor responsibilities. As discussed in the basis for conclusions, feedback received by the PCC indicated that the current share-based compensation information is relevant and decision useful. For this very reason, a practical expedient rather than a measurement alternative is being proposed. To suggest that these valuations and estimates will somehow be subject to less rigor than other estimates seems to ignore this feedback.

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

Hillary H. Salo
Financial Accounting Standards Board
October 1, 2020
Page 3

Our nonpublic entity clients do not typically obtain separate valuations to satisfy the requirements of Topic 718 and Section 409A. They either use their Section 409A valuation as the basis for the underlying share price in determining the value of share-based payment transactions for GAAP financial statements or obtain dual purpose reports which indicate the value is appropriate for both Topic 718 and Section 409A purposes.

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

We do agree with the decision to allow the proposed practical expedient to be elected on an award-by-award basis.

Question 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 previously explained, many nonpublic entities already rely upon Section 409A valuations as the basis for the current share price in determining the fair value of share-based payment transactions, so we do not believe the practical expedient, if appropriately applied, would compromise the decision usefulness of information. If the practical expedient was inappropriately applied (i.e., an improper valuation method was selected under Section 409A) or the responsibilities of management or the auditor were viewed as reduced, and the valuation held to less rigorous standards, the decision usefulness of the information could be compromised.

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

We agree that prospective transition is appropriate. However, we take exception to the belief expressed in the basis for conclusion, BC23, that valuation methods that are compliant with Topic 718 are generally more robust than those performed or obtained to satisfy Section 409A. Our experience has been that the valuation methods compliant with Topic 718 and those compliant with Section 409A are largely consistent when the Section 409A valuation is based on an independent appraisal.

We appreciate this opportunity to provide feedback on the proposed ASU and would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to Faye Miller at 410.246.9194 or Ginger Buechler at 612.455.9411.

Sincerely,

RSM US LLP

RSM US LLP