CFGI
340 Madison Avenue
New York, NY 10173
Tel: 646-360-2850
www.cfgi.com

October 1, 2020

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

RE: Proposed Private Company Council Practical Expedient, *Compensation — Stock Compensation (Topic 718): Practical Expedient to Measure Grant-Date Fair Value of Equity-Classified Share-Based Awards* (File Reference No. 2020-200)

Dear Ms. Salo:

CFGI appreciates the opportunity to comment on the Private Company Council ("PCC") Practical Expedient on stock compensation issued by the Financial Accounting Standards Board ("FASB" or the "Board").

We support the PCC's and FASB's objective to reduce the cost and complexity by allowing private companies to use the exercise price of their equity-classified traditional share-option awards as the current share price input for purposes of determining the grant-date fair value of such awards under Accounting Standards Codification ("ASC") 718. However, we do not believe that the proposed expedient would reduce time and costs incurred by private companies due to the lack of consideration of the interplay between financial reporting and tax accounting, as well as due to the fact that many private companies do not currently prepare or obtain valuation on each grant date.

We appreciate the opportunity to comment on the proposed practical expedient. We would be pleased to discuss our comments with the Board or its staff at your earliest convenience.

Very truly yours,

CFGI

cc: Kelly Provost
Chris Brandes
Mike Bakutes

Responses to Proposed Practical Expedient Questions for Respondents

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

Response Question 1: We do believe that the practical expedient is operable. However, we do not believe that the practical expedient will accomplish the goal of providing reliable and useful information. In our experience with private company clients, many companies rarely perform valuations solely for accounting under ASC 718 and typically perform valuations to meet Section 409a requirements or for a dual purpose to address both requirements. While Section 409a does not discuss shares in detail, it provides a robust description of the awards subject to Section 409a and the appropriate valuation procedures for those awards. We do not believe that companies are reporting one value to the IRS and reporting a different value for accounting purposes. We believe that reducing the valuation frequency under ASC 718 to align with the IRS requirement would be more practical, effective and efficient as it is already currently used in existing practice.

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

Response Question 2: We do not believe that the practical expedient should be expanded to include other equity-classified awards, such as nonvested shares. This could have a substantial change on how these shares are accounted for due to the complexity of ASC 718 and could also lead to additional costs in determining whether to apply the practical expedient or not.

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

Response Question 3: We do not believe that the practical expedient will save on costs for private companies associated with the current price input. We typically see private companies defaulting to an annual or quarterly valuation cadence to meet the requirements of ASC 718 and Section 409a. Regardless of cadence, the grant-date is rarely ever on a quarterly close date or annual close date. Private companies and their auditors generally conclude that the difference in the current price of the underlying share between the grant date and the valuation date, for U.S. Generally Accepted Accounting Principles ("US GAAP") purposes, is immaterial to the financial statements. We believe that the PCC, in building upon industry practice, should work closely with accounting specialists and valuation specialists to provide guidance to private companies on interpolation that can be used to support the grant-date fair value between valuation dates. If private companies can maintain, in their own control, an effective method for interpolating fair values, while ensuring they are considering changes in the macro and micro economics of the valuations, companies would then start to save on costs from third party valuations and time incurred with supporting the grant-date fair value to audit firms. While most companies support that the grant-date fair value is not materially different from the most recent valuation performed by the company, we believe that private companies should have a structured method to interpolate the price of the underlying share between valuation dates or extrapolate the price from the most recent valuation date. A model similar to the goodwill Step 0 may be most appropriate in how companies can consider business and economic changes that would cause interpolation or extrapolation to fail, such as new markets, new capitalization or equity/debt issuances, new product services, government regulation, legal issues, projected cash flows, public market changes, level of reliance by financial statement users and acquisitions or disposals.

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

Response Question 4: We do not typically see our private company clients obtain separate valuations for ASC 718 and Section 409a. Currently, many of our private company clients will apply the Section 409a valuation for the purpose of financial reporting and determination of share-based compensation expense or have a dual purpose valuation performed. In a few cases, we have experienced our private company clients obtaining separate ASC 718 and Section 409a valuations, generally with the ASC 718 valuation performed retrospectively when the Section 409a has been determined by management and their auditors to be insufficient for purposes of supporting fair values under ASC 718.

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

Response Question 5: We do believe that allowing the practical expedient on an award-by-award basis will be one of the appeals of the practical expedient for many private companies. The decision on whether to elect the practical expedient on an award-by-award basis should be agreed upon by management and their auditors.

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

Response Question 6: We do believe the practical expedient will compromise the decision usefulness of information related to equity-classified share-option awards. Private companies currently comply the Section 409a regulations and requirements by meeting the presumption of reasonableness and satisfy the presumption of reasonableness by obtaining appraisal from their valuation specialists. If different valuation methods are used, it can lead to different areas of expert judgement from companies and their auditors to determine if the valuation methods are acceptable.

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

Response Question 7: We do not have any disagreements with the proposed prospective transition requirements.