May 30, 2017

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

By e-mail: director@fasb.org

Re: Proposed Accounting Standards Update—*Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*

(File Reference No. 2017-220)

Dear Ms. Cosper:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 26,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above-captioned exposure draft.

The NYSSCPA's Financial Accounting Standards Committee deliberated the proposed accounting standards update and prepared the attached comments. If you would like additional discussion with us, please contact Craig T. Goodman, Chair of the Financial Accounting Standards Committee, at (212) 324-7048, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

F. Michael Zovistoski
President

Attachment

NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

PROPOSED ACCOUNTING STANDARDS UPDATE—*COMPENSATION – STOCK COMPENSATION (TOPIC 718): IMPROVEMENTS TO NONEMPLOYEE SHARE-BASED PAYMENT ACCOUNTING*

(FILE REFERENCE NO. 2017-220)

May 30, 2017

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New York State Society of Certified Public Accountants

Comments on

Proposed Accounting Standards Update—*Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*
(File Reference No. 2017-220)

General Comments

We welcome the opportunity to respond to the Financial Accounting Standards Board's (FASB or the Board) invitation to comment on the Proposed Accounting Standards Update—*Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting* (the proposed Update).

We agree with the objective of the proposed amendments which is to simplify and reduce related costs for the accounting for nonemployee share-based payment awards by conforming the accounting to that used for employee share-based payment awards, while maintaining or improving the usefulness of the information provided to the users of the financial statements. However, we question whether the objectives will be fulfilled once the amendments are applied.

We believe that additional guidance and interpretative examples should be provided to assist in clarifying when an organization is contracted to deliver goods or perform services, but the share-based payment award is issued to an individual. For example, a law firm is engaged to perform legal services, and as part of the arrangement a share-based payment award is issued, and the award is issued in the name of the primary attorney performing the legal services. We request that the Board provide clarification regarding the potential tax implications that could arise, and any other potential clarifications that could be needed in such arrangements.

Additionally, we believe expanded guidance and interpretative examples are required to address the transitional requirements of the proposed Update.

Specific Comments

We have the following responses to questions posed in the proposed Update.

Question 1: Do you agree that the amendments in this proposed Update would result in a reduction (or potential reduction) of cost and complexity while maintaining or improving the usefulness of information provided to users of financial statements? If not, why?

Response: Yes, we agree.

Question 2: Should entities be required to measure nonemployee share-based payment transactions by estimating the fair value of the equity instruments they are obligated to issue? If not, why should there be a difference in the measurement objective for employee

awards and nonemployee awards, and are there other alternatives that are more appropriate?

Response: Yes, fair value should be required to measure equity instruments without a difference in the measurement objective for employee and nonemployee awards.

Question 3: Should the measurement date for equity-classified nonemployee awards be the grant date? If not, why should there be a difference in the measurement date for employee and nonemployee share-based payment awards, and what other alternatives are more appropriate?

Response: Yes, we agree.

Question 4: Should entities be required to use the contractual term of share options and similar instruments issued to nonemployees as an input to the measurement of those share-based payment awards? If not, what other alternatives are more appropriate?

Response: We believe that the term of the share-based payment award used in estimating the grant date fair value for nonemployees should be based on the same principles as employee awards. The different approaches will not improve the usefulness of the information provided to the users of the financial statements as (1) we expect the pattern of exercise of share-based payment awards to nonemployees to be consistent with employee awards and, therefore, estimated term is a better measure of fair value than contractual term and (2) the goal of the amendment is to simplify accounting for share-based payment awards to nonemployees. Requiring reporting entities to track two different lives for seemingly the same award is an unnecessary complexity and burden.

Question 5: Should nonemployee share-based payment awards containing performance conditions consider the probability that the performance condition will be met in determining the appropriate period(s) of recognition? If not, why should there be a difference in the accounting for employee and nonemployee share-based payment awards with performance conditions, and what other alternatives are more appropriate?

Response: Yes, we agree.

Question 6: Is the application of the classification guidance in Topic 718 to nonemployee share-based payment awards that have vested and for which the nonemployee is no longer providing goods or services appropriate? If not, why should there be a difference in the post vesting classification assessment for employee and nonemployee share-based payment awards?

Response: Yes, we agree.

Question 7: Is the application of forfeiture guidance in Topic 718 to nonemployee share-based payment awards appropriate? If not, why should there be a difference in accounting for forfeitures for employee and nonemployee share-based payment awards?

Response: Yes, we agree.

Question 8: Is the practical expedient for nonpublic entities to substitute calculated values for expected volatilities when measuring share options and similar instruments issued to nonemployees appropriate? If not, why should there be a difference in the application of practical expedients for employee and nonemployee share-based payment awards?

Response: Yes, if it is not practicable to estimate as indicated in paragraph 718-10-30-19A of the proposed Update.

Question 9: Should nonpublic entities be allowed to make a one-time election to switch from measuring liability-classified nonemployee share-based payment awards at fair value to intrinsic value? If not, why should there be a difference in accounting policy elections for employee and nonemployee share-based payment awards?

Response: Yes, this one-time election to switch from measuring liability classified awards at fair value to intrinsic value should be consistent with employee share-based payment awards.

Question 10: Are the transition requirements for the proposed amendments appropriate? If not, what transition approach is more appropriate?

Response: Yes, we agree.

Question 11: Should the Board require an entity to adjust the basis of an asset that includes share-based payment costs when applying the transition requirements? If not, what transition approach is more appropriate?

Response: We believe the proposed transition guidance which requires a modified retrospective approach is unnecessarily burdensome. It will require all unsettled awards to be revalued based on grant fair value with adjustments for the previously recognized changes in fair value through adoption date as a cumulative catch-up and then recognize subsequent compensation based on grant date fair value. We believe it is appropriate, for transition only, to use the fair value determined at the adoption date and account for compensation expense prospectively using that value.

Additionally, the proposed transition guidance does not appear to provide significant benefit as the effect of the adjustment will be neutral to equity; an adjustment to additional paid-in-capital with an offset to retained earnings.

Question 12: Should the Board require separate disclosures for nonemployee share-based payment transactions?

Response: We do not believe separate disclosures are necessary or provide additional useful information. The amendment in paragraph 718-50-2g should be sufficient.

Question 13: How much time will be necessary to adopt the proposed amendments? Should the amount of time needed to apply the proposed amendments by entities other than public entities be different from the amount of time needed by public entities?

Response: We believe a significant amount of time could be required to apply the proposed transition guidance. We believe the alternative transition approach noted above will reduce the necessary time. Our view is that nearly all entities that issue share-based payment awards to nonemployees also issue awards to employees and, therefore, the proposed amendments should reduce time and effort to account for share-based payment awards to nonemployees subsequent to the adoption of the amendments.