The Association of
Accountants and
Financial Professionals
in Business

August 5, 2015

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

Re: File Reference No. 2015-270, Exposure Draft of Proposed Accounting Standards Update (ASU) – *Improvements to Employee Share-Based Payment Accounting*

Dear Ms. Cosper:

The Financial Reporting Committee (FRC) of the Institute of Management Accountants (IMA) is writing to share its views on the Financial Accounting Standards Board's (FASB or Board) Exposure Draft of Proposed ASU – *Improvements to Employee Share-Based Payment Accounting* (ED or Proposal).

The IMA is a global association representing more than 75,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. Information on the FRC can be found at www.imanet.org (About IMA, Advocacy Activity, Areas of Advocacy, Financial Reporting Committee).

We have noted in many comment letters to the FASB, our concern about the complexity of financial reporting requirements and we expressed our support of the Board's Simplification Initiative in a letter Russ Golden dated May 27, 2014. We are pleased to see the Initiative result in this proposed ASU.

While we agree with the overall objective of simplifying accounting for employee share-based payment accounting, we believe that one of the significant proposals included in the ED would not result in simplification of the underlying accounting. Our comments on that particular area of the Exposure Draft are summarized below. Our views on specific questions raised in the Exposure Draft are included in the Appendix to this letter.

Tax Effects of Share-Based Payments

While this Proposal attempts to simplify the administration of tracking a "windfall pool" to determine the amounts to be charged to additional paid-in capital (APIC), we believe such action does not result in a simplification.

The accounting for share-based payment exercises is a complex effort that requires an integrated solution; encompassing US GAAP and local GAAP compliance, personal and entity income tax reporting, regulatory reporting for certain key executives and other HR matters. For multinational enterprises, this integrated solution must also have the versatility to manage a number of jurisdictions with differing personal and entity tax considerations, as well as employee transfers across jurisdictions during the share-based compensation award period. Companies have incurred significant investments to build systems and develop processes to track and record share-based payment grants and exercises under the current accounting rules. Further, with those rules as a backdrop, some entities also established accounting conventions to report financial information for share-based payment arrangements. Therefore, we believe that fundamental changes to the accounting model for share-based compensation such as this must be expected to result in a significant benefit to users to justify the significant costs to be incurred by preparers to adopt an integrated solution for rule changes.

In addition to significant costs that some preparers will have to incur, this proposed change also has a broader impact on management and users of financial statements to forecast, analyze and report income tax benefits or charges related to share-based payment exercises.

If the Board's primary intention was to simplify the accounting for the tax aspects of share-based payments by eliminating the concept of the "windfall pool", we believe a more appropriate approach is to record both excess and deficient tax benefits in APIC. Consistent with the Board's views in the Basis for Conclusions of Statement 123R (paragraph B209 and B213), we believe a share-based payment arrangement is comprised of two transactions: (1) a compensation arrangement and (2) and an equity transaction for the issuance of company stock at exercise.

We appreciate the Board's consideration of our comments and we are available to discuss our comments at your convenience.

Sincerely,

Nancy J. Schroeder, CPA
Chair, Financial Reporting Committee
Institute of Management Accountants
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APPENDIX

Responses to certain questions in the Exposure Draft, *Improvements to Employee Share-Based Payment Accounting*

Question 1: Do you agree that the proposed amendments 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?

We believe that some, but not all, of the proposed amendments will result in a reduction of cost and complexity while maintaining and improving the usefulness of information provided to users of financial statements. While we support the Board's attempt to rectify the conceptually inconsistent treatment of excess tax benefits and deficient tax benefits on equity awards, we do not believe that the Board's proposal related to excess tax benefits and tax deficiencies would result in a simplification, nor do we agree that such tax benefits and deficiencies should be recognized in the income statement.

Question 2: Should excess tax benefits and tax deficiencies be recognized in the income statement? If not, why, and are there other alternatives that are more appropriate? Should an entity delay recognition of an excess tax benefit until the benefit is realized through a reduction to taxes payable? If yes, why?

We do not believe that excess tax benefits and tax deficiencies should be recognized in the income statement. Conceptually, we believe the more appropriate presentation of these amounts is in APIC since the amount of the excess or deficient tax benefit realized by companies is due to an equity transaction and directly correlated to the entity's stock price. Proposing that all excess and deficient tax benefits be recorded in the income tax provision does not result in a simplification as companies already have developed processes to track and report the income tax effects of share-based payments as required by the guidance in ASC 718 when it was revised in 2004. Further, with those rules as a backdrop, some entities also established accounting conventions to report financial information for share-based payment arrangements. Changes to these established processes and conventions would require incremental effort and complexity, not just in the accounting function, but also in educating management, investor relations and users of the financial statements regarding the new presentation and rationale.

Further, if the Board's primary intention is to simplify the accounting for the tax aspects of share-based payments by eliminating the concept of the "windfall pool", we believe a more appropriate approach is to record both excess and deficient tax benefits in APIC. Consistent with the Basis for Conclusions of Statement 123R (paragraph B209 and B213), we believe a share-based payment arrangement is comprised of two transactions: (1) a compensation arrangement and (2) and an equity transaction for the issuance of company stock at exercise. Under this approach, the conceptual symmetry of accounting for excess tax benefits and tax benefit deficiencies is retained with significantly less implementation costs for preparers (e.g., less difficulty in estimating income tax effective rates for quarterly reporting) and with, we believe, more meaningful financial reporting for users.

We also do not believe that a change in guidance such as this, with the potential of significantly changing an entity's reported net income, should be deliberated through one of the Board's simplification initiatives without further outreach and due process. We believe such a change should be the subject to a more robust effort than is normally associated with simplification changes; specifically we suggest more education of and outreach to stakeholders and a longer comment period.

While we do not agree that excess tax benefits and tax deficiencies should be recognized in the income statement, we are supportive of the proposed change to recognize the excess tax benefit even if it does not reduce current taxes payable.

Question 3: Should the effect on tax cash flows related to excess tax benefits be classified as an operating activity on the statement of cash flows? If not, what classification is more appropriate and why?

We believe the ultimate realization of excess or deficient tax benefits is the result of an equity transaction and accordingly, should conceptually be presented as a financing activity in the statement of cash flows. However, under the Board's proposal, we would not object to a conclusion to present the entire tax benefit from the exercise or vesting of a share-based payment entirely as an operating activity to simplify presentation in the statement of cash flows.

Question 4: Should entities be permitted to make an accounting policy election either to account for forfeitures when they occur or to estimate forfeitures? If not, why?

We support the proposed amendment to permit entities to make an accounting policy election either to account for forfeitures when they occur or to estimate forfeitures as required by ASC 718.

Question 5: Is the proposed expansion of the exception to liability classification related to the amount withheld for employee's taxes appropriate? If not, is there another exception that is more appropriate and why?

We believe the expansion of the exception to liability classification related to the amount withheld for employee's taxes is appropriate. This Proposal facilitates a significant simplification as an unintended error in tax withholding can currently lead to a punitive accounting outcome.

Question 6: Should the cash paid by an employer to the taxing authorities when directly withholding shares for tax-withholding purposes be classified as a financing activity on the statement of cash flows? If not, what classification is more appropriate and why?

We agree that the cash paid by an employer to the taxing authorities when directly withholding shares for tax-withholding purposes be classified as a financing activity on the statement of cash flows. We believe such a transaction reflects, in substance, a treasury stock purchase where the proceeds of such purchase are remitted directly to the tax authorities on the employee's behalf. Accordingly, we agree that such cash payment should be reflected as a financing activity.

Question 7: When assessing the classification of an award with a repurchase feature that can only be exercised on the occurrence of a contingent event, should a contingent event within the employee's

control be assessed in the same manner as a contingent event outside the employee's control? If not, why should there be a difference in the assessment?

When determining the classification of an award with a repurchase feature, we do not believe an entity should assess a contingent event within the employee's control differently from a contingent event outside the employee's control. We agree with the Board's conclusion to consider whether the contingent event is probable of occurring without consideration of whether the contingent event is within the employee's control or not. However, we note that it would be helpful to make clear whether this assessment should take place at the individual award level or at the pooled award level (*i.e.*, is it an inherent characteristic of the award).

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

We believe the proposed transition methods are appropriate.

Question 11: How much time will be necessary to adopt the amendments in this proposed Update? Should the amount of time needed to apply the proposed amendments by entities other than public business entities be different from the amount of time needed by public interest entities?

Changes to established processes related to the accounting and reporting of excess tax benefits and deficiencies would require incremental efforts and complexity, not just in the accounting function, but also in educating management, investor relations and users of the financial statements as to the new presentation and rationale. If it is decided to adopt the amendments in this area as proposed, we believe the effective date should not be before January 1, 2017 for calendar year-end public and nonpublic reporting entities, with early adoption permitted.