Tel: 312-856-9100
Fax: 312-856-1379
www.bdo.com

330 North Wabash, Suite 3200
Chicago, IL 60611

June 5, 2017

Via email to director@fasb.org

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

Re: Proposed Accounting Standards Update, Improvements to Nonemployee Share-Based Payment Accounting (File Reference No. 2017-220)

Dear Ms. Cosper:

We are pleased to provide comments on the proposed improvements to nonemployee share-based payment accounting.

BDO supports the Board's Simplification Initiative to maintain or improve the usefulness of the information provided to users of financial statements while reducing cost and complexity for financial reporting. We believe the proposal, together with our recommendations, would improve the guidance for nonemployee share-based payment awards.

In particular, we recommend replacing the cost attribution guidance for nonemployee awards with the recognition principle for employee grants. We do not believe there are compelling reasons to maintain a difference in this area, particularly when the Board expects outcomes to be similar. Further, practice for nonemployee awards often analogizes to the guidance for employees. Leaving "daylight" between the employee and nonemployee cost attribution models may have the unintended effect of maintaining accounting complexity that can be easily avoided.

Our responses to the Board's specific questions are provided in the Appendix to this letter.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Yosef Barbut at (212) 885-8282 or Adam Brown at (214) 665-0673.

Very truly yours,

BDO USA, LLP

BDO USA, LLP

Appendix

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?

We believe that the majority of the amendments in the proposed Update would result in a reduction of cost and complexity of accounting for nonemployee share-based payment awards. We also believe that aligning the accounting for nonemployees with the accounting for employees and including them in a single location within the Codification further reduces complexity. These changes will create consistency in accounting for similar transactions and enhance the Codification's usefulness.

However, we offer the following additional observations about the proposed Update:

- We believe that the cost attribution principle should *not* be carried over into Topic 718. This principle states: "*A grantor would continue to recognize cost (or reverse previous recognition) in the same period(s) and in the same manner as if the grantor had paid cash for the goods or services instead of paying with or using equity instruments.*" The Board has indicated in the basis for conclusions that it doesn't believe this area currently poses a significant concern or creates a significant amount of confusion (BC7), but based upon our experience, the application of this principle can sometimes be challenging or confusing, especially in complex nonemployee arrangements which have many permutations.

  Further, the Board believes that "*in many instances the decisions about attribution of costs for nonemployee share-based payment transactions would be the same as or similar to those for employee share-based payment transactions because often the same or similar awards are granted to both employees and nonemployees for the same or similar work performed*" (BC8). However, some preparers attempt to analogize to the cost attribution guidance within Topic 718 for nonemployee awards because the principle in Subtopic 505-50 is not clearly understood. For example, this principle is challenging to apply in nonemployee arrangements with performance conditions (please refer to our response to question 5 below).

  By not carrying over the cost attribution principle in Subtopic 505-50, the Update would result in aligning the cost attribution guidance for nonemployee and employee share-based awards (i.e., compensation cost is recognized consistent with the requisite service period which is typically also the vesting period).

- We also recommend providing further clarification on the concept of "vesting period," which has been inserted throughout the text. We believe this would be helpful in applying the cost attribution and performance condition principles within the Update.

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?

We agree that generally, entities should be required to measure nonemployee share-based payment transactions by estimating the fair value of the equity instruments they are obligated to issue.

However, we recommend the Board consider allowing a practical expedient for private companies whereby if the entity determines that the fair value of the equity instruments issued is not reasonably estimable, it may instead measure the transaction based on the fair value of the goods or services to be received, which would be similar to the current concept in ASC 505-50-30-6. We believe that such an expedient would be beneficial to private companies when the costs associated with estimating fair value outweigh the benefits.

While the parties to a transaction may not account for it symmetrically, we believe the principles above would be consistent with guidance on measuring noncash consideration received from a customer in pending paragraphs 606-10-32-21 through 32-22.

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?

Yes. If the cost attribution guidance is aligned with that of employees (i.e., compensation is recognized over the requisite service or vesting period), fair value measurement principles should be applied to nonemployee awards consistent with their application to employee awards, i.e., service and performance conditions are vesting conditions and do not affect fair value measurement.

This principle would also be consistent with the new revenue recognition standard, where the transaction price is calculated at contract inception.

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?

No, we believe that using the contractual term when valuing an option does not necessarily reflect the expected economics of the underlying award. We believe that using the expected term for both nonemployee and employee share-based payment awards would be more appropriate and eliminate another difference in the accounting for these awards.

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?

Yes. We agree with the principle that 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, consistent with employee share-based payment awards.

However, we believe that the cost attribution principle carried over in this proposed Update from ASC 505-50 could potentially create issues as the concept of "as if paid for in cash" appears to conflict with the principle in this question. We believe the legacy "cost attribution" principle in Subtopic 505-50 should not be incorporated within ASC 718 as indicated in our response to question #1.

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?

Yes. We believe that making the classification requirements identical for nonemployee and employee share-based awards that have vested and for which goods or services are no longer being provided would simplify the model, consistent with the Board's Simplification Initiative.

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?

Yes. We generally agree with the application of the forfeiture guidance in Topic 718 to nonemployee share-based payment awards.

However, we recommend the Board consider whether to allow entities a policy election by class of counterparty. We think potential differences exist in contracts with different types of nonemployees. Consider an example of an entity that has a large population of independent contractors who act as sales agents and receive share-based compensation. These share-based payment awards may have terms consistent with share-based payment awards for employees of the entity, and thus it would generally be practical to estimate forfeitures for such awards. But the same entity may also have one large dollar-value contract with an external consulting firm, a portion of which is to be settled with a share-based payment award; for this contract it may be impractical to estimate forfeitures.

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?

Yes. We believe that allowing entities to apply the calculated value practical expedient to nonemployee awards would be consistent with the Board's Simplification Initiative.

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?

Yes. We support this provision because it would provide private companies with practical relief and would also result in consistency of financial measures for nonemployee and employee share-based compensation when the election is made.

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

We generally agree with the transition requirements.

In addition, we would not oppose prospective transition for new grants concerning the requirement to measure awards at their grant-date fair value. Otherwise, it may be challenging and costly to determine the original grant-date fair value of outstanding awards. Since nonemployee grants are not as prevalent as employee grants, we suspect the impact on comparability may not be significant.

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?

Although we concur with the principle behind requiring an entity to adjust the basis of an asset that includes share-based payment costs when applying the proposed amendments, we acknowledge that in practice this may place undue burden on preparers. We read the transition provisions in the exposure draft, as well as BC25-BC27, to require a cumulative catch-up approach (i.e., modified retrospective) that only applies to outstanding awards. If that is accurate, this provision may only impact a relatively minor number of preparers.

Conversely, if the transition provisions encompass a larger population of entities or awards (i.e., settled awards), we suggest the Board conduct additional outreach with preparers and users to determine if the benefits of a more costly transition approach would justify the associated costs.

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

We agree with the Board's thinking and the conclusion reached in BC23 that existing disclosure requirements are 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?

While we believe that the proposal would simplify nonemployee share-based awards and thus the amount of time needed to implement would be minimal, we recommend a delayed effective date given the pending guidance in the revenue, leases, and other recent standards. We also believe that providing additional time to entities other than public business entities would be appropriate and consistent with previous Updates. However, we recommend permitting early adoption as entities that actively grant share-based awards to nonemployees might welcome the changes.