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September 28, 2020

Via email to director@fasb.org

Hillary H. Salo
Technical Director
Financial Accounting Standards Board
401 Merritt 7
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Re: Determining the Current Price of an Underlying Share for Equity-Classified Share-Option Awards (File Reference No. 2020-200)

Dear Ms. Salo:

We are pleased to provide comments on the Board's proposal to provide a practical expedient for determining the share price input of equity-classified share-option awards for nonpublic entities.

We generally agree that the proposal is operable. However, we believe that the scope of the practical expedient should be expanded to include additional award types, and we recommend the Board provide guidance for a modification that results in an award being reclassified from equity to liability. Our detailed responses to the Questions for Respondents are contained in the attached Appendix.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Angela Newell at (214) 689-5669 or Jin Koo at (214) 243-2941.

Very truly yours,

BDO USA, LLP

BDO USA, LLP

Appendix

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

We generally agree that the practical expedient is operable as proposed. In practice, it is not uncommon for private entities to use valuation reports prepared in accordance with Treasury Regulation Section 1.409A-1(b)(5)(iv)(B)(2) ("409A Valuation") to determine the share price input for stock options as well as for other awards.

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 recommend expanding the scope of the practical expedient to include other equity-classified awards such as, but not limited to, nonvested shares and restricted stock units (RSUs). Although we understand the 409A Valuation is written in the context of stock options only, its premise is to provide a model for an entity to establish a valuation methodology to support the fair value of its common equity. As drafted, private entities that issue multiple types of awards would be precluded from applying the practical expedient, which could result in potential inconsistencies from applying one valuation report to value stock options and a different valuation report to value other awards.

The Board may consider broadening the practical expedient to explicitly include other equity-classified awards. Alternately, the Board may consider deleting the last sentence in proposed paragraph 718-10-30-20C which would allow an entity that grants both stock options and RSUs or other awards to apply the value determined by the 409A Valuation as the current share price input. By eliminating the last sentence, entities could apply the practical expedient by analogy.

If the Board affirms its proposal to limit the practical expedient to equity-classified stock options, we recommend that additional background for this decision be included in the Basis for Conclusions.

While we understand the Board's position for excluding liability-classified awards from the scope of the practical expedient, we would not object to expanding the scope to include such awards. This is based on our understanding that private companies oftentimes use the annual 409A Valuation to determine the share price input for both equity- and liability-classified awards. Further, private companies generally do not report on an interim basis which reduces the need to remeasure liability-classified awards. In addition, electing the practical expedient to account for the award at intrinsic value does not alleviate the need to determine the current value of the underlying share, which a 409A Valuation would help to determine.

Additionally, we recommend the Board provide guidance for a modification that results in an award being reclassified from equity to liability, assuming the Board retains its prohibition against applying the proposed practical expedient to liability-classified awards. Specifically, if an entity had elected to apply the proposed practical expedient to measure the value of its stock based on its 409A Valuation for purposes of determining fair value of a stock option grant, and that grant is subsequently modified in such a way that results in liability classification, how should the practical expedient be unwound upon modification? Presumably an entity would transition to a "normal" valuation approach prospectively only, rather than retrospectively revaluing the award to unwind use of the proposed practical expedient, but clarifying that approach and whether the new valuation would be required on the date of the modification or only at period-end would reduce potential diversity.

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 expect there would be little to no cost savings for entities that already rely on the 409A Valuation. There may actually be an increase in valuation costs for entities that have previously relied on a 409A Valuation for other award types, which would now be precluded from doing so unless the scope of the practical expedient is broadened. We expect that financial statement preparers will provide more useful feedback on the costs of preparation.

We also expect the proposed Update likely will not impact audit fees as there would still be a need to audit the underlying inputs and assumptions of any valuation report.

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

We defer to financial statement preparers to respond. Our understanding is that it is common practice for preparers to rely on a 409A Valuation for both tax and financial reporting purposes.

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

Allowing the practical expedient to be applied on an award-by-award basis could result in lack of consistency in assumptions within an entity's financial statements. For example, an entity may grant two awards at or near the same time and may elect to use a 409A Valuation to value one of the awards, while using another valuation prepared in accordance with principles of ASC 718 to value the other, which could produce inconsistent results. It may also provide a potential opportunity for manipulation of earnings. For example, an entity that issues multiple awards throughout the year and has variations in its stock value might avail itself of the practical expedient in order to choose a fair value result that it views as more advantageous for a specific award.

Therefore, we recommend requiring the practical expedient be applied on an entity-wide basis to all applicable awards, consistent with the scope for other existing practical expedients in ASC 718, such as those regarding expected term and intrinsic value.

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.

No, we generally agree that the practical expedient will result in decision useful information and will not be difficult to implement or understand.

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

We agree with the proposed transition requirements.