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June 5, 2017

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 Technical Director:

We appreciate the opportunity to comment on the proposed ASU, *Improvements to Nonemployee Share-Based Payment Accounting*. We support the Board's objective to identify, evaluate and improve areas of GAAP in which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to financial statement users.

With respect to this proposal, we support the amendments to align the accounting requirements for nonemployee share-based payment awards with the requirements for employee share-based payment awards. We believe that requiring a single model to account for share-based payments would simplify the accounting for, and maintain or improve the usefulness of the information provided to financial statement users about, nonemployee share-based payment awards.

KPMG's responses to the Questions for Respondents are included in Appendix I to this letter. We have included an additional observation in Appendix II.

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If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Kimber Bascom at (212) 909-5664 or kbascom@kpmg.com or Regina Croucher at (212) 954-1285 or rcroucher@kpmg.com.

Sincerely,

KPMG LLP

KPMG LLP

Appendix I – Responses to the Board’s Questions

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?

Yes. We believe that the proposed amendments would reduce the cost and complexity of accounting for share-based payment awards by aligning the accounting (except for attribution) for economically similar instruments. We also believe that aligning the accounting would improve the usefulness of nonemployee share-based payment award information provided to users of financial statements.

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?

Yes. We support the proposed requirement to measure nonemployee share-based payment transactions by estimating the fair value-based measurement of the equity instruments that an entity is obligated to issue.

We note that in some private company transactions, the fair value of goods or services received may be a more readily observable and reliable measure than the fair value of the equity instruments to be issued. However, because we do not believe that those transactions are pervasive and, after considering paragraph BC14 of the proposal, we support the proposed approach for measuring nonemployee share-based payment 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?

Yes. We believe that the measurement date for equity-classified nonemployee share-based payment awards should be the grant date.

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?

We do not believe that an entity should be required to use the contractual term for share options and similar instruments issued to nonemployees as an input to the measurement of those share-based payment awards in all instances. Instead, we believe that the Board should establish a rebuttable presumption that an entity would use the contractual term as an input to the measurement of nonemployee share-based payment awards. The entity could overcome that presumption with significant, observable and verifiable evidence that the expected term of an award is less than the contractual term. We believe that applying this rebuttable presumption rather than applying the proposal would result in better financial reporting information for an entity with nonemployee awards with transferability restrictions that tracks data for nonemployees similar to the way that it tracks data for employees. In our experience, it is possible for some entities that have nonemployee awards with transferability restrictions similar to the restrictions in employee awards to track the data for these nonemployee awards and calculate the expected term.

We acknowledge that our suggestion, similar to the Board's proposal to require an entity to use the contractual term, does not fully eliminate the difference between measuring share-based payment awards granted to nonemployees and measuring those awards granted to employees. However, in the context of this narrow issue, we believe that the rebuttable presumption would bring the measurement of both employee and nonemployee share-based payment awards closer to alignment.

Under the Board's proposal, an entity would still be required to evaluate whether the recipient of an award is an employee. If the Board retains its proposal to use the contractual term in determining the fair value-based measurement of a nonemployee award, the Board will need to provide guidance about whether the existing definition of employee awards, including the exception for nonemployee directors' awards that meet specified conditions, continues to apply. In that regard, we note that any differences in recognition or measurement requirements between employee and nonemployee awards could create additional complexities in the accounting.

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. To align the accounting for nonemployee and employee share-based payment awards, we believe that the accounting for nonemployee share-based payment awards containing performance conditions should consider the probability that the performance condition will be met in determining the appropriate period(s) of recognition.

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 postvesting classification assessment for employee and nonemployee share-based payment awards?

Yes. To align the accounting for nonemployee and employee share-based payment awards, we believe it is appropriate to apply 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.

We observe the potential for stakeholders to interpret a conflict between paragraph BC16 and the proposed amendments. We believe that the Board should clarify paragraph BC16 by including the description of the current accounting model for share-based payment awards at the beginning of the paragraph, followed by the effect that the proposed amendments would have on implementation. In place of BC16, we suggest the following edits for the Board to consider:

Currently, an entity is required to initially assess classification of nonemployee share-based payment awards under Topic 718. Issuers of awards to nonemployees are then required to reassess the classification of awards once nonemployee share-based payment awards are vested (that is, earned) and no further performance is required. The amendments in this Update align the postvesting classification requirements for employee and nonemployee share-based payment awards. Specifically, an entity generally would continue to apply the classification provisions of Topic 718 (that is, the initial classification assessment) to nonemployee share-based payment awards and would not reassess classification, as long as the award is not modified after the nonemployee vests in the award and no longer provides goods or services.

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. To align the accounting for nonemployee and employee share-based payment awards, we believe it is appropriate to apply the forfeiture guidance in Topic 718 to nonemployee share-based payment awards.

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 the practical expedient for nonpublic entities to substitute calculated values for expected volatilities when measuring share options and similar instruments issued to nonemployees is appropriate if the conditions for using calculated values are met.

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. Nonpublic entities should be allowed to align their accounting policies for employee and nonemployee share-based payment awards. Therefore, we believe nonpublic entities should 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.

Question 10:

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

We believe that the proposed requirement to apply a modified retrospective transition method and, therefore, calculate a cumulative catch adjustment may be burdensome and, for some entities, potentially not feasible. The current accounting model does not require an entity to identify and track the grant-date fair value of nonemployee share-based payment awards. Therefore, obtaining or estimating the fair value for these awards as of the grant date, which may be many years in the past, could be difficult or impossible.

We suggest a prospective transition method under which an entity would value the nonemployee share-based payment awards outstanding at the transition date based on the then-current fair value. The entity would already have measured equity-classified awards at fair value, under the existing accounting model, as of the most recent financial statement date; thus, the information would be readily available. We also believe that the proposal should apply prospectively to all new nonemployee share-based payment awards. We believe this would be a more practicable transition method as the entity already is required to identify the inputs to the valuation at the transition date to apply the existing model of accounting for nonemployee share-based payment awards.

Finally, we believe that the period between issuance and adoption of the proposed amendments should be as short as possible. A short timeframe would simplify the transition for preparers, by minimizing the number of nonemployee share-based payment awards that likely would be issued and accounted for under the existing accounting model before the proposal would become effective. A short transition also would accelerate the benefit to users.

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?

No. We do not believe that an entity should be required to adjust the basis of an asset that includes share-based payment costs when applying the transition requirements. We believe that the cost and complexity associated with identifying the share-based payment costs included in the basis of the specific asset at the transition date would outweigh the benefits to users of the financial statements.

Furthermore, if the proposed amendments were to be applied prospectively, as we suggest in our response to Question 10, there would be no historical adjustment to be applied to capitalized assets as of the transition date. Finally, if there is no requirement to adjust the basis of an asset that includes share-based payment costs, this approach would be consistent with the transition guidance for capitalized assets in ASU 2017-07, which we believe is appropriate.

Question 12:

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

We do not believe that the Board should require an entity to disclose different information for nonemployee and employee share-based payment awards. We believe that due to the economic similarity of employee and nonemployee share-based payment awards, the same information about both types of awards is relevant to users of the financial statements.

However, we believe that users of the financial statements may benefit from disclosure presentation that separates the information about nonemployee share-based payment awards from information about employee share-based payment awards. To effect this separation, we suggest an amendment to ASC 718-10-50-2(g) to identify employee and nonemployee share-based payment awards as specific groups of awards which may warrant separate disclosure to the extent that there are differences in underlying characteristics or assumptions, or differences in how the entity uses nonemployee versus employee share-based payment awards. Specifically, we suggest the following edits for the Board to consider:

g. An entity that grants equity or liability instruments under multiple share-based payment arrangements ~~with employees~~ shall provide the information specified in paragraphs (a) through (f) separately for different types of awards or recipients of those awards to the extent that the differences in the characteristics of the awards make separate disclosure important to an understanding of the entity's use of share-based compensation. For example, separate disclosure of weighted-average exercise prices (or conversion ratios) at the end of the year for options (or share units) with a fixed exercise price (or conversion ratio) and those with an indexed exercise price (or conversion ratio)

could be important. It also could be important to segregate the number of options (or share units) not yet exercisable into those that will become exercisable (or convertible) based solely on fulfilling a service condition and those for which a performance condition must be met for the options (share units) to become exercisable (convertible). It could be equally important to provide separate disclosures for awards that are classified as equity and those classified as liabilities, and for those awards that are granted to employees and those that are granted to nonemployees.

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?

As discussed in our response to Question 10, if the Board adopts a prospective transition approach, we do not believe that an entity would need to gather additional information or need substantial time for transition. We also believe that making the proposal effective for annual periods in fiscal years beginning after December 15, 2017, or as soon as possible thereafter, would be reasonable. Adoption under our suggested transition approach would require only information that already is required for nonemployee share-based payment awards under the existing accounting model. Thus, if the final ASU requires a prospective transition approach, we do not believe that it would be difficult for public or nonpublic companies to implement the proposed changes.

We also do not believe that early adoption of the proposal would provide incremental benefit to users of the financial statements if the effective date is soon after issuance of the ASU. An adoption date that is as early as possible would simplify the transition for preparers and provide comparability for users. If early adoption is permitted, we believe the Board should specify that adoption in the first interim period only of a fiscal year is permitted.

Appendix II – Other Observation

Amendments to Subtopic 606-10

The proposed amendments to paragraph 606-10-32-25 (consideration payable to a customer) include adding, “Consideration payable to a customer also includes equity instruments granted in conjunction with selling goods or services (for example, shares, share options or other equity instruments)”. This proposed amendment addresses equity instruments but does not explicitly state whether it would apply to equity-classified share-based payment awards, liability-classified share-based payment awards, or both equity- and liability-classified share-based payment awards.

We believe that the Board should revise this proposed amendment so that it is clear that it applies regardless of whether the share-based payment award is equity-classified or liability-classified. We recognize that the liability-classified share-based payment awards would be marked-to-market through revenue until settlement, which could be over several years, depending on the terms of the underlying awards.