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Technical Director  
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**Proposed Accounting Standards Update: Compensation—Stock Compensation (Topic 718) *Scope of Modification Accounting***

The Accounting Principles and Assurance Services Committee (the “Committee”) of the California Society of Certified Public Accountants (“CalCPA”) respectfully submits its comments on the referenced proposal. The California Society of CPA’s (“CalCPA”) Accounting Principles and Assurance Services Committee (the “Committee”) is the senior technical committee of CalCPA. CalCPA has approximately 43,500 members. The Committee consists of 55 members, of whom 45 percent are from local or regional firms, 32 percent are from large multi-office CPA firms, 12 percent are sole practitioners in public practice, 6 percent are in academia and 5 percent are in international firms. Members of the Committee are with CPA firms serving a large number of public and nonpublic business entities, as well as many non-business entities such as not-for-profits, pension plans and governmental organizations.

**Question 1:** Do you agree with the amendments in this proposed Update about when an entity is required to apply modification accounting? If not, why?

The Committee agrees with the proposed changes. They will serve to clarify what is meant by a *modification* and may reduce diversity in practice.

The Committee suggests that the examples in paragraphs BC9 and BC10 be incorporated into paragraph 718-20-35-2A of the Update. These examples are useful, cover certain aspects not covered in the Illustrations at paragraphs 718-20-55-97 et seq., and inclusion in the body of the Update would enhance its understandability.

**Question 2:** Should new or different disclosures be included in Topic 718 as a result of the amendments in this proposed Update? If yes, what are those disclosures and why would they be useful to financial statement users?

The Committee does not believe that there should be any new or different disclosures for changes for which modification accounting is required. The Committee sees no need for disclosures of changes for which modification accounting is not required; if the changes are not significant enough to be considered a modification for accounting purposes, they should not be considered significant enough to require disclosure.

**Question 3:** Are the transition requirements appropriate? If not, what transition approach is more appropriate and why?

The Committee agrees with the Board that the proposed amendments be applied prospectively. However, the Committee recommends that entities be given the option of adopting the proposed amendments upon issuance, rather than waiting for the effective date. Changes that might be considered a modification are not frequent for most entities. An entity should be given the opportunity to change to the proposal in evaluating whether a modification between issuance and effective dates is a modification for accounting purposes, rather than following its past practice until the effective date.

**Question 4:** How much time would be needed to adopt the amendments in this proposed Update? Should the amount of time needed to apply the amendments in this proposed Update by entities other than public business entities be different from the amount of time needed by public business entities? Should early adoption be permitted? If yes to either question, please explain why.

The Committee does not believe much time would be needed to adopt the proposed amendments; in fact, there may be a time savings because the consideration of whether a modification is a modification for accounting purposes would be simplified. However, for an entity which will be required to account for a change as a modification, where a similar change in the past had not been considered a modification, there may be more time required to implement the proposal. The Committee does not know how many entities might be affected in this manner.

Entities other than public business entities which have stock option plans would be affected the same way as public business entities, but we believe they may have less sophisticated accounting expertise than public business entities and therefore should be provided a deferred effective date.

See response to Question 3 above concerning early adoption.

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We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions with you further should you have any question or require additional information.

Sincerely,

A handwritten signature in black ink that reads "A.J. Major III". The signature is written in a cursive style with a horizontal line underneath the name.

A.J. Major III  
Chair  
Accounting Principles and Assurance Services Committee  
California Society of Certified Public Accountants