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July 1, 2015

Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

File No. S7-07-15
Pay Versus Performance
Release No. 34-74835

Dear Mr. Fields

We appreciate the opportunity to respond to the Securities and Exchange Commission's (SEC or Commission) proposed rule on Pay Versus Performance (the "Proposed Rule"). We support the continued efforts of the SEC to provide useful and comparable information to investors and other financial statement users.

This letter focuses on the aspects of the Proposed Rule related to the nature of the proposed adjustments to the amounts presented in the Summary Compensation Table in presenting "compensation actually paid" in the required table under the Proposed Rule. Our comments mainly focus on the impact of adjustments to present the fair value of equity awards at the vesting date that we believe should be considered before the Proposed Rule is finalized.

Complications in Calculating a Vesting Date Fair Value of Share Options

We believe that the proposed requirement to determine the vesting date fair value of share options will be more difficult for companies than determining the grant date fair value of those awards. We have identified the following significant considerations in valuing share options at the vesting date:

Frequency of vesting – Many equity awards have vesting that occurs multiple times during a year, including monthly and even daily vesting. As a result, an entity adjusting the Summary Compensation Table amount to take into consideration the vesting date fair value of the award would be required to calculate fair value multiple times.

Overlapping vesting periods - Many companies grant awards annually that contain multi-year vesting periods that overlap prior year grants. For share options, the remaining contractual life and the exercise price will likely be different among the various awards vesting during the year, even if they vest on or about the same day. This also will require multiple fair value calculations for affected issuers.

Expected Volatility – Expected volatility is a significant driver in determining the fair value of a share option. Expected volatility is generally derived from the historical or implied volatility, or a combination of both factors. SEC Staff Accounting Bulletin No. 107 (SAB 107) provides guidance on when it is acceptable to place exclusive reliance on implied or historical volatility in determining the fair value of an award. Under this guidance, one of the criteria for using implied volatility is that the reference options be at or near the money and have exercise prices that are close to the exercise price of the share options being valued. While this circumstance is likely on the grant date, it may not be on the vesting date.

Expected Term – The expected term of a share option has a direct impact on its fair value. Companies with sufficient entity-specific data regarding the exercise behavior of their employees may be able to use this information to determine vesting date fair values. However the usefulness of the data will in part be driven by how far into or out of the money an option is on that date since the intrinsic value of an award tends to affect exercise behavior.

Companies that do not have sufficient entity-specific data to derive an expected term instead rely on the guidance in SAB 107 that allows for a "simplified" method to be followed for "plain vanilla" share options. One of the requirements of using this approach, as stipulated in SAB 107, is that the share options are granted at-the-money. While most share options are at-the-money on the grant date, this may not be true on the vesting date. It is unclear whether companies will remain eligible to use this approach for the vesting date valuation.

Retirement Eligible Employees

Under current accounting standards, equity awards granted to individuals who are retirement-eligible on the date of grant are required to be expensed immediately if the individual would retain the award upon retirement. We note that many Principal Executive Officers (PEOs) and non-PEO Named Executive Officers (NEOs) are retirement eligible based on their age or tenure at the entity. We have noted two related issues that would arise with common awards for retirement-eligible individuals for which it is unclear how they should be reflected in the calculation of the fair value vesting date.

(1) *Treatment of awards granted to retirement-eligible employees* – Awards that are granted to retirement-eligible individuals often have a stated vesting period but can be accelerated if the employee decides to retire. For example, an equity award may be granted to a retirement-eligible employee that has cliff vesting at the end of a three-year term. The accounting guidance requires that the entity consider this award to vest immediately if the individual is permitted to give notice at any time after receiving the award and still receive the benefit of the entire award. However, if the individual does not retire during the vesting period, the award will vest at the end of the three-year term. The Proposed Rule does not provide clear guidance as to whether issuers should consider awards granted to retirement-eligible employees to be actually paid pursuant to the accounting guidance (i.e., immediately) or pursuant to the contractual terms of the award.
(2) *Treatment of awards that vest pro rata over the term* –The terms of awards granted to retirement-eligible employees at many entities provide for pro rata vesting of the award from the date of grant to the date of retirement whereas other employees that are not retirement eligible have cliff vesting. Under these terms, the retirement-eligible employee would earn a portion of the award between the date of grant and the date of full vesting, rather than being exposed to a loss of the entire award as would be experienced by an employee who was not eligible for retirement. For

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these types of awards, a portion of the award will vest each day, which could require multiple calculations (depending on the resolution of the prior issue).

We appreciate the opportunity to submit our comments on the Proposed Rule. If you have any questions regarding our comments or other information included in this letter, please contact Jeffrey Jones at [redacted] or Glen Davison at [redacted].

Very truly yours,

Glen L. Davison

Glen Davison
Partner