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File Reference No. 2024-ED300
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Proposed Accounting Standards Update, *Compensation – Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Clarifications to Share-Based Consideration Payable to a Customer* (File Reference No. 2024-ED300)

Dear Mr. Day:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update, *Compensation – Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Clarifications to Share-Based Consideration Payable to a Customer*, issued by the Financial Accounting Standards Board (FASB or Board).

We support the Board's intent to improve the decision usefulness and operability of the guidance for share-based consideration payable to a customer in conjunction with selling goods or services and reduce diversity in practice impacting the timing of a grantor's revenue recognition. As discussed below, we believe some aspects of the proposal could be clarified to allow stakeholders to better understand the Board's intent on certain matters.

Our responses to questions in the proposal and our recommendations for the Board's consideration are included in Appendix A. We provide further recommendations to clarify certain areas of the proposed guidance in Appendix B.

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We would be pleased to discuss our comments with the Board or its staff at your convenience.

Very truly yours,

Appendix A – Responses to questions raised in the Proposed Accounting Standards Update, Compensation – Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Clarifications to Share-Based Consideration Payable to a Customer

Question 1: Do you agree with the amendments in this proposed Update that would incorporate performance targets based on customer purchases into the Master Glossary term *performance condition* for share-based consideration payable to a customer? Are the proposed amendments clear and operable? Would the revised definition improve the operability of the guidance and capture the complete population of share-based consideration that vests on the basis of customer purchases? Please explain why or why not.

We agree with the proposed amendments to incorporate performance targets based on customer purchases into the Master Glossary term *performance condition* for share-based consideration payable to a customer. We believe the revised definition would improve the operability of the guidance and capture the complete population of share-based consideration that vests based on customer purchases. However, we believe the Board should make further updates to make sure the proposed definition would be clear and operable.

First, we suggest that the Board move the proposed language included in paragraph 606-10-55-88AA regarding examples of performance conditions to the Master Glossary definition of a *performance condition*. We believe having all the information in one place would provide clarity to users. After this language is moved to the definition, paragraph 606-10-55-88AB (which states that the *performance condition* definition for customer awards should not be applied by analogy to other awards in the scope of Accounting Standards Codification (ASC or Codification) 718) can be removed, since it is already included in paragraph 718-10-15-5B.

In addition, we suggest that the Board clarify the proposed amendments relating to performance targets based on purchases by parties that purchase the grantor's goods or services (i.e., purchases by the customers of an entity's customer). Our suggested clarifications are included in our response to Question 2.

Question 2: In addition to customer purchases, do you agree with the proposed amendments that would incorporate performance targets based on purchases by parties that purchase the grantor's goods or services (its customer's customers) into the Master Glossary term *performance condition*? Are the proposed amendments clear and operable? Please explain why or why not.

We understand the Board's decision to incorporate performance targets based on purchases by parties that purchase the grantor's goods or services (i.e., purchases by the customers of an entity's customer) into the Master Glossary definition of the term *performance condition*. However, we believe the wording should be streamlined to align the definition with the existing wording in the Codification to state "customer (or other parties that purchase the entity's goods or services from the customer)." This would be consistent with the wording used in paragraph 606-10-32-25, and as a result, ASC 718 and ASC 606 would reflect existing language that is already applied in practice.

Alternatively, we suggest that the Board revise the definition to better articulate the scenarios outlined. We recommend the following clarifications (in strikethrough, bold and underscored text):

“For share-based consideration payable to a customer that is not in exchange for a distinct good or service (or that is in exchange for a distinct good or service and can result in a reduction of the transaction price in accordance with paragraph 606-10-32-26), a condition affecting the vesting, exercisability, exercise price, or other pertinent factors used in determining the fair value of an award that relates to any of the following:

- a. Achieving a specified performance target that is defined solely by reference to the grantor’s own operations (or activities) or by reference to the grantee’s (the customer’s) performance related to the grantor’s own operations (or activities)
- b. The grantee’s purchase of the grantor’s goods or services from ~~either~~ the grantor
- c. The grantee’s purchase of the grantor’s goods or services from** ~~or~~ the grantor’s customers
- dc.** A purchase of the grantor’s goods or services from ~~either~~ the grantee
- e. A purchase of the grantor’s goods or services from** ~~or~~ the grantee’s customers.

The performance targets listed in this definition for employee and nonemployee awards (for example, a change in control) are also examples of performance conditions for share-based consideration payable to a customer.”

Question 3: Do you agree with the proposed amendments that would remove the accounting policy election for forfeitures in paragraph 718-10-35-1D for share-based consideration payable to a customer that includes a service condition? Are the proposed amendments clear and operable? Please explain why or why not.

We agree with the proposed amendments to remove the accounting policy election for forfeitures of share-based consideration payable to a customer that is not in exchange for a distinct good or service and includes a service condition. We believe requiring the estimation of the number of forfeitures expected to occur for these types of awards would be consistent with the revenue recognition framework. We believe that amended paragraph 718-10-35-1D would be clear and operable as proposed.

Question 4: Should grantors that have previously made an entity-wide policy election to estimate forfeitures for nonemployee share-based payment awards, including share-based payment awards granted to customers, be permitted to make a one-time change upon transition to account for forfeitures as they occur? Please explain why or why not.

We acknowledge that entities with customer awards may have elected to estimate nonemployee forfeitures based on their desired accounting for customer awards. Therefore, we believe that entities should be permitted to make a one-time accounting policy change upon transition to account for forfeitures as they occur for their nonemployee awards. Further, we believe that entities that previously made an election to account for forfeitures of nonemployee awards as they occur should be permitted to make a one-time accounting policy change to estimate forfeitures.

However, we suggest that the Board clearly define which entities would be permitted to make such a policy change. For example, the one-time change could be allowed for entities that have elected to estimate nonemployee forfeitures, or it could only be allowed for entities that have previously accounted for customer awards with service conditions.

We defer to the Board about which entities should be permitted to make a one-time change upon transition to account for forfeitures as they occur.

Question 5: Are the proposed amendments that would clarify that the guidance in Topic 606 on constraining estimates of variable consideration does not apply to share-based consideration payable to a customer clear and operable? Please explain why or why not.

We understand the Board's decision that grantors not apply the guidance in ASC 606 on constraining estimates of variable consideration when measuring share-based consideration payable to a customer that is measured and classified under ASC 718. However, the proposed guidance in paragraph 606-10-55-88C would limit the applicability of the measurement requirements in ASC 606 only to the constraint on variable consideration under the guidance in paragraphs 606-10-32-11 and 32-12, rather than excluding all aspects of the variable consideration guidance in ASC 606 (e.g., the requirement in ASC 606 to estimate variable consideration using one of the two methods specified in paragraph 606-10-32-8).

Therefore, we recommend updating the guidance in paragraph 606-10-55-88C and the corresponding discussion in the proposal's Background Information and Basis for Conclusions to more closely align with the Board's intent as follows (in strikethrough, bold and underscored text):

"606-10-55-88C Regardless of whether an award's grant date has occurred, the guidance on **estimating variable consideration, including the constraint on variable consideration,** ~~constraining estimates of variable consideration in paragraphs 606-10-32-11 through 32-12~~ should not be applied to share-based consideration payable to a customer that is measured and classified under Topic 718."

Question 6: Would the proposed amendments reduce diversity and improve the decision usefulness of a grantor's revenue information? Please explain why or why not.

We believe the proposal would reduce diversity in the accounting for a grantor's revenue based on the Board's reasoning as outlined in the proposal's Basis for Conclusions.

In our view, the question about whether the proposed amendments would improve the decision usefulness of a grantor's revenue information is best addressed by investors.

Question 7: The proposed transition requirements would allow grantors to apply the proposed amendments on either a modified retrospective basis or a retrospective basis (unless impracticable). Would the information required to be disclosed under each proposed transition method be decision useful? If not, why not and what transition method would be more appropriate and why? Are the proposed transition requirements operable? Please explain why or why not.

We believe allowing grantors to apply the proposed guidance on either a modified retrospective or retrospective basis (unless impracticable) would be a reasonable approach. In our view, the question about whether the information required to be disclosed under each proposed transition method would be decision-useful is best addressed by investors. We believe preparers are better positioned to address whether the proposed transition requirements would be operable.

Question 8: How much time would be needed to implement the proposed amendments? Should the effective date for entities other than public business entities be different from the effective date for public business entities? Should early adoption be permitted? Please explain why or why not.

We defer to preparers about how much time would be needed to implement the proposed guidance. We would support a longer implementation period and a later effective date for entities that are not public business entities, and we believe early adoption should be permitted.

Appendix B – Other comments

1. The proposal would replace the term *equity instruments* with *share-based consideration* in certain paragraphs in ASC 606. We believe that conforming amendments to the Master Glossary definition of cash consideration would be necessary. Currently, the definition refers to “equity instruments,” although the guidance applies to both equity instruments and liability-classified share-based consideration. Therefore, the definition of cash consideration should be updated as follows (in strikethrough, bold and underscored text):

“Cash payments and credits that the customer can apply against trade amounts owed to the vendor. In addition, as indicated in Section 718-10-25, consideration in the form of share-based payment awards is recognized in the same period or periods and in the same manner (that is, capitalize versus expense) as if the entity had paid cash for the goods or services instead of paying with or using the share-based payment awards. Accordingly, guidance with respect to cash consideration is applicable to consideration that consists of share-based consideration ~~equity instruments~~.”

2. The final standard should state that the estimate of the number of awards that a grantor will be obligated to issue to its customer should be updated until the awards ultimately vest or are forfeited, because this estimate would also no longer be needed if an award is forfeited. We suggest updating paragraph 606-10-55-88A as follows (in strikethrough, bold and underscored text):

“606-10-55-88A [...] A grantor should update the estimate of the number of awards ~~equity instruments~~ until the awards ~~award~~ ultimately vest vests or are forfeited in accordance with Topic 718. [...]”