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November 11, 2024

Via email to director@fasb.org

Mr. Jackson M. Day, Technical Director
Financial Accounting Standards Board
801 Main Avenue
P.O. Box 5116
Norwalk, CT 06856-5116

Re: 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 respond to the Board's exposure draft. Overall, we support the Board's proposal to clarify the accounting treatment for share-based consideration payable to a customer.

We agree with the Board's proposal to incorporate performance targets based on customer purchases into the Master Glossary term *performance condition* for share-based consideration payable to a customer and the related amendments. We believe certain minor clarifications to the proposed guidance would improve operability and we have questions about how to apply the constraint on estimating variable consideration in certain scenarios. We have described our suggestions and our questions in our responses to the Questions for Respondents in the attached Appendix.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Jennifer Kimmel at (203) 905-6284 or Angela Newell at (214) 689-5669.
Very truly yours,

BDO USA, P.C.

BDO USA, P.C.

Appendix

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 that would 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 amendments are generally clear and operable and would capture the known population of such awards.

To improve clarity and operability, we suggest revising the following excerpt from the *performance condition* definition and the last sentence of paragraph 718-10-35-1D as follows:

- 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~~ <u>but</u> result<u>s</u> in a reduction of the transaction price in accordance with paragraph 606-10-32-26) …

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 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*. The proposed amendments are consistent with the Revenue Transition Resource Group (TRG) discussions on consideration payable to a customer in which most TRG members supported the view that an entity's customers include those in the distribution chain. As written, we believe the proposed amendments are generally clear and operable.

However, to improve clarity and operability, we suggest revising paragraph 718-10-15-5A as follows:

- Share-based consideration payment awards granted to a customer <u>(or to other parties that purchase the grantor's goods or services from the customer)</u> shall be measured and classified in accordance with the guidance in this Topic (see paragraph 606-10-32-25A) and reflected as a reduction of the transaction price and, therefore, of revenue in accordance with paragraph 606-10-32-25 unless the consideration is in exchange for a distinct good or service. If share-based payment awards are granted to a customer ~~(or to other parties that purchase the grantor's goods or services from the customer)~~ as payment for a distinct good or service from the customer, then the grantor an entity shall apply the guidance in paragraph 606-10-32-26.

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 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. This amendment would improve consistency between the application of Topic 718 measurement principles to share-based consideration payable to a customer and the general principles of Topic 606 that require estimation of variable consideration. As written, we believe the proposed amendments are clear and operable.

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 would not object to permitting 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, to make a one-time change upon transition to account for forfeitures as they occur without assessing preferability under Topic 250, *Accounting Changes and Error Corrections*.

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 generally agree with the proposed amendments that would clarify that the revenue constraint does not apply to share-based consideration payable to a customer. Requiring application of the constraint to those awards would be duplicative because an entity would apply two layers of probability in its estimate of one contract's transaction price. In addition, requiring application of the constraint could result in some awards being included as a reduction in revenue even if they are not probable of vesting. In the scenario that we think is most common, that is, awards vest as purchases are made and the arrangement includes no other forms of variable consideration, application of the proposed guidance will result in a more operable outcome. That is, entities will recognize an amount of revenue that is consistent with the general principles in Topic 606.

However, we note the proposed amendments could create certain conceptual inconsistencies and additional complexities. Specifically, the proposed approach requires an entity to separate the estimation of variable consideration from constraining that estimate, which is inconsistent with the discussion in paragraph BC215 of ASU 2014-09. Consideration paid to a customer is part of the total arrangement consideration, and the constraint must be applied in total to the amount of revenue recognized, as acknowledged in paragraph BC 221 of ASU 2014-09. Because Topic 606 requires application of the constraint to the entire contract price, the amendments could unnecessarily complicate the estimate of variable consideration in situations where another form of variable consideration in addition to share-based consideration payable to a customer is present. We recommend that the Board clarify, either by revising proposed paragraph 606-10-55-88C or adding language to the basis for conclusions, how the guidance on constraining estimates of variable consideration should be applied when an additional form of variable consideration is present in the contract.

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 agree that the proposed amendments would reduce current diversity in practice in determining whether a performance target based on customer purchases is a service condition or a performance condition. We defer to investors and other financial statement users on the decision usefulness of that information.

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 agree the proposed transition requirements are operable. We defer to investors and other financial statement users on whether the required disclosures will provide decision-useful information.

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 do not expect a significant amount of time to be required for most entities to adopt the proposed amendments. Consistent with recent ASUs with similarly narrow scopes, we recommend one year for public entities and two years for private entities. A private entity may require additional time to transition under the retrospective approach. For example, a private entity may need time to complete or obtain estimates that were not required previously. We recommend permitting early adoption of the amendments.