GRANT THORNTON LLP
Grant Thornton Tower
171 N. Clark Street, Suite 200
Chicago, IL 60601-3370

D +1 312 856 0200
S linkd.in/grantthorntonus
twitter.com/grantthorntonus

November 14, 2024

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

Via Email to director@fasb.org

Re: File Reference No. 2024-ED300

Dear Mr. Day:

Grant Thornton LLP appreciates the opportunity to comment on Proposed Accounting Standards Update (ASU), *Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Clarifications to Share-Based Consideration Payable to a Customer.*

Overview of our comments

We support the Board's proposed amendments to address the current diversity in practice in accounting for a grantor's share-based payment awards to a customer that contain vesting targets based upon the customer's purchases of the grantor's goods or services. We commend the Board on the approach to addressing stakeholder concerns and resulting proposed amendments that provide a practical and operational path forward to address the concerns raised. We have provided our detailed responses to the Boards questions below.

Our responses to the questions in the proposed ASU

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.

Yes, we agree with the amendments in the proposed Update that incorporate performance targets based on customer purchases into the Master Glossary term "performance condition" for share-based consideration payable to a customer. We believe customer purchases constitute a performance condition (as opposed to a service condition) and support the Board's approach to clarify this.

We did identify two areas that warrant clarification in the proposed amendments, as discussed further below:

Nonemployee customers and nonemployee non-customers

After the amendments, paragraph 718-10-35-1D will specify, in part, that

> *To determine the amount of compensation cost to be recognized in each period, an entity shall make an* ***entity-wide accounting policy election [emphasis added]*** *for nonemployee share-based payment awards, including share-based payment awards granted to customers in exchange for a distinct good or service to do either of the following…*
>
> > *a. Estimate the number of forfeitures expected to occur…*
> >
> > *b. Recognize the effect of forfeitures in compensation cost when they occur…*
>
> *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 grantor shall estimate the number of forfeitures expected to occur in accordance with paragraph 718-10-35-1D(a).*

As written, it is not clear to us whether a grantor that issues a share-based payment award to a grantee-customer which partially is in exchange for a distinct good or service, in which only the portion of that award that does not relate to distinct good or service will reduce revenue in accordance with ASC 606-10-32-26, should apply its entity-wide policy election to account for forfeitures when they occur to *the portion* of the share-based payment award to a customer that does *not* reduce revenue. We therefore suggest that a clarification be added to the last sentence in 718-10-35-1D.

Awards based on activity or spend by the customer's customer when not in the distribution chain

As presently written, a "performance condition" will be defined, in part, as:

> *2. 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 or the grantor's customers*
>
> *c. A purchase of the grantor's goods or services from either the grantee 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.

As presently written, the definition of performance targets may be interpreted as excluding all share-based consideration payable to customer-grantees with targets based upon purchases of goods or services by customers (end-users) of the customer-grantee when those goods or services are not directly obtained from the grantor. These types of incentive programs are common, for example, at certain platform entities, where customer-grantees may receive incentives based upon customer-grantee sales to end-users. In these cases, while the end-user is not a customer of the platform entity (the grantor), nor in the grantor's direct distribution chain, the end-user activities that generate customer-grantee sales often also directly impact the grantor's revenue.

For example, Entity X provides technology and hosting services to Customer Y. Customer Y is in the gaming business and develops competitive electronic games for its customers using Entity X's proprietary technology. Entity X then hosts the games for Customer Y on its platform and processes payments on behalf of Customer Y. End User Z plays the games created by Customer Y, hosted on Entity X's platform. Entity X receives consideration based upon a share of the payment End User Z owes to Customer Y. End User Z is not a customer of Entity X, nor is it in the direct distribution chain for Entity X's technology and hosting services. Entity X provides share-based payment awards to Customer Y that vest upon 100 new End Users playing Customer Y games. This share-based payment award to Customer Y, while it would be in the scope of consideration payable to a customer guidance in ASC 606, is not based on "a grantee's purchase of the grantor's goods or services," nor is it "a purchase of the grantor's good or services." Entity X does not produce the games and therefore the End User is not in the distribution chain, nor is it a customer of Entity X.

As presently written, we do not believe it is clear whether the share-based payment award in this example would be within the scope of the proposed amendments. We note that BC14 says, in part, "[T]he Board expects that that term *purchases* would be interpreted broadly." We further note that BC40 says, in part, "[T]he Board was concerned that if it revised the definition of the term *performance condition* without also specifying the requirements for the performance targets based on purchases by a customer's customers, grantors may assume that the Board intended for those conditions to be treated as "other" conditions which require liability classification under Topic 718." Given the prevalence of tri-party agreements and use of platform entities, we believe it would be prudent for the Board to clarify whether a grantor's awards issued to a customer-grantee that vest based upon purchases of a customer-grantee's goods or services by end-users, when those end-users are not in the entity's direct distribution chain are within the scope of these amendments. We believe such clarification would reduce diversity in practice.

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.

Yes, we support the proposed amendments to incorporate performance targets based upon purchases of the grantor's customer's customers. We agree that whether the purchases of the grantor's goods or services are at the customer level or customer's customer level, the definition of performance targets should be consistent.

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 require an entity to estimate forfeitures for any share-based consideration payable to a customer that includes a service condition as we believe the resulting accounting aligns with the objective of ASC 606 to best estimate the amount of revenue an entity expects to be entitled to in exchange for its goods or services. In our view, the estimation of forfeitures (using the grantor's historical data and any relevant current information about the Company to make that estimate) provides users of the financial statements with better, more relevant information about expected share-based payment expense, as compared to waiting for forfeitures to actually occur. We believe this is also true for the impact to revenue of share-based payment awards granted to customers that contain service conditions or performance conditions.

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.

Yes, we believe grantors should be provided the opportunity to make a one-time change upon transition to account for forfeitures as they occur for their nonemployee share-based payment awards as we support the flexibility offered by such election (that is, removing the time and expense associated with estimating forfeitures). We note that ASC 718-10-50-2(m) requires disclosure of the entity's policy for accounting for forfeitures and therefore, any such changes in grantor accounting will be sufficiently clear to investors.

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.

Yes, we believe the proposed amendments to clarify that the guidance in Topic 606 on constraining estimates of variable consideration does not apply to share-based consideration payable to a customer is clear and operable.

We believe the objective of ASC 606 – estimating the amount of consideration the entity expects to be entitled to – is more closely adhered to by estimating forfeitures when the share-based payment award constitutes a payment to a customer that is not in exchange for a distinct good or service.

We also note that it is more likely that vendors will incur significant reversals in the amount of cumulative revenue recognized when the uncertainty associated with variable consideration is subsequently resolved if, as proposed, the guidance in Topic 606 on constraining estimates of variable consideration does not apply to these estimates. In particular, revenue reversals will be more likely to occur when a share-based payment award granted to a customer provides for a performance vesting condition that is not probable of achievement at inception (and therefore not recognized contra-revenue) but nevertheless carries a *more than remote likelihood of vesting* (in other words, in cases for which it is not probable that a significant revenue reversal will not occur upon resolution of the uncertainty).

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.

Yes, we believe the proposed amendments will reduce diversity in practice that exists today.

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 that the proposed transition requirements are 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 respectfully defer to preparers to answer this question.

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Grant Thornton

We would be pleased to discuss our comments with you. If you have any questions, please contact Susan Mercier (susan.mercier@us.gt.com), Christine Janis (christine.janis@us.gt.com), or Rahul Gupta (rahul.gupta@us.gt.com).

Sincerely,

/s/ Grant Thornton LLP