The Association of Accountants and Financial Professionals in Business

November 20, 2024

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

Re: File Reference No. 2024-ED300

Dear Mr. Day:

The Financial Reporting Committee (FRC or Committee) of the Institute of Management Accountants (IMA) is writing to share its views on the Financial Accounting Standards Board's (FASB) 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* (Proposed Update).

The IMA is a global association representing over 140,000 accountants and finance professionals. Our members work inside organizations of various sizes, industries, and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The Committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics, and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at www.imanet.org (About IMA, Advocacy, Financial Reporting Committee).

The Committee supports the Proposed Update. We believe it will help resolve the existing practice issues and produce more decision-useful information. Our responses to specific questions and suggestions are included in the Attachment to this letter. We would be pleased to discuss our comments with the FASB or its staff at your convenience.

Sincerely,

Josh Paul
Chair, Financial Reporting Committee
Institute of Management Accountants
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Attachment. Responses to Proposed ASU's Questions for Respondents

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. We believe the revised definition of a performance condition should enhance the operability of the guidance and encompass the range of share-based payments that vest due to customer activity.

Based on our experience, we do not anticipate that many share-based payments to customers under the Proposed Update will include a service condition. However, incorporating examples to illustrate what constitutes a service condition would be helpful to practitioners. The example provided in the Basis for Conclusions paragraph BC41 suggests that a purchase of a service from the customer that is not distinct from the sale of goods or services to the customer is a service condition. Including examples in the guidance would help differentiate awards to customers with service conditions from those with other conditions (that would make the associated award a liability).

Alternatively, a further simplification of the guidance may be to eliminate the concept of service conditions for awards to customers. In this case, one could expand the definition of a performance condition to include awards vesting based on anticipated purchases and those tied to goods or services obtained from customers that are not distinct. This is because, implicitly, one can consider these awards to be granted in connection with the grantee's purchase of the grantor's goods or services.

We also propose the following changes to the Master Glossary (added text is underlined):

Share-Based Payment Arrangements

An arrangement under which either of the following conditions is met:

a. One or more customers or suppliers of goods or services (including employees) receive awards of equity shares, equity share options, or other equity instruments.

b. The entity incurs liabilities to customers or suppliers that meet either of the following conditions:

1. The amounts are based, at least in part, on the price of the entity's shares or other equity instruments. (The phrase at least in part is used because an award may be indexed to both the price of the entity's shares and something other than either the price of the entity's shares or a market, performance, or service condition.)

2. The awards require or may require settlement by issuance of the entity's shares.

The term "shares" includes various forms of ownership interest that may not take the legal form of securities (for example, partnership interests), as well as other interests, including those that are liabilities in substance but not in form. Equity shares refers only to shares that are accounted for as equity. Also called share-based compensation arrangements.

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 incorporating performance targets based on purchases by parties that buy the grantor's goods or services into the Master Glossary term performance condition.

We supplementally note that there are circumstances where an entity may issue incentive payments to a customer's customer based on purchases of goods and services that are not sold by the grantor entity. For example, this may be the case when the grantor is an agent connecting its customer (vendor of goods or services) to an end user entity, and the consideration is to incentivize the end user entity to purchase more of the vendor's goods or services. These payments often represent reduction in revenue (for example, because the incentive is considered to be provided on behalf of the customer). It is not clear based on the current proposal whether such payments, if share-based and tied to the volume of purchases of the vendor (i.e. not grantor) goods or services, would be in scope of the revised definition of a performance condition.

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 in paragraph 718-10-35-1D for share-based consideration payable to a customer that includes a service condition. This change aligns the recognition of revenue with the economic substance of the arrangement by requiring entities to estimate forfeitures. Such estimation ensures that the impact to revenue in relation to the share-based payment is recognized only when it is probable that performance conditions will be met, reflecting the true economic benefit expected.

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 endorse allowing a one-time change for grantors to account for forfeitures as they occur. This flexibility enables entities that previously elected to estimate forfeitures to reassess this choice for other non employee share-based payment awards, aligning their accounting policies more closely with actual forfeiture occurrences, if desired.

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 agree with the proposed amendments clarifying that the guidance in Topic 606 on constraining estimates of variable consideration does not apply to share-based consideration payable to a customer. We believe these amendments are clear and operable. By applying Topic 718 instead of the variable consideration guidance in Topic 606, entities will achieve greater consistency with other share-based payments not related to customer arrangements. We note though that there may be instances where the timing of revenue recognition could differ if evaluated under the variable consideration constraint.

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 proposed amendments would reduce practice diversity and enhance the decision usefulness of a grantor's financial statements. By providing clear guidance on handling share-based consideration payable to a customer, the amendments will better align accounting practices with the economic substance of such arrangements, aiding stakeholders in making more informed decisions.

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 with the proposed transition requirements and disclosures. Both the modified retrospective and retrospective transition methods ensure transparency and provide decision-useful information. These disclosures will help stakeholders understand the amendments' impact on current customer arrangements, enhancing the clarity and usefulness of financial reporting.

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.

In our experience, most arrangements involving share-based payments to customers are issued by private companies and are not frequent; therefore, we believe different effective dates for public versus non public entities are unnecessary. Early adoption should be permitted to provide flexibility for entities ready to implement the amendments sooner.