RSM US LLP

30 South Wacker Drive
Suite 3300

Chicago, IL 60606

www.rsmus.com

November 13, 2024

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

File Reference No. 2024-ED300

Dear Mr. Day:

RSM US LLP is pleased to provide feedback on the Financial Accounting Standards Board's (FASB or Board) 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 or proposal).

We support the Board's proposal that would update the definition of a performance condition to include vesting conditions that are based on monetary amounts, timing or volume of a customer's purchases of goods or services from the entity granting the share-based consideration. We also support the removal of the forfeiture policy election for share-based consideration payable to a customer that includes a service condition. Finally, we support the Board's proposal that would clarify that if share-based consideration is issued as consideration payable to a customer it would fall under the probability of vesting guidance in Topic 718, and the variable consideration constraint guidance in Topic 606 would not be applicable.

We agree that these changes would reduce the diversity currently seen in practice and therefore improve the decision usefulness of the information provided in an entity's financial statements.

Our responses to the questions posed in the proposed Update, other than those specifically directed solely at investors or preparers, are included in the remainder of this letter.

Responses to 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 proposal to amend the Master Glossary definition of *performance condition* to include performance targets based on customer purchases. We believe including such metrics in the definition would reduce the diversity currently seen in practice by clarifying application of the guidance in paragraphs 606-10-32-25 and 32-26. We believe vesting conditions based on customer purchases are more akin to performance conditions as they are the result of the achievement of specified dollar amounts or volume thresholds versus service provided over a stated period of time. Furthermore, considering these performance conditions would result in estimates of the transaction price in revenue transactions that better reflect the amount of consideration to which an entity expects to be entitled, thereby better aligning the recognition of share-based consideration payable to a customer with the principle in Topic 606.

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 inclusion of performance targets based on purchases by the customer's customers as often the performance metric vesting requirement includes the activity of that population, which then impacts whether the condition is determined to be probable of achievement. The inclusion of that population ensures that entities consider the totality of the customer relationship when assessing the probability of achieving the vesting target. Additionally, excluding the customer's customers could lead to confusion about how to account for such transactions and lead to the continuance of diversity in practice. As a result, we believe the proposed amendments are clear and operable.

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 proposal to remove the policy election for forfeitures for share-based consideration payable to a customer that includes a service condition. While we believe the number of awards with a service condition will generally be small following the adoption of the proposed amendments, estimating forfeitures will provide a more accurate and representationally faithful depiction of revenue recognition as compared to reducing revenue by the maximum potential exposure.

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 defer to the preparers of financial statements on whether it would be helpful to them to be allowed to revisit their policy election on accounting for forfeitures for nonemployee awards. However, if the Board decides to permit a one-time change to account for forfeitures as they occur, transition and disclosure guidance should also be provided.

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 clarifying that the guidance in Topic 606 on constraining variable consideration is not applicable to share-based consideration payable to a customer are clear and operational. Explicitly excluding the guidance in Topic 606 removes any judgment involved in determining which guidance to apply and should result in more consistent accounting across reporting entities.

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 would reduce diversity in practice by clarifying that vesting provisions based on "the grantee's purchase of the grantor's goods or services from either the grantor or the grantor's customers" or the "purchase of the grantor's goods or services from either the grantee or the grantee's customers" are performance conditions and ensures forfeitures are estimated for any remaining vesting conditions that still qualify as service conditions. The proposed amendments would ensure more consistent financial reporting for similar types of transactions across reporting entities, thereby leading to more decision-useful information for investors and other users of financial statements.

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 support the proposed transition provisions that would allow entities the ability to apply the proposed amendments on either a modified retrospective basis or a retrospective basis. Although retrospective application would improve the comparability of information for each of the periods presented, the cost of applying that transition method may outweigh the benefits, particularly for entities other than public business entities (PBEs). We believe that the disclosure requirements for the proposed transition methods would provide decision-useful information and are consistent with the existing requirements of ASC 250-10-50.

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 generally defer to the preparers of financial statements regarding the time needed to implement the proposed Update, which would be a function of the number and different types of awards entities have issued that would be subject to the proposed guidance, including the volume of other accounting standards updates that are applicable and currently being implemented by entities. Because entities other than PBEs often do not have the same level of resources and processes as PBEs, we believe they should be provided an additional year to adopt the proposed Update. We also believe early adoption should be permitted for all entities because we see no significant detriments in allowing entities to do so.

Other matters for the Board's consideration

We believe there is further opportunity to reduce diversity in practice related to the accounting for share-based consideration issued as consideration payable to a customer. Paragraph 606-10-32-23 states that "the fair value of the noncash consideration may vary after contract inception because of the form of the consideration (for example, a change in the price of a share to which an entity is entitled to receive from a customer). Changes in the fair value of noncash consideration after contract inception that are due to the form of the consideration are not included in the transaction price." We recommend that the Board clarify where these changes in fair value should be presented in the income statement because they do not impact revenue. We also believe that, if material, the amounts of such changes in fair value should be disclosed in the notes accompanying the entity's financial statements.

We appreciate this opportunity to provide feedback on the proposed Update and would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to Ginger Buechler at 612.455.9411 or Joseph Cascio at 212.372.1139.

Sincerely,

RSM US LLP

RSM US LLP