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July 10, 2023

Ms. Hillary Salo  
Technical Director  
Financial Accounting Standards Board  
801 Main Avenue  
PO Box 5116  
Norwalk, CT 06856-51

**RE: Proposed Accounting Standards Update, *Compensation – Stock Compensation (Topic 718), Scope Application of Profits Interest Awards (File Reference No. 2023-ED300)***

Dear Ms. Salo:

We appreciate the opportunity to comment on the proposed Accounting Standards Update, *Compensation – Stock Compensation (Topic 718), Scope Application of Profits Interest Awards*.

Profits interest and similar awards have been challenging to evaluate for many years. An approach has been developed in practice to determine whether the interest granted is in substance an equity ownership in the entity (and in the scope of Topic 718) or a cash bonus (generally in the scope of Topic 710). Under this approach, we generally would reach similar conclusions to those in the four cases provided in the proposal but potentially for different reasons. However, the arrangements we often see in practice are more complicated than the cases in the proposal.

Our responses to the Questions for Respondents in the appendix to this letter include our observations and suggestions to clarify the proposal.

\* \* \* \* \*

If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Kimber Bascom at [kbascom@kpmg.com](mailto:kbascom@kpmg.com) or Nick Burgmeier at [nburgmeier@kpmg.com](mailto:nburgmeier@kpmg.com).

Sincerely,

**KPMG LLP**

KPMG LLP

## Appendix – Responses to Questions for Respondents

### Question 1:

*Do you agree that the amendments in this proposed Update should apply to all reporting entities (including PBEs and entities other than PBEs)? Please explain why or why not.*

Yes. While profits interest and other similar awards are more often awarded by private entities, public business entities may also have these types of awards. Scoping for profits interest and similar awards should be determined in a consistent manner based on the nature of the award regardless of the type of reporting entity.

### Question 2:

*Is the proposed illustrative example included in paragraphs 718-10- 55-138 through 55-148 to determine whether a profits interest award should be accounted for in accordance with Topic 718 clear and operable? Please explain why or why not. Should the illustrative example include other considerations or exclude any considerations? If yes, please explain how you would change the proposed illustrative example.*

In practice, the arrangements we see are more complicated than the cases in the proposal. However, using our current approach, we generally would reach similar conclusions to those in the four cases provided but potentially for different reasons. For example, in Case A we would conclude that the award is in the scope of Topic 718 because the entity issued a class of equity rather than incurring a liability based on the price of the entity's shares. Additionally, Case B may change practice for a company that treats distributions before vesting as a separate profit sharing award under Topic 710 rather than as dividends on unvested awards.

### Question 3:

*An entity would be required to apply the proposed amendments either (a) retrospectively to all prior periods presented in the financial statements or (b) prospectively to awards granted or modified on or after the effective date with an associated disclosure that describes the nature of and reason for the change in accounting principle. Do you agree with the proposed transition provisions? If not, why not, and what basis would be more appropriate and why?*

Yes. We agree with the proposed transition methods and related disclosure requirements.

### Question 4:

*Regarding the effective date, how much time would be needed to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by entities other than PBEs be different from the amount of time needed by PBEs? Should early adoption be permitted? Please explain your response.*

We believe the proposed amendments can be implemented by both private and public business entities in a short period of time given the focus on scope determination and the transition options provided. We believe 12 months is a reasonable period to prepare for adoption. We also believe early adoption should be permitted.