



# FASB proposal

## Share-based consideration payable to a customer

October 1, 2024



## A proposed ASU would provide more consistent outcomes for share-based consideration payable to a customer.

### Source and applicability

- Proposed ASU, [Compensation-Stock Compensation \(Topic 718\) and Revenue from Contracts with Customers \(Topic 606\): Clarifications to Share-Based Consideration Payable to a Customer](#)
- Entities that issue share-based consideration to a customer.

### Fast facts, impacts, actions

The guidance for share-based consideration payable to a customer requires that the grant-date fair value of such consideration reduce the revenue in the contract with the customer unless the consideration is a fair-value payment for a distinct good or service. This accounting can be affected by whether the award contains a performance or service condition, but there is diversity in how entities interpret whether such an award contains a performance condition versus a service condition. This distinction is important because it can significantly affect the timing and amounts of revenue recognized depending on an entity's forfeiture policy. To address these concerns the FASB has proposed the following.

- **Revise the definition of performance condition:** The proposal would broaden the definition to explicitly include conditions based on a volume of purchases. This would make it clearer as to which awards are subject to the performance condition guidance and reduce the types of conditions characterized as service conditions.
- **Eliminate the forfeitures policy election for awards granted to customers:** Entities would be required to estimate forfeitures of awards to customers with a service condition. Currently, if the entity has a policy election to recognize forfeitures as incurred (instead of estimating forfeitures), revenue recognition is reduced or delayed until forfeiture regardless of whether the awards are expected to vest.
- **Clarify the applicability of the variable consideration constraint:** The proposal would clarify that the variable consideration constraint in Topic 606 would not be applied to share-based consideration payable to a customer.

If your company provides share-based consideration to customers, we encourage you to review the proposal and submit any comments to the FASB by the end of the comment period on November 14, 2024. We also encourage you to stay informed on the proposed amendments by monitoring the FASB website for the final Accounting Standard Update.

## Background

Under current US GAAP, share-based consideration granted to a customer is treated as consideration payable to a customer under Topic 606. Accordingly, these instruments are recognized as a reduction of revenue unless they represent a fair value payment for a distinct good or service under Topic 606. If a fair value payment for a distinct good or service, the instruments are accounted for as a nonemployee share-based payment under Topic 718 and recognized as a cost of the grantor.

### Accounting for share-based consideration granted to a customer as a reduction in revenue

When the share-based consideration is accounted for as a reduction of revenue, it is still measured and classified (e.g. equity or liability) under Topic 718 and then the grant-date fair value is recognized as a reduction of revenue under Topic 606 in the same manner as if the payment was made in cash.

For awards that are vested immediately, the revenue is reduced based on the grant-date fair value of the awards. Complexity arises when such awards vest based on performance or service conditions. When awards have either a performance or service condition, the current accounting is as follows.

- Awards with a performance condition are recognized as a reduction of revenue only to the extent they are probable of vesting.
- Awards with a service condition are recognized as a reduction in revenue based on the entity's policy to account for forfeitures, which results in one of the following methods:
  - estimate the forfeitures, and as a result reduce revenue only by the grant-date fair value of those awards that the entity estimates will not be forfeited;
  - recognize the forfeitures as incurred, and as a result reduce revenue during the service period by the grant-date fair value of all awards, but adjust the amount each period by the actual forfeitures in that period.

The above policy election for awards with service conditions must be made at an entity-wide level for nonemployee awards, which covers both nonemployee awards recognized as a cost and awards to customers recognized as a reduction of revenue. In other words, if the entity had a policy election for other nonemployee awards it must follow the same policy for share-based consideration paid to a customer.

### Concerns over current accounting

When the grantor has a policy of recognizing forfeitures as they are incurred for awards with service conditions, the share-based consideration reduces revenue even if the awards are not probable of vesting. This delays revenue recognition and may not reflect the economics of the transaction.

There has been concern over this mismatch, as well as diversity in practice regarding how conditions are characterized (as either performance or service conditions). The proposed ASU seeks to address these concerns, reduce this diversity in practice, and promote comparability of revenue recognition. To this end, the proposed ASU would revise the definition of a performance condition, eliminate the forfeiture policy election for awards granted to customers, and clarify the interaction between Topic 718 and Topic 606 for variable consideration.

### Revised definition of performance condition

The proposed ASU would broaden the definition of 'performance condition' for share-based consideration payable to a customer by explicitly indicating that the term encompasses conditions based on customer purchases and purchases by the customer's customer. It would not make any further changes to the

definition of a performance condition, so the current guidance regarding performance conditions would continue to apply to these awards to customers.

The proposed revisions to the definition would only apply to awards granted to a customer that are accounted for as a reduction of revenue (i.e. not a fair value payment for distinct goods or services) and the proposal explicitly says entities should not analogize to the definition specific to customer awards for other share-based payment awards.



It would still require judgment to determine whether an award to a customer has a performance condition or a service condition and we expect some contracts to still have service conditions. For example, there may be contracts under which the customer is performing certain activities that are not considered a distinct good or service but nevertheless could still meet the definition of a service condition.

### Elimination of policy election for forfeitures

Because there may still be share-based consideration payable to a customer that includes a service condition even with the broader definition of a performance condition, the FASB also proposed to eliminate the policy election for recognizing forfeitures as incurred for awards to customers with service conditions (only for share-based consideration payable to a customer that is accounted for as a reduction of revenue). This would require entities to estimate forfeitures and avoid the scenario under the as incurred policy where awards not expected to vest would reduce the amount of revenue recognized.

The FASB is not proposing to change the forfeiture policy election for awards granted to employees and other nonemployees.



Eliminating the forfeiture policy election for share-based consideration payable to a customer would reduce the differences between the amounts of revenue recognized for awards with service conditions and for awards with performance conditions because both would require estimates of the amount of shares that will ultimately vest. An entity would need to consider the effect the additional estimation on its processes and controls.

### Clarification on variable consideration constraint

Topic 606 requires that if the contract has variable consideration, the entity must estimate that consideration and determine whether its estimate is constrained. Stakeholders have said it is not clear if that constraint applies to share-based consideration when an entity applies the guidance under Topic 718. If that were the case, entities would be applying two models to determine whether the transaction price should be reduced. The proposed amendments remove this uncertainty by explicitly stating that the variable consideration constraint does not apply to share-based consideration payable to a customer, and therefore entities would have to apply only one model to determine the amounts to recognize for the share-based consideration.

## Effective dates and transition

The proposed amendments would be applied with either a modified retrospective or a full retrospective approach. The modified retrospective approach includes adjusting opening equity as of the beginning of the fiscal year of adoption without recasting prior periods. The FASB will determine the effective dates and whether to allow early adoption after considering stakeholder feedback.

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