



FASB issues ASU

Share-based consideration payable to a customer

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The ASU provides more consistent outcomes for share-based consideration payable to a customer.

Source and applicability

- ASU 2025-04, *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 revenue in the contract with the customer to be reduced by the grant-date fair value of such consideration, unless the consideration is a fair-value payment for a distinct good or service. The share-based consideration is measured and classified under Topic 718 and then recognized as a reduction of revenue in the same manner as if the payment was made in cash. When the share-based consideration includes vesting conditions, the type of condition (service versus performance) can significantly affect the timing and amounts of revenue recognized depending on an entity's forfeiture policy. However, there is diversity in how entities interpret whether such an award contains a performance condition or a service condition.

To address this diversity and other concerns the FASB has issued an ASU that makes three important changes that affect share-based consideration granted to a customer.

- **Revises the definition of performance condition:** The ASU broadens the master glossary definition to explicitly include conditions based on a volume or monetary amount of purchases. This makes it clearer as to which awards are subject to the performance condition guidance and reduces the types of conditions characterized as service conditions.
- **Eliminates the forfeitures policy election for awards granted to customers:** The ASU eliminates the policy election to recognize forfeitures as incurred (instead of estimating forfeitures) for share-based consideration granted to customers because this policy election reduces or delays revenue recognition until forfeiture regardless of whether the awards are expected to vest.
- **Clarifies the applicability of the variable consideration constraint:** The ASU clarifies that the variable consideration constraint in Topic 606 should not be applied to share-based consideration payable to a customer.

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. If the share-based consideration relates to a distinct good or service but its fair value exceeds the fair value of the distinct good or service, the excess fair value is recorded as a reduction in revenue.

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 (partially or entirely), 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 share-based consideration that is immediately vested, revenue is reduced based on the grant-date fair value of the awards. Complexity arises when the share-based consideration includes vesting conditions. When awards have either a performance or service condition, the current accounting is as follows.

- Share-based consideration with a performance condition is recognized as a reduction of revenue only to the extent it is probable of vesting.
- Share-based consideration with a service condition is 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 the share-based consideration 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 share-based consideration, but adjust the amount each period by the actual forfeitures in that period.

The above policy election for share-based consideration 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 share-based consideration 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 FASB issued this ASU to address these concerns by revising the definition of a performance condition, eliminating the forfeiture policy election for awards granted to customers, and clarifying the interaction between Topic 718 and Topic 606 for variable consideration.

Revised definition of performance condition

The ASU broadens the master glossary definition of ‘performance condition’ for share-based consideration payable to a customer by adding that the term encompasses conditions based on customer purchases (or potential purchases) and purchases (or potential purchases) by the customer’s customer.

The amendments to the definition apply only to share-based payments granted to a customer that are accounted for as a reduction of revenue entirely or partially (i.e. not a fair-value payment for distinct goods or services). The ASU explicitly states entities cannot analogize to the customer awards definition for other share-based payment awards; therefore, the amendments do not affect how entities interpret the definition of performance condition for employee awards or other nonemployee awards under Topic 718.



It will still require judgment to determine whether share-based consideration 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

The ASU requires entities to estimate forfeitures for share-based consideration payable to customers with service conditions accounted for as a reduction of revenue, by eliminating the policy election that allows entities to recognize forfeitures as incurred. This requirement to estimate forfeitures would avoid the scenario under the as-incurred policy where awards not expected to vest would reduce the amount of revenue recognized. The FASB deemed this amendment necessary because there may still be share-based consideration payable to a customer with service conditions even with the broader definition of a performance condition.

The FASB did not change the forfeiture policy election for awards granted to employees and other nonemployees (including awards to customers that do not result in a reduction to revenue because they are fair value payments for distinct goods or services).



Eliminating the forfeiture policy election for share-based consideration payable to a customer reduces the differences between the amounts of revenue recognized for awards with service conditions and for awards with performance conditions because both would require estimating the number of shares that will ultimately vest. An entity will need to consider the effect of 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 (i.e. revenue) should be reduced. The ASU removes this uncertainty by explicitly stating that the variable consideration constraint does not apply to share-based consideration payable to a customer, regardless of whether a grant date under Topic 718 has occurred. Therefore, entities will have to apply only one model (under Topic 718) to determine the amounts to recognize for the share-based consideration.

Transition guidance

The ASU will 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.

As part of a full retrospective approach, the ASU requires that a grantor use the actual outcome, if known, of a performance condition or service condition as of the beginning of the annual reporting period of adoption for all prior-period estimates. If actual outcomes are not known as of the beginning of the annual reporting period of adoption, a grantor uses its estimate of achieving a service condition or performance condition as of that date. Hindsight may be used when developing this estimate.

Effective dates

The ASU will be effective for annual reporting periods (including interim periods within annual reporting periods) beginning after December 15, 2026, for all entities.

Early adoption is permitted for both interim and annual financial statements that have not yet been issued. The Board clarified that if an entity adopts the ASU in an interim period, it must adopt it as of the beginning of the annual reporting period that includes that interim period.

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