April 15, 2019

Ms. Susan Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2019-400

Dear Ms. Cosper:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the FASB's Proposed Accounting Standards Update, *Codification Improvements - Share-based Consideration Payable to a Customer*.

We agree with the proposed amendments to Topics 718 and 606. The Appendix contains our detailed responses to the Questions for Respondents.

If you have any questions regarding our comments, please contact David Schmid at (973) 236-7247, Pat Durbin at (973) 236-5152 or Jay Seliber at (973) 236-7277.

Sincerely,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Appendix

Question 1: Do you agree that share-based payment awards issued to customers as consideration payable should be measured at the grant date of the award? If not, why should there be a difference in the measurement date for share-based payment awards issued to customers and nonemployee share-based payment awards, and what other alternatives would be more appropriate?

Yes, we agree that share-based payment awards issued to customers should be measured at the grant date of the award. We agree that Topic 718 should apply to all share-based payment awards granted to nonemployees other than those granted to a lender or investor that provides financing to the issuer. In addition, Topic 718 provides comprehensive guidance related to the measurement of share-based payment awards from the grantor's perspective, and preparers and auditors have experience applying the grant date guidance under Topic 718.

Question 2: Do you agree that share-based payment awards issued to customers as consideration payable should be classified in accordance with the guidance in Topic 718?

Yes, we agree that share-based payment awards issued to customers should be classified (as liabilities or equity instruments) in accordance with Topic 718. Topic 718 provides comprehensive guidance related to the classification of share-based payment awards from the grantor's perspective. This guidance should be applied consistently to all share-based payment awards granted to nonemployees, other than those granted to a lender or investor that provides financing to the issuer.

Question 3: Do you agree that the amendments in this proposed Update provide sufficient guidance to account for share-based consideration to a customer?

We generally agree that the amendments in the proposed Update provide sufficient guidance. However, we believe there are certain aspects of the proposed Update that should be further clarified to provide sufficient guidance to preparers and auditors, as follows:

1. The proposed Update is limited to awards issued to customers in transactions subject to Topic 606, *Revenue from Contracts with Customers*. However, we recommend that share-based payment awards issued between the parties involved in a lease subject to Topic 842, *Leases*, also be addressed in the proposed Update. If not included in this guidance, it is unclear when and how share-based payment awards issued in conjunction with a lease agreement should be measured and reflected as part of the minimum lease payments by both the lessor and the lessee as the lease commencement date (generally based on when the leased asset is made available for use by the lessee) may differ from the grant date under Topic 718 (generally based on approval and mutual understanding of the terms of the award). If the FASB chooses to include share-based payment awards issued in connection with leases in the scope of the proposed ASU, we recommend considering whether related amendments are needed to Topic 842.

2. Proposed paragraphs 606-10-32-25(c) and 606-10-32-25A focus on awards "granted" to customers, but do not address the accounting for subsequent modifications or settlements of such awards and how any incremental value associated with such events should be classified. While proposed paragraph 718-10-35-11 addresses when a modification would cause the award to subsequently be subject to other Topics, it does not address the accounting for the modification itself.

   We expect that any incremental value associated with a modification or settlement of an award (as described in paragraphs 718-20-35-3 and 35-7) issued to a customer would similarly be recorded as a reduction of revenue; or, if the grantee is no longer a customer, the relationship of the entity to the grantee at the time of such modification or settlement and the business reasons for the modification should be considered to determine the appropriate presentation of the impact of the modification.

We recommend that specific guidance on this subject be included in the final guidance, as presently paragraphs 718-20-35-3 and 35-7 only refer to "compensation cost."

3. Proposed paragraph 606-10-32-25A focuses on the fair value of an award issued to a customer at the grant date, but does not specifically contemplate how to incorporate the impact of performance conditions that will not be resolved until a later date. Based on our understanding of the overall objective of the proposed Update to apply the Topic 718 model for measurement, we would expect that the approach for addressing performance conditions under Topic 718 would be followed. That approach measures the grant date fair value of each potential outcome and ultimately accounts for the grant date fair value of the final outcome, with the best estimate of the final outcome utilized along the way. Under that approach, the grant date fair value of the ultimate outcome would be reflected as a reduction of revenue.

   As currently drafted, we believe some practitioners may infer from paragraph 606-10-32-25A that the fair value at the grant date would be a single fair value estimate incorporating all of the potential outcomes and, regardless of the ultimate outcome, would represent the amount to record as a reduction of revenue as of the grant date, with no further adjustments to reflect the actual outcome. Other practitioners could conclude that the impact of performance conditions on the value of the share-based payment award should be treated as variable noncash consideration under paragraph 606-10-32-23. While in many cases this may yield a similar result as the performance condition model under Topic 718, the threshold for recognition of the value of different potential outcomes could be different in light of the constraint on variable consideration in paragraph 606-10-32-11.

   Additionally, liability-classified awards issued to customers with performance conditions present additional challenges. Under Topic 718, the value of the award based on the different potential outcomes is not separately measured at grant date fair value because liability-classified awards are remeasured to fair value at each period. However, that approach is inconsistent with the guidance in the proposed Update to not reflect subsequent changes in the fair value of the award after the grant date as an adjustment to revenue. Thus, we believe further guidance is needed for such situations. One alternative would be to require that the fair value of each performance outcome be determined as of the grant date for liability-classified awards, with the grant date fair value of the ultimate outcome reflected as a reduction of revenue and changes in fair value subsequent to the grant date reflected elsewhere in the grantor's income statement, with the best estimate of the final outcome utilized for measurement along the way.

   Similarly, the proposed Update does not address how an entity would consider awards for which a grant date has not yet been reached under Topic 718 (for example, because the exercise price of an option will be set based on the entity's stock price at a future date), but delivery of the goods or services to the customer has begun. Proposed paragraph 606-10-32-25A is clear that the fair value of the award at the grant date should be recorded as a reduction of revenue. In cases when delivery of the goods or services begins prior to the grant date, we would expect that, until the grant date, the estimated fair value of the award at each reporting date would be reflected as a reduction of revenue, with a cumulative adjustment to the final fair value determined at the grant date. This would be similar to the model in paragraph 718-10-35-6 for awards to employees when the service inception date precedes the grant date. We recommend that this be clarified in the final standard.

4. The second sentence of proposed paragraph 718-30-30-2 would require all liability-classified awards issued by a nonpublic entity that are determined to be consideration payable to a customer to be measured at fair value, as opposed to the policy decision between fair value and intrinsic value otherwise available for awards issued by nonpublic entities in exchange for goods or services. We believe the proposed guidance is clear that this treatment is required at the grant date with the

fair value recorded as a reduction of revenue (consistent with proposed paragraph 606-10-32-25A). However, the proposed guidance is not explicit in requiring that a liability-classified award issued by a nonpublic entity also be remeasured at fair value (rather than intrinsic value) each reporting period. We recommend this be clarified in the amendment to the Subsequent Measurement guidance in paragraph in 718-30-35-2 (or perhaps by amending paragraph 718-30-35-4).

If it is not the Board's intent to require continued use of fair value for the subsequent measurement of liability-classified awards issued by nonpublic entities to customers, then the proposed Update should provide guidance for how an entity (that otherwise has a policy to record liability-classified awards at intrinsic value) should transition its accounting for such awards from fair value to intrinsic value.

In BC 15, the Board decided that the accounting for an award should not vary depending on the type of nonemployee receiving the award. As outlined above, there will be a difference in accounting for liability-classified awards issued by nonpublic entities to different types of grantees. If this was the Board's intent, we recommend further explanation in the Basis for Conclusions.

5. Proposed paragraphs 718-10-35-10(d) and 718-10-35-11 indicate that modifications to an award when the grantee has vested and "is no longer a customer" would cause an award to be subject to other applicable GAAP. However, it is not clear at what point this occurs. Unlike an employee (who will have a defined termination date) or consultant (who would likely also have a defined contractual term for services), a grantee that is a customer may not have a defined point when it is no longer a customer. For example, while there may no longer be any enforceable contractual requirements to deliver future goods or services, a grantee may still have a master supply agreement in place and the grantor may be seeking to induce the grantee to make further purchases by modifying an existing share-based payment award. In such a situation, it is unclear if the grantee would still be considered a customer. We recommend the FASB clarify the Board's intent in this area or consider whether the requirement in the proposed paragraphs is even necessary, or, alternatively, if such awards could remain subject to Topic 718 throughout their life.

6. We believe the references to paragraph 606-10-32-25A in both proposed paragraphs 718-10-15-5A and 718-10-25-2C should be to paragraph 606-10-32-25.

Question 4: Are the transition requirements for the proposed amendments appropriate? If not, what transition approach would be more appropriate and why?

Yes, we agree that the proposed transition requirements are appropriate.

Question 5: How much time would be necessary to adopt the proposed amendments? Should early adoption be allowed?

We defer to preparers' input on the appropriate period of time necessary to adopt the proposed amendments. We recommend explicitly allowing early adoption for those entities that have already adopted ASU 2018-07.