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April 17, 2019

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

Via Email to director@fasb.org

Re: File reference No. 2019-400

Dear Ms. Cospers:

Grant Thornton LLP appreciates the opportunity to comment on the proposed Accounting Standard Update (ASU), *Compensation – Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements – Share-Based Consideration Payable to a Customer*.

We agree with the Board's proposal to require entities to measure and classify share-based payments to a customer by applying the guidance in Topic 718, in particular because the amendments would provide consistent accounting for share-based consideration to customers and other grantees.

Our responses to Questions for Respondents follow. At the end of this letter, we have included an appendix of additional drafting suggestions.

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?

We agree.

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?

We agree.

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

Although we believe that the amendments in this proposed Update generally provide sufficient guidance to account for share-based consideration to a customer, we note that the guidance in Topic 606 and Topic 718 is complex. In light of the interplay



between Topic 606 and Topic 718 resulting from the proposed amendments, we believe the linkage between the Topics could be improved in some paragraphs, even if there is some level of redundancy. We ask the Board to consider revisions to the proposed amendments and further amendments to Topic 718 and 606 in the following areas:

Conflict between paragraphs 718-10-30-3 and 606-10-32-26

Longstanding guidance in paragraph 718-10-30-3 calls for the cost of goods or services received by the grantor to be measured based on the fair value of the related equity or liability award. Paragraph 606-10-32-26, on the other hand, calls for bifurcating the fair value of the consideration payable so that the amount attributed to the goods or services does not exceed the fair value of those goods or services, with any excess recognized as a reduction of revenue. We believe the Board should consider amending paragraph 718-10-30-3 to specify that when a grantor makes awards to customers, the bifurcation guidance in paragraph 606-10-32-26 should be applied.

Sequencing of paragraphs 606-10-32-25 through 32-26

We recommend that the Board consider re-sequencing paragraphs 606-10-32-25A and 606-10-32-26 as they are currently presented in the exposure draft. Our recommendation is for proposed new paragraph 606-10-32-25A to be placed after existing paragraph 606-10-32-26. This is because proposed paragraph 606-10-32-25A relates to both paragraphs 32-25 and 32-26. Said differently, after re-sequencing, an entity will determine whether consideration to a customer is either a reduction of revenue or payment for a good or service before being directed to Topic 718 if the form of the consideration is stock compensation.

Nonpublic entity intrinsic value policy election in paragraph 718-30-30-2

We believe the Board's intent in the proposed amendments is that the policy election is not available for any liability award to a customer in conjunction with selling goods or services, whether accounted for as a reduction of revenue or in exchange for distinct goods or services. If so, we suggest, for clarity, revision of paragraph 718-30-30-2. We present our proposed revisions in the Appendix.

If, on the other hand, the Board's intent is that the intrinsic value election could apply to customer liability awards issued in exchange for distinct goods or services, we note the following. Paragraph 606-10-32-26 requires entities to account for the excess fair value above the fair value of the distinct goods or services that the entity receives from the customer as a reduction of the transaction price. In this case, we would ask for clarification of how to apply the excess fair value guidance in paragraph 606-10-32-26 if an entity were applying intrinsic value to the award.

BC13 and BC14

We believe the Board's considerations of master supply agreements in BC13 and BC14 could be the basis for an example to be added to the guidance. We make this recommendation because master supply agreements are widely utilized in practice.



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

We believe that the transition requirements for the proposed amendments are appropriate.

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

Although preparers have a better perspective on the time needed to adopt the proposed amendments, we would not expect adoption to take an extended period of time. We believe that early adoption should be permitted.

We would be pleased to discuss our comments with you. If you have any questions, please feel free to contact Douglas J. Reynolds, Partner, at 617.848.4877, doug.reynolds@us.gt.com, or Sheri Fabian, Partner, at 732.516.5543, sheri.fabian@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP



Appendix

In addition to our responses to questions, we offer the following drafting suggestions. Throughout, we present paragraph text after 'accepting' the Board's proposed amendments in the exposure draft so that only our suggested revisions appear as either strikethrough or underline.

In our response in Question 3, we suggested that the Board consider amendments to clarify the policy election guidance in paragraph 718-30-30-2 that no awards to customers may be accounted for at intrinsic value:

718-30-30-2 A nonpublic entity shall make a policy decision of whether to measure ~~all of its liabilities~~ incurred under share-based payment arrangements (for employee and nonemployee awards, but not for customer awards) issued in exchange for distinct goods or services at fair value or to measure ~~all~~ such liabilities at intrinsic value. A nonpublic entity electing a policy to measure liability awards at intrinsic value may not apply that policy to ~~However, a nonpublic entity also shall measure~~ awards determined to be consideration payable to a customer (as discussed in paragraph ~~606-10-32-25 through -32-26~~ 606-10-32-25A) and shall measure those awards at fair value.

We suggest the Board consider, for clarity, the following edits to wording in proposed new paragraph 606-10-32-25A:

606-10-32-25A Equity instruments granted by an entity in conjunction with selling goods or services, whether accounted for as a reduction of the transaction price or as payment in exchange for a distinct good or services, shall be measured and classified under Topic 718 on stock compensation. The equity instrument shall be measured at the **grant date** in accordance with Topic 718 (for both equity-classified and liability-classified share-based payments). Changes in the measurement of the equity instrument (through the application of Topic 718) after the grant date that are due to the form of the consideration are not included in the transaction price. Any changes due to the form of the consideration shall be reflected elsewhere in the grantor's income statement.

We suggest the Board consider the following edits to paragraphs in Topic 718 to align the terminology with paragraphs 606-10-32-25 through 32-26:

718-10-10-1 The objective of accounting for transactions under **share-based payment arrangements** is to recognize in the financial statements the goods or services received in exchange for equity instruments granted or liabilities incurred and the related cost to the entity as those goods or services are received. This Topic uses the terms *compensation* and *payment* in their broadest senses to refer to the consideration paid for goods or services or the consideration paid to a customer that is either a reduction of revenue or a payment for a distinct good or service from a customer in accordance with paragraph 606-10-32-25.



718-10-15-3 The guidance in the Compensation – Stock Compensation Topic applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in the grantor’s own operations or provides consideration payable to a customer that is either a reduction of revenue or a payment for a distinct good or service from a customer in accordance with paragraph 606-10-32-25 by **issuing** (or offering to issue) its shares, share options, or other equity instruments or by incurring liabilities to an **employee** or nonemployee that meet with of the following conditions:

...

718-10-15-5A Share-based consideration payable to a customer shall be reflected as a reduction of the transaction price and, therefore, of revenue in accordance with paragraph 606-10-~~32-25A~~32-25, unless the consideration is for a distinct good or service. If share-based consideration payable to a customer is payment for a distinct good or service from the customer, then an entity shall account for the purchase of the good or service in the same way that it accounts for other purchases from suppliers, as described in paragraph 606-10-32-26.

718-10-25-2C This guidance does not address the period(s) or the manner (that is, capitalize versus expense) in which an entity granting the share-based payment award (the purchaser or grantor) to a nonemployee shall recognize the cost of the share-based payment award that will be issued, other than to require that an asset or expense be recognized (or previous recognition reversed) in the same period(s) and in the same manner as if the grantor had paid cash for the goods or services instead of paying with or using the share-based payment award. However, as described in paragraph 606-10-32-25, share-based consideration payable to a customer shall be reflected as a reduction of the transaction price and, therefore, of revenue ~~as described in paragraph 606-10-32-25A~~ unless the payment to the customer is in exchange for a distinct good or service

We suggest the Board also consider edits to the following paragraphs:

718-10-35-10

...

c. A nonemployee grantee vests in the award and is no longer providing goods or services.

718-10-35-11 Other modifications of that instrument that take place after a grantee vests in the award and is no longer providing goods or services as a nonemployee, is no longer a customer, or is no longer an employee should be subject to the modification guidance in paragraph 718-10-35-14. Following modification, recognition and measurement of the instrument shall be determined through reference to other applicable GAAP.