July 10, 2023

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

RE: File Reference No. 2023-ED300

Dear Ms. Salo:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the Proposed Accounting Standards Update, *Compensation – Stock Compensation (Topic 718): Scope Application of Profits Interest Awards* (the Exposure Draft).

We agree with the overall objective of the Exposure Draft to reduce complexity in determining whether a profits interest award is subject to Topic 718 by adding the illustrative example.

We have included our detailed comments in response to the questions posed as well as additional observations and suggestions for clarification for the Board's consideration in the Appendix.

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If you have any questions regarding our comments, please contact Ken Stoler at ken.stoler@pwc.com or Thomas Barbieri at thomas.barbieri@pwc.com.

Sincerely,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

APPENDIX

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.

We agree that the amendments in this proposed Update should apply to all reporting entities that grant profits interest or similar awards, including PBEs and entities other than PBEs. While profits interest awards are most prevalent among private companies, in our experience, public entities may retain these types of awards from their pre-IPO periods.

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.

We believe the proposed illustrative example is clear and operable but have some suggested improvements. We generally agree that cases A and B included in paragraphs 718-10-55-140 through 718-10-55-144 are common features in profits interest or similar awards. In our experience, however, cases C and D in paragraphs 718-10-55-145 through 718-10-55-148 are not common, but we agree that neither case C nor D would be in the scope of Topic 718.

Cases C and D include an assumption that "*class B units do not entitle the grantee to receive equity of Entity X*." This may be confusing and subject to misinterpretation as profits interests often represent legal-form equity interests. We understand this language is intended to refer to the language in the scope paragraph of 718-10-15-3(b) regarding "*awards that require or may require settlement by issuing the entity's equity shares or other equity instruments*." Read literally, a preparer could conclude that all legal-form profits interests would be in scope of Topic 718. We do not believe this is what the Board intends, as judgment is often required based on the terms of the arrangement to determine whether ASC 718 applies. Therefore, we suggest removing this language from Cases C and D as follows:

> **718-10-55-145**
>
> Additional assumptions are as follows:
>
> a. The grantee of the Class B units is eligible to participate in operating distributions made by Entity X equal to 1 percent of the preceding fiscal year's net income. The grantee of the Class B units becomes eligible to begin participating in these operating distributions after three years of service are rendered.
>
> b. Class B units are forfeitable upon the grantee's termination for any reason at any time (including after the grantee has rendered three years of service).
>
> c. The grantee of the Class B units is not eligible to participate in any proceeds distributed upon an exit event.
>
> ~~d. Class B units do not entitle the grantee to receive equity of Entity X~~

718-10-55-147

Additional assumptions are as follows:

a. The grantee of the Class B units does not participate in distributions in the ordinary course of business.

b. The grantee of the Class B units is eligible to participate only in specified distributions upon an exit event. Upon an exit event, the Class B units vest immediately and must be settled in cash in accordance with a formula that is based on an operating metric (1 percent of the preceding fiscal year’s net income) of Entity X. The grantee of Class B units must be providing services when the exit event occurs to receive any proceeds, and the Class B units are forfeitable upon the grantee’s termination for any reason at any time before an exit event.

~~c. Class B units do not entitle the grantee to receive equity of Entity X.~~

If the Board chooses to retain the language, as an alternative, we suggest clarifying in Cases C and D that the Class B units do not entitle the grantee to other equity interests (in this case, Class A units), if that is the Board's intent.

Additionally, we suggest that the language in paragraph BC19 be included in the Codification at the end of paragraph 718-10-55-138. This would help emphasize that the cases are not all-inclusive, and judgment will be required for each arrangement based on all relevant facts and circumstances. Paragraph 718-10-55-138 would read as follows:

718-10-55-138

This Example illustrates how an entity should apply the guidance in paragraph 718-10-15-3 to determine whether a profits interest or similar award is within the scope of this Topic. The following Cases illustrate the application of the guidance in paragraph 718-10-15-3 for individual profits interest and similar awards to determine whether the award is a share-based payment arrangement and is within the scope of this Topic or is not a share-based payment arrangement and, therefore, is within the scope of other Topics. The guidance in this Example is limited to the application of paragraph 718-10-15-3 and does not address how to apply other Sections of this Topic, including recognition, initial measurement, subsequent measurement, other presentation matters, and disclosure. <u>The proposed illustrative example demonstrates how an entity might apply paragraph 718-10-15-3 to a profits interest award on the basis of the limited facts presented. However, the illustrative example is not intended to be all-inclusive. Entities should consider all relevant facts and circumstances when determining whether a profits interest award should be accounted for in accordance with Topic 718.</u>

Finally, we suggest deleting the final sentence in paragraph BC 9 indicating that there may be more profits interest awards accounted for in accordance with Topic 718. We understand that the project's objective is not to shift practice, but to clarify the guidance by providing examples to reduce diversity. If, however, the Board chooses to retain this sentence, we recommend adding a rationale as to why the amendments may result in more awards being accounted for under Topic 718.

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?

We agree with the transition guidance proposed in the Update.

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.

The amount of time needed to adopt the guidance is a question best answered by preparers.

We do not believe there should be different transition guidance or dates for PBEs and entities other than PBEs.