

FINANCIAL ACCOUNTING SERIES



ACCOUNTING STANDARDS UPDATE

No. 2019-08
November 2019

Compensation—Stock Compensation (Topic 718)
and Revenue from Contracts with Customers
(Topic 606)

Codification Improvements—Share-Based
Consideration Payable to a Customer

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

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Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

In June 2018, the Board issued Accounting Standards Update No. 2018-07, *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*, as part of its Simplification Initiative. The objective of the Simplification Initiative is to identify, evaluate, and improve areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to financial statement users. The amendments in that Update expanded the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees and in doing so superseded guidance in Subtopic 505-50, *Equity—Equity-Based Payments to Non-Employees*.

In Update 2018-07, paragraphs 606-10-32-25, 718-10-25-2C (formerly paragraph 505-50-25-4), and 718-10-15-5 were amended to require that share-based payment awards granted to a customer in conjunction with selling goods or services be accounted for under Topic 606, *Revenue from Contracts with Customers*. While Topic 606 provides guidance on presentation (as a reduction of the transaction price and, therefore, of revenue), it does not provide guidance on measuring share-based payment awards granted to a customer. The Board received feedback that the lack of guidance for such transactions could lead to diversity in practice because entities may apply either noncash consideration guidance under Topic 606 (measure at contract inception) or Topic 718 (measure at grant date).

The Board has an ongoing project on its agenda for improving the Codification or correcting its unintended application. The items addressed in that project generally are not expected to have a significant effect on current accounting practice or create a significant administrative cost for most entities. The amendments in this Update are similar to those items. However, the Board decided to issue a separate Update for improvements to the amendments in Update 2018-07 to increase stakeholder awareness of those amendments and to expedite the improvements process.

Who Is Affected by the Amendments in This Update?

The amendments in this Update affect all entities within the scope of Topic 606 that issue share-based payments to customers.

What Are the Main Provisions?

The amendments in this Update require that an entity measure and classify share-based payment awards granted to a customer by applying the guidance in Topic 718. The amount recorded as a reduction of the transaction price is required to be measured on the basis of the grant-date fair value of the share-based payment award in accordance with Topic 718. The grant date is the date at which a grantor (supplier) and a grantee (customer) reach a mutual understanding of the key terms and conditions of a share-based payment award. The classification and subsequent measurement of the award are subject to the guidance in Topic 718 unless the share-based payment award is subsequently modified and the grantee is no longer a customer.

How Do the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

After the effective date of the amendments in Update 2018-07, the Codification would have no longer provided explicit guidance on when to measure share-based payment awards granted to a customer. Stakeholders indicated that there is diversity in practice with the approach to measuring share-based payment awards granted to a customer by those entities that have early adopted the amendments in Update 2018-07. Stakeholders also indicated that further diversity is expected to arise after those amendments are effective. Stakeholders said that entities are analogizing either to noncash consideration guidance in Topic 606 or to Topic 718.

The amendments in this Update require that an entity apply the guidance in Topic 718 to measure and classify share-based payment awards granted to a customer. The amount recorded as a reduction in the transaction price should be based on the grant-date fair value of the share-based payment award.

When Will the Amendments Be Effective and What Are the Transition Requirements?

For entities that have not yet adopted the amendments in Update 2018-07, the amendments in this Update are effective for (1) public business entities in fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, and (2) other than public business entities in fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.

For entities that have adopted the amendments in Update 2018-07, the amendments in this Update are effective in fiscal years beginning after December 15, 2019, and interim periods within those fiscal years.

An entity may early adopt the amendments in this Update, but not before it adopts the amendments in Update 2018-07.

An entity may adopt the amendments in this Update either in the same fiscal year that it adopts the amendments in Update 2018-07 (see (1) below) or in a fiscal year after the fiscal year that the entity adopts the amendments in Update 2018-07 (see (2) below) as follows:

1. If an entity adopts the amendments in this Update in the same fiscal year that it adopts the amendments in Update 2018-07, the entity should apply the amendments in this Update through a cumulative-effect adjustment to the opening balance of retained earnings at the beginning of the fiscal year in which it adopted the amendments in Update 2018-07.
2. If an entity adopts the amendments in this Update in a fiscal year after the fiscal year that the entity adopts the amendments in Update 2018-07, the entity should apply the amendments in this Update through a cumulative-effect adjustment to the opening balance of retained earnings at the beginning of either:
 - a. The fiscal year in which it adopted the amendments in Update 2018-07
 - b. The fiscal year in which it adopts the amendments in this Update.

Amendments to the *FASB Accounting Standards Codification*[®]

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–23. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Master Glossary

2. Amend the Master Glossary term *Grant Date*, with a link to transition paragraph 718-10-65-15, as follows:

Grant Date

The date at which a grantor and a grantee reach a mutual understanding of the key terms and conditions of a share-based payment award. The grantor becomes contingently obligated on the grant date to issue equity instruments or transfer assets to a grantee who delivers ~~the goods~~ or renders ~~the services~~services or purchases goods or services as a customer. Awards made under an arrangement that is subject to shareholder approval are not deemed to be granted until that approval is obtained unless approval is essentially a formality (or perfunctory), for example, if management and the members of the board of directors control enough votes to approve the arrangement. Similarly, individual awards that are subject to approval by the board of directors, management, or both are not deemed to be granted until all such approvals are obtained. The grant date for an award of equity instruments is the date that a grantee begins to benefit from, or be adversely affected by, subsequent changes in the price of the grantor's equity shares. Paragraph 718-10-25-5 provides guidance on determining the grant date. See **Service Inception Date**.

Amendments to Subtopic 606-10

3. Amend paragraph 606-10-32-25 and add paragraph 606-10-32-25A, with a link to transition paragraph 718-10-65-15, as follows:

Revenue from Contracts with Customers—Overall

Measurement

> Determining the Transaction Price

> > Consideration Payable to a Customer

606-10-32-25 Consideration payable to a **customer** ~~includes~~includes:

- a. ~~cash~~Cash amounts that an entity pays, or expects to pay, to the customer (or to other parties that purchase the entity's goods or services from the ~~customer~~)-customer)
- b. ~~Consideration payable to a customer also includes credit~~Credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the entity (or to other parties that purchase the entity's goods or services from the ~~customer~~)-customer)
- c. ~~Consideration payable to a customer also includes equity~~Equity instruments (liability or equity classified) granted in conjunction with selling goods or services (for example, shares, share options, or other equity instruments).

An entity shall account for consideration payable to a customer as a reduction of the **transaction price** and, therefore, of **revenue** unless the payment to the customer is in exchange for a distinct good or service (as described in paragraphs 606-10-25-18 through 25-22) that the customer transfers to the entity. If the consideration payable to a customer includes a variable amount, an entity shall estimate the transaction price (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs 606-10-32-5 through 32-13.

606-10-32-25A Equity instruments granted by an entity in conjunction with selling goods 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 payment awards). 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 shall not be included in the transaction price. Any changes due to the form of the consideration shall be reflected elsewhere in the grantor's income statement. See paragraphs 606-10-55-88A through 55-88B for implementation guidance on equity instruments granted as consideration payable to a customer.

606-10-32-26 If consideration payable to a customer is a 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. If the amount of consideration payable to the customer exceeds the fair value of the distinct good or service that the entity receives from the customer, then the entity shall account for such an excess as a reduction of the transaction price. If the entity cannot reasonably estimate the fair value of the good or service received from the customer, it shall account for all of the consideration payable to the customer as a reduction of the transaction price.

4. Amend paragraph 606-10-55-3 and add paragraphs 606-10-55-88A through 55-88B and their related heading, with a link to transition paragraph 718-10-65-15, as follows:

Implementation Guidance and Illustrations

> Implementation Guidance

606-10-55-3 This implementation guidance is organized into the following categories:

- a. Assessing collectibility (paragraphs 606-10-55-3A through 55-3C)
- aa. **Performance obligations** satisfied over time (paragraphs 606-10-55-4 through 55-15)
- b. Methods for measuring progress toward complete satisfaction of a performance obligation (paragraphs 606-10-55-16 through 55-21)
- c. Sale with a right of return (paragraphs 606-10-55-22 through 55-29)
- d. Warranties (paragraphs 606-10-55-30 through 55-35)
- e. Principal versus agent considerations (paragraphs 606-10-55-36 through 55-40)
- f. Customer options for additional goods or services (paragraphs 606-10-55-41 through 55-45)
- g. Customers' unexercised rights (paragraphs 606-10-55-46 through 55-49)
- h. Nonrefundable upfront fees (and some related costs) (paragraphs 606-10-55-50 through 55-53)
- i. Licensing (paragraphs 606-10-55-54 through 55-60 and 606-10-55-62 through 55-65B)
- j. Repurchase agreements (paragraphs 606-10-55-66 through 55-78)
- k. Consignment arrangements (paragraphs 606-10-55-79 through 55-80)
- l. Bill-and-hold arrangements (paragraphs 606-10-55-81 through 55-84)
- m. Customer acceptance (paragraphs 606-10-55-85 through 55-88)
- mm. **Equity instruments granted as consideration payable to a customer** (paragraphs 606-10-55-88A through 55-88B)
- n. Disclosure of disaggregated revenue (paragraphs 606-10-55-89 through 55-91).

> > Equity Instruments Granted as Consideration Payable to a Customer

606-10-55-88A Paragraph 606-10-32-25A requires that equity instruments granted in conjunction with an entity selling goods or services be measured and classified under Topic 718 on stock compensation. If the number of equity instruments promised in a contract is variable due to a **service condition** or a **performance condition** that affects the vesting of an **award**, an entity should estimate the number of equity instruments that it will be obligated to issue to its customer and update the estimate of the number of equity instruments until the award ultimately vests in accordance with Topic 718. When measuring each instrument, the entity should include, in accordance with Topic 718, the effect of any market conditions and service or performance conditions that affect factors other than vesting. Examples of factors other than vesting are included in paragraph 718-10-30-15. Changes in the grant-date fair value of an award due to revisions in the expected outcome of a service condition or a performance condition (both those that affect vesting and those that affect factors other than vesting) are not deemed to be changes due to the form of the consideration (as described in paragraph 606-10-32-23) and, therefore, should be reflected in the transaction price.

606-10-55-88B Paragraph 606-10-32-25A requires that equity instruments granted by an entity in conjunction with selling goods or services be measured and classified under Topic 718 at the **grant date** of the instrument. When an estimate of the fair value of an equity instrument is required before the grant date in accordance with the guidance on variable consideration in paragraph 606-10-32-7, the estimate should be based on the fair value of the award at the reporting dates that occur before the grant date. An entity should change the transaction price for the cumulative effect of measuring the fair value at each reporting period after the initial estimate until the grant date occurs. In the period in which the grant date occurs, the entity should change the transaction price for the cumulative effect of measuring the fair value at the grant date rather than the fair value previously used at any prior reporting date.

Amendments to Subtopic 718-10

5. Amend paragraph 718-10-10-1, with a link to transition paragraph 718-10-65-15, as follows:

Compensation—Stock Compensation—Overall

Objectives

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.

6. Amend paragraphs 718-10-15-3 and 718-10-15-5 through 15-5A, with a link to transition paragraph 718-10-65-15, as follows:

Scope and Scope Exceptions

> Transactions

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 by **issuing** (or offering to issue) its shares, share options, or other equity instruments or by incurring liabilities to an **employee** or a nonemployee that meet either of the following conditions:

- a. The amounts are based, at least in part, on the price of the entity’s shares or other equity instruments. (The phrase *at least in part* is used because an **award** of share-based compensation may be indexed to both the price of an entity’s shares and something else that is neither the price of the entity’s shares nor a **market, performance, or service condition**.)
- b. The awards require or may require **settlement** by issuing the entity’s equity shares or other equity instruments.

718-10-15-5 The guidance in this Topic does not apply to transactions involving share-based payment awards granted to a lender or an investor that provides financing to the issuer. ~~the following payment transactions:~~

- a. Subparagraph superseded by Accounting Standards Update No. 2018-07
- b. ~~Subparagraph superseded by Accounting Standards Update No. 2019-08. Transactions involving equity instruments granted to a lender or investor that provides financing to the issuer.~~
- c. ~~Subparagraph superseded by Accounting Standards Update No. 2019-08. Transactions involving equity instruments granted in conjunction with selling goods or services to customers as part of a contract (for example, sales incentives) accounted for under Topic 606 on revenue from contracts with customers (specifically, the guidance on consideration payable to a customer in paragraphs 606-10-32-25 through 32-27).~~

718-10-15-5A Share-based payment awards granted to a customer shall be measured and classified in accordance with the guidance in this Topic (see

~~paragraph 606-10-32-25A) and reflected as a reduction of the transaction price and, therefore, of revenue in accordance with paragraph 606-10-32-25 unless the consideration is in exchange for a distinct good or service. If share-based payment awards are granted, if consideration payable to a customer is as 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 apply the guidance in paragraph 606-10-32-26. Therefore, share-based payment awards granted to a customer for a distinct good or service to be used or consumed in the grantor's own operations are accounted for under this Topic.~~

7. Amend paragraph 718-10-25-2C, with a link to transition paragraph 718-10-65-15, as follows:

Recognition

> Recognition Principle for Share-Based Payment Transactions

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. A share-based payment award granted to a customer shall be reflected as a reduction of the transaction price and, therefore, of revenue as described in paragraph 606-10-32-25 unless the payment to the customer is in exchange for a distinct good or service, in which case the guidance in paragraph 606-10-32-26 shall apply.

8. Amend paragraphs 718-10-30-3 and 718-10-30-20B, with a link to transition paragraph 718-10-65-15, as follows:

Initial Measurement

> Fair-Value-Based

718-10-30-3 An entity shall account for the compensation cost from **share-based payment transactions** in accordance with the fair-value-based method set forth in this Topic. That is, the cost of goods obtained or services received in exchange for **awards** of share-based compensation generally shall be measured based on the grant-date fair value of the equity instruments issued or on the fair value of the liabilities incurred. The cost of goods obtained or services received by an entity as consideration for equity instruments issued or liabilities incurred in share-based compensation transactions shall be measured based on the fair value of the equity

instruments issued or the liabilities **settled**. The portion of the fair value of an instrument attributed to goods obtained or services received is net of any amount that a grantee pays (or becomes obligated to pay) for that instrument when it is granted. For example, if a grantee pays \$5 at the **grant date** for an option with a grant-date fair value of \$50, the amount attributed to goods or services provided by the grantee is \$45. An entity shall apply the guidance in paragraph 606-10-32-26 when determining the portion of the fair value of an equity instrument attributed to goods obtained or services received from a customer.

> Nonpublic Entity—Practical Expedient for Expected Term

718-10-30-20B A nonpublic entity that elects to apply the practical expedient in paragraph 718-10-30-20A shall apply the practical expedient to a share option or similar award that has all of the following characteristics:

- a. The share option or similar award is granted at the money.
- b. The grantee has only a limited time to exercise the award (typically 30–90 days) if the grantee no longer provides goods, goods or terminates service after vesting, or ceases to be a customer.
- c. The grantee can only exercise the award. The grantee cannot sell or hedge the award.
- d. The award does not include a market condition.

A nonpublic entity that elects to apply the practical expedient in paragraph 718-10-30-20A may always elect to use the contractual term as the expected term when estimating the fair value of a nonemployee award as described in paragraph 718-10-30-10A. However, a nonpublic entity must apply the practical expedient in paragraph 718-10-30-20A for all nonemployee awards that have all the characteristics listed in this paragraph if that nonpublic entity does not elect to use the contractual term as the expected term and that nonpublic entity elects the accounting policy election to apply the practical expedient in paragraph 718-10-30-20A.

9. Amend paragraphs 718-10-35-1D and 718-10-35-10 through 35-11 and add paragraph 718-10-35-10A, with a link to transition paragraph 718-10-65-15, as follows:

Subsequent Measurement

> Recognition of Nonemployee Compensation Costs

718-10-35-1D The total amount of compensation cost recognized for share-based payment awards to nonemployees shall be based on the number of instruments for which a good has been delivered or a service has been rendered. To determine the amount of compensation cost to be recognized in each period, an entity shall

make an entity-wide accounting policy election for all nonemployee share-based payment awards, including share-based payment awards granted to customers, to do either of the following:

- a. Estimate the number of forfeitures expected to occur. The entity shall base initial accruals of compensation cost on the estimated number of nonemployee share-based payment awards for which a good is expected to be delivered or a service is expected to be rendered. The entity shall revise that estimate if subsequent information indicates that the actual number of instruments is likely to differ from previous estimates. The cumulative effect on current and prior periods of a change in the estimates shall be recognized in compensation cost in the period of the change.
- b. Recognize the effect of forfeitures in compensation cost when they occur. Previously recognized compensation cost for a nonemployee share-based payment award shall be reversed in the period that the award is forfeited.

> Awards May Become Subject to Other Guidance

718-10-35-10 A **freestanding financial instrument** issued to a grantee ~~in exchange for goods or services received (or to be received)~~ that is subject to initial recognition and measurement guidance within this Topic shall continue to be subject to the recognition and measurement provisions of this Topic throughout the life of the instrument, unless its terms are modified after any of the following: a nonemployee vests in the award and is no longer providing goods or services, or a grantee is no longer an employee. Only for purposes of this paragraph, a **modification** does not include a change to the terms of an award if that change is made solely to reflect an **equity restructuring** provided that both of the following conditions are met:

- a. Subparagraph superseded by Accounting Standards Update No. 2019-08. There is no increase in fair value of the award (or the ratio of **intrinsic value** to the exercise price of the award is preserved, that is, the holder is made whole) or the antidilution provision is not added to the terms of the award in contemplation of an equity restructuring.
- b. Subparagraph superseded by Accounting Standards Update No. 2019-08. All holders of the same class of equity instruments (for example, stock options) are treated in the same manner. [Content amended and moved to paragraph 718-10-35-10A]
- c. A grantee vests in the award and is no longer providing goods or services.
- d. A grantee vests in the award and is no longer a customer.
- e. A grantee is no longer an employee.

718-10-35-10A Only for purposes of ~~this paragraph 718-10-35-10~~, a **modification** does not include a change to the terms of an award if that change is made solely

to reflect an **equity restructuring** provided that both of the following conditions are met:

- a. There is no increase in fair value of the award (or the ratio of **intrinsic value** to the exercise price of the award is preserved, that is, the holder is made whole) or the antidilution provision is not added to the terms of the award in contemplation of an equity restructuring.
- b. All holders of the same class of equity instruments (for example, stock options) are treated in the same manner. **[Content amended as shown and moved from paragraph 718-10-35-10]**

718-10-35-11 Other modifications of that instrument that take place after a ~~grantee~~~~nonemployee~~ vests in the award and is no longer providing goods or services, ~~is no longer a customer, or a grantee~~ 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.

10. Add paragraph 718-10-65-15 and its related heading as follows:

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 2019-08, Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements—Share-Based Consideration Payable to a Customer

718-10-65-15 The following represents the transition and effective date information related to Accounting Standards Update No. 2019-08, Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements—Share-Based Consideration Payable to a Customer:

- a. The pending content that links to this paragraph shall be effective for **public business entities** for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.
- b. The pending content that links to this paragraph shall be effective for all other entities that have early adopted (in accordance with paragraph 718-10-65-11(c)) the pending content that links to paragraph 718-10-65-11 for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.
- c. The pending content that links to this paragraph shall be effective for all other entities for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.
- d. Early adoption, including adoption in an interim period, of the pending content that links to this paragraph is permitted for:

1. Public business entities for which financial statements have not yet been issued, but no earlier than the adoption of the pending content that links to paragraph 718-10-65-11.
 2. All other entities for which financial statements have not yet been made available for issuance, but no earlier than the adoption of the pending content that links to paragraph 718-10-65-11.
- e. An entity that adopts the pending content that links to this paragraph in the same fiscal year as the pending content that links to paragraph 718-10-65-11 shall apply the pending content that links to this paragraph retrospectively to all prior interim periods within that same fiscal year for which the entity had previously applied the pending content that links to paragraph 718-10-65-11. The pending content that links to this paragraph shall be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year in which the pending content that links to paragraph 718-10-65-11 was initially adopted. For purposes of determining the cumulative-effect adjustment, an entity shall refer to paragraphs 718-10-65-11(e), 718-10-65-12(b) through (c), and 718-10-65-14(b).
- f. An entity that adopts the pending content that links to this paragraph in a fiscal year that occurs after the fiscal year in which the entity adopted the pending content that links to paragraph 718-10-65-11 shall do either of the following:
1. Apply the pending content that links to this paragraph retrospectively to prior periods for which the entity previously applied the pending content that links to paragraph 718-10-65-11 in accordance with (e).
 2. Apply the pending content that links to this paragraph on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year in which the pending content that links to this paragraph is adopted. The cumulative-effect adjustment shall be determined as of the beginning of the fiscal year of the adoption of the pending content that links to this paragraph. An entity shall calculate the cumulative-effect adjustment as of the beginning of the fiscal year of adoption of the pending content that links to this paragraph by:
 - i. Assessing only liability-classified awards that have not been settled and equity classified awards for which a measurement date has not been established.
 - ii. Remeasuring awards as defined in (f)(2)(i) at **{add glossary link to 1st definition}fair value{add glossary link to 1st definition}**.
 - iii. Not remeasuring assets that are completed. For example, finished goods inventory or equipment that has begun amortization would not be remeasured upon transition.
 - iv. Reevaluating the classification of share-based payment awards granted to customers initially classified as equity before completion of performance and subsequently reclassified to

liabilities upon completion of performance because of other guidance (for example, Topic 815 on derivatives and hedging). If a liability-classified award would have remained equity classified because of the application of the pending content that links to this paragraph, the guidance on the modification of an award from liability classification to equity classification in paragraphs 718-20-55-135 through 55-138 shall be applied.

- v. Applying the guidance in paragraphs 718-10-30-19A through 30-20 and 718-20-55-76 through 55-76B prospectively to all awards that are measured at fair value after the first day of the fiscal year in which the pending content that links to this paragraph is adopted if the entity is a nonpublic entity.
- g. In the first interim period and fiscal year of adoption of the pending content that links to this paragraph, an entity shall disclose both of the following:
 - 1. The nature of and reason for the change in accounting principle.
 - 2. The cumulative effect of the change on retained earnings or other components of equity or net assets in the statement of financial position that was calculated under either (e) or (f).

Amendments to Subtopic 718-30

11. Amend paragraph 718-30-30-2, with a link to transition paragraph 718-10-65-15, as follows:

Compensation—Stock Compensation—Awards Classified as Liabilities

Initial Measurement

> Measurement Objective and Measurement Date

> > Nonpublic Entity

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) issued in exchange for distinct goods or services at fair value ~~or to measure all such liabilities at intrinsic value.~~ However, a nonpublic entity shall initially and subsequently measure awards determined to be consideration payable to a customer (as described in paragraph 606-10-32-25) at fair value.

12. Amend paragraphs 718-30-35-2 and 718-30-35-4, with a link to transition paragraph 718-10-65-15, as follows:

Subsequent Measurement

> Measurement

718-30-35-2 Changes in the fair value (or **intrinsic value** for a **nonpublic entity** that elects that method) of a liability incurred under a share-based payment arrangement issued in exchange for goods or services that occur during the **employee's** requisite service period or the nonemployee's vesting period shall be recognized as compensation cost over that period. The percentage of the fair value (or intrinsic value) that is accrued as compensation cost at the end of each period shall equal the percentage of the requisite service that has been rendered for an employee award or the percentage that would have been recognized had the grantor paid cash for the goods or services instead of paying with a nonemployee award at that date. Changes in the fair value (or intrinsic value) of a liability issued in exchange for goods or services that occur after the end of the employee's requisite service period or the nonemployee's vesting period are compensation cost of the period in which the changes occur. Any difference between the amount for which a liability **award** issued in exchange for goods or services is settled and its fair value at the settlement date as estimated in accordance with the provisions of this Subtopic is an adjustment of compensation cost in the period of settlement. Example 1 (see paragraph 718-30-55-1) provides an illustration of accounting for a liability award issued in exchange for service from the **grant date** through its settlement.

> > Nonpublic Entity

718-30-35-4 Regardless of the measurement method initially selected under paragraph 718-10-30-20, a nonpublic entity shall remeasure its liabilities under share-based payment arrangements at each reporting date until the date of settlement. The fair-value-based method is preferable for purposes of justifying a change in accounting principle under Topic 250. Example 1 (see paragraph 718-30-55-1) provides an illustration of accounting for an instrument classified as a liability using the fair-value-based method. Example 2 (see paragraph 718-30-55-12) provides an illustration of accounting for an instrument classified as a liability using the intrinsic value method. A nonpublic entity shall subsequently measure awards determined to be consideration payable to a customer (as described in paragraph 606-10-32-25) at fair value.

Amendments to Subtopic 260-10

13. Amend paragraph 260-10-45-28, with a link to transition paragraph 718-10-65-15, as follows:

Earnings Per Share—Overall

Other Presentation Matters

> Diluted EPS and Related Topics

> > Options, Warrants, and Their Equivalents and the Treasury Stock Method

> > > Share-Based Payment Arrangements

260-10-45-28 The provisions in paragraphs 260-10-45-28A through 45-31 apply to share-based awards issued to grantees under a share-based payment arrangement in exchange for goods and services or as consideration payable to a customer.

Amendments to Subtopic 470-20

14. Amend paragraph 470-20-30-22 and its related heading, with a link to transition paragraph 718-10-65-15, as follows:

Debt—Debt with Conversion and Other Options

Initial Measurement

> **Convertible Instruments Issued to Nonemployees for Goods and Services or as Consideration Payable to a Customer**

470-20-30-22 To determine the fair value of a convertible instrument granted as part of a share-based payment transaction to a nonemployee in exchange for goods or services or as consideration payable to a customer that is equity in form or, if debt in form, that can be converted into equity instruments of the issuer, the entity shall first apply Topic 718 on stock compensation.

Amendments to Subtopic 845-10

15. Amend paragraph 845-10-15-4(c), with a link to transition paragraph 718-10-65-15, as follows:

Nonmonetary Transactions—Overall

Scope and Scope Exceptions

> Transactions

845-10-15-4 The guidance in the Nonmonetary Transactions Topic does not apply to the following transactions:

- c. Acquisition of goods or services or consideration payable to customers involving issuance of the capital stock of an entity under Subtopic 718-10

Amendments to Status Sections

16. Amend paragraph 260-10-00-1, by adding the following item to the table, as follows:

260-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
260-10-45-28	Amended	2019-08	11/11/2019

17. Amend paragraph 470-20-00-1, by adding the following item to the table, as follows:

470-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
470-20-30-22	Amended	2019-08	11/11/2019

18. Amend paragraph 606-10-00-1, by adding the following items to the table, as follows:

606-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Award	Added	2019-08	11/11/2019
Grant Date	Added	2019-08	11/11/2019
Performance Condition	Added	2019-08	11/11/2019
Service Condition	Added	2019-08	11/11/2019
606-10-32-25	Amended	2019-08	11/11/2019
606-10-32-25A	Added	2019-08	11/11/2019
606-10-55-3	Amended	2019-08	11/11/2019
606-10-55-88A	Added	2019-08	11/11/2019
606-10-55-88B	Added	2019-08	11/11/2019

19. Amend paragraph 718-10-00-1, by adding the following items to the table, as follows:

718-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Customer	Superseded	2019-08	11/11/2019
Grant Date	Amended	2019-08	11/11/2019
718-10-10-1	Amended	2019-08	11/11/2019
718-10-15-3	Amended	2019-08	11/11/2019
718-10-15-5	Amended	2019-08	11/11/2019
718-10-15-5A	Amended	2019-08	11/11/2019
718-10-25-2C	Amended	2019-08	11/11/2019
718-10-30-3	Amended	2019-08	11/11/2019
718-10-30-20B	Amended	2019-08	11/11/2019
718-10-35-1D	Amended	2019-08	11/11/2019
718-10-35-10	Amended	2019-08	11/11/2019
718-10-35-10A	Added	2019-08	11/11/2019
718-10-35-11	Amended	2019-08	11/11/2019
718-10-65-15	Added	2019-08	11/11/2019

20. Amend paragraph 718-20-00-1, by adding the following item to the table, as follows:

718-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Grant Date	Amended	2019-08	11/11/2019

21. Amend paragraph 718-30-00-1, by adding the following items to the table, as follows:

718-30-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Grant Date	Amended	2019-08	11/11/2019
718-30-30-2	Amended	2019-08	11/11/2019
718-30-35-2	Amended	2019-08	11/11/2019
718-30-35-4	Amended	2019-08	11/11/2019

22. Amend paragraph 718-50-00-1, by adding the following item to the table, as follows:

718-50-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Grant Date	Amended	2019-08	11/11/2019

23. Amend paragraph 845-10-00-1, by adding the following item to the table, as follows:

845-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
845-10-15-4	Amended	2019-08	11/11/2019

The amendments in this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Christine A. Botosan
Gary R. Buesser
Susan M. Cospers
Marsha L. Hunt
R. Harold Schroeder

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Background Information

BC2. Before an entity adopts the amendments in Accounting Standards Update No. 2018-07, *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*, under current GAAP the entity would account for nonemployee awards in accordance with Subtopic 505-50, and would remeasure most awards (both liability and equity classified) at fair value (lowest aggregate fair value if a performance condition exists) until the award is vested. Once performance is complete, the award is no longer within the scope of Subtopic 505-50 but is required to be accounted for under other areas of applicable GAAP, such as Topic 480, Distinguishing Liabilities from Equity, and Topic 815, Derivatives and Hedging.

BC3. In June 2018, the Board issued the amendments in Update 2018-07 to simplify the accounting for nonemployee awards by superseding Subtopic 505-50 and expanding the scope of Topic 718 (employee model) to include nonemployee awards. The amendments in Update 2018-07 were issued as part of the Board's initiative to reduce cost and complexity in accounting standards (Simplification Initiative).

BC4. In Update 2018-07, paragraphs 606-10-32-25, 718-10-25-2C (formerly paragraph 505-50-25-4), and 718-10-15-5 were amended to require that share-based payments awarded to a customer in conjunction with selling goods or services be accounted for under Topic 606 on revenue from contracts with customers as consideration payable to a customer. While Topic 606 provides guidance on presentation (as a reduction of revenue), it does not provide guidance on measuring share-based payment awards granted to a customer or on classifying such instruments on the balance sheet. The Board received feedback that the lack of guidance for such transactions could lead to diversity, with entities applying either the noncash consideration guidance in Topic 606 or the guidance in Topic 718 on measuring share-based payment awards granted to a customer.

BC5. To address those issues, the FASB issued a proposed Accounting Standards Update, *Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements—Share-Based Consideration Payable to a Customer*, on March 4, 2019, with comments due on April 18, 2019. The Board received 12 comment letters on that proposed Update. The Board considered the feedback from those stakeholders during its redeliberations of the issues addressed by that proposed Update.

Benefits and Costs

BC6. The amendments in this Update clarify the accounting for share-based payment awards granted to a customer by requiring that an entity apply Topic 718 on measuring and classifying such awards. The amendments should reduce diversity in practice and prevent additional diversity from arising, thereby improving comparability of the information provided to users of financial statements. The Board anticipates that entities will not incur significant transition costs as a result of applying the amendments. Additionally, the Board's view is that application of the guidance in Topic 718 to measure and classify share-based payment awards granted to a customer is less costly and complex than both current GAAP (Subtopic 505-50, which was superseded by the amendments in Update 2018-07) and the Topic 606 approach, which was rejected by the Board during its deliberations on this project. The Board views the issuance of the amendments in this Update as a continuation of its effort to simplify the accounting of nonemployee awards, which is consistent with the objective of the amendments in Update 2018-07.

BC7. While an entity may incur costs when transitioning from one accounting methodology to another, in the Board's view, the expected benefits of the amendments justify the expected costs.

Basis for Conclusions

Measurement and Classification

BC8. The Board decided to require that an entity apply the guidance in Topic 718 (the "Topic 718 approach") to measure and classify share-based payment awards granted to a customer. Under the Topic 718 approach, the amount recorded as a reduction in revenue is based on the grant-date fair value of a share-based payment award. The grant date typically is the date at which a grantor (for example, a supplier) and a grantee (for example, a customer) reach a mutual understanding of the key terms and conditions of a share-based payment award. The classification of the award is subject to Topic 718 unless the share-based payment award is subsequently modified and the grantee is no longer a customer.

BC9. The Board selected the Topic 718 approach because it creates symmetry between the accounting for (a) purchases of goods or services with share-based payments and (b) the sale of goods or services using share-based payments to customers. In Update 2018-07, the Board supported aligning the classification and measurement guidance for nonemployee share-based compensation with the guidance in Topic 718 to provide for consistent accounting on the basis of the form of the consideration. Therefore, the amendments in this Update are an extension of the Board's rationale on the amendments in Update 2018-07.

BC10. The Board decided that the guidance in Topic 718 is less complex and costly than other classification guidance in Topic 480 on distinguishing liabilities from equity and Topic 815 on derivatives and hedging because of the existing exceptions to liability classification included in Topic 718. Moreover, the classification guidance in Topic 718 applies to other share-based payment awards granted to nonemployees. It also avoids situations in which some share-based payment awards granted to nonemployees would be classified as equity while the same award provided as consideration to a customer would be classified as a liability.

BC11. The Board determined that the Topic 718 approach provides consistent measurement guidance with the amendments in Update 2018-07, which require that an entity measure goods or services purchased with share-based payment awards at grant-date fair value. The Board also observed that the Topic 718 approach is the less complex approach.

BC12. Stakeholders who provided feedback on the March 2019 proposed Update requested that the Board clarify the term *grant date* in the context of a share-based payment award granted to a customer. The Board observed that the term *grant date* has been interpreted and applied in practice for many years. The Board also noted that, in practice, familiarity with the term *grant date* is an advantage of the Topic 718 approach. While the term has only recently been interpreted in the context of a share-based payment award granted to a customer, the Board expects that, in practice, the existing definition could be applied by considering the terms of the share-based payment award, the terms of the supply agreement (if one exists), and other relevant facts and circumstances. The Board observed that understanding the pricing of the goods and services to be purchased by a customer in an arrangement that also includes the grant of share-based payment awards to that customer could be relevant in establishing a grant date when the number of awards to be issued by the grantor is dependent on the dollar value or volume of purchases made by the grantee.

BC13. The Board considered but ultimately rejected measuring share-based payment awards by applying noncash consideration guidance (the "Topic 606 approach"). Under the Topic 606 approach, share-based payment awards granted to a customer would not be included within the scope of Topic 718 unless those payments were issued in exchange for distinct goods or services. Noncash consideration guidance would have generally required that an entity measure the

estimated fair value of share-based payment awards at the contract inception date (that is, when the criteria in paragraph 606-10-25-1 are met).

BC14. The Board was concerned about complexity with revenue transactions that might have more measurement dates if the Topic 606 approach was selected over the Topic 718 approach, for example, in the case of a supply agreement. While supply agreements vary in form, it is common for such agreements to dictate the terms and conditions under which a customer can order goods and services. Typically, however, enforceable rights and obligations are created when a customer issues purchase orders in the future. Under the Topic 718 approach, the grant date is likely to coincide with the date of the supply agreement resulting in a single measurement date for all awards governed by this type of arrangement.

BC15. Under the Topic 606 approach, the existence of a contract would usually be established through the issuance of future purchase orders under the terms and conditions of the supply agreement (that is, when enforceable rights and obligations are created). As a result, noncash consideration guidance under Topic 606 could result in separate measurements of share-based payment awards each time a purchase order is issued. Therefore, the Topic 606 approach could result in multiple measurement dates. Because Topic 606 does not address classification of the instruments (and under this approach the instruments would not be included within the scope of Topic 718), the instruments would be subject to the classification guidance in Topics 480 and 815. That would cause more awards to be classified as liabilities, thus increasing both the frequency under which fair value would be calculated and the number of instruments that would be remeasured each reporting period. The Board was concerned about the cost of multiple measurement dates and ongoing fair value measurement of liability-classified awards, particularly as they relate to private companies.

BC16. Overall, in deliberating this issue, the Board had to decide whether it was more important to have (a) consistent accounting based on the form of the consideration (share-based compensation) or (b) consistent accounting based on the nature of the payment (revenue transaction). The Board ultimately selected the Topic 718 approach because the Board had recently decided in Update 2018-07 that the form of consideration matters and that when payments are made in the form of share-based compensation, the accounting should not vary on the basis of whether the payment is made to an employee or a nonemployee. Similarly, in this Update, the Board decided that the accounting should not vary on the basis of nonemployee type. That is, the accounting for share-based payment awards granted to customers should not be different from the accounting for share-based payment awards granted to suppliers. Furthermore, the Board observed that the Topic 718 approach continues the Board's simplification efforts related to share-based payments.

Share-Based Payments to Lessees

BC17. Stakeholders responding to the proposed Update asked that the Board clarify whether a lessor's grant of share-based payment awards to a lessee in a contract accounted for in accordance with Topic 842, Leases, was within the scope of the proposed amendments. The Board observed that share-based payment awards granted to lessees are outside the scope of this project. Because leasing transactions are beyond the scope of the amendments and the Board has not solicited feedback about those transactions, the Board decided not to provide any explicit guidance in this Update.

Disclosure

BC18. While the proposed Update did not include any new disclosures or amendments to existing disclosures, stakeholders requested that the Board clarify the disclosure requirements applicable to share-based payment awards granted to customers. The Board observed that the grant of a share-based payment award to a customer is both a transaction affecting the grantor's revenue and a form of share-based consideration. Therefore, the Board concluded that it was clear that the grantor evaluates the disclosure requirements in both Topic 606 and Topic 718 and that no additional disclosure guidance was required for share-based payments made to customers.

Effective Date and Transition

BC19. The Board first considered the effective date for the amendments in Update 2018-07 in its deliberation of the effective dates for the amendments in this Update. The amendments in Update 2018-07 are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. For all other entities, the amendments in Update 2018-07 are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606. Accordingly, as of the issuance date of this Update, the amendments in Update 2018-07 are required to be applied by a majority of public business entities, while other entities are only required to apply the amendments in Update 2018-07 if they elect early adoption.

BC20. The Board considered completely aligning the effective dates of the amendments in this Update with the amendments in Update 2018-07 for entities that had not adopted the amendments in Update 2018-07 as of the issuance date of this Update. The Board noted, however, that public business entities with certain fiscal year-ends may have insufficient time to learn about and apply the amendments in this Update. Therefore, the Board decided that the amendments

in this Update should be effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years for all public business entities and other than public business entities that early adopted the amendments in Update 2018-07. Early adoption is permitted, but no earlier than an entity's adoption date of the amendments in Update 2018-07. By allowing early adoption, an entity may choose to adopt the amendments in this Update and those in Update 2018-07 at the same time, thus reducing the cost of transition.

BC21. The Board decided to align the effective date of the amendments in this Update with the effective date of the amendments in Update 2018-07 for other than public business entities that have not adopted the amendments in Update 2018-07. Therefore, the effective date of the amendments in this Update for those entities is fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, but no earlier than an entity's adoption date of the amendments in Update 2018-07.

BC22. While the Board typically provides deferred effective dates for entities that are not public business entities, the Board decided that a deferral of the effective date of the amendments in this Update would increase the cost of transition for those entities. That is because with a deferred effective date an entity would be required to transition to the amendments in Update 2018-07 in one annual reporting period and then be required to transition to the amendments in this Update in a subsequent annual reporting period. Accordingly, the Board decided to align the effective dates of the amendments in this Update with the effective date of the amendments in Update 2018-07 for entities that are not public business entities to minimize the cost of transition.

BC23. The Board decided on the following transition requirements for the amendments in this Update:

- a. To improve the comparability of financial information across entities—When an entity adopts the amendments in this Update in the same fiscal year as the amendments in Update 2018-07, the entity should apply the amendments in this Update retrospectively back to the adoption date of the amendments in Update 2018-07 through a cumulative-effect adjustment to retained earnings. That is, the amendments in this Update should be applied to any periods to which the amendments in Update 2018-07 were applied. The Board notes that the expected benefits of a modified retrospective application should outweigh the expected costs because the amendments simplify the accounting for share-based payments to a customer and because only a short period of time has passed since Update 2018-07 was issued.
- b. To reduce the cost of transition—An entity that adopts the amendments in this Update in a subsequent fiscal year to the fiscal year in which the amendments in Update 2018-07 were adopted has an optional transition expedient to apply the amendments in this Update through a cumulative-

effect adjustment to retained earnings at the beginning of the fiscal year in which it adopts the amendments in this Update. This expedient reduces the transition cost because an entity that chooses the expedient is not required to restate the prior comparative periods in its financial statements. Additionally, the measurement of existing awards is determined as of the beginning of the fiscal year of adoption of the amendments in this Update, rather than at the adoption date of the amendments in Update 2018-07.

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*[®] in this Accounting Standards Update require improvements to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Those improvements, which will be incorporated into the proposed 2020 Taxonomy, are available through Taxonomy Improvements provided at www.fasb.org, and finalized as part of the annual release process.