



August 17, 2020

Ms. Hillary H. Salo
Technical Director
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

RE: Agenda request – Clarifying applicable guidance for certain asset acquisitions

Dear Ms. Salo:

PricewaterhouseCoopers LLP appreciates the opportunity to provide an agenda request to the FASB. We request that the FASB consider addressing the intended scope of ASC 718, *Compensation - Stock-Compensation*, as it relates to asset acquisitions that do not qualify as business combinations under ASC 805.

We believe that the issuance of ASU 2018-07, *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*, may have had the unintended consequence of creating diversity in practice in situations when a company acquires assets in exchange for issuance of its common stock. We recommend that the FASB review this matter to assess whether it can be resolved with limited standard setting, perhaps by the EITF.

Issue

The asset acquisition guidance in ASC 805-50-30-2 dictates how an entity should measure non-cash consideration used to acquire an asset. That guidance applies when “no other generally accepted accounting principles (GAAP) apply (for example, Topic 845 on nonmonetary transactions or Subtopic 610-20).” If other guidance applies, an entity should utilize that guidance in determining the cost basis of the asset acquired.

The stock compensation guidance in ASC 718, as amended by ASU 2018-07, applies to transactions in which the reporting entity acquires goods or services to be used or consumed in its own operations by issuing share-based payment awards to non-employees (see ASC 718-10-15-3). ASC 718 does not define goods or services, which could be understood to include the acquisition of assets.

Accordingly, a company may conclude that if it uses its equity instruments to acquire an asset (or a group of assets that does not comprise a business), those equity instruments should be measured using the guidance in ASC 718, as ASC 805-50 defers to other literature when such literature exists. As a result, if a company purchased a building with its common stock, some believe the building would be considered “goods” and ASC 718 should be applied, while others believe ASC 805-50 should be applied.



Impact and diversity

Transactions subject to the asset acquisition guidance in ASC 805-50-25-1 are measured at the date of acquisition. This is typically the closing date and is consistent with the measurement of consideration transferred in a business combination.

Transactions for goods and services subject to the guidance in ASC 718 are measured at grant-date fair value. Grant date is defined as 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, and would typically be the date a definitive agreement is signed.

The asset acquisition guidance in ASC 805-50 was amended by ASU 2017-05, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*, to exclude transactions in the scope of the non-cash consideration guidance introduced by that ASU. Accordingly, the amendment to ASC 805-50 stated that ASC 805-50 would only apply if “no other generally accepted accounting principles (GAAP) apply (for example, Topic 845 on nonmonetary transactions or Subtopic 610-20),” thereby respecting the new guidance introduced by ASU 2017-05.

Although ASC 805-50 might be read to suggest that ASC 718 should be applied when an asset is acquired in return for equity instruments, given the background of the amendment to ASC 805-50, we understand that may not have been the intent. Specifically, based on the context in which the amendment was made, as well as based on discussions with the FASB staff, we understand that the intent of the amendment was to exclude from the scope of ASC 805-50 transactions that were in the scope of ASC 610-20 or ASC 845, but not to remove other transactions from the scope of ASC 805-50. This rationale is noted in the basis for conclusions (ASU 2017-05, BC 39), which indicates “stakeholders stated that they were unsure whether to apply the guidance in Subtopic 610-20 or Subtopic 805-50 to transactions in which an entity sells a nonfinancial asset and in exchange receives a nonfinancial asset.”

Potential resolution

The stock compensation literature in ASC 718 applies to “goods and services,” although this phrase is not defined in the guidance. We do not believe that the term “services” creates diversity, nor do we believe it requires clarification. However, diversity in practice could be eliminated if the term “goods” was clarified for purposes of applying ASC 718.

One solution could be to limit the term to *tangible* assets that are not in the scope of ASC 360, *Property, Plant and equipment*. Another approach could be to define “goods” for purposes of applying ASC 718 as those items that are within the scope of ASC 330, *Inventory*.

There are likely several other approaches to resolve this diversity, some of which may achieve what we understand was the original intent of the standard setters, namely, to apply the asset acquisition literature in ASC 805-50 to the acquisition of a wide range of tangible and intangible assets, even when equity instruments are used as consideration. We believe this is consistent with prior practice



and our understanding of the Board's intent. However, research may be needed to consider the benefits and costs of any change.

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To further discuss this issue, please contact Andreas Ohl or Beth Paul.

Sincerely,

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP