Accounting Standards Update

No. 2025-04
May 2025

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

Clarifications to Share-Based Consideration Payable to a Customer

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

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Financial Accounting Standards Board
801 Main Avenue ▪ Norwalk, CT ▪ 06851

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Summary

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

The Board is issuing this Update to reduce diversity in practice and improve the decision usefulness and operability of the guidance for share-based consideration payable to a customer in conjunction with selling goods or services.

Some entities offer to provide consideration to a customer (or to other parties that purchase the entity's goods or services from the customer) to incentivize the customer (or its customers) to purchase goods and services. Although consideration payable to a customer often takes the form of cash or credit that can be applied against amounts owed to the entity, it also can take the form of equity instruments (or other types of share-based consideration) such as warrants. When share-based consideration is granted to a customer (a grantee), it often vests upon the grantee purchasing a specified volume or monetary amount of goods and services from the grantor.

The guidance in Topic 606, Revenue from Contracts with Customers, requires that an entity account for consideration payable to a customer as a reduction of the transaction price and, therefore, as a reduction of revenue unless the payment to the customer is in exchange for a distinct good or service.

The amendments in 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*, require that a grantor apply the guidance in Topic 718, Compensation—Stock Compensation, to measure and classify share-based consideration payable to a customer (the "Topic 718 approach"). Those amendments also require that if share-based consideration payable to a customer contains vesting conditions, the grantor must determine whether the vesting conditions represent service conditions or performance conditions. That determination can affect when the grantor recognizes revenue because it is required to estimate the probable outcome of a performance condition (and, therefore, whether the share-based consideration is expected to vest or is expected to be forfeited). By contrast, for service conditions, instead of estimating forfeitures, a grantor can elect to account for forfeitures as they occur. When the grantor elects to account for forfeitures as they occur, revenue recognition may be delayed for awards that are not probable of vesting.

Stakeholders indicated that this delay in revenue recognition can diminish the decision usefulness of a grantor's revenue information. For example, revenue may be recognized upon the forfeiture of warrants that were not expected to vest. Therefore, revenue may be recognized several reporting periods after the grantor has satisfied the related performance obligation(s), even if during that time there has been no change in the likelihood that the award will vest. Stakeholders also noted that the current guidance for forfeitures can increase the differences in financial reporting outcomes between share-based consideration payable to a customer and other forms of consideration payable to a customer (including cash consideration).

Under current guidance, there is diversity in practice in determining whether certain conditions (for example, those based on customer purchases) are service conditions or performance conditions. Therefore, stakeholders asked that the Board clarify how to distinguish between service conditions and performance conditions. Stakeholders also asked the Board to more closely align how forfeitures of share-based consideration with service conditions and forfeitures of share-based consideration with performance conditions affect the measurement of the transaction price (which affects revenue recognition timing) to improve the operability of the guidance and the decision usefulness of the resulting financial reporting information.

Who Is Affected by the Amendments in This Update?

The amendments in this Update affect all entities that issue share-based consideration to a customer that is within the scope of Topic 606.

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

Under current GAAP, the definitions of *performance condition* and *service condition* do not explicitly discuss purchases made by a customer or parties that purchase a grantor's goods or services from the grantor's customers. For share-based consideration payable to a customer (including share-based consideration payable to other parties that purchase the grantor's goods or services from the grantor's customers) with a service condition, current GAAP permits the grantor to elect to account for the effect of forfeitures as they occur, which may result in a delay in revenue recognition for awards that are not probable of vesting.

In addition, current GAAP also does not explicitly state whether the guidance in Topic 606 on constraining estimates of variable consideration applies to share-based consideration payable to a customer that is measured and classified under the Topic 718 approach.

The amendments in this Update revise the Master Glossary definition of the term *performance condition* for share-based consideration payable to a customer. The revised definition incorporates conditions (such as vesting conditions) that are based on the volume or monetary amount of a customer's purchases (or potential purchases) of goods or services from the grantor (including over a specified period of time). The revised definition also incorporates performance targets based on purchases made by other parties that purchase the grantor's goods or services from the grantor's customers. The revised definition of the term *performance condition* cannot be applied by analogy to awards granted to employees and nonemployees in exchange for goods or services to be used or consumed in the grantor's own operations.

Although it is expected that entities will conclude that fewer awards contain service conditions, for those that are determined to have service conditions, the amendments in this Update eliminate the policy election permitting a grantor to account for forfeitures as they occur. Therefore, when measuring share-based consideration payable to a customer that has a service condition, the grantor is required to estimate the number of forfeitures expected to occur.

Separate policy elections for forfeitures remain available for share-based payment awards with service conditions granted to employees and nonemployees in exchange for goods or services to be used or consumed in the grantor's own operations.

The amendments in this Update clarify that share-based consideration encompasses the same instruments as share-based payment arrangements but the grantee does not need to be a supplier of goods or services to the grantor.

Finally, the amendments in this Update clarify that a grantor should not apply the guidance in Topic 606 on constraining estimates of variable consideration to share-based consideration payable to a customer. Therefore, a grantor is required to assess the probability that an award will vest using only the guidance in Topic 718.

Collectively, these changes improve the decision usefulness of a grantor's financial statements, improve the operability of the guidance, and reduce diversity in practice for accounting for share-based consideration payable to a customer. Under the amendments in this Update, revenue recognition will no longer be delayed when an entity grants awards that are not expected to vest. This is expected to result in estimates of the transaction price that better reflect the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer and, therefore, more decision-useful financial reporting.

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

The amendments in this Update are effective for all entities for annual reporting periods (including interim reporting periods within annual reporting periods) beginning after December 15, 2026. Early adoption is permitted for all entities.

The amendments in this Update permit a grantor to apply the new guidance on either a modified retrospective or a retrospective basis.

When applying the amendments in this Update on a modified retrospective basis, a grantor should recognize a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) as of the beginning of the period of adoption and should not recast any financial statement information before the period of adoption. A grantor should apply the amendments as of the date of initial application to all share-based consideration payable to a customer.

When applying the amendments in this Update on a retrospective basis, a grantor should recast comparative periods and recognize a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) as of the beginning of the earliest period presented. Additionally, an entity that elects to apply the guidance retrospectively should use the actual outcome, if known, of a performance condition or service condition as of the beginning of the annual reporting period of adoption for all prior-period estimates. If actual outcomes are unknown as of the beginning of the annual reporting period of adoption, an entity should use its estimate of the probability of achieving a service condition or performance condition as of the beginning of the annual reporting period of adoption for all prior-period estimates.

Amendments to the *FASB Accounting Standards Codification®*

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–9. 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 <u>underlined</u>, and deleted text is ~~struck out~~.

Amendments to Master Glossary

2. Add the Master Glossary term *Share-Based Payment Arrangements* to Subtopic 606-10 as follows:

Share-Based Payment Arrangements

An arrangement under which either of the following conditions is met:

a. One or more suppliers of goods or services (including employees) receive awards of equity shares, equity share options, or other equity instruments.
b. The entity incurs liabilities to suppliers that meet either of the following conditions:
    1. 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 may be indexed to both the price of the entity's shares and something other than either the price of the entity's shares or a market, performance, or service condition.)
    2. The awards require or may require settlement by issuance of the entity's shares.

The term shares includes various forms of ownership interest that may not take the legal form of securities (for example, partnership interests), as well as other interests, including those that are liabilities in substance but not in form. Equity shares refers only to shares that are accounted for as equity.

Also called share-based compensation arrangements.

3. Amend the Master Glossary term *Performance Condition*, with a link to transition paragraph 606-10-65-2, as follows:

Performance Condition

1. For share-based payments in which a grantor acquires goods or services to be used or consumed in the grantor's own operations, a ~~A~~ condition affecting the vesting, exercisability, exercise price, or other pertinent factors used in determining the fair value of an award that relates to both of the following:
   a. Rendering service or delivering goods for a specified (either explicitly or implicitly) period of time
   b. Achieving a specified performance target that is defined solely by reference to the grantor's own operations (or activities) or by reference to the grantee's performance related to the grantor's own operations (or activities).

   Attaining a specified growth rate in return on assets, obtaining regulatory approval to market a specified product, selling shares in an initial public offering or other financing event, and a change in control are examples of performance conditions. A performance target also may be defined by reference to the same performance measure of another entity or group of entities. For example, attaining a growth rate in earnings per share (EPS) that exceeds the average growth rate in EPS of other entities in the same industry is a performance condition. A performance target might pertain to the performance of the entity as a whole or to some part of the entity, such as a division, or to the performance of the grantee if such performance is in accordance with the terms of the award and solely relates to the grantor's own operations (or activities).
2. For share-based consideration payable to a **customer** that can result in a reduction of the transaction price in accordance with Topic 606, a condition affecting the vesting, exercisability, exercise price, or other pertinent factors used in determining the fair value of an award that relates to any of the following:
   a. Achieving a specified performance target that is defined solely by reference to the grantor's own operations (or activities) or by reference to the grantee's (the customer's) performance related to the grantor's own operations (or activities)

b. The grantee's purchase (or potential purchase) of the grantor's goods or services from either the grantor or the grantor's customers
c. A purchase (or potential purchase) of the grantor's goods or services from either the grantee or the grantee's customers.

The performance targets listed in this definition for employee and nonemployee awards (for example, a change in control) are also examples of performance conditions for share-based consideration payable to a customer.

Amendments to Subtopic 606-10

4. Amend paragraphs 606-10-32-25 through 32-25A, 606-10-55-3(mm), and 606-10-55-88A through 55-88B and their related heading and add paragraphs 606-10-55-88AA through 55-88AC and 606-10-55-88C, with a link to transition paragraph 606-10-65-2, 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:

a. 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)
b. 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)
c. Share-based consideration ~~Equity instruments~~ (liability or equity classified) granted to the customer (or to other parties that purchase the grantor's goods or services from the customer) in conjunction with selling goods or services ~~(for example, shares, share options, or other equity instruments)~~. Share-based consideration encompasses the same instruments as **share-based payment arrangements** (for example, shares, cash-settled stock appreciation rights, share options and

warrants, or other equity instruments), but the grantee (as a customer) need not be a supplier of goods or services to the grantor.

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 (other than share-based consideration) 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. See paragraph 606-10-32-25A for guidance applicable to share-based consideration payable to a customer.

606-10-32-25A Share-based consideration ~~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 share-based consideration ~~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 share-based consideration ~~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 55-88C ~~55-88B~~ for implementation guidance on share-based ~~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.

Implementation Guidance and Illustrations

> Implementation Guidance

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

mm. Share-based ~~Equity instruments granted as~~ consideration payable to a customer (paragraphs 606-10-55-88A through 55-88C ~~55-88B~~)

• > Share-Based ~~Equity Instruments Granted as~~ Consideration Payable to a Customer

606-10-55-88A Paragraph 606-10-32-25A requires that share-based consideration ~~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 **awards** ~~equity instruments~~ promised in a contract is variable due to a **service condition** or a **performance condition** that affects ~~the~~ vesting ~~of an **award**~~, the grantor ~~an entity~~ should estimate the number of awards ~~equity instruments~~ that it will be obligated to issue to the grantee ~~its customer~~ and reduce the transaction price by the grant-date fair value of the number of awards that are expected to vest (for awards with service conditions in accordance with paragraph 718-10-35-1D(a)) or for which vesting is probable (for awards with performance conditions in accordance with paragraph 718-10-25-20). A grantor should update the estimate of the number of awards ~~equity instruments~~ until the awards ~~award~~ ultimately vest or are forfeited ~~vests~~ in accordance with Topic 718. When measuring each award, the grantor ~~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.

606-10-55-88AA Examples of performance conditions in share-based consideration payable to a customer that can result in a reduction of the transaction price in accordance with this Topic include those with performance targets based on the grantee (or other parties that purchase the grantor's goods or services from the grantee) purchasing (or potentially purchasing) any of the following from the grantor (or the grantor's customers):

a. A specified volume of goods or services (including over a specified period of time). This includes performance targets achieved upon the first purchase from the grantor (or the grantor's customers).
b. A specified monetary amount of goods or services (including over a specified period of time).

606-10-55-88AB If share-based consideration payable to a customer is a payment for a distinct good or service from the customer and the grantor accounts for any portion of the share-based consideration as a reduction of the transaction price in accordance with paragraph 606-10-32-26, the grantor should apply the definition of performance condition that is specific to share-based consideration payable to a customer that can result in a reduction of the transaction price in accordance with this Topic to the entire award (including the portion that is not accounted for as a reduction of the transaction price).

606-10-55-88AC A grantor should not apply by analogy the aspects of the definition of performance condition that are specific to share-based consideration payable to a customer that can result in a reduction of the transaction price in accordance with this Topic to awards that are solely within the scope of Topic 718.

606-10-55-88B Paragraph 606-10-32-25A requires that share-based consideration ~~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 share-based consideration ~~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 (measured in accordance with Topic 718) of the award at the reporting dates that occur before the grant date. The grantor ~~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 grantor ~~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.

606-10-55-88C Regardless of whether an award's grant date has occurred, the guidance on constraining estimates of variable consideration in paragraphs 606-10-32-11 through 32-12 should not be applied to share-based consideration payable to a customer that is measured and classified under Topic 718.

5. Add paragraph 606-10-65-2 and its related heading as follows:

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 2025-04, *Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Clarifications to Share-Based Consideration Payable to a Customer*

606-10-65-2 The following represents the transition and effective date information related to Accounting Standards Update No. 2025-04, *Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Clarifications to Share-Based Consideration Payable to a Customer:*

Effective date and early adoption

a. All entities shall apply the pending content that links to this paragraph for annual reporting periods beginning after December 15, 2026, and interim reporting periods within those annual reporting periods.
b. Early adoption of the pending content that links to this paragraph is permitted in an interim or annual reporting period in which financial statements have not yet been issued (or made available for issuance). If an entity adopts the pending content that links to this paragraph in an interim reporting period, it shall adopt the pending content as of the beginning of the annual reporting period that includes that interim reporting period.

Transition method

c. An entity shall apply the pending content that links to this paragraph using one of the following transition methods:

1. On a modified retrospective basis through a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) as of the beginning of the annual reporting period in which the pending content that links to this paragraph is adopted.
2. On a retrospective basis through a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) as of the beginning of the first period presented in accordance with the guidance on accounting changes in paragraphs 250-10-45-5 and 250-10-45-8. If retrospective transition is applied, an entity shall use the actual outcome, if known, of a performance condition or service condition as of the beginning of the annual reporting period in which the pending content that links to this paragraph is adopted for all prior-period estimates. If the actual outcome is unknown, an entity shall use its estimate of the probability of achieving a service condition or performance condition as of the beginning of the annual reporting period of adoption for all prior-period estimates.

Transition disclosures

d. An entity applying the pending content that links to this paragraph in accordance with (c)(1) shall provide the following transition disclosures in the financial statements of both the interim reporting period (if applicable) and the annual reporting period of the change:
   1. The nature of the change in accounting principle, including an explanation of the newly adopted accounting principle
   2. The method of applying the change
   3. The cumulative effect of the change on retained earnings or other components of equity in the statement of financial position as of the annual reporting period in which the pending content that links to this paragraph is adopted.

e. An entity applying the pending content that links to this paragraph in accordance with (c)(2) shall provide the following transition disclosures in the financial statements of both the interim reporting period (if applicable) and the annual reporting period of the change:
   1. The nature of the change in accounting principle, including an explanation of the newly adopted accounting principle
   2. The method of applying the change

3. The cumulative effect of the change on retained earnings or other components of equity in the statement of financial position as of the beginning of the earliest period presented
4. The effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), any other affected financial statement line item, and any affected per-share amounts for any prior periods retrospectively adjusted.

Amendments to Subtopic 718-10

6. Amend paragraphs 718-10-15-5A and 718-10-35-1D and add paragraph 718-10-15-5B, with a link to transition paragraph 606-10-65-2, as follows:

Compensation—Stock Compensation—Overall

Scope and Scope Exceptions

> Transactions

718-10-15-5A Share-based consideration ~~payment awards~~ granted to a customer (or to other parties that purchase the grantor's goods or services from the 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 to a customer as payment for a distinct good or service from the customer, then the grantor ~~an entity~~ shall apply the guidance in paragraph 606-10-32-26. See also paragraph 606-10-55-88AB.

718-10-15-5B A grantor shall not apply by analogy the aspects of the definition of performance condition that are specific to share-based consideration payable to a customer described in paragraph 606-10-55-88AA to awards granted to employees or nonemployees in which the grantor acquires goods or services to be used or consumed in the grantor's own operations that are solely within the scope of the guidance in this Topic. See also paragraphs 606-10-55-88AB through 55-88AC.

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 in exchange for a distinct good or service, 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.

For share-based consideration payable to a customer that is not in exchange for a distinct good or service (or that is in exchange for a distinct good or service and can result in a reduction of the transaction price in accordance with paragraph 606-10-32-26), a grantor shall estimate the number of forfeitures expected to occur in accordance with paragraph 718-10-35-1D(a). If share-based consideration payable to a customer is a payment for a distinct good or service from the customer and the grantor accounts for any portion of the share-based consideration as a reduction of the transaction price in accordance with paragraph 606-10-32-26, the grantor shall estimate the number of forfeitures expected to occur for the entire award (including the portion that is not accounted for as a reduction of the transaction price).

Amendments to Status Sections

7. 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
Performance Condition	Amended	2025-04	05/15/2025
Share-Based Payment Arrangements	Added	2025-04	05/15/2025
606-10-32-25	Amended	2025-04	05/15/2025
606-10-32-25A	Amended	2025-04	05/15/2025
606-10-55-3	Amended	2025-04	05/15/2025
606-10-55-88A	Amended	2025-04	05/15/2025
606-10-55-88AA through 55-88AC	Added	2025-04	05/15/2025
606-10-55-88B	Amended	2025-04	05/15/2025
606-10-55-88C	Added	2025-04	05/15/2025
606-10-65-2	Added	2025-04	05/15/2025

8. 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	Added	2025-04	05/15/2025
Performance Condition	Amended	2025-04	05/15/2025
718-10-15-5A	Amended	2025-04	05/15/2025

Paragraph	Action	Accounting Standards Update	Date
718-10-15-5B	Added	2025-04	05/15/2025
718-10-35-1D	Amended	2025-04	05/15/2025

9. Amend paragraph 718-20-00-1, by adding the following items 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
Customer	Added	2025-04	05/15/2025
Performance Condition	Amended	2025-04	05/15/2025

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

Richard R. Jones, *Chair*
Hillary H. Salo, *Vice Chair*
Christine A. Botosan
Frederick L. Cannon
Susan M. Cosper
Marsha L. Hunt
Dr. Joyce T. Joseph

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.

BC2. Under current GAAP, the definitions of *performance condition* and *service condition* do not explicitly discuss purchases made by a customer or parties that purchase a grantor's goods or services from the grantor's customers. For share-based consideration payable to a customer (including share-based consideration payable to other parties that purchase the grantor's goods or services from the grantor's customers) with a service condition, current GAAP permits the grantor to elect to account for the effect of forfeitures as they occur, which may result in a delay in revenue recognition for awards that are not probable of vesting.

BC3. In addition, Topic 606 does not explicitly state whether the guidance on constraining estimates of variable consideration applies to share-based consideration payable to a customer that is measured and classified under the Topic 718 approach.

BC4. In June 2024, the Board added a project to its agenda to reduce diversity in practice and improve the decision usefulness and operability of the guidance on share-based consideration payable to a customer. On September 30, 2024, the Board issued the proposed Accounting Standards Update, *Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Clarifications to Share-Based Consideration Payable to a Customer*, for public comment with the comment period ending on November 14, 2024.

BC5. The Board received 18 comment letters in response to the proposed Update. Overall, comment letter respondents supported the amendments in the proposed Update, noting that the proposed amendments would reduce diversity in practice, would improve the decision usefulness of a grantor's revenue information, and were clear and operable.

BC6. The amendments in this Update revise the Master Glossary definition of the term *performance condition* for share-based consideration payable to a customer. The revised definition incorporates conditions (such as vesting conditions) that are based on the volume or monetary amount of a customer's purchases (or potential purchases) of goods or services from the grantor (including over a specified period of time). The revised definition also incorporates performance targets based on purchases made by other parties that purchase the grantor's goods or services from the grantor's customers. When an award contains a performance condition, the grantor is required to estimate the probable outcome of the performance condition. The revised definition of the term *performance condition* cannot be applied by analogy to awards granted to employees and nonemployees in exchange for goods or services to be used or consumed in the grantor's own operations.

BC7. Under the amendments in this Update, it is expected that entities will conclude that more awards contain performance conditions. In contrast to when an entity grants an award with a service condition and elects to account for forfeitures as they occur, revenue recognition will not be delayed for customer awards with a performance condition that are not probable of vesting because the grantor is required to estimate the probable outcome of a performance condition.

BC8. Although it is expected that entities will conclude that fewer awards contain service conditions, for those that are determined to have service conditions, the amendments in this Update eliminate the policy election permitting a grantor to account for forfeitures as they occur. Therefore, when measuring share-based consideration payable to a customer that has a service condition, the grantor is required to estimate the number of forfeitures expected to occur. Separate policy elections for forfeitures remain available for share-based payment awards with service conditions granted to employees and nonemployees in exchange for goods or services to be used or consumed in the grantor's own operations.

BC9. Finally, the amendments in this Update clarify that a grantor should not apply the guidance in Topic 606 on constraining estimates of variable consideration to share-based consideration payable to a customer. Therefore, a grantor is required to assess the probability that an award will vest using only the guidance in Topic 718.

BC10. After the exposure period of the proposed Update, the Board redeliberated the issues and the comment letter feedback. The Board considered stakeholder feedback on potential clarifications and improvements in reaching the conclusions in this Update, as discussed below.

Background Information

Topic 718 Approach for Share-Based Consideration Payable to a Customer in Update 2019-08

BC11. The guidance in Topic 606 requires that an entity 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. Consideration payable to a customer can take various forms, including cash, credit, and share-based consideration (such as warrants). Before the issuance of Update 2019-08, there was diversity in practice for measuring and classifying (as liabilities or equity) consideration payable to a customer in the form of share-based consideration. For example, when measuring share-based consideration payable to a customer, grantors were applying either the noncash consideration guidance under Topic 606 (measure at contract inception) or Topic 718 (measure at grant date).

BC12. The amendments in Update 2019-08 addressed this diversity in practice by requiring that a grantor apply a Topic 718 approach to measure and classify share-based consideration payable to a customer. Under those amendments, 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 consideration in accordance with Topic 718. The amendments in Update 2019-08 also require that a grantor determine whether vesting conditions, if present, meet the stock compensation definition of the term *service condition* or the term *performance condition*.

BC13. When share-based awards granted to a customer contain a service condition or performance condition that affects vesting, the amendments in Update 2019-08 established that a grantor should estimate the number of awards that it will be obligated to issue to its customer and should continue updating its estimate until the awards vest or are forfeited. Under that guidance, the transaction price is reduced only for the grant-date fair value of the awards that are expected to vest.

BC14. However, the amendments in Update 2019-08 required that entities apply the same policy election for both share-based consideration payable to a customer and other nonemployee share-based payment awards with service conditions. If a grantor elects to account for the effect of forfeitures as they occur rather than estimate the number of forfeitures expected to occur, it will reduce the transaction price for the grant-date fair value of the total number of awards that could be issued (regardless of the probability that any of those awards will vest). That election can result in revenue recognition being delayed until a grantee forfeits the award.

BC15. Although the timing of revenue recognition can be affected by whether a vesting condition is a *service condition* or a *performance condition*, those terms were not developed in contemplation of share-based awards granted to customers in revenue transactions and were not revised by the amendments in Update 2019-08.

Issues Raised by Stakeholders

BC16. In November 2023, the Board received an agenda request indicating that several aspects of the current guidance for the Topic 718 approach are unclear and result in diversity in practice. The agenda request highlighted each of the following issues.

a. It is unclear whether an award contains a service condition or a performance condition when it is granted to a customer and vests based on purchases by customers (or by other parties that purchase a grantor’s goods or services from the grantor’s customers).
b. Permitting grantors to apply the policy election to account for forfeitures as they occur for share-based consideration payable to a customer with service conditions results in reductions to the transaction price (and revenue recognition being delayed) regardless of the probability of vesting.
c. It is unclear how the guidance on constraining estimates of variable consideration in Topic 606 interacts with the guidance on share-based consideration payable to a customer.

Benefits and Costs

BC17. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements. Overall, the Board concluded that the expected benefits of the amendments in this Update justify the expected costs.

BC18. The Board expects that revising the definition of the term *performance condition* will reduce operability challenges and diversity in practice. Furthermore, the amendments in this Update require that a grantor estimate whether share-based consideration payable to a customer is probable of vesting in more circumstances. Diversity in practice also is expected to be reduced because the amendments clarify that the guidance on constraining estimates of variable consideration does not apply to share-based consideration payable to a customer.

BC19. These changes are expected to improve the information provided to investors and other allocators of capital because they will both improve comparability and result in estimates of the transaction price in revenue transactions that better reflect the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. Consequently, these changes better align the requirements for share-based consideration payable to a customer with the principles in Topic 606.

BC20. The Board expects that grantors may incur additional upfront and ongoing costs to implement the amendments in this Update because more grantors will be required to estimate the outcome of vesting conditions for share-based awards granted to customers. Moreover, the Board also expects that there will be upfront costs associated with stakeholders understanding the changes to how grantors determine whether an award granted to a customer contains a service condition or a performance condition. However, the Board expects that by clarifying that conditions based on customer purchases are performance conditions for share-based consideration payable to a customer, grantors will incur fewer costs when analyzing vesting conditions under the amendments than they incur under the current guidance. Notably, comment letter respondents did not raise concerns about costs to implement the guidance.

BC21. While the Board acknowledges that grantors may incur additional costs, it believes that the expected benefits of the amendments in this Update justify the expected costs. The Board's specific considerations about the benefits and costs of the amendments in this Update are further discussed in the subsequent sections.

Basis for Conclusions

BC22. The amendments in this Update:

a. Revise the Master Glossary definition of the term *performance condition* for share-based consideration payable to a customer to incorporate conditions (such as vesting conditions) that are based on the volume or monetary amount of a customer's purchases (or potential purchases) of goods or services from the grantor (including over a specified period of time).
b. Revise the Master Glossary definition of the term *performance condition* to incorporate performance targets based on purchases made by other parties that purchase the grantor's goods or services from the grantor's customers.
c. Eliminate the policy election that permits a grantor to account for the effect of forfeitures when they occur for share-based consideration payable to a customer.
d. Clarify that under the Topic 718 approach a grantor should not apply the guidance in Topic 606 on constraining estimates of variable consideration to share-based consideration payable to a customer.

Revision of the Term *Performance Condition*

BC23. Under the amendments in this Update, the definition of the term *performance condition* is revised for share-based consideration payable to a customer. The revised definition explicitly incorporates conditions that relate to achieving a specified performance target that is defined by reference to a grantee's purchases (or potential purchases) of goods or services from a grantor. Therefore, under the amendments, a vesting condition based on the volume or monetary amount of a customer's purchases (or potential purchases) of goods or services from the grantor (including over a specified period of time) is a performance condition. The revised definition also clarifies that examples of performance targets listed in the definition for employee and nonemployee awards (such as a change in control) are performance conditions for share-based consideration payable to a customer.

BC24. Although the term *purchases* (including *potential purchases*) is not defined in the amendments in this Update, the Board intends for that term to be interpreted broadly. For example, performance targets based on (a) payments by a grantee (including advance payments) in connection with a grantee's purchase of goods and services from the grantor, (b) delivery of purchased goods or services by the grantor to the grantee, or (c) the grantee, upon inception of a contract, committing to purchase goods or services from the grantor in exchange for consideration are performance conditions for the purpose of applying the definition.

BC25. The Board determined that revising the definition of the term *performance condition* addresses several of the issues raised by stakeholders because it:

a. Requires that a grantor estimate probable outcomes of conditions (including vesting conditions) that are based on a customer's purchases from the grantor. This will prevent delayed revenue recognition when an entity grants awards with vesting conditions based on customer purchases and those vesting conditions are not probable of being achieved.
b. Addresses diversity in practice related to whether conditions based on customer purchases are service conditions or performance conditions.
c. Aligns the requirements for conditions based on customer purchases with the requirements for conditions based directly on a grantor's revenues.

BC26. Overall, comment letter respondents broadly supported the revisions to the definition of the term *performance condition.* Stakeholders noted that the revised definition is clear and operable and would both improve the decision usefulness of a grantor's revenue information and reduce diversity in practice.

Require That a Grantor Estimate Probable Outcomes

BC27. The Board determined that the relevance of financial information provided to investors will be improved if a grantor reduces the transaction price (and therefore revenue) only for the grant-date fair value of awards whose vesting conditions are *probable* of being achieved. The term *probable* is defined in the Master Glossary as "likely to occur."

BC28. For awards with performance conditions that affect vesting, paragraph 718-10-25-20 requires that a grantor estimate "the probable outcome of that performance condition." For example, when an award is granted to a customer and has a single performance condition that affects vesting, the grantor is required to reduce the transaction price when it is probable that the performance condition will be achieved and is not permitted to reduce the transaction price if it is not probable that the performance condition will be achieved.

BC29. By contrast, under the current guidance applicable to awards with service conditions, a grantor is permitted to account for forfeitures as they occur instead of estimating the number of forfeitures expected to occur. Therefore, until the award is forfeited, the transaction price could be reduced for share-based consideration that the grantor does not expect to ultimately issue to a customer. Depending on when the related performance obligations are satisfied, upon forfeiture of an award the grantor may immediately recognize the award's grant-date fair value in revenue because the previous reduction of the transaction price is reversed.

BC30. Stakeholders indicated that this delay in revenue recognition can diminish the decision usefulness of a grantor's revenue information. For example, revenue may be recognized upon the forfeiture of awards that were not expected to vest. Therefore, revenue may be recognized several reporting periods after the grantor has satisfied the related performance obligation(s), even if during that time there has been no change in the likelihood that the award will vest. Stakeholders also noted that the current guidance for forfeitures can increase the differences in financial reporting outcomes between share-based consideration payable to a customer and other forms of consideration payable to a customer (including cash consideration).

BC31. The Board observed that treating conditions based on a customer's purchases as performance conditions requires that a grantor estimate the probability that those conditions will be achieved. This is expected to result in estimates of the transaction price that better reflect the consideration to which the entity expects to be entitled.

BC32. Comment letter respondents broadly supported requiring that the grantor estimate the likelihood that conditions based on customer purchases will be achieved. Their reasons for supporting the amendments in the proposed Update aligned with those considered by the Board.

Reduce Diversity in Practice in Applying Topic 718 Definitions to Share-Based Consideration Payable to a Customer

Revise current Master Glossary definitions

BC33. The Board expects that revising the definition of the term *performance condition* will significantly reduce uncertainty about whether conditions based on customer purchases are service conditions or performance conditions.

BC34. The amendments in Update 2019-08 introduced the terms *service condition* and *performance condition* into Topic 606 and provided guidance for any share-based consideration payable to a customer that contains those types of conditions. However, the definitions of those terms were not revised by the amendments in Update 2019-08.

BC35. The current Master Glossary definition of the term *service condition* states that it is "a condition . . . that depends solely on . . . a nonemployee delivering goods or rendering services to the grantor over a vesting period." The current Master Glossary definition of the term *performance condition* states that it is a condition that relates to both "(a) rendering service or delivering goods for a specified (either explicitly or implicitly) period of time" and "(b) achieving a specified performance target that is defined solely by reference to the grantor's own operations (or activities) or by reference to the grantee's performance related to the grantor's own operations (or activities)."

BC36. Neither definition explicitly discusses share-based awards granted to customers whose vesting, exercisability, exercise price, or other pertinent factors are affected by a grantee's purchase of goods and services from a grantor as a customer. Additionally, both definitions indicate that they encompass only conditions that are based on the grantee providing goods or services to the grantor (notwithstanding that payments to a customer for distinct goods or services typically cannot be accounted for as a reduction of revenue under Topic 606).

BC37. To address those issues and improve the operability of the Topic 718 approach, the Board decided to explicitly state that conditions based on customer purchases are performance conditions. The amendments also clarify that the provision of goods or services by the grantee to the grantor is not a necessary element of a performance condition for share-based consideration payable to a customer.

BC38. Comment letter respondents generally indicated that the proposed revision to the definition of the term *performance condition* would reduce diversity in practice. Most respondents also noted that the revised definition would be operable.

BC39. However, some respondents indicated that the operability of the definition could be further improved. For example, a few stakeholders suggested that the Board clarify whether conditions based on potential purchases (for example, vesting that occurs upon the grantee and grantor executing a master service or exclusivity agreement) also would be performance conditions. In response to that feedback, the Board decided to clarify that those conditions also are performance conditions.

BC40. Additionally, some comment letter respondents indicated that it was unclear whether the revised term *performance condition* would apply to the portion of share-based consideration payable to a customer that is not accounted for as a reduction of the transaction price if it is a payment for a distinct good or service from the customer and the grantor accounts for any portion of the share-based consideration as a reduction of the transaction price in accordance with paragraphs 606-10-32-26. To prevent grantors from having to apply two different definitions of the term *performance condition* to a single award (and to avoid potential future diversity in practice), the Board decided to clarify that an entity should apply the definition of the term *performance* *condition* that is specific to share-based consideration payable to a customer to the entire award in those scenarios.

Other approaches considered

BC41. During initial deliberations, the Board considered other approaches that would have improved grantors' estimates of the transaction price but would not have revised the definitions of the terms *service condition* and *performance condition* in the Master Glossary. For example, some stakeholders suggested an approach that would have eliminated the forfeitures election for share-based awards granted to customers while retaining all current Master Glossary definitions. By eliminating the option to account for forfeitures as they occur, this approach would have required that a grantor estimate the number of forfeitures expected to occur for any share-based consideration payable to a customer that contains a service condition. Those stakeholders explained that this approach would accomplish the same objective as the Board's chosen approach and would avoid the need to revise either of the current definitions.

BC42. These stakeholders acknowledged that the current definitions can be challenging to interpret in the context of share-based consideration payable to a customer. Therefore, their suggested approach would not reduce diversity in determining whether conditions based on customer purchases are service conditions or performance conditions. However, they observed that if forfeitures were required to be estimated, the effect of determining whether an award has a performance condition or a service condition would be immaterial in many circumstances. Some of these stakeholders placed significant weight on retaining the current definitions because of concerns that any changes made to the current stock compensation definitions could have unintended consequences on the accounting for employee and nonemployee share-based payment awards.

BC43. The Board acknowledged that eliminating the forfeitures election for share-based consideration payable to a customer could, in isolation, resolve some of the issues raised by stakeholders. However, the Board was concerned about the consequences of leaving the underlying issues with the definitions unaddressed.

BC44. Specifically, the Board was concerned about relying on the assumption that any differences between the requirements for service conditions and the requirements for performance conditions would generally be immaterial. Some stakeholders indicated that if the forfeitures election was eliminated for customer awards, there may continue to be differences in how grantors estimate the transaction price for awards with service conditions and awards with performance conditions. Others acknowledged potential differences in how awards with service conditions and awards with performance conditions would be incorporated into the calculation of diluted earnings per share.

BC45. Therefore, the Board considered that if the issues with the definitions were not addressed, grantors may still need to distinguish between service conditions and performance conditions for customer awards, thus continuing the diversity in practice.

BC46. The Board also considered stakeholders' concerns about the potential effect that changes to the performance condition definition could have on share-based payments granted to employees and nonemployees. To address those concerns, the amendments in this Update state directly that the aspects of the *performance condition* definition that are specific to customer share-based awards should not be applied by analogy to share-based awards granted to employees and nonemployees in exchange for goods or services to be used or consumed in a grantor's own operations.

BC47. The Board emphasizes that the current guidance in paragraph 105-10-05-2 states that an entity should not follow the accounting treatment specified in accounting guidance for similar transactions or events in cases in which those accounting principles either prohibit the application of the accounting treatment to the particular transaction or event or indicate that the accounting treatment should not be applied by analogy.

BC48. The Board also emphasizes that one of the objectives of the amendments in this Update is to improve the operability of the current guidance for share-based consideration payable to a customer. In line with that objective, the Board sought to make targeted improvements without revisiting key decisions on the application of the Topic 718 approach that were made while deliberating the amendments in Update 2019-08. The Board acknowledges feedback from certain stakeholders suggesting that it pursue a model based more closely on the variable consideration guidance in Topic 606. However, the Board concluded that clarifying the application of the existing terms in Topic 718 to share-based consideration payable to a customer better aligned with its objective than reevaluating whether the guidance should be more closely based on the variable consideration guidance in Topic 606.

Align Conditions Based on Customer Purchases with Conditions Based on Grantor Revenues

BC49. The Board determined that revising the definition of the term *performance condition* to incorporate conditions based on customer purchases will improve the operability of the guidance on share-based consideration payable to a customer because it aligns the requirements for performance targets based on customer purchases with the requirements for performance targets based on a grantor's revenues.

BC50. The current definition of the term *performance condition* already incorporates performance targets based on the grantor's revenues, and those performance targets will be expanded to explicitly incorporate targets based on purchases by a customer. For example, the current guidance in Topic 718 is clear that performance targets based on the grantor's revenues are performance conditions in the context of employee and nonemployee share-based payment awards because they relate to "achieving a specified performance target that is defined solely by reference to the grantor's own operations (or activities)." Therefore, for awards granted to customers, the Board decided that it is appropriate to also treat conditions based on customer purchases (which affect a grantor's revenues) as performance conditions.

BC51. The Board acknowledges that it could have pursued an amendment to the definition of the term *service condition* instead of an amendment to the definition of the term *performance condition*. Amending the definition of the term *service condition* would have aligned the guidance with some stakeholders' interpretations of current GAAP. However, the Board was concerned that revising the definition of the term *service condition* would have required stating that purchasing goods or services is akin to providing goods or services. Without that clarification, it may have been unclear how a condition based on customer purchases would be a "service" condition.

BC52. The Board was concerned that this approach would have conflicted with the guidance in Topic 606 because payments to a customer for distinct goods or services typically should not be accounted for as a reduction of revenue. That is, the Board concluded that it would have been counterintuitive to establish guidance stating that purchasing goods or services (a) qualifies as a service when applying the definition of the term *service condition* but (b) does not qualify as a service when determining whether the customer provides a distinct good or service to the grantor.

BC53. The Board also considered that a benefit of amending the definition of the term *performance condition* instead of *service condition* is that it better aligns with the guidance on diluted earnings per share. Topic 260, Earnings Per Share, treats awards with performance conditions as requiring “specific achievement” and awards with only service conditions as being issuable upon the “mere passage of time.” Because conditions based on a specified volume or monetary amount of customer purchases could be considered to require a type of specific achievement and not simply the passage of time, the Board expects that the diluted earnings-per-share guidance for awards with performance conditions will be more intuitive to apply to awards that vest on the basis of customer purchase levels.

Purchases by Parties That Purchase a Grantor’s Goods or Services from Its Customers

BC54. The amendments in this Update clarify that for share-based consideration payable to a customer, performance targets based on purchases by parties that purchase a grantor’s goods or services from its customers, including from the grantee, are performance conditions. The Board concluded that the added clarification further improves the operability of the stock compensation definitions for share-based consideration payable to a customer.

BC55. The Board acknowledges that amending the definition of the term *performance condition* to incorporate performance targets that are based on purchases made by parties that purchase a grantor’s goods or services from its customers could be viewed as broadening the definition. The Board also acknowledges that some may view this clarification to be unnecessary because those performance targets are less common than targets based on purchases made directly by a customer. However, the Board understands that grantors encounter challenges in applying the stock compensation guidance to revenue transactions because much of the stock compensation guidance does not specifically consider those transactions.

BC56. The Board was concerned that if it revised the definition of the term *performance condition* without also specifying the requirements for performance targets based on purchases by a customer’s customers, grantors may assume that the Board intended for those conditions to be treated as "other" conditions, which require liability classification under Topic 718. In the Board's view, awards that vest upon direct customer purchases and those that vest upon purchases made by a customer's customer are similar and, therefore, do not warrant different requirements for share-based consideration payable to customers.

BC57. Comment letter respondents generally agreed with incorporating performance targets based on purchases by parties that purchase a grantor's goods or services from its customers (including from the grantee) into the Master Glossary term *performance condition*.

Forfeitures Election for Customer Awards with Service Conditions

BC58. The amendments in this Update retain references to the term *service condition* in Topic 606 for share-based consideration payable to a customer. The Board concluded that retaining references to this definition provides clear guidance for awards granted to customers that may contain a service condition. An example of those awards may include share-based consideration granted to a customer that vests upon a customer providing goods or services over a vesting period that is accounted for under Topic 606 because the goods or services provided by the customer are not distinct.

BC59. Additionally, by eliminating the forfeitures election for customer awards, the requirements for awards with service conditions and for awards with performance conditions will better align because, for both types of awards, an entity will be required to estimate the probability of vesting.

BC60. When compared with current practice, the amendments in this Update (particularly the revisions to the definition of the term *performance condition*) are expected to reduce the proportion of share-based awards granted to customers that are considered to have service conditions. However, awards with conditions that satisfy the definition of the term *service condition* may be appropriately accounted for as a reduction of the transaction price under Topic 606. Therefore, the Board decided to retain references to the term *service condition* in Topic 606 to provide guidance for those situations.

BC61. Comment letter respondents agreed with eliminating the accounting policy election for forfeitures in paragraph 718-10-35-1D for share-based consideration payable to a customer that includes a service condition. Their reasons aligned with those considered by the Board.

BC62. Many comment letter respondents requested that grantors be permitted to change their entity-wide accounting policy election for forfeitures of nonemployee share-based payments upon adoption of the amendments in this Update. Respondents requested this change because (a) the population of awards subject to this election would be changed by the proposed amendments and (b) absent the one-time change, entities that granted share-based awards to customers would be put in a different position compared with other entities that also granted awards to nonemployees but did not grant awards to customers.

BC63. The Board acknowledged this feedback and concluded that entities would have already implemented the systems and processes necessary to continue to account for nonemployee awards under their current elections. The Board also considered that if a grantor had previously elected to estimate the number of forfeitures expected to occur, permitting entities to change their election for forfeitures without assessing preferability could have resulted in investors receiving less decision-useful information.

BC64. Under the amendments in this Update, the guidance on accounting for forfeitures will be different for awards granted to customers and those granted to other nonemployees. Because of this change, some comment letter respondents also asked that the Board clarify whether an entity would be required to estimate forfeitures for the portion of share-based consideration payable to a customer that is not accounted for as a reduction of the transaction price if it is a payment for a distinct good or service from the customer and the grantor accounts for any portion of the share-based consideration as a reduction of the transaction price in accordance with paragraphs 606-10-32-26. To be consistent with its decision to require that an entity apply the same *performance condition* definition to the entire award in those scenarios, the Board also decided to require that an entity estimate the number of forfeitures expected to occur for the entire award.

Applicability of the Guidance on Constraining Estimates of Variable Consideration

BC65. The amendments in this Update clarify that the guidance on constraining estimates of variable consideration in Topic 606 (the constraint) should not be applied to share-based consideration payable to a customer that is measured and classified under Topic 718, regardless of whether an award's grant date has occurred.

BC66. Under the current guidance in Topic 606, if consideration payable to a customer includes a variable amount, an entity is required to apply the variable consideration guidance, including the constraint. That guidance states that an entity should "include in the transaction price some or all of an amount of variable consideration . . . only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved."

BC67. While deliberating the amendments in Update 2019-08, the Board decided that any variability arising from vesting and nonvesting conditions included in awards granted to customers should be evaluated under Topic 718 and that the variable consideration measurement guidance in Topic 606 would not apply. However, the amendments in Update 2019-08 did not include any guidance that clearly stated to what extent the variable consideration constraint guidance in Topic 606 applies to share-based consideration payable to a customer. Therefore, the Board is aware of diversity in practice. Some stakeholders indicated that the constraint never applies to share-based consideration payable to a customer, some indicated that it applies only before an award's grant date, and others indicated that it applies to share-based consideration payable to a customer both before and after the grant date.

BC68. The Board understands that under the current guidance this issue may not be as significant for grantors that elect to account for forfeitures as they occur. That policy election often prevents a change in a grantee's likelihood of satisfying a service condition from causing a reversal of revenue. However, by requiring grantors to estimate the likelihood that grantees will achieve conditions based on customer purchases, a reversal of revenue may be possible in more circumstances.

BC69. To address that concern, the amendments in this Update clarify that the guidance on constraining estimates of variable consideration does not apply to share-based consideration payable to a customer that is measured and classified under Topic 718. As a result, under the amendments, a grantor is required to assess the probability of vesting using only the Topic 718 guidance.

BC70. Comment letter respondents generally indicated that they agreed with clarifying that the guidance on constraining estimates of variable consideration does not apply to share-based consideration payable to a customer or indicated that they found the proposed amendments to be clear and operable.

Other Amendments

BC71. The amendments in this Update also provide for minor revisions and clarifications. For example, the current guidance in Topic 606 related to share-based consideration sometimes refers to “equity instruments,” even though the guidance applies to both equity instruments and liability-classified share-based consideration. Therefore, to improve the consistency of the guidance, the amendments replace the term *equity instruments* with *share-based consideration* in certain paragraphs in Topic 606, where appropriate.

BC72. Additionally, some comment letter respondents indicated that it is unclear whether the existing reference to the term *fair value* in paragraph 606-10-55-88B (which provides guidance on share-based consideration payable to a customer that has not yet achieved a grant date) is intended to align with the definition of that term in Topic 718, Topic 820, Fair Value Measurement, or neither of those Topics.

BC73. To address this concern, the amendments in this Update clarify that the term *fair value* in paragraph 606-10-55-88B is intended to align with how that term is used in Topic 718. In Topic 718, the term *fair value* refers to a fair-value-based method under which the effects of service and performance conditions are reflected based on the outcomes of those conditions. The Board expects that this clarification will resolve the question raised by stakeholders and also will prevent a grantor from having to apply different fair value definitions to a single award before and after its grant date.

Effective Date, Transition, and Transition Disclosures

BC74. The amendments in this Update are effective for all entities for annual reporting periods beginning after December 15, 2026, including interim reporting periods within those annual reporting periods. Early adoption is permitted as of the beginning of the annual reporting period for all entities. The Board notes that the transition and effective date amendments use the term *entities* rather than *grantors* to be consistent with prior Accounting Standards Updates.

BC75. The amendments in this Update permit a grantor to apply the revised guidance on a modified retrospective or a retrospective basis. When applying the amendments on a modified retrospective basis, a grantor should recognize a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) as of the beginning of the period of adoption. A grantor should not recast any financial statement information before the period of adoption. By contrast, when applying the amendments on a retrospective basis, a grantor should recast comparative periods and recognize a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) as of the beginning of the earliest period presented.

BC76. The Board expects that the amendments in this Update will most significantly affect entities that have previously granted share-based awards to customers and determined that conditions based on customer purchases were service conditions. For those awards, in accordance with the current guidance, grantors may not have estimated the number of forfeitures expected to occur in prior periods. When applying the amendments on a modified retrospective basis, a grantor is required to initially estimate the probable outcome of any performance conditions as of the beginning of the period of adoption; a grantor is not required to estimate the probability of vesting as of a prior period.

BC77. Similarly, when applying the amendments in this Update on a retrospective basis, a grantor should use the actual outcome, if known, of a performance condition or service condition as of the beginning of the annual reporting period of adoption for all prior-period estimates. If the actual outcome is unknown as of the beginning of the annual reporting period of adoption, an entity should use its estimate of the probability of achieving a service condition or performance condition as of the beginning of the annual reporting period of adoption for all prior-period estimates.

BC78. Although the amendments in this Update do not require retrospective application, grantors are permitted to apply the guidance on a retrospective basis because it promotes comparability and addresses concerns that application on a modified retrospective basis could reduce the amount of revenue presented in comparative income statements.

BC79. During initial deliberations, the Board also considered permitting grantors to both apply the guidance prospectively to new awards and continue applying the current guidance to awards that were granted before the date of initial application. However, the Board was concerned that grandfathering awards under the current guidance would reduce comparability and would result in outcomes for which grantors could simultaneously have outstanding awards accounted for under two distinct sets of requirements.

BC80. Because an option to apply the guidance on a modified retrospective basis was provided, the amendments in the proposed Update would have precluded entities from adopting the guidance retrospectively if it was impracticable to do so. However, some comment letter respondents indicated that the operability of a retrospective transition approach would be improved if an entity were permitted to use hindsight when recasting prior periods.

BC81. On the basis of this feedback, the Board decided to require that an entity use the actual outcome of a performance condition or service condition (or an estimate of the likelihood of those conditions being achieved if the actual outcome is unknown) as of the beginning of the annual reporting period of adoption instead of estimating the likelihood of those conditions being achieved as of a prior period (consistent with the retrospective transition approach included in the amendments in the proposed Update).

BC82. The Board determined that this revision would establish a clear and operable method to retrospectively apply the amendments in this Update without requiring significant judgment to determine the exact prior period in which an award became probable of vesting. Accordingly, the Board expects that more entities will be able to apply the amendments on a retrospective basis than under the proposed transition requirements.

BC83. Comment letter respondents generally indicated that the amendments in the proposed Update would not require significant time to implement or result in entities incurring significant costs.

BC84. Comment letter respondents provided mixed feedback on the effective date of the amendments in this Update for entities other than public business entities. Some indicated that because the amendments are not expected to be costly to implement, the same effective date should apply to all entities. Others indicated that entities other than public business entities should receive additional time to adopt the amendments due to resource constraints or because an entity may need additional time to implement the amendments if retrospective transition application were elected.

BC85. The Board determined that the amendments in this Update will clarify how an entity should apply the existing definitions of the terms *performance condition* and *service condition* to share-based consideration payable to a customer. Therefore, the Board expects that the amendments will improve the operability of the current guidance and could be applied without an entity having to incur significant implementation costs. Additionally, the Board noted that because of the expected timing of the issuance of this Update (and because many private companies do not issue financial statements for interim reporting periods), many private companies would have almost two years to apply the amendments. Therefore, the Board decided that the effective date of the amendments should be the same for all entities.

Amendments to the GAAP Taxonomy

The amendments to the *FASB Accounting Standards Codification*® in this Accounting Standards Update require improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy (collectively referred to as the "GAAP Taxonomy"). Those improvements, which will be incorporated into the proposed 2026 GAAP Taxonomy, are available through GAAP Taxonomy Improvements provided at www.fasb.org, and finalized as part of the annual release process.