

July 10, 2023

Director@fasb.org

File Reference No. 2023-ED300
Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re Proposed ASU: Compensation—Stock Compensation (Topic 718)
Scope Application of Profits Interest Awards

Dear FASB:

The views expressed herein are written on behalf of the Professional Standards Committee (PSC) of the Texas Society of CPAs. The committee has been authorized by the Texas Society of CPAs' Leadership Council to submit comments on matters of interest to the membership. The views expressed in this document have not been approved by the Texas Society of CPAs' Leadership Council or Board of Directors and, therefore, should not be construed as representing the views or policy of the Texas Society of CPAs. Please find our responses below to the requests for comment in the exposure draft for Topic 718 Stock Compensation.

Question 1: Do you agree that the amendments in this proposed Update should apply to all reporting entities (including PBEs and entities other than PBEs)? Please explain why or why not.

Response: The PSC thinks that the amendments in the proposed Update should apply to all reporting entities including PBEs and entities other than PBEs. While profits interests are more prevalent in private companies, the proposed guidance will promote consistency for all entities with profits interests or similar awards.

Question 2: Is the proposed illustrative example included in paragraphs 718-10-55-138 through 55-148 to determine whether a profits interest award should be accounted for in accordance with Topic 718 clear and operable? Please explain why or why not. Should the illustrative example include other considerations or exclude any considerations? If yes, please explain how you would change the proposed illustrative example.

Response: The PSC believes that the proposed illustrative examples in Case A and Case B are clear and generally operable. Case C and Case D examples are less clear because they include an assumption that "Class B units do not entitle the grantee to receive equity of Entity X;" however, that may be confusing as Profits Interests are almost always legal form instruments themselves. As such, it is not clear whether a legal form equity instrument could be accounted for outside of ASC 718.



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Question 3: An entity would be required to apply the proposed amendments either (a) retrospectively to all prior periods presented in the financial statements or (b) prospectively to awards granted or modified on or after the effective date with an associated disclosure that describes the nature of and reason for the change in accounting principle. Do you agree with the proposed transition provisions? If not, why not, and what basis would be more appropriate and why?

Response: The PSC believes that both the retrospective presentation to all prior periods and the prospective presentation with appropriate disclosure are both appropriate options. While we think the prospective presentation is the more likely choice by most preparers, the retrospective option should also be allowed as an alternative.

Question 4: Regarding the effective date, how much time would be needed to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by entities other than PBEs be different from the amount of time needed by PBEs? Should early adoption be permitted? Please explain your response.

Response: Since prospective application is allowed, minimal time is needed for implementation of the proposed ASU. Additionally, the PSC thinks that early adoption should be allowed as this ASU will promote greater consistency when evaluating profits interests. Further, while we do not think that it will be needed, we would not object to providing private companies with additional time to implement the proposed amendments.

We appreciate the opportunity to submit comments on the proposed ASU on Stock Compensation (Topic 718) - Scope Application of Profits Interest Awards.

Sincerely,



Jeffrey Johanns, CPA
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants