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Via email to director@fasb.org

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

Re: Scope Application of Profits Interest Awards (File Reference No. 2023-ED300)

Dear Ms. Salo:

We appreciate the opportunity to respond to the Board's exposure draft on the Financial Accounting Standards Board's (FASB's or "Board") proposed Accounting Standards Update (ASU), *Compensation - Stock Compensation (Topic 718): Scope Application of Profits Interest Award* (proposed Update or proposal).

Overall, we support the Board's efforts to reduce complexity and diversity in practice in determining whether a profits interest award is accounted for as a share-based payment under Topic 718. We generally agree that the Board's proposed illustrative example simplifies this determination. However, we believe certain changes to the proposal would improve the final amendments, as discussed in our response to Question 2 of the Questions for Respondents in the attached Appendix.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Jin Koo at 214-243-2941 or Angela Newell at 214-689-5669.

Very truly yours,

BDO USA, P.A.

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Appendix

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

We agree that the amendments should apply to all reporting entities for the same reasons described in paragraph 8 of the Basis for Conclusions.

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

We appreciate the proposed illustrative example on Cases A and B, which aligns with fact patterns that we encounter in practice. We believe Cases A and B will be helpful in reducing diversity in practice.

However, we believe there are factual discrepancies in Cases C and D that need to be addressed to make the illustrative example clear and operable. In our discussions with the FASB staff, we understand that proposed paragraphs 718-10-55-145(d) and 55-147(c) are intended to indicate that the profits interest award is not legal form equity, rather more akin to a phantom award. This is inconsistent with the language in proposed paragraph 718-10-55-139, which states that prior to issuing the profits interest award, the entity “had a single class of equity interests outstanding,” which at least implies that the award is a second class of equity interests. We recommend the following changes:

718-10-55-139 Cases A, B, C, and D share the following assumptions:

- a) Entity X is a partnership. Before June 1, 20X1, Entity X had ~~a single class of equity interests outstanding~~ Class A units outstanding. On June 1, 20X1, Entity X grants profits interest units (Class B units) to employees of a subsidiary of Entity X in exchange for services.

Case A: Profits Interest Award Is a Share-Based Payment Arrangement

718-10-55-140 Additional assumptions are as follows:

- a) The Class B units, which represent legal form equity, are subordinated to the Class A units and, after vesting participate pro rata with the Class A units once the holders of the Class A units have received distributions equal to a predetermined distribution threshold established on the grant date of the Class B units.

Case B: Profits Interest Award Is a Share-Based Payment Arrangement

718-10-55-142 Additional assumptions are as follows:

- a) The Class B units, which represent legal form equity, are subordinated to the Class A units and once granted, participate pro rata with the Class A units once the holders of the

Class A units have received distributions equal to a predetermined distribution threshold established on the grant date of the Class B units.

While we believe that this clarification is needed, we also note that we seldom encounter fact patterns as illustrated in Cases C and D in which a profits interest award fails to meet both criteria in paragraph 718-10-15-3. That is, it is infrequent that a profits interest award is solely based on a formula and is not based, at least in part, on the price of the entity's shares or other equity instruments and is not settled in legal form equity. As such, we would not object if the Board chose not to include Cases C and D in the final standard. Alternatively, we believe including a case in which the settlement is in legal form equity but based on a formula would be helpful in eliminating diversity in practice.

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

We generally agree with the proposed transition provisions.

We do not believe that a disclosure describing the nature of and reason for the change in accounting principle should be required in the proposed paragraph 718-10-65-17(b)(2) as the proposed ASU clarifies existing guidance rather than creates new guidance.

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.

We do not believe that significant time is necessary for entities to implement the proposed amendments. However, we ultimately defer to preparers on this question.

We do not believe the amount of time needed to implement the proposed amendments should be different for entities other than PBEs, as profits interest awards typically are more prevalent with private entities.

We believe early adoption should be permitted.