



July 10, 2023

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

File Reference No. 2023-ED300

The Accounting Principles Committee of the Illinois CPA Society (“Committee”) appreciates the opportunity to provide its perspective on the Proposed Accounting Standards Update, *Compensation – Stock Compensation (Topic 718): Scope Application of Profits Interest Awards* (“Proposed Update”). The Committee is a voluntary group of CPAs from public practice, industry, and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of the Committee are outlined in Appendix A to this letter.

The Committee appreciates the Board’s efforts to reduce complexity and diversity in practice in scoping profits interest awards. While we generally support the Proposed Update, we believe the illustrative example could be improved, as outlined in our response to Question 2 below, in order for the Board to achieve its intended objective of reducing diversity in practice.

Our responses to the questions outlined in the Proposal are included below.

**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. Although profits interest awards are predominantly granted by entities other than PBEs, we do not believe there is sufficient reason to create further differences in U.S GAAP between PBEs and entities other than PBEs.

**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 offer the following observations to clarify and improve the operability of the illustrative example:

- The analyses described in Cases A and B indicate the awards are within the scope of Topic 718 because they provide the right to participate in residual net assets and/or are exposed to changes in the fair value of the entity’s equity, and therefore meet the scope condition in ASC 718-10-15-3(a). We

believe Cases A and B could be clarified if paragraphs 718-10-55-141 and 718-10-55-143 instead highlight that the award's exposure to changes in fair value of the entity's equity and the right to participate in residual net assets means the award is substantively a share, share option, or other equity instrument. We believe this change will help avoid unintended conclusions regarding the classification of awards given paragraph 718-10-15-3(a)'s reference to liabilities based on the price of the entity's shares.

- Case B (paragraph 718-10-55-142(b)) describes an explicit performance condition, which typically does not result in diversity in practice. We believe diversity in practice exists with scoping of time-vested awards subject to a repurchase features that functions as a vesting condition, such as when the entity has a right to repurchase vested units for no or nominal consideration upon voluntary termination. The illustrative example could clarify practice by including a case that demonstrates the scoping assessment of an award with such a repurchase feature.
- Cases C and D could be revised to more clearly demonstrate why the awards do not meet the scope conditions of 718-10-15-3(a) or 15-3(b) as follows:
  - The background facts in these cases discuss the grantee's receipt of a distribution of a specified percentage of net income. We believe that revising the background facts in Cases C and D to more clearly distinguish the incentive distributions from residual interests that distribute a share of net income would improve the operability of these cases. For example, an award that provides the holder with the right to receive a fixed percentage of the prior year's net income, provided the issuer's net income is distributed to investors on an annual basis, might be indistinguishable from the same fixed percentage interest in the issuer's retained earnings (a residual interest).
  - Profits interests, by design, are typically a legal class of an entity's equity. If the awards in Cases C and D are not intended to represent legal form equity, the background facts in Cases A and B could be revised to explicitly indicate the Class B units in those cases are legal form equity. Otherwise, paragraphs 718-10-55-145(d) and 718-10-55-147(c) should be revised to clarify how it was determined that the Class B units are not settled in equity of Entity X. For example, the background facts might instead indicate the Class B units do not provide the grantee with a right to participate in the residual net assets of the entity and are not settled in *other* equity instruments of Entity X.

**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 agree with the proposed transition provisions – providing entities with a choice of transition approach enables them to assess the cost and decision usefulness of applying the proposed scoping guidance to the particular facts and circumstances of their compensation arrangements.

**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.**

Although we recognize the Board's typical practice of staggering effective dates for PBEs and entities other than PBEs, we observe that the Proposed Update is not expected to apply pervasively to PBEs. Consequently,

a delayed effective date for entities other than PBEs might not significantly benefit those entities. In any case, we believe early adoption should be allowed.

We appreciate the opportunity to provide our comments and observations on the Proposed Update and would be pleased to discuss them with the Board members or the FASB staff at your convenience.

Sincerely,

**Matt Mitzen, CPA**

Chair, Accounting Principles Committee

**Jason Plourde, CPA**

Vice Chair, Accounting Principles Committee

APPENDIX A  
ACCOUNTING PRINCIPLES COMMITTEE  
ORGANIZATION AND OPERATING PROCEDURES  
2023-2024

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education, and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed, and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

**Public Accounting Firms:**

**National:**

Ryan Brady, CPA	Grant Thornton LLP
Ashley Carboni, CPA	KPMG LLP
Timothy Delaney, CPA	RSM US LLP
Matthew Denton, CPA	Sikich LLP
Jason Eaves, CPA	Crowe LLP
William Keirse, CPA	Ernst & Young LLP
Daniel Lisella, CPA	BDO USA, LLP
Melissa Lynch, CPA	Plante Moran, PLLC
Jason Plourde, CPA (Vice-Chair)	Grant Thornton LLP
David Wentzel, CPA	Crowe LLP

**Local :**

Peggy Brady, CPA	Selden Fox, Ltd.
Kelly Buchheit, CPA	Ostrow Reisen Berk & Abrams, Ltd.
Jennifer Cataldo, CPA	Miller Cooper & Company Ltd
Brian Kot, CPA	Cray Kaiser Ltd CPAs
Danielle Martin, CPA	Porte Brown LLC
Matt Mitzen, CPA (Chair)	Bronswick Benjamin P.C.

**Educators:**

John Hepp, CPA	University of Illinois at Urbana-Champaign (retired)
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**Industry:**

John Becerril, CPA	Elkay Manufacturing Co.
Jeffrey Ellis, CPA	FTI Consulting, Inc.
Anthony Ferreri, CPA	
Ronald Hui, CPA	Federal Signal Corporation
Thomas Masterson, CPA	Medix Staffing Solutions
Lisa Sezonov, CPA	Northern Trust Corp.
Aliya Sultaninkarim, CPA	SmithBucklin Corporation
Richard Tarapchak, CPA	Verano Holdings
William Wang, CPA	Union Tank Car Company

**Staff Liaison:**

Paul Pierson, CPA	Illinois CPA Society
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