

FASB CLARIFIES THE ACCOUNTING FOR SHARE-BASED CONSIDERATION PAYABLE TO A CUSTOMER

MAY 2025

SUMMARY

In response to stakeholder concerns about diversity in current accounting practice for share-based payment awards granted to customers, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2025-04, *Clarifications to Share-Based Consideration Payable to a Customer* (ASU 2025-04). The ASU clarifies the following about share-based consideration payable to a customer:

- ▶ Vesting conditions based on purchases by customers or their customers are performance conditions.
- ▶ The guidance in Accounting Standards Codification (ASC) 718, *Compensation — Stock Compensation*, on measuring a share-based payment is applied rather than the guidance on constraining variable consideration in ASC 606, *Revenue from Contracts with Customers*, when determining the value of such awards.

Additionally, the ASU eliminates the policy election to account for forfeitures as they occur for customer awards with service conditions. As a result, an entity must adjust the transaction price for a contract with a customer for the probability that a customer award with a performance condition will vest and for the estimate of forfeitures for a customer award with a service condition.

BACKGROUND

An entity must measure a share-based payment award to a customer by applying ASC 718. In accordance with ASC 606, an entity must reduce the transaction price for the grant-date fair value of such an award if it is not issued in exchange for distinct goods and services.

Often, share-based payment awards issued to customers include vesting conditions based on the customer's purchases or purchases by others within the distribution chain (for example, the customer's customer). However, the definitions of service and performance conditions in U.S. generally accepted accounting principles (U.S. GAAP) previously did not explicitly address such vesting conditions, which led to diversity in the characterization of such conditions and different accounting outcomes.

See our Blueprint, [Share-based Payments Under ASC 718](#), for more guidance on accounting for awards with service and performance conditions.

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MAIN PROVISIONS

Revised Performance Condition Definition

ASU 2025-04 revises the definition of performance condition to state that performance targets based on the customer's purchases or a customer's customers' purchases are examples of performance conditions for awards granted to customers. The ASU does not change existing guidance that vesting conditions based on a change of control or a liquidity event are also performance conditions.

Elimination of Forfeiture Policy Election

After entities adopt ASU 2025-04, fewer awards to customers will have service conditions. However, to align the accounting outcomes between customer awards with service conditions and those with performance conditions, the ASU eliminates the accounting policy election to account for forfeitures as they occur for customer awards with service conditions. As a result, entities must estimate the number of customer awards with service conditions expected to vest and reduce the transaction price accordingly. However, forfeiture elections for employee and other nonemployee awards are still available after adopting ASU 2025-04.



ASU 2025-04 APPLIES TO CUSTOMER AWARDS IN THEIR ENTIRETY

Entities might grant share-based payment awards to customers in exchange for both distinct and nondistinct goods or services. The FASB¹ acknowledged that a portion of an award may be granted in exchange for distinct goods or services, which does not reduce the transaction price. Conversely, the portion of the award that was not issued in exchange for distinct goods and services reduces the transaction price.

As a result of the amendments, the definition of a performance condition has two distinct parts. The first applies when a grantor acquires goods or services to be used or consumed in its own operations. The second applies only to customer awards. To prevent an entity from having to apply two separate definitions of a performance condition to a single award, the FASB clarified² that the revised definition must be applied to the entire award in this scenario. Additionally, the FASB clarified³ that the revised definition cannot be applied by analogy to employee or nonemployee awards issued in exchange for receiving goods or services to be used or consumed in the grantor's own operations outside of a revenue contract. Lastly, entities must estimate forfeitures for the entire award.

BDO INSIGHTS — ASU 2025-04 INTRODUCES NEW JUDGMENTS FOR ENTITIES

After adopting ASU 2025-04, an entity must exercise judgment when determining whether a performance condition is probable of being achieved for a share-based payment issued to a customer. Additionally, an entity must estimate forfeitures for an award issued to a customer that has a service condition. As a result, ASU 2025-04 introduces new judgments for entities to make, depending on the facts and circumstances.

Variable Consideration Constraint

ASU 2025-04 clarifies that the guidance on constraining estimates of variable consideration in ASC 606 does not apply to a share-based payment issued to a customer measured in accordance with ASC 718. The FASB made this clarification so that entities only assess the probability of vesting under ASC 718.

¹ Paragraph 40 to the Basis for Conclusions to ASU 2025-04

² ASC 606-10-55-88AB

³ ASC 606-10-55-88AC and ASC 718-10-15-5B

BDO INSIGHTS — APPLYING THE VARIABLE CONSIDERATION CONSTRAINT

While the ASU clarifies that entities must assess the probability of awards vesting using only the guidance in ASC 718, the amendments could introduce more judgment when constraining variable consideration for a contract that includes multiple forms of variable consideration. ASC 606 requires application of the variable consideration constraint to the total transaction price. Therefore, entities must use professional judgment based on the facts and circumstances when estimating variable consideration and applying the variable consideration constraint in totality when a contract includes both payments to customers in the form of share-based payments and other forms of variable consideration. See our Blueprint, [Revenue Recognition Under ASC 606](#), for more guidance on the variable consideration constraint.

EFFECTIVE DATES AND TRANSITION

The following table summarizes effective dates and transition for ASU 2025-04:

ALL ENTITIES	
Effective date	Annual reporting periods beginning after December 15, 2026, and interim reporting periods within those annual reporting periods.
Early adoption	Allowed. If early adopted, an entity must apply the transition requirements as of the beginning of the annual reporting period.
Transition	An entity must select one of the following approaches: <ul style="list-style-type: none">▶ Modified retrospective with a cumulative-effect adjustment to the opening balance of retained earnings as of the beginning of the period of adoption.▶ Retrospective to all prior periods presented. An entity recognizes a cumulative-effect adjustment to the opening balance of retained earnings as of the beginning of the earliest period presented.

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Link to [ASU 2025-04](#)

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