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accounted for as a share-based payment arrangement.

**Jason Bramwell** • May. 11, 2023



The Financial Accounting Standards Board (FASB) issued a [proposed Accounting Standards Update \(ASU\)](#) on Thursday that would add illustrative guidance to help companies determine whether profits interest and similar awards should be accounted for as a share-based payment arrangement.

In the proposed ASU, the FASB says:

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partnership. Because profits interest holders only participate in future profits and/or equity appreciation and have no rights to the existing net assets of the partnership, stakeholders have indicated that it can be complex to determine whether a profits interest award should be accounted for as a share-based payment arrangement (Topic 718, *Compensation—Stock Compensation*) or similar to a cash bonus or profit-sharing arrangement (Topic 710, *Compensation—General, or other Topics*). As a result, stakeholders have highlighted existing diversity in practice.

Currently, entities evaluate the terms, conditions, and characteristics of a profits interest award and apply judgment to determine whether to account for the award under Topic 718 or Topic 710. However, stakeholders have indicated that there is diversity in practice even when evaluating similar fact patterns. Therefore, stakeholders requested examples to clarify when the guidance in Topic 718 should be applied to profits interest awards (referred to herein as the “scope application issue”). In addition, entities accounting for economically similar awards consistently would benefit investors and other allocators of capital.

The Private Company Council (PCC) recommended that the FASB add a project that would provide illustrative guidance for all reporting entities that account for profits interest and similar awards. The board added that project, *Scope Application of Profits Interests Awards: Compensation—Stock Compensation (Topic 718)*, to its technical agenda in December 2022.

According to the FASB, the amendments in the proposed ASU would improve GAAP

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