FASB EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: September 30, 2024
Comments Due: November 14, 2024

Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606)

Clarifications to Share-Based Consideration Payable to a Customer

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topics 718 and 606 of the *FASB Accounting Standards Codification*®. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to director@fasb.org, or sending a letter to "Technical Director, File Reference No. 2024-ED300, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116."

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft until November 14, 2024. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at Exposure Documents Open for Comment
- Emailing comments to director@fasb.org, File Reference No. 2024-ED300
- Sending a letter to "Technical Director, File Reference No. 2024-ED300, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116."

All comments received are part of the FASB's public file and are available at www.fasb.org.

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective. A copy of this Exposure Draft is available at www.fasb.org.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD®

Proposed Accounting Standards Update

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Summary and Questions for Respondents

Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

The Board is issuing this guidance to reduce diversity in practice and improve the decision usefulness and operability of the guidance for share-based consideration payable to a customer in conjunction with selling goods or services.

Some entities offer to provide consideration to a customer (or to other parties that purchase the entity's goods or services from the customer) to incentivize the customer (or its customers) to purchase goods and services. Although consideration payable to a customer often takes the form of cash or credit that can be applied against amounts owed to the entity, it also can take the form of equity instruments (or other types of share-based consideration) such as warrants. When share-based consideration is granted to a customer (a grantee), it often vests upon the grantee purchasing a specified volume or monetary amount of goods and services from the grantor.

The guidance in Topic 606, Revenue from Contracts with Customers, requires that an entity account for consideration payable to a customer as a reduction of the transaction price and, therefore, as a reduction of revenue unless the payment to the customer is in exchange for a distinct good or service.

The amendments in Accounting Standards Update No. 2019-08, *Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements—Share-Based Consideration Payable to a Customer,* require that a grantor apply the guidance in Topic 718, Compensation—Stock Compensation, to measure and classify share-based consideration payable to a customer (the "Topic 718 approach"). Those amendments also require that if share-based consideration payable to a customer contains vesting conditions, the grantor must determine whether the vesting conditions represent service conditions or performance conditions. That determination can affect when the grantor recognizes revenue because it is required to estimate the probable outcome of a performance condition (and, therefore, whether the share-based consideration is expected to vest or is expected to be forfeited). By contrast, for service conditions, instead of estimating forfeitures, a grantor can elect to account for forfeitures as they occur. When the grantor elects to account for forfeitures as they occur, revenue recognition may be delayed for awards that are not probable of vesting.

Stakeholders indicated that this delay in revenue recognition can diminish the decision usefulness of a grantor's revenue information. For example, revenue may be recognized upon the forfeiture of warrants that were not expected to vest. Therefore, revenue may be recognized several reporting periods after the grantor has satisfied the related performance obligation(s), even if in that time there has been no change in the likelihood that the award will vest. Stakeholders also noted that the current guidance for forfeitures can increase the differences in financial reporting outcomes between share-based consideration payable to a customer and other forms of consideration payable to a customer (including cash consideration).

Under current guidance, there is diversity in practice in determining whether certain conditions (for example, those based on customer purchases) are service conditions or performance conditions. Therefore, stakeholders asked that the Board clarify how to distinguish between service conditions and performance conditions. Stakeholders also asked the Board to more closely align how forfeitures of share-based consideration with service conditions and forfeitures of share-based consideration with performance conditions affect the measurement of the transaction price (which affects revenue recognition timing) to improve the operability of the guidance and the decision usefulness of the resulting financial reporting information.

Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would affect all entities that issue share-based consideration to a customer that is within the scope of Topic 606.

What Are the Main Provisions, How Would the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP), and Why Would They Be an Improvement?

Under current GAAP, the definitions of *performance condition* and *service condition* do not explicitly discuss purchases made by a customer or parties that purchase a grantor's goods or services from the grantor's customers. For share-based consideration payable to a customer (including share-based consideration payable to other parties that purchase the grantor's goods or services from the grantor's customers) with a service condition, current GAAP permits the grantor to elect to account for the effect of forfeitures as they occur, which may result in a delay in revenue recognition for awards that are not probable of vesting.

In addition, current GAAP also does not explicitly state whether the guidance in Topic 606 on constraining estimates of variable consideration applies to share-based consideration payable to a customer that is measured and classified under the Topic 718 approach.

The amendments in this proposed Update would revise the Master Glossary definition of the term *performance condition* for share-based consideration payable to a customer. The revised definition would incorporate conditions (including vesting conditions) that are based on the volume, monetary amount, or timing of a customer's purchases of goods or services from the grantor. The revised definition also would incorporate performance targets based on the volume of purchases made by other parties that purchase the grantor's goods or services from the grantor's customers.

Although proportionally fewer customer awards would be expected to have service conditions, for those that do have service conditions, the amendments in this proposed Update would eliminate the policy election permitting a grantor to account for forfeitures as they occur. Therefore, when measuring share-based consideration payable to a customer that has a service condition, the grantor would be required to estimate the number of forfeitures expected to occur. Separate policy elections for forfeitures would remain available for share-based payment awards with service conditions granted to employees and nonemployees in exchange for goods or services to be used or consumed in the grantor’s own operations.

The amendments in this proposed Update would clarify that share-based consideration encompasses the same instruments as share-based payment arrangements but the grantee would not need to be a supplier of goods or services to the grantor.

Finally, the amendments in this proposed Update would clarify that, under the Topic 718 approach, a grantor should not apply the guidance in Topic 606 on constraining estimates of variable consideration to share-based consideration payable to a customer. Therefore, a grantor would be required to assess the probability that an award will vest using only the guidance in Topic 718.

Collectively, these changes would improve the decision usefulness of a grantor’s financial statements, improve the operability of the guidance, and reduce diversity in practice for accounting for share-based consideration payable to a customer. Under the proposed amendments, revenue recognition would no longer be delayed when an entity grants awards that are not expected to vest. This is expected to result in estimates of the transaction price that better reflect the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer and, therefore, more decision-useful financial reporting.

What Are the Transition Requirements and When Would the Amendments Be Effective?

The amendments in this proposed Update would permit a grantor to apply the new guidance on either a modified retrospective or a retrospective basis.

When applying the amendments in this proposed Update on a modified retrospective basis, a grantor would be required to recognize a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) as of the beginning of the period of adoption and would not recast any financial statement information before the period of adoption. A grantor would apply the proposed amendments as of the date of initial application to all share-based consideration payable to a customer.

When applying the amendments in this proposed Update on a retrospective basis, a grantor would be required to recast comparative periods and recognize a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) as of the beginning of the earliest period presented.

The effective date and whether early application should be permitted will be determined after the Board considers stakeholders' feedback on this proposed Update.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Definition of a Performance Condition

Question 1: Do you agree with the amendments in this proposed Update that would incorporate performance targets based on customer purchases into the Master Glossary term *performance condition* for share-based consideration payable to a customer? Are the proposed amendments clear and operable? Would the revised definition improve the operability of the guidance and capture the complete population of share-based consideration that vests on the basis of customer purchases? Please explain why or why not.

Question 2: In addition to customer purchases, do you agree with the proposed amendments that would incorporate performance targets based on purchases by parties that purchase the grantor's goods or services (its customer's customers) into the Master Glossary term *performance condition*? Are the proposed amendments clear and operable? Please explain why or why not.

Elimination of the Forfeitures Election for Share-Based Consideration Payable to a Customer

Question 3: Do you agree with the proposed amendments that would remove the accounting policy election for forfeitures in paragraph 718-10-35-1D for share-based consideration payable to a customer that includes a service condition? Are the proposed amendments clear and operable? Please explain why or why not.

Question 4: Should grantors that have previously made an entity-wide policy election to estimate forfeitures for nonemployee share-based payment awards, including share-based payment awards granted to customers, be permitted to make a one-time change upon transition to account for forfeitures as they occur? Please explain why or why not.

Applicability of the Guidance on Constraining Estimates of Variable Consideration to Share-Based Consideration Payable to a Customer

Question 5: Are the proposed amendments that would clarify that the guidance in Topic 606 on constraining estimates of variable consideration does not apply to share-based consideration payable to a customer clear and operable? Please explain why or why not.

Decision-Useful Information

Question 6: Would the proposed amendments reduce diversity and improve the decision usefulness of a grantor's revenue information? Please explain why or why not.

Transition and Effective Date

Question 7: The proposed transition requirements would allow grantors to apply the proposed amendments on either a modified retrospective basis or a retrospective basis (unless impracticable). Would the information required to be disclosed under each proposed transition method be decision useful? If not, why not and what transition method would be more appropriate and why? Are the proposed transition requirements operable? Please explain why or why not.

Question 8: How much time would be needed to implement the proposed amendments? Should the effective date for entities other than public business entities be different from the effective date for public business entities? Should early adoption be permitted? Please explain why or why not.

Amendments to the
FASB Accounting Standards Codification®

Summary of Proposed Amendments to the Accounting Standards Codification

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–6. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Master Glossary

2. Add the Master Glossary term *Share-Based Payment Arrangements* to Subtopic 606-10 as follows:

Share-Based Payment Arrangements

An arrangement under which either of the following conditions is met:

a. One or more suppliers of goods or services (including employees) receive awards of equity shares, equity share options, or other equity instruments.
b. The entity incurs liabilities to suppliers that meet either of the following conditions:
   1. The amounts are based, at least in part, on the price of the entity's shares or other equity instruments. (The phrase at least in part is used because an award may be indexed to both the price of the entity's shares and something other than either the price of the entity's shares or a market, performance, or service condition.)
   2. The awards require or may require settlement by issuance of the entity's shares.

The term shares includes various forms of ownership interest that may not take the legal form of securities (for example, partnership interests), as well as other interests, including those that are liabilities in substance but not in form. Equity shares refers only to shares that are accounted for as equity.

Also called share-based compensation arrangements.

3. Amend the Master Glossary term *Performance Condition*, with a link to transition paragraph 606-10-65-2, as follows:

Performance Condition

1. For share-based payments in which a grantor acquires goods or services to be used or consumed in the grantor's own operations, a ~~A~~ condition affecting the vesting, exercisability, exercise price, or other pertinent factors used in determining the fair value of an award that relates to both of the following:
   a. Rendering service or delivering goods for a specified (either explicitly or implicitly) period of time
   b. Achieving a specified performance target that is defined solely by reference to the grantor's own operations (or activities) or by reference to the grantee's performance related to the grantor's own operations (or activities).

   Attaining a specified growth rate in return on assets, obtaining regulatory approval to market a specified product, selling shares in an initial public offering or other financing event, and a change in control are examples of performance conditions. A performance target also may be defined by reference to the same performance measure of another entity or group of entities. For example, attaining a growth rate in earnings per share (EPS) that exceeds the average growth rate in EPS of other entities in the same industry is a performance condition. A performance target might pertain to the performance of the entity as a whole or to some part of the entity, such as a division, or to the performance of the grantee if such performance is in accordance with the terms of the award and solely relates to the grantor's own operations (or activities).
2. For share-based consideration payable to a **customer** that is not in exchange for a distinct good or service (or that is in exchange for a distinct good or service and can result in a reduction of the transaction price in accordance with paragraph 606-10-32-26), a condition affecting the vesting, exercisability, exercise price, or other pertinent factors used

in determining the fair value of an award that relates to any of the following:

a. Achieving a specified performance target that is defined solely by reference to the grantor's own operations (or activities) or by reference to the grantee's (the customer's) performance related to the grantor's own operations (or activities)
b. The grantee's purchase of the grantor's goods or services from either the grantor or the grantor's customers
c. A purchase of the grantor's goods or services from either the grantee or the grantee's customers.

The performance targets listed in this definition for employee and nonemployee awards (for example, a change in control) are also examples of performance conditions for share-based consideration payable to a customer.

Amendments to Subtopic 606-10

4. Amend paragraphs 606-10-32-25 through 32-25A, 606-10-55-3(mm), and 606-10-55-88A through 55-88B and their related heading and add paragraphs 606-10-55-88AA through 55-88AB and 606-10-55-88C, with a link to transition paragraph 606-10-65-2, as follows:

Revenue from Contracts with Customers—Overall

Measurement

> Determining the Transaction Price

• > Consideration Payable to a Customer

606-10-32-25 Consideration payable to a **customer** includes:

a. Cash amounts that an entity pays, or expects to pay, to the customer (or to other parties that purchase the entity's goods or services from the customer)
b. Credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the entity (or to other parties that purchase the entity's goods or services from the customer)
c. Share-based consideration ~~Equity instruments~~ (liability or equity classified) granted to the customer (or to other parties that purchase

the grantor’s goods or services from the customer) in conjunction with selling goods or services ~~(for example, shares, share options, or other equity instruments)~~. Share-based consideration encompasses the same instruments as **share-based payment arrangements** (for example, shares, cash-settled stock appreciation rights, share options and warrants, or other equity instruments), but the grantee (as a customer) need not be a supplier of goods or services to the grantor.

An entity shall account for consideration payable to a customer as a reduction of the **transaction price** and, therefore, of **revenue** unless the payment to the customer is in exchange for a distinct good or service (as described in paragraphs 606-10-25-18 through 25-22) that the customer transfers to the entity. If the consideration payable to a customer (other than share-based consideration) includes a variable amount, an entity shall estimate the transaction price (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs 606-10-32-5 through 32-13. See paragraph 606-10-32-25A for guidance applicable to share-based consideration payable to a customer.

606-10-32-25A Share-based consideration ~~Equity instruments~~ granted by an entity in conjunction with selling goods or services shall be measured and classified under Topic 718 on stock compensation. The share-based consideration ~~equity instrument~~ shall be measured at the **grant date** in accordance with Topic 718 (for both equity-classified and liability-classified ~~share-based payment~~ awards). Changes in the measurement of the share-based consideration ~~equity instrument~~ (through the application of Topic 718) after the grant date that are due to the form of the consideration shall not be included in the transaction price. Any changes due to the form of the consideration shall be reflected elsewhere in the grantor's income statement. See paragraphs 606-10-55-88A through 55-88B for implementation guidance on share-based ~~equity instruments granted as~~ consideration payable to a customer.

606-10-32-26 If consideration payable to a customer is a payment for a distinct good or service from the customer, then an entity shall account for the purchase of the good or service in the same way that it accounts for other purchases from suppliers. If the amount of consideration payable to the customer exceeds the fair value of the distinct good or service that the entity receives from the customer, then the entity shall account for such an excess as a reduction of the transaction price. If the entity cannot reasonably estimate the fair value of the good or service received from the customer, it shall account for all of the consideration payable to the customer as a reduction of the transaction price.

Implementation Guidance and Illustrations

> Implementation Guidance

606-10-55-3 This implementation guidance is organized into the following categories:

mm. Share-based ~~Equity instruments granted as~~ consideration payable to a customer (paragraphs 606-10-55-88A through 55-88C ~~55-88B~~)

• > Share-Based ~~Equity Instruments Granted as~~ Consideration Payable to a Customer

606-10-55-88A Paragraph 606-10-32-25A requires that share-based consideration ~~equity instruments~~ granted in conjunction with an entity selling goods or services be measured and classified under Topic 718 on stock compensation. If the number of **awards** ~~equity instruments~~ promised in a contract is variable due to a **service condition** or a **performance condition** that affects ~~the~~ vesting ~~of an **award**~~, the grantor ~~an entity~~ should estimate the number of awards ~~equity instruments~~ that it will be obligated to issue to the grantee ~~its customer~~ and reduce the transaction price by the grant-date fair value of the number of awards that are expected to vest (for awards with service conditions in accordance with paragraph 718-10-35-1D(a)) or for which vesting is probable (for awards with performance conditions in accordance with paragraph 718-10-25-20). A grantor should update the estimate of the number of awards ~~equity instruments~~ until the awards ~~award~~ ultimately vest ~~vests~~ in accordance with Topic 718. When measuring each award, the grantor ~~instrument, the entity~~ should include, in accordance with Topic 718, the effect of any market conditions and service or performance conditions that affect factors other than vesting. Examples of factors other than vesting are included in paragraph 718-10-30-15. Changes ~~in the grant-date fair value of an award due to revisions~~ in the expected outcome of a service condition or a performance condition (both those that affect vesting and those that affect factors other than vesting) are not deemed to be changes due to the form of the consideration (as described in paragraph 606-10-32-23) and, therefore, should be reflected in the transaction price.

606-10-55-88AA Examples of performance conditions in share-based consideration payable to a customer that is not in exchange for a distinct good or service include those with performance targets based on the grantee (or other parties that purchase the grantor's goods or services from the grantee) purchasing any of the following from the grantor (or the grantor's customers):

a. A specified volume of goods or services (including over a specified period of time)
b. A specified monetary amount of goods or services (including over a specified period of time).

606-10-55-88AB A grantor should not apply the aspects of the definition of performance condition that are specific to share-based consideration payable to a customer by analogy to awards that are within the scope of Topic 718 because they are granted to employees or nonemployees and the grantor acquires goods or services to be used or consumed in the grantor's own operations.

606-10-55-88B Paragraph 606-10-32-25A requires that share-based consideration ~~equity instruments~~ granted by an entity in conjunction with selling goods or services be measured and classified under Topic 718 at the **grant date** of the instrument. When an estimate of the fair value of share-based consideration ~~an equity instrument~~ is required before the grant date in accordance with the guidance on variable consideration in paragraph 606-10-32-7, the estimate should be based on the fair value of the award at the reporting dates that occur before the grant date. The grantor ~~An entity~~ should change the transaction price for the cumulative effect of measuring the fair value at each reporting period after the initial estimate until the grant date occurs. In the period in which the grant date occurs, the grantor ~~entity~~ should change the transaction price for the cumulative effect of measuring the fair value at the grant date rather than the fair value previously used at any prior reporting date.

606-10-55-88C Regardless of whether an award's grant date has occurred, the guidance on constraining estimates of variable consideration in paragraphs 606-10-32-11 through 32-12 should not be applied to share-based consideration payable to a customer that is measured and classified under Topic 718.

5. Add paragraph 606-10-65-2 and its related heading as follows:

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 202X-XX, *Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Clarifications to Share-Based Consideration Payable to a Customer*

606-10-65-2 The following represents the transition and effective date information related to Accounting Standards Update No. 202X-XX, *Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Clarifications to Share-Based Consideration Payable to a Customer*:

Effective date and early adoption

a. All grantors shall apply the pending content that links to this paragraph for annual reporting periods beginning after [date to be inserted after exposure] and interim reporting periods [within or beginning after] those annual reporting periods.
b. Early adoption of the pending content that links to this paragraph [is/is not] permitted.

Transition method

c. A grantor shall apply the pending content that links to this paragraph using one of the following transition methods:
   1. On a modified retrospective basis through a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) as of the beginning of the annual reporting period in which the pending content that links to this paragraph is adopted.
   2. On a retrospective basis through a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) as of the beginning of the first period presented in

accordance with the guidance on accounting changes in paragraphs 250-10-45-5 through 45-10. However, a grantor may not elect this transition approach if it is impracticable to do so. A grantor shall apply the guidance in paragraphs 250-10-45-9 through 45-10 to assess whether application of this transition approach is impracticable.

Transition disclosures

d. A grantor applying the pending content that links to this paragraph in accordance with (c)(1) shall provide the following transition disclosures in the financial statements of both the interim reporting period (if applicable) and the annual reporting period of the change:
   1. The nature of the change in accounting principle, including an explanation of the newly adopted accounting principle
   2. The method of applying the change
   3. The cumulative effect of the change on retained earnings or other components of equity in the statement of financial position as of the annual reporting period in which the pending content that links to this paragraph is adopted.
e. A grantor applying the pending content that links to this paragraph in accordance with (c)(2) shall provide the following transition disclosures in the financial statements of both the interim reporting period (if applicable) and the annual reporting period of the change:
   1. The nature of the change in accounting principle, including an explanation of the newly adopted accounting principle
   2. The method of applying the change
   3. The cumulative effect of the change on retained earnings or other components of equity in the statement of financial position as of the beginning of the earliest period presented
   4. The effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), any other affected financial statement line item, and any affected per-share amounts for any prior periods retrospectively adjusted.

Amendments to Subtopic 718-10

6. Amend paragraphs 718-10-15-5A and 718-10-35-1D and add paragraph 718-10-15-5B, with a link to transition paragraph 606-10-65-2, as follows:

Compensation—Stock Compensation—Overall

Scope and Scope Exceptions

> Transactions

718-10-15-5A Share-based consideration ~~payment awards~~ granted to a customer shall be measured and classified in accordance with the guidance in this Topic (see paragraph 606-10-32-25A) and reflected as a reduction of the transaction price and, therefore, of revenue in accordance with paragraph 606-10-32-25 unless the consideration is in exchange for a distinct good or service. If share-based payment awards are granted to a customer (or to other parties that purchase the grantor's goods or services from the customer) as payment for a distinct good or service from the customer, then the grantor ~~an entity~~ shall apply the guidance in paragraph 606-10-32-26.

718-10-15-5B A grantor shall not apply the aspects of the definition of performance condition that are specific to share-based consideration payable to a customer by analogy to awards granted to employees or nonemployees in which the grantor acquires goods or services to be used or consumed in the grantor's own operations that are within the scope of the guidance in this Topic.

Subsequent Measurement

> Recognition of Nonemployee Compensation Costs

718-10-35-1D The total amount of compensation cost recognized for share-based payment awards to nonemployees shall be based on the number of instruments for which a good has been delivered or a service has been rendered. To determine the amount of compensation cost to be recognized in each period, an entity shall make an entity-wide accounting policy election for ~~all~~ nonemployee share-based payment awards, including share-based payment awards granted to customers in exchange for a distinct good or service, to do either of the following:

a. Estimate the number of forfeitures expected to occur. The entity shall base initial accruals of compensation cost on the estimated number of nonemployee share-based payment awards for which a good is expected to be delivered or a service is expected to be rendered. The entity shall revise that estimate if subsequent information indicates that the actual number of instruments is likely to differ from previous estimates. The cumulative effect on current and prior periods of a change in the estimates shall be recognized in compensation cost in the period of the change.

b. Recognize the effect of forfeitures in compensation cost when they occur. Previously recognized compensation cost for a nonemployee share-based payment award shall be reversed in the period that the award is forfeited.

For share-based consideration payable to a customer that is not in exchange for a distinct good or service (or that is in exchange for a distinct good or service and can result in a reduction of the transaction price in accordance with paragraph 606-10-32-26), a grantor shall estimate the number of forfeitures expected to occur in accordance with paragraph 718-10-35-1D(a).

The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Richard R. Jones, *Chair*
Hillary H. Salo, *Vice Chair*
Christine A. Botosan
Frederick L. Cannon
Susan M. Cosper
Marsha L. Hunt
Dr. Joyce T. Joseph

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Background Information

Topic 718 Approach for Share-Based Consideration Payable to a Customer in Update 2019-08

BC2. The guidance in Topic 606 requires that an entity account for consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service. Consideration payable to a customer can take various forms, including cash, credit, and share-based consideration (such as warrants). Before the issuance of Update 2019-08, there was diversity in practice for measuring and classifying (as liabilities or equity) consideration payable to a customer in the form of share-based consideration. For example, when measuring share-based consideration payable to a customer, grantors were applying either the noncash consideration guidance under Topic 606 (measure at contract inception) or Topic 718 (measure at grant date).

BC3. The amendments in Update 2019-08 addressed this diversity in practice by requiring that a grantor apply a Topic 718 approach to measure and classify share-based consideration payable to a customer. Under those amendments, the amount recorded as a reduction of the transaction price is required to be measured on the basis of the grant-date fair value of the share-based consideration in accordance with Topic 718. The amendments in Update 2019-08 also require that a grantor determine whether vesting conditions, if present, meet the stock compensation definition of the term *service condition* or the term *performance condition*.

BC4. When share-based awards granted to a customer contain a service condition or performance condition that affects vesting, the amendments in Update 2019-08 established that a grantor should estimate the number of awards that it will be obligated to issue to its customer and should continue updating its estimate until the awards vest or are forfeited. Under that guidance, the transaction price is reduced only for the grant-date fair value of the awards that are expected to vest.

BC5. However, the amendments in Update 2019-08 required entities that grant share-based consideration to customers to apply their existing policy election for nonemployee awards with service conditions. If a grantor elects to account for the effect of forfeitures as they occur rather than estimate the number of forfeitures expected to occur, it would reduce the transaction price for the grant-date fair value of the total number of awards that could be issued (regardless of the probability that any of those awards will vest). That election can result in revenue recognition being delayed until a grantee forfeits the award.

BC6. Although the timing of revenue recognition can be affected by whether a vesting condition is a *service condition* or a *performance condition*, those terms were not developed in contemplation of share-based awards granted to customers in revenue transactions and were not revised by the amendments in Update 2019-08.

Issues Raised by Stakeholders

BC7. In November 2023, the Board received an agenda request indicating that several aspects of the current guidance for the Topic 718 approach are unclear and result in diversity in practice. The agenda request highlighted each of the following issues.

a. It is unclear whether an award contains a service condition or a performance condition when it is granted to a customer and vests based on purchases by customers (or by other parties that purchase a grantor’s goods or services from the grantor’s customers).
b. Permitting grantors to apply the policy election to account for forfeitures as they occur for share-based consideration payable to a customer with service conditions results in reductions to the transaction price (and revenue recognition being delayed) regardless of the probability of vesting.

c. It is unclear how the guidance on constraining estimates of variable consideration in Topic 606 interacts with the guidance on share-based consideration payable to a customer.

Benefits and Costs

BC8. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements. Overall, the Board concluded that the expected benefits of the amendments in this proposed Update would justify the expected costs.

BC9. The Board expects that revising the definition of the term *performance condition* would reduce operability challenges and diversity in practice. Furthermore, the amendments in this proposed Update would require that a grantor estimate whether share-based consideration payable to a customer is probable of vesting in more circumstances. Diversity in practice also is expected to be reduced because the proposed amendments would clarify that the guidance on constraining estimates of variable consideration does not apply to share-based consideration payable to a customer.

BC10. These changes are expected to improve the information provided to investors and other allocators of capital because they would both improve comparability and would result in estimates of the transaction price in revenue transactions that better reflect the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. Consequently, these changes are expected to better align the requirements for share-based consideration payable to a customer with the principles in Topic 606.

BC11. The Board expects that grantors may incur additional upfront and ongoing costs to implement the amendments in this proposed Update because more grantors would be required to estimate the outcome of performance conditions for share-based awards granted to customers. Moreover, the Board also expects that there would be upfront costs associated with stakeholders understanding the changes to how grantors would determine whether an award granted to a customer contains a service condition or a performance condition. However, the Board expects that by clarifying that conditions based on customer purchases are performance conditions for share-based consideration payable to a customer, grantors would incur fewer costs to analyze vesting conditions under the proposed amendments than they would incur under the current guidance.

BC12. While the Board acknowledges that grantors would incur additional costs, it believes that the expected benefits of the amendments in this proposed Update would justify the expected costs. The Board's specific considerations about the benefits and costs of the amendments in this proposed Update are further discussed in the subsequent sections.

Basis for Conclusions

Revision of the Term *Performance Condition*

BC13. Under the amendments in this proposed Update, the definition of the term *performance condition* would be revised for share-based consideration payable to a customer. The revised definition would explicitly incorporate conditions that relate to achieving a specified performance target that is defined by reference to a grantee’s purchases of goods or services from a grantor. Therefore, under the proposed amendments, a vesting condition based on the volume, monetary amount, or timing of a customer’s purchases would be a performance condition. The revised definition also would clarify that examples of performance targets listed in the definition for employee and nonemployee awards (such as a change in control) also would be considered performance conditions for share-based consideration payable to a customer.

BC14. Although not defined in the amendments in this proposed Update, the Board expects that the term *purchases* would be interpreted broadly. For example, performance targets based on (a) payments by a grantee in connection with a grantee’s purchase of goods and services from the grantor,

(b) delivery of purchased goods or services by the grantor to the grantee, or (c) the grantor, upon inception of a contract, committing to provide goods or services to the grantee in exchange for consideration would be considered performance conditions for the purpose of applying the proposed definition.

BC15. The Board determined that revising the definition of the term *performance condition* would address several of the issues raised by stakeholders because it would:

a. Require that a grantor estimate probable outcomes of conditions (including vesting conditions) that are based on a customer's purchases from the grantor. This would prevent delayed revenue recognition when an entity grants awards with vesting conditions based on customer purchases and those vesting conditions are not probable of being achieved.
b. Address diversity in practice related to whether conditions based on customer purchases are service conditions or performance conditions.
c. Align the requirements for conditions based on customer purchases with the requirements for conditions based directly on a grantor's revenues.

Require That a Grantor Estimate Probable Outcomes

BC16. The Board determined that the relevance of financial information provided to investors would be improved if a grantor reduced the transaction price (and therefore revenue) only for the grant-date fair value of awards whose vesting conditions are *probable* of being achieved. The term *probable* is defined in the Master Glossary as "likely to occur."

BC17. For awards with performance conditions that affect vesting, paragraph 718-10-25-20 requires that a grantor estimate "the probable outcome of that performance condition." For example, when an award is granted to a customer and has a single performance condition that affects vesting, the grantor is required to reduce the transaction price when it is probable that the performance condition will be achieved and is not permitted to reduce the transaction price if it is not probable that the performance condition will be achieved.

BC18. By contrast, under the current guidance applicable to awards with service conditions, a grantor is permitted to account for forfeitures as they occur instead of estimating the number of forfeitures expected to occur. Therefore, until the award is forfeited, the transaction price could be reduced for share-based consideration that the grantor does not expect to ultimately issue to a customer. Depending on when the related performance obligations are satisfied, upon forfeiture of an award the grantor may immediately recognize the award's grant-date fair value in revenue because of the change in the transaction price.

BC19. Stakeholders indicated that this delay in revenue recognition can diminish the decision usefulness of a grantor's revenue information. For example, revenue may be recognized upon the forfeiture of warrants that were not expected to vest. Therefore, revenue may be recognized several reporting periods after the grantor has satisfied the related performance obligation(s), even if in that time there has been no change in the likelihood that the award will vest. Stakeholders also noted that the current guidance for forfeitures can increase the differences in financial reporting outcomes between share-based consideration payable to a customer and other forms of consideration payable to a customer (including cash consideration).

BC20. The Board observed that treating conditions based on a customer's purchases as performance conditions would require that a grantor estimate the probability that those conditions will be achieved. This is expected to result in estimates of the transaction price that better reflect the consideration to which the entity expects to be entitled.

Reduce Diversity in Practice in Applying Topic 718 Definitions to Share-Based Consideration Payable to a Customer

Revise current Master Glossary definitions

BC21. The Board expects that revising the definition of the term *performance condition* would significantly reduce uncertainty about whether conditions based on customer purchases are service conditions or performance conditions.

BC22. The amendments in Update 2019-08 introduced the terms *service condition* and *performance condition* into Topic 606 and provided guidance for any share-based consideration payable to a customer that contains those types of conditions. However, the definitions of those terms were not revised by the amendments in Update 2019-08.

BC23. The current Master Glossary definition of the term *service condition* states that it is "a condition . . . that depends solely on . . . a nonemployee delivering goods or rendering services to the grantor over a vesting period." The current Master Glossary definition of the term *performance condition* states that it is a condition that relates to both "(a) rendering service or delivering goods for a specified (either explicitly or implicitly) period of time" and "(b) achieving a specified performance target that is defined solely by reference to the grantor's own operations (or activities) or by reference to the grantee's performance related to the grantor's own operations (or activities)."

BC24. Neither definition explicitly discusses share-based awards granted to customers whose vesting, exercisability, exercise price, or other pertinent factors are affected by a grantee's purchase of goods and services from a grantor as a customer. Additionally, both definitions indicate that they encompass only conditions that are based on the grantee providing goods or services to the grantor (notwithstanding that payments to a customer for distinct goods or services typically cannot be accounted for as a reduction of revenue under Topic 606).

BC25. To address those issues and improve the operability of the Topic 718 approach, the Board decided to explicitly state that conditions based on customer purchases are performance conditions. The amendments also would clarify that the provision of goods or services by the grantee to the grantor is not a necessary element of a performance condition for share-based consideration payable to a customer.

Other approaches considered

BC26. During initial deliberations, the Board considered other approaches that would have improved grantors' estimates of the transaction price but would not have revised the definitions of the terms *service condition* and *performance condition* in the Master Glossary. For example, some stakeholders suggested an approach that would have eliminated the forfeitures election for share-based awards granted to customers while retaining all current Master Glossary definitions. By eliminating the option to account for forfeitures as they occur, this approach would have required that a grantor estimate the number of forfeitures expected to occur for any share-based consideration payable to a customer that contains a service condition. Those stakeholders explained that this approach would accomplish the same objective as the Board's chosen approach and would avoid the need to revise either of the current definitions.

BC27. These stakeholders acknowledged that the current definitions can be challenging to interpret in the context of share-based consideration payable to a customer. Therefore, this approach would not reduce diversity in determining whether conditions based on customer purchases are service conditions or performance conditions. However, they observed that if forfeitures were required to be estimated, the effect of determining whether an award has a performance condition or a service condition would be immaterial in many circumstances. Some of these stakeholders placed significant weight on retaining the current definitions because of concerns that any changes made to the current stock compensation definitions could have unintended consequences on the accounting for employee and nonemployee share-based payment awards.

BC28. The Board acknowledged that eliminating the forfeitures election for share-based consideration payable to a customer could, in isolation, resolve some of the issues raised by stakeholders. However, the Board was concerned about the consequences of leaving the underlying issues with the definitions unaddressed.

BC29. Specifically, the Board was concerned about relying on the assumption that any differences between the requirements for service conditions and performance conditions would generally be immaterial. Some stakeholders indicated that if the forfeitures election was eliminated for customer awards, there may continue to be differences in how grantors estimate the transaction price for awards with service conditions and awards with performance conditions. Others acknowledged potential differences in how awards with service conditions and awards with performance conditions would be incorporated into the calculation of diluted earnings per share.

BC30. Therefore, the Board considered that if the issues with the definitions were not addressed, grantors may still need to distinguish between service conditions and performance conditions for customer awards, thus continuing the diversity in practice.

BC31. The Board also considered stakeholders' concerns about the potential effect changes to the performance condition definition would have on share-based payments granted to employees and nonemployees. To address those concerns, the amendments in this proposed Update would state directly that the aspects of the *performance condition* definition that are specific to customer share-based awards should not be applied by analogy to share-based awards granted to employees and nonemployees in exchange for goods or services to be used or consumed in a grantor's own operations.

BC32. The Board emphasizes that the current guidance in paragraph 105-10-05-2 states that an entity should not follow the accounting treatment specified in accounting guidance for similar transactions or events in cases in which those accounting principles either prohibit the application of the accounting treatment to the particular transaction or event or indicate that the accounting treatment should not be applied by analogy.

Align Conditions Based on Customer Purchases with Conditions Based on Grantor Revenues

BC33. The Board believes that revising the definition of the term *performance condition* to incorporate conditions based on customer purchases would improve the operability of the guidance because it would align the requirements for performance targets based on customer purchases with the requirements for performance targets based on a grantor's revenues.

BC34. The Board considered that the current definition of the term *performance condition* already incorporates performance targets based on the grantor's revenues and that those performance targets could be expanded to explicitly incorporate targets based on purchases by a customer. For example, the current guidance in Topic 718 is clear that performance targets based on the grantor's revenues are performance conditions in the context of employee and nonemployee share-based payment awards because they would relate to "achieving a specified performance target that is defined solely by reference to the grantor's own operations (or activities)." Therefore, for awards granted to customers, the Board believes that it would be appropriate to also treat conditions based on customer purchases (which affect a grantor's revenues) as performance conditions.

BC35. The Board acknowledges that it could have pursued an amendment to the definition of the term *service condition* instead of an amendment to the definition of the term *performance condition*. Amending the definition of the term *service condition* would align the guidance with some stakeholders' interpretations of current GAAP. However, the Board was concerned that revising the definition of the term *service condition* would require stating that purchasing goods or services is akin to providing goods or services. Without that clarification, the Board believes that it may be unclear how a condition based on customer purchases would be a "service" condition.

BC36. The Board was concerned that this approach would conflict with the guidance in Topic 606 stating that payments to a customer for distinct goods or services typically should not be accounted for as a reduction of revenue. That is, the Board determined that it would be counterintuitive to establish guidance stating that purchasing goods or services (a) qualifies as a service when applying the definition of the term *service condition* but (b) does not qualify as a service when determining whether the customer provides a distinct good or service to the grantor.

BC37. The Board also considered that a benefit of amending the definition of the term *performance condition* instead of *service condition* is that it would better align with the current guidance on diluted earnings per share. Topic 260, Earnings Per Share, treats awards with performance conditions as requiring "specific achievement" and awards with only service conditions as being issuable upon the "mere passage of time." Because conditions based on a specified volume of customer purchases could be considered to require a type of specific achievement and not simply the passage of time, the Board expects that the diluted earnings-per-share guidance for awards with performance conditions would be more intuitive to apply to awards that vest based on customer purchase levels.

Purchases by Parties That Purchase a Grantor's Goods or Services from its Customers

BC38. The amendments in this proposed Update would clarify that for share-based consideration payable to a customer, performance targets based on purchases by parties that purchase a grantor's goods or services from its customers, including from the grantee, are performance conditions. The Board determined that the added clarification would further improve the operability of the stock compensation definitions for share-based consideration payable to a customer.

BC39. The Board acknowledges that amending the definition of the term *performance condition* to incorporate performance targets based on the purchases made by parties that purchase a grantor's goods or services from its customers could be viewed as broadening the definition. The Board also acknowledges that some may view this clarification to be unnecessary because those performance targets are less common than targets based on purchases made directly by a customer. However, the Board understands that grantors encounter challenges in applying the stock compensation guidance to revenue transactions because much of the stock compensation guidance does not specifically consider those transactions.

BC40. For this issue, the Board was concerned that if it revised the definition of the term *performance condition* without also specifying the requirements for performance targets based on purchases by a customer's customers, grantors may assume that the Board intended for those conditions to be treated as "other" conditions, which require liability classification under Topic 718. The Board believes that awards that vest upon direct customer purchases and those that vest upon purchases made by a customer's customer are similar and therefore do not warrant different requirements for share-based consideration payable to customers.

Forfeitures Election for Customer Awards with Service Conditions

BC41. The amendments in this proposed Update would retain references to the term *service condition* in Topic 606 for share-based consideration payable to a customer. The Board acknowledged that retaining references to this definition would provide clear guidance for awards granted to customers that may contain a service condition. An example of those awards may include share-based consideration granted to a customer that vests upon a customer providing goods or services over a vesting period that is accounted for under Topic 606 because the goods or services provided by the customer are not distinct.

BC42. When compared with current practice, the amendments in this proposed Update (particularly the revisions to the definition of the term *performance condition*) are expected to reduce the proportion of share-based awards granted to customers that are considered to have service conditions. However, awards with conditions that satisfy the current definition of the term *service condition* may be appropriately accounted for as a reduction of the transaction price under Topic 606. Therefore, the Board decided to retain references to the term *service condition* in Topic 606 to provide guidance for those situations.

Applicability of the Guidance on Constraining Estimates of Variable Consideration

BC43. The amendments in this proposed Update would clarify that the guidance on constraining estimates of variable consideration in Topic 606 (the constraint) should not be applied to share-based consideration payable to a customer that is measured and classified under Topic 718, regardless of whether an award's grant date has occurred.

BC44. Under the current guidance in Topic 606, if consideration payable to a customer includes a variable amount, an entity is required to apply the variable consideration guidance, including the constraint. That guidance states that an entity should "include in the transaction price some or all of an amount of variable consideration . . . only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved."

BC45. While deliberating the amendments in Update 2019-08, the Board decided that any variability arising from vesting and nonvesting conditions included in awards granted to customers would be evaluated under Topic 718 and that the variable consideration measurement guidance in Topic 606 would not apply. However, the amendments in Update 2019-08 did not include any guidance that clearly stated to what extent the variable consideration guidance in Topic 606 (which includes the constraint) applies to share-based consideration payable to a customer. Therefore, the Board is aware of diversity in practice. Some stakeholders indicated that the constraint never applies to share-based consideration payable to a customer, some indicated that it applies only before an award's grant date, and others indicated that it applies to share-based consideration payable to a customer both before and after the grant date.

BC46. The Board understands that under the current guidance this issue may not be as significant for grantors that elect to account for forfeitures as they occur. That policy election often prevents a change in a grantee’s likelihood of satisfying a service condition from causing a reversal of revenue. However, the Board expects that requiring grantors to estimate the likelihood that grantees will achieve conditions based on customer purchases would make a reversal of revenue possible in more circumstances.

BC47. To address that concern, the proposed amendments would clarify that the guidance on constraining estimates of variable consideration does not apply to share-based consideration payable to a customer that is measured and classified under Topic 718. As a result, a grantor would be required to assess the probability of vesting only using the Topic 718 guidance.

Other Amendments

BC48. The amendments in this proposed Update also would provide for minor revisions and clarifications. For example, the guidance in Topic 606 related to share-based consideration sometimes refers to “equity instruments,” even though the guidance applies to both equity instruments and liability-classified share-based consideration. Therefore, to improve the consistency of the guidance, the proposed amendments would replace the term *equity instruments* with *share-based consideration* in certain paragraphs in Topic 606, where appropriate.

Transition and Transition Disclosures

BC49. The amendments in this proposed Update would permit a grantor to apply the revised guidance on a modified retrospective or a retrospective basis. When applying the amendments in this proposed Update on a modified retrospective basis, a grantor would be required to recognize a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) as of the beginning of the period of adoption. A grantor would not recast any financial statement information before the period of adoption. By contrast, when applying the amendments in this proposed Update on a retrospective basis, a grantor would be required to recast comparative periods and recognize a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) as of the beginning of the earliest period presented. When applying the guidance on either a modified retrospective basis or a retrospective basis, a grantor would apply the proposed amendments to all share-based consideration payable to a customer as of the date that the cumulative-effect adjustment is made (either the date of initial application or the beginning of the earliest period presented). Accordingly, the proposed amendments would not provide any exceptions for current or completed arrangements.

BC50. The Board expects that the amendments in this proposed Update would most significantly affect entities that have previously granted share-based awards to customers and determined that conditions based on customer purchases were service conditions. For those awards, in accordance with the current guidance, grantors may not have estimated the number of forfeitures expected to occur in prior periods. When applying the proposed amendments on a modified retrospective basis, a grantor would be required to initially estimate the probable outcome of any performance conditions as of the beginning of the period of adoption. A grantor would not be required to estimate the probability of vesting as of a prior period.

BC51. By contrast, when applying the amendments in this proposed Update on a retrospective basis, a grantor would be required to estimate the probable outcome of all performance conditions as of the beginning of the earliest period presented and each period thereafter. As a result, applying the guidance on a retrospective basis may require that some grantors recast comparative periods and estimate the likelihood that an award would vest as of a prior date, which may be impracticable for some grantors. Even if not impracticable in some circumstances (for example, for recently granted awards), the Board observed that retrospective application may not justify the incremental costs that grantors would incur in all circumstances. Therefore, the Board decided to permit grantors to adopt the guidance on a modified retrospective basis.

BC52. Although the amendments in this proposed Update would not require retrospective application, the Board decided to permit grantors to apply the guidance on a retrospective basis because it would promote comparability and could address concerns that application on a modified retrospective basis could reduce the amount of revenue presented in comparative income statements.

However, the proposed amendments would clarify that to apply the guidance on a retrospective basis, a grantor would be required to determine whether it is impracticable for it to do so. If retrospective application is impracticable, the grantor would be required to apply the guidance on a modified retrospective basis. This is consistent with the guidance on retrospective application for changes in an accounting principle in Topic 250, Accounting Changes and Error Corrections (which originated in FASB Statement No. 154, *Accounting Changes and Error Corrections*).

BC53. As noted in paragraph B16 of the Board's basis for conclusions in Statement 154, the objective of estimates related to prior periods is to make an estimate that reflects the conditions that existed at the date that the transaction or event would have been recognized in the financial statements if the newly adopted accounting principle had been applied as of that earlier date, not by using hindsight. The Board's basis for conclusions in Statement 154 also noted that using estimates in retrospective application is potentially more difficult when a longer period of time has passed since a transaction or event occurred. Therefore, a grantor should not apply the guidance retrospectively if it is not possible to objectively distinguish information that provides additional evidence about conditions that previously existed from other types of information.

BC54. The Board also considered permitting grantors to both apply the guidance prospectively to new awards and continue applying the current guidance to awards that were granted before the date of initial application. However, the Board was concerned that grandfathering awards under the current guidance would reduce comparability and would result in outcomes for which grantors could simultaneously have outstanding awards accounted for under two distinct sets of requirements.

Amendments to the GAAP Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy (collectively referred to as the "GAAP Taxonomy"). We welcome comments on these proposed improvements to the GAAP Taxonomy at xbrled@fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, the proposed improvements to the GAAP Taxonomy will be finalized as part of the annual release process.