Managed Funds Association
The Voice of the Global Alternative Investment Industry
Washington, D.C. | New York | Brussels | London

July 10, 2023

Via Electronic Mail: director@fasb.org

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

Re: Proposed Accounting Standards Update, *Compensation—Stock Compensation (Topic 718): Scope Application of Profits Interest Awards*; File Reference No. 2023-ED300

Dear Ms. Salo,

Managed Funds Association[1] ("**MFA**") welcomes the opportunity to comment on the Exposure Draft of the proposed Accounting Standards Update (the "**Update**") from the Financial Accounting Standards Board (the "**Board**"), "Compensation—Stock Compensation (Topic 718): Scope Application of Profits Interest Awards." MFA members, including traditional hedge funds, credit funds, and crossover funds, help pension plans, university endowments, charitable foundations, and other institutional investors diversify their investments, manage risk, and generate attractive returns over time. MFA members are investors, lenders, creditors, and other allocators of capital (collectively, "**financial statement users**" or "**investors**") for which providing information that is useful in making rational investment, credit, and similar resource allocation decisions is critical with respect to financial reporting.

We commend and support the efforts of the Board to improve generally accepted accounting principles ("**GAAP**") by adding an illustrative example to demonstrate how an entity would apply the scope guidance in paragraph 718-10-15-3 to determine whether profits interest and similar awards ("**profits interest awards**") should be accounted for in accordance with Topic 718, Compensation—Stock Compensation. We agree that the absence of authoritative guidance specific to the determination of whether a profits interest award should be accounted for as a share-based payment arrangement (Topic 718) or similar to a cash bonus or profit-sharing arrangement (Topic 710, Compensation—General, or other Topics) has resulted in diverse accounting for these awards. Accordingly, we agree that reporting entities accounting for economically similar awards consistently would benefit investors and other allocators of capital.

Our responses to the questions presented in the Exposure Draft are provided in the **APPENDIX** below.

---

[1] Managed Funds Association ("**MFA**"), based in Washington, D.C., New York, Brussels, and London, represents the global alternative asset management industry. MFA's mission is to advance the ability of alternative asset managers to raise capital, invest, and generate returns for their beneficiaries. MFA advocates on behalf of its membership and convenes stakeholders to address global regulatory, operational, and business issues. MFA has more than 170 member firms, including traditional hedge funds, credit funds, and crossover funds, that collectively manage nearly $2.2 trillion across a diverse group of investment strategies. Member firms help pension plans, university endowments, charitable foundations, and other institutional investors to diversify their investments, manage risk, and generate attractive returns over time.

*   *   *

We appreciate the opportunity to provide comments to the Board on the proposed Update, and we would be pleased to meet with the Board or its staff to discuss our comments. If the Board or its staff has questions or comments, please do not hesitate to contact Joseph Schwartz, Director & Counsel, or the undersigned at (202) 730-2600.

Respectfully submitted,

/s/ Jennifer W. Han

Jennifer W. Han
Executive Vice President
Chief Counsel & Head of Global Regulatory Affairs
Managed Funds Association

cc: Richard R. Jones, Chair, Financial Accounting Standards Board
James L. Kroeker, Vice Chairman, Financial Accounting Standards Board
Christine Ann Botosan, Board Member, Financial Accounting Standards Board
Gary R. Buesser, Board Member, Financial Accounting Standards Board
Frederick L. Cannon, Board Member, Financial Accounting Standards Board
Susan M. Cosper, Board Member, Financial Accounting Standards Board
Marsha L. Hunt, Board Member, Financial Accounting Standards Board

Elizabeth Gagnon, Supervising Project Manager, Financial Accounting Standards Board
Jennifer Kimmel, Practice Fellow, Financial Accounting Standards Board
Emerson Porter, Postgraduate Technical Assistant, Financial Accounting Standards Board
Connor Shea, Postgraduate Technical Assistant, Financial Accounting Standards Board

APPENDIX: QUESTIONS FOR RESPONDENTS

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 support the Board's view that the amendments in the proposed Update should be applicable to all reporting entities (including public business entities ("**PBEs**") and entities other than PBEs) that account for profits interest awards as compensation to employees. The proposed Update would bring needed clarity and consistency to the accounting for profits interest awards. We believe that the proposed Update would reduce the diversity in practice and enhance the usefulness of information provided to financial statement users.

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.

It is our view that the proposed illustrative example included in paragraphs 718-10-55-138 through 55-148 is clear and operable and provides needed clarity on the accounting for profits interest awards. The proposed illustrative example demonstrates how an entity might apply paragraph 718-10-15-3 to a profits interest award, and while the illustrative example is not intended to be all-inclusive, it is our view that it clearly emphasizes the key considerations that need to be evaluated when determining whether a profits interest award meets the scope guidance in paragraph 718-10-15-3.

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 Board's proposed transition provisions, allowing entities to apply the changes either retrospectively or 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.

As noted by the Board in the Basis for Conclusion (BC21), the proposed illustrative example may result in more entities accounting for profits interest awards under Topic 718. As such, we believe that the Board's decision to permit either retrospective application or prospective application will result in less costly and more efficient application.

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.

Regarding the effective date of the proposed Update, it is our view that entities should be granted sufficient time to analyze existing awards in order to apply the guidance. As noted by the Board in the

Basis for Conclusion (BC21), the proposed illustrative example may result in more entities accounting for profits interest awards under Topic 718. Many entities have multiple different classes of awards that will need to be re-analyzed with consideration given to the Update. Additionally, for entities that previously had no awards within the scope of Topic 718, the proposed amendment may require additional implementation work when applying the proposed Update. Therefore, it is our view that adoption should not be required before periods beginning January 1, 2025. Additionally, it is our view that early application should be permitted for entities that choose to do so.