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2021-005  
Comment Letter No. 13  
330 North Wabash, Suite 3200  
Chicago, IL 60611

November 12, 2021

Via email to [director@fasb.org](mailto:director@fasb.org)

Ms. Hillary Salo, Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116

**Re: Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions (File Reference No. 2021-005)**

Dear Ms. Salo:

We appreciate the opportunity to respond to the Board's exposure draft on the fair value measurement of equity securities subject to contractual sale restrictions.

We support the Board's proposed amendments to clarify the measurement of fair value of equity securities subject to contractual sale restrictions. In our view, the proposed amendments align with the existing fair value measurement principles in Topic 820 and should reduce diversity in practice, as well as the subjectivity associated with determining fair value for these types of investments.

Our detailed responses to the Questions for Respondents are contained in the attached Appendix.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Adam Brown at (214) 665-0673 or Dale Thompson at (212) 885-7318.

Very truly yours,

A handwritten signature in black ink that reads "BDO USA, LLP". The signature is written in a cursive, slightly slanted style.

BDO USA, LLP

## Appendix

***Question 1: Do you agree with the Board's decision on scope to include all contractual restrictions that prohibit the sale of an equity security? Please explain why or why not.***

We agree with the Board's decision on scope to include all contractual restrictions that prohibit the sale of an equity security. Although there are many types of contractual arrangements that restrict an entity from selling an equity security, they all have a similar effect, and therefore, we believe all contractual restrictions should be included in the scope.

However, we suggest that the Board specify, within paragraph 820-10-55-52, that restrictions imposed on securities offered in a private offering in accordance with Rule 144 of the Securities Act would be considered restricted securities. Generally, such securities are subject to resale restrictions for a specific period under the Securities Act, thus making the restriction a characteristic of the asset rather than a characteristic of the entity holding the asset. As proposed, we note BC8 refers to a shareholders agreement that establishes a contractual restriction in connection with a PIPE investment, suggesting an adjustment to the traded price would not be appropriate in that circumstance. However, common stock purchased in a PIPE typically cannot be resold unless registered under the Securities Act or an exemption from registration is available for the resale, such as Rule 144, which requires the securities to have been held for at least six months. In that case, the common stock would represent a restricted security whose value would differ from the market price of an otherwise identical unrestricted security. We understand the proposal would require entities to reflect that difference in the measurement. We suggest clarifying paragraph 55-52 and BC8 accordingly in the final ASU.

***Question 2: Do you agree with the Board's decision that a contractual restriction prohibiting the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, should not be considered in measuring fair value? Alternatively, should the Board amend the guidance in Topic 820 (or elsewhere in GAAP) such that contractual sale restrictions would be required to be considered in determining fair value?***

We agree that a contractual restriction prohibiting the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, should not be considered in measuring fair value. In determining fair value, Topic 820 indicates that a reporting entity shall take into account the characteristics of an asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Contractual restrictions are a characteristic imposed on the holder of a security, and do not affect the security itself. Therefore, market participants would likely not take such characteristic into account when pricing the security and it should not be considered part of the unit of account of the equity security. Rather, the fair value of an equity security quoted in an active market is the product of the price of the security at the date of measurement and the number of securities held ( $P \times Q$ ). To that point, our experience with closed-end funds indicates their investors find an unadjusted valuation more helpful than one reflecting a contractual discount.

***Question 3: Should all types of entities use the same unit of account when measuring the fair value of an equity security subject to a contractual sale restriction, or should certain types of entities (for example, investment companies, broker dealers, and pension plan financial statements) have a different unit of account? Please explain your response.***

We believe entities should use the same unit of account. In general, we do not believe similar transactions or investments should be treated differently based on the industry in which a reporting entity operates. While there are exceptions to this principle already for investment companies (such

as consolidation), we are not aware of a compelling reason to establish a new exception in this situation.

***Question 4: Would qualitative or quantitative disclosures (for example, describing the nature of a contractual sale restriction on an equity security and the related amount recognized on the balance sheet) help users in understanding the effects of a contractual restriction on the sale of an equity security held by a reporting entity? Please explain why or why not. For reporting entities, what costs would be incurred to disclose that information?***

We note ASC 820-10-50-6A(f) requires information of this type for certain types of investments. Depending on feedback from respondents, the Board might consider broadening the requirement for other equity securities subject to contractual restrictions and tailoring the disclosure requirement accordingly, e.g., when the contractual sale restriction expires, or is expected to expire, and the number of days remaining for the restriction to lapse as of the balance sheet date. For example, an entity may have \$10 million invested in several different equity securities. Of those, only \$2 million are subject to restrictions. Those specific securities and the factual terms of the associated restrictions could be disclosed.

We do not believe additional quantitative disclosure would be particularly useful, such as the amount of a hypothetical restriction if one was required for measurement purposes. Rather, such a requirement would seem to maintain the cost and subjectivity that currently exists in determining values to assign to the contractual restriction, which the proposal would otherwise reduce.

***Question 5: Do you agree with the transition guidance in this proposed Update? Please explain why or why not.***

We agree with the transition guidance in this proposed Update. It is a practical approach and reduces the complexity that may result from alternative methods, such as retrospective application.

***Question 6: How much time would be necessary to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities? Please explain your response.***

We believe minimal time will be needed to implement the proposed amendments, as the proposed amendments align with the existing guidance in Topic 820 regarding fair value measurement. Furthermore, entities other than public business entities should not need additional time to apply the standard as we view the proposed Update as a simplification in the accounting for equity securities with contractual sale restrictions.

***Question 7: Do you agree that the proposed amendments and, in particular, the definition of a restricted security provide the necessary clarity to resolve existing diversity in practice? Please explain why or why not. Are the proposed amendments operable and auditable? If not, which proposed amendment or amendments pose operability or auditability issues and why?***

We believe the proposed amendments provide the necessary clarity to resolve existing diversity in practice. In particular, the definition of a restricted security distinguishes between an equity security subject to a contractual sale restriction that affects the holder, from a regulatory restriction that does not depend on who holds the security. This distinction clarifies when a fair value measurement is adjusted to reflect the effect of a restriction. We believe the proposed amendments are both operable and auditable.

In the context of ASC 321, the Board might consider clarifying how the term “restricted stock” in the definition of “readily determinable fair value” should be interpreted in light of the proposed ASU. That is, entities would need to identify the nature of the restriction (contractual vs. non-contractual) to determine whether a discount is appropriate, but not for evaluating whether such securities are in the scope of ASC 321, which would continue to be determined consistent with past practice.