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To: Director - FASB <director@fasb.org>
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Subject: File Reference No. 2021-004

Technical Director,

Please receive this Invitation to Comment on File Reference No. 2021-004.

Question 1

Stakeholder -Investor, accountant analyst

Question 2

A top priority for the Financial Accounting Standards Board should be determining the proper accounting and reporting of the financial results from stock buybacks, the purchase of Treasury Stock by public corporations.

a. In 2018 and 2019, public corporations purchased $866 billion of their own stock. In 2020, they purchased another $519.7 billion and as of May 7, 2021, public companies have announced another $504 billion for purchases of Treasury Stock.

The current accounting treatment under ASC 505-30 records these expenditures at cost as a reduction in equity. The cost is not adjusted for the change in the market price of the stock even though the fair market value of the Treasury Stock is readily obtainable, and the company could sell the Treasury Stock or use it to acquire another company.

Stock buybacks are a major expenditure of corporate funds. Current accounting and reporting standards under GAAP do not provide the information needed to hold management and the Board of Directors, who approve stock buybacks, accountable for the financial results of these expenditures.

There is no accounting or reporting standard that has been established by the FASB to inform shareholders of the financial results of stock buybacks.

The primary theory supporting stock buybacks is that by reducing the number of shares outstanding, earnings per share (EPS) increases and therefore the market price of the stock increases. We know that this is not necessarily so, as several other factors unrelated to EPS, such as PE multiple and net income, affect the market price of a company's common stock.

Another rationale supporting stock buybacks is that the stock is undervalued and by buying its stock, the company is making an efficient use of its resources. If that rationale is used, then shareholders should be given the information to demonstrate that the rationale was correct. In practice, these intended results do not necessarily occur.

For instance, Walgreens Boots Alliance (WBA) spent $17.3 billion on the purchase of Treasury Stock from 2016 through 2020 at an average price of $69.88 per share. On August 31, 2020, its more recent fiscal year end, the closing price of the stock was $38.02. On the Treasury Stock that was purchased over the 5 years, the company lost $7.9 billion. This information was not reported to shareholders. The loss was material and should have been reported in WBA's financial statements.

US companies utilize stock buybacks as a method to attempt to increase the stock price and the compensation of top executives and Directors. Under Internal Revenue Code Section 162(m), direct salary paid to the top 5 executives above $1,000,000 is not deductible. As a result, the bulk of top executive compensation is paid through stock compensation tied to financial performance, of which one is the increase in the stock price. Directors often have 50% or more of their compensation paid through stock options or grants. Management and Directors have a significant personal incentive to increase the price of their company's stock.

Stock buybacks have been a major tool used to attempt to accomplish this goal. There has been no accountability for management or Directors as to whether this expenditure of corporate funds has accomplished their initial goals. In fact, there is no reporting of the financial goals the Board of Directors accepted to approve a stock buyback program, much less the financial results of this program. This lack of accountability has led to the tremendous increase in the use of stock buybacks. As accountants, we are obligated to report to shareholders the information they need to determine whether management and the Board of Directors are exercising their fiduciary obligation to work on behalf of the shareholders.

FASB cannot continue to ignore this issue.

b. I recommend the FASB Board appoint a study group to recommend new financial reporting standards for Treasury Stock.

The first issue to determine is whether the reporting should be through the financial statements as either a Profit or Loss item, part of Other Comprehensive Income or Loss, or an adjustment to the Equity section of the Balance Sheet.

Part of this issue is whether Treasury Stock should be valued at fair market value under the standards of ASC 321-10-35-1. If Treasury Stock is not retired, then it is available to be either sold for cash or to be used to acquire another company; in either case, its value will be the fair market value of the stock on the date the stock is tendered. It can be argued that Treasury Stock should be treated as an asset, as one asset, cash, is used to acquire Treasury Stock and Treasury Stock has the same attributes of any public held company, in that it is readily tradeable, and its fair market value can be easily determined.

If it is decided that Treasury Stock should be valued at fair market value in the Equity section of the Balance Sheet, then the FASB needs to determine how the annual gain or loss should be reported. If the gain or loss is reported in the Equity section, there will be no change in the total Equity of the company. The point is to inform shareholders about the gain or loss on Treasury Stock; shareholders should know this, because the funds used to buy Treasury Stock could have been paid to them as dividends or invested in growing their company.

The Notes to the Financial Statements should contain a Note reporting the financial results of the purchase of Treasury Stock and should include the following information.

1. How much the purchase of Treasury Stock increased Earnings Per Share (EPS). Shareholders currently have no information on this topic. Shareholders need to understand whether the effect on EPS was significant or not.

The FASB needs to decide whether this calculation should be based upon the current year's transactions or those over several years. Integrated into this calculation should be the offsetting shares issued as additional compensation of employees and Directors. Also, to be considered is whether the increase in EPS should be reduced by the interest cost incurred on debt borrowed to fund Treasury Stock purchases.

2. How much did the increase in EPS increase the price of the stock? Publicity from companies implies that the purchase of Treasury Stock is a major factor in increasing a company's stock price. That may or may not be the case. Shareholders should receive this information from an independent source.

The change in EPS through the purchase of Treasury Stock should be multiplied by the year end PE ratio to determine the increase in stock price caused by the purchase of Treasury Stock and this information should be included in the Notes.

3. Determine whether there is a holding gain or loss on the Treasury Stock purchased. To determine whether the investment in Treasury Stock was profitable, the total spent on the purchase of Treasury Stock should be compared to the increase in stock price determined in 2 above multiplied by the average number of shares outstanding during the year.

This shows if there was a real increase in the value of stock to the shareholders by the expenditure of corporate funds to purchase company stock. The resulting return on the investment in Treasury Stock can be compared to the company's return on assets to allow shareholders to evaluate whether the investment of corporate funds in Treasury Stock yields a higher return than investment in operating assets or paying increased dividends to shareholders.

A further question to be discussed is whether the calculation should include an income tax provision if the FMV of the purchased Treasury Stock is higher than the cost. The tax issue has to do with the contention by many that the increase in stock price due to stock buybacks is a tax-free return to shareholders; it is not, because shareholders will owe income tax when they sell their stock.

4. The Notes should include a table which shows how the Treasury Stock purchases were funded. The table could show Operating Cash Flow reduced by Capital Expenses and Dividends, leaving cash flow available to fund Treasury Stock purchases. If the Treasury Stock purchases are greater than the available cash, then the funds needed to purchase Treasury Stock were borrowed.

A prime example of this is Starbucks, which borrowed over $12 billion in 2018-2020 to purchase $19 billion of Treasury Stock resulting in a negative net worth on September 30, 2020 of $7.8 billion. Shareholders need to know this information without being accountants or analysts.

c. With the tremendous amount of corporate funds being dedicated to the purchase of Treasury Stock, the FASB is obligated to determine how public companies should report the financial results of these purchases. Until there is accountability for the financial consequences of Treasury Stock purchases, their use will continue to grow even if reinvestment of those funds in the business would be more beneficial to the company. The amount being spent on stock buybacks is too big to be ignored.

If the FASB refuses to deal with this issue, then either the SEC or the US Congress will, as investors and employees make an issue of the use of corporate funds to primarily benefit senior management and Directors. The FASB has the choice of leading or being left behind on an issue they should address.

As we have seen with the corporate executive compensation issue, leaving Congress to address this issue is a mistake. Further, allowing other entities to address an issue which the accounting profession should address will weaken the influence the profession has on the financial operation of our economy. This is an issue for the accounting profession to address before it is too late!

Question 3.

Resolving the topics discussed in this ITC will not be easy. There are many interest groups that wish to continue the lack of accountability for the purchase of Treasury Stock. This includes corporate management and Directors and Wall Street banks. I see no reason to address other GAAP issues currently. This project will be challenging and controversial, but it is necessary that the FASB address it now.

Question 4.

I have no financial reporting topics beyond these that should be a top priority of the FASB.

Question 5.

I am not able to address the priority of other issues on the FASB's technical agenda, but I feel strongly that accounting for the financial results of Treasury Stock purchases is a major issue that has been ignored for too long and needs to be addressed now as a top priority.

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