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November 12, 2021

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

File Reference No. 2021-005

Re: Proposed Accounting Standards Update, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*

Dear Ms. Salo:

Deloitte & Touche LLP is pleased to comment on the FASB's proposed Accounting Standards Update (ASU) *Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*.

We acknowledge that there is currently diversity in practice related to entities' measurement of the fair value of equity securities that are subject to contractual sale restrictions. Accordingly, we support the Board's objective of clarifying the guidance in ASC 820 to reduce the diversity in practice and enhance the comparability of reported financial information across entities that hold such securities.

We agree with the Board that a contractual restriction on the sale of an equity security is not part of the equity security's unit of account and therefore should not be considered in the measurement of its fair value. We believe that this principle is consistent with the fair value measurement principles of ASC 820 because contractual sale restrictions are characteristics of an entity and are separate from the equity security. Clarifying this principle in the relevant guidance in ASC 820 would reduce the existing diversity in practice. However, noting that the contractual restriction is not part of the equity security raises the issue of whether the restriction is a separate element for which accounting recognition is appropriate to faithfully represent the economics of the transaction. For example, an entity might pay an amount that is discounted from the observable market price for a security because the entity has agreed to a contractual restriction. That discount may represent consideration for agreeing to the restriction, and recognition in separate accounting may provide valuable information to financial statement users. Separate recognition of this contractual restriction may be important information for such users,

File Reference No. 2021-005
November 12, 2021
Page 2

especially users of financial statements for which recognition of positions at fair value is relevant. Not addressing this issue could lead to further diversity in practice.

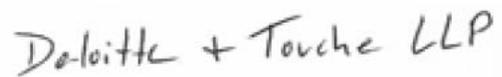
We support the Board's further consideration of whether the contractual restriction is a separate element for which accounting recognition, such as an obligation over the term of the contractual restriction, is appropriate. Resolution of this issue may reconcile the proposed ASU's approach with the alternative view.

In our view, if the Board determines that consideration of the above issue is warranted, the proposed amendments should be postponed until after the Board has considered it.

The appendix below contains our responses to the proposed ASU's questions for respondents.

We appreciate the opportunity to comment on the proposed ASU. If you have any questions about our comment letter, please feel free to contact Mike Berrigan at (203) 423-4492.

Yours truly,

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

Deloitte & Touche LLP

cc: Robert Uhl
Jon Howard

Appendix
Deloitte & Touche LLP
Responses to Proposed ASU's Questions for Respondents

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 to include all contractual restrictions that prohibit the sale of an equity security within the scope of the proposed 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?*

As discussed above, we agree with the Board's decision that a contractual restriction prohibiting the sale of an equity security is not considered part of the equity security's unit of account and therefore should not be considered in the measurement of its fair value. This approach is consistent with the principles of ASC 820 because such a restriction is a characteristic of the holder of the equity security and not a characteristic of the equity security itself.

However, we support the Board's further consideration of the accounting for the economic impact of the contractual sale restriction. While we agree that the contractual sale restriction should not be considered as part of the equity security's unit of account, we believe that an entity's obligation in accordance with a contractual sale restriction may be best evaluated as a separate element that should be recognized.

If the Board considers and agrees that the contractual restriction should be recognized as an obligation over its term, subsequent measurement of the obligation will need to be considered. In concept, and particularly for investment companies (as defined in ASC 946) for which fair value of positions is the most useful information, subsequent measurement at fair value with changes recognized in income would appear appropriate. However, for cost/benefit reasons, relieving the obligation in a systematic manner over the term of the restriction for noninvestment companies would appear appropriate.

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.*

Yes, we believe that all types of entities should use the same unit of account when measuring the fair value of an equity security subject to a contractual sale restriction. This approach is consistent with the principles of fair value measurement under which an entity is required to consider characteristics of an asset or liability if other market participants would also consider those characteristics when pricing the asset or liability.

File Reference No. 2021-005
November 12, 2021
Page 4

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?*

As discussed above, we believe that an entity's obligation not to sell an equity security in accordance with a contractual sale restriction may be best evaluated as a separate unit of account in the accounting for equity securities subject to contractual sale restrictions. This would help financial statement users understand the economic effects of a contractual restriction on the sale of an equity security held by a reporting entity. Disclosures should not be used as a substitute for recognition of an element necessary to faithfully represent the economics of the transaction.

Regardless of whether the Board considers proposed accounting for the restriction, we agree that the amendments it is now proposing would reduce the current diversity in practice for most preparers. However, we also acknowledge that diversity in practice will continue for investment companies (as defined in ASC 946) that hold equity securities with a contract containing a sale restriction that was executed before the adoption date under the proposed transition guidance. In addition, we understand that the duration of such a contract could extend longer than a year.

Under the proposed transition guidance, investment companies would be required to continue applying their historical accounting policy for measuring equity securities with contracts containing sale restrictions that were executed before the adoption date until the contractual restrictions expire or are modified. Therefore, we believe that the qualitative disclosure of an investment company's historical accounting policy for equity securities subject to contractual sale restrictions during periods in which the historical accounting policy is applied (i.e., before the proposed amendments are fully adopted) would enhance the comparability of reported financial information across investment companies. This qualitative disclosure requirement would not be relevant for entities other than investment companies since those other entities would be required to apply the proposed amendments prospectively. Please see below for additional feedback regarding the transition guidance in the proposed ASU.

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

As discussed above, investment companies would be required under the proposed transition guidance to continue applying their historical accounting policy for measuring equity securities with contracts containing sale restrictions that were executed before the adoption date until the contractual restrictions expire or are modified. We do not agree with this proposed requirement. Rather, we believe that investment companies should have the option to apply the proposed amendments for all equity securities subject to contractual sale restrictions upon adoption, regardless of their historical accounting policy for such equity securities.

Further, the proposed amendments would require all entities other than investment companies to apply the amendments prospectively and recognize in earnings on the adoption date any adjustments made as a result of adoption. We do not agree with the proposed transition guidance that would require

File Reference No. 2021-005
November 12, 2021
Page 5

entities other than investment companies to recognize any adjustments made as a result of adoption in earnings on the adoption date because we do not believe that it would be appropriate to recognize earnings unrelated to market activity in the current period. We believe that applying a retrospective or modified retrospective approach to present adjustments outside of current-period earnings would be more appropriate since the adjustments would not be related to current-period activities.

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 defer to preparers' feedback on the time needed to implement the proposed amendments, but we do not believe that the amount of time needed to implement the proposed amendments would differ across public business entities and entities other than public business entities.

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 agree that the proposed amendments provide clarity to resolve the existing diversity in practice, but we believe that clarifying that a contractual sale restriction is a characteristic of the entity holding the equity security and not a characteristic of the equity security itself would have resolved the existing diversity in practice without the addition of the definition of a restricted security. We believe that clarifying the guidance in this manner would be consistent with the existing principles of ASC 820 and would resolve the existing diversity in practice without introducing a new definition to the master glossary.

We believe that the proposed amendments can be implemented. However, we believe that the proposed amendments do not contemplate accounting for the economic impact of contractual sale restrictions that may be best evaluated as a separate unit of account, as discussed above.