VSCPA
Virginia Society of CPAs

November 14, 2021

Technical Director
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FASB
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
Submitted via email to: director@fasb.org

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

The Virginia Society of CPAs (VSCPA) Accounting & Auditing Advisory Committee (Committee) has reviewed the Proposed Accounting Standards Update- Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions, issued by the Financial Accounting Standards Board (the Board). The VSCPA is a leading professional association dedicated to enhancing the success of all CPAs and their profession by communicating information and vision, promoting professionalism, and advocating members' interests. The VSCPA membership consists of more than 13,000 individual members who actively work in public accounting, private industry, government and education. The Committee appreciates the work the Board has undertaken on this effort and the opportunity to respond to this Proposed Accounting Standards Update.

The Committee offers the following comments:

Question 1 – Restriction Type: 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.

No, we disagree with the Board's decision on scope to include all contractual restrictions that prohibit the sale of an equity security. The scope should not include all contractual characteristics that limit the sale of an equity security. Some contractual restrictions such as a lock-up agreement or a market stand-off agreement that prohibit the sale the equity security impact transferability, and therefore should be considered in fair value assessment of such security.

Question 2- Measurement: 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?

No, we disagree with the Board's decision that a contractual sale restriction of an equity security should not be considered a part of the unit of account of the equity security and, therefore not be considered in measuring its fair value. The Board should not amend the guidance in Topic 820.

4309 Cox Road
Glen Allen, VA 23060
p (804) 270-5344
f (804) 273-1741
vscpa@vscpa.com
www.vscpa.com

A contractual restriction such as a lock-up agreement or a market standoff agreement or a provision within a separate agreement between shareholders impacts transferability of the equity security. Transferability of the equity security should not be differentiated on the basis of a regulatory sale restriction, i.e., the equity security is unregistered and cannot be sold on a national securities exchange or an over-the-counter market, or the basis of a contractual restriction, i.e., lock-up or other agreement between stakeholders that prevents the sale of such security. Under either scenario, whether the equity security is registered but cannot be sold or transferred due to a contractual sale restriction, such security cannot be transferred. As the result, because the equity security remains ineligible to be sold, this inability to sell should be considered a characteristic of the equity security.

Question 3 – Entity Type: 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.

No, all entities should use the same unit of account when measuring the fair value of an equity security.

Question 4 - Disclosures: 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?

While qualitative disclosures provide additional insight to users, if a contractual sale restriction is not considered in accounting for the fair value of an equity security, any additional information on the nature of the contractual restriction might not be meaningful to users.

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

The transition guidance should be the same be for all types of entities. Investment companies, broker dealers, and pension plan financial statements should be subject to the same transition guidance to ensure comparability of their financial statements.

Question 6 - Implementation: 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.

Both public and other business entities should have the same amount of time to implement the proposed amendments. Given current labor market shortage both public and other business entities should be provided sufficient time of at least two years to assess and implement the proposed amendments.

Question 7 – Clarity and Operability: 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?

The proposed amendments are operable and auditable. In order to provide the necessary clarity and resolve existing diversity in practice, the proposed amendment should consider including contractual sale restrictions that are characteristics of the holder of the equity security when measuring fair value.

Again, the Committee appreciates the opportunity to respond to this exposure draft. Please direct any questions or concerns to VSCPA Vice President, Advocacy Emily Walker, CAE, at ewalker@vscpa.com or (804) 612-9428.

Sincerely,

Tamara Greear, CPA
2021–2022 Chair
VSCPA Accounting & Auditing Advisory Committee

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