GRANT THORNTON LLP
Grant Thornton Tower
171 N. Clark Street, Suite 200
Chicago, IL 60601-3370

D +1 312 856 0200

S linkd.in/grantthorntonus
twitter.com/grantthorntonus

November 11, 2021

Hillary Salo
Technical Director
Financial Accounting Standards Board (FASB)
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Via Email to director@fasb.org

Re: File Reference No. 2021-005

Dear Ms. Salo,

Grant Thornton LLP appreciates the opportunity to comment on Proposed Accounting Standards Update (ASU), *Fair Value Measurement (Topic 820) – Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*.

We support the amendments proposed to the guidance on equity securities that are subject to sale restrictions. We agree that a contractual restriction that prohibits the sale of an equity security by the reporting entity and does not apply equally to all holders of that class of equity security is not a characteristic of the equity security and, as a result, should not be considered when determining the fair value of the equity security. As we discuss in greater detail in our answer to Question 2, we believe that allowing entities to consider a factor that is a characteristic of the entity in the valuation of an asset represents an “entity-specific” approach to fair value, rather than the “market participant” approach to fair value on which the fair value framework in ASC 820 is premised.

Further, we believe the clarifications provided by the proposed amendments would align the examples in ASC 820 with the principles in the recognition and measurement guidance in ASC 820 and will, therefore, reduce diversity in practice around this issue.

Our answers to selected questions for respondents follow.

Grant Thornton

Responses to Invitation to Comment questions

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.

We agree. The guidance in ASC 820 clearly states that any matters that are a characteristic of a holder of an asset, and not a characteristic of the asset itself, should not be considered when determining the fair value of that asset.

We believe that all contractual sale restrictions on an equity security that are specific to an investor (or a subset of investors in a class of equity securities) are characteristics of the holder and not the equity security, and, therefore, should not be considered when determining the fair value of that equity 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?

We agree with the Board's decision. As noted in our answer to Question 1, we believe the market participant view valuation premise in ASC 820 prohibits considering any contractual sale restrictions on an equity security that are specific to an investor (or a subset of investors in a class of equity securities) when determining the fair value of an equity security because such restrictions are not a characteristic of the equity security.

Contractual restrictions on the sale of an equity security are not the only example of a situation where the value of an asset to a given reporting entity might diverge from the value determined from the perspective of a market participant. For example, a reporting entity's intended use of an asset might differ from other market participants' intended use, or a reporting entity might experience unique synergies from combining an asset with other assets. In both cases, the reporting entity is prohibited from considering such factors in determining the fair value of an asset under the market participant view of fair value.

If the Board wishes to allow entities to consider entity-specific factors in determining fair value, we would encourage a more holistic approach to evaluating the measurement principle in ASC 820.

GrantThornton

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.

We believe all types of entities should use the same unit of account. We do not believe the fair value measurement of an equity security should change depending upon which type of entity holds the security.

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

While we think the transition guidance might have some unintended consequences (for instance, if an investment company subsequently acquires identical securities in the same issuer, the investment company might carry the same security at two different values), we believe that most contractual restrictions on transferring equity securities have relatively short lives.. Accordingly, we think the transition guidance is a reasonable and practical accommodation for entities that will most likely be impacted by 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?

We believe the primary point of confusion in practice stemmed from the conflict between the example in ASC 820-10-55-52 and the recognition and measurement guidance in ASC 820. We believe the amendments appropriately eliminate this conflict.

Further, we believe the proposed amendments are auditable as many, if not most, entities, in our experience, do not currently consider the sorts of contractual restrictions identified by the Board in the amendments when determining the fair value of equity securities.

****

We would be pleased to discuss our comments with you. If you have any questions, please contact Graham Dyer (graham.dyer@us.gt.com), Rahul Gupta (rahul.gupta@us.gt.com) or Ryan Brady (ryan.brady@us.gt.com).

Sincerely,

/s/ Grant Thornton LLP