SCHOOL OF
ACCOUNTING
Spears School of Business

School of Accounting
439 Business Building
Stillwater, Oklahoma 74078-4016
O | 405.744.5123
business.okstate.edu/accounting

Ms. Hillary H. Salo
Technical Director Financial Accounting Standards Board
401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116
File Reference No. 2021-005

Dear Ms. Salo:

Thank you for the opportunity to comment on the Proposed Accounting Standards Update, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale.* We are Financial Reporting and Auditing students in the Master of Accountancy program at Oklahoma State University. We are in a Seminar in Contemporary Accounting Theory course in which we have studied the impact of various accounting procedures. This class allows students to create their own projects that dig through thorny subjects and we have decided to comment on this amendment as part of that project. Through our graduate courses we have had many discussions revolving around fair value and we wanted to take that topic to delve further into it. We have a shared interest in research in topics that require critical thinking because of their technically dense nature. We have worked within internal auditing/public accounting to draw our basis off. We have also had several opportunities to work with fair value measurement and auditing these measurements through various clients and industries. Furthermore, from the perspective of a potential investor we will also be making these claims.

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.

Response: Yes, we do believe that the Board's decision to include all contractual restrictions that prohibit the sale of an equity security is appropriate. Working through our graduate program has truly brought to light the importance of comparability and consistency. These two

SCHOOL OF
ACCOUNTING
Spears School of Business

School of Accounting
439 Business Building
Stillwater, Oklahoma 74078-4016
O | 405.744.5123
business.okstate.edu/accounting

characteristics are very important when a potential investor would like to view a particular company's financial position compared to others in the same industry. We believe that as companies become more uniform on the way they report and handle contractual restrictions that it will improve upon these two characteristics.

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?

Response: We believe that the new update should not be implemented. When determining fair value all variables should be taken into consideration, including the equity security regardless of whether it has a contractual restriction on it or not. The reader would not get a full picture of the financial statement presentation if these securities were not measured. The qualitative characteristics relevance and understandability are increased with this method because we believe these securities are important to take note of when users are looking at potential companies to invest in. Users would understand the financial position of the company better and it is potentially very relevant to the future of these companies. There are potential loopholes with planned contractual restrictions to gain economic favor at a point in time if this approach is taken. If a company did somehow manage to plan to relinquish these restrictions all at one time it could significantly alter their financials, whereas this could be avoided if we measured these restricted securities regardless. We do recognize, however, that if the restriction is never lifted that it could provide hazardous or misleading information to the users. Thus in our discussion, we recommend to include these equity securities even with restrictions placed on them to get a more accurate understanding of the entity or person(s) at hand. We do agree, however, that a disclosure should be present when users look at this value at hand.

SCHOOL OF
ACCOUNTING
Spears School of Business

School of Accounting
439 Business Building
Stillwater, Oklahoma 74078-4016
O | 405.744.5123
business.okstate.edu/accounting

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.

Response: We believe 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. In the event some entities bound the contractual sales restriction to the equity security and some entities kept the contractual sale restrictions separate from the equity security, reporting of the economic values could differ and potentially create confusion amongst stakeholders. As we discussed in our response to Question 2, the contractual restriction should always be considered during valuation, whether it is bound to the equity security or not. Uniformity in the reporting of the unit of account increases comparability and consistency, which are critical between reporting entities.

4. Disclosures: Would qualitative disclosures 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 of a reporting entity) be helpful for users to understand 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?

Response: We both acknowledge that these disclosures are vital tools to fully understanding the contractual restriction. A healthy balance of both would be the ideal scenario to provide users with the utmost knowledge on how to report these restrictions. The topic in question is inherently involved, and quantifying reporting can be difficult to look at for a good picture of what is happening. Qualitative characteristics such as understandability and verifiability are two integral components of reporting on such matters. This would also allow the user to gain a deeper

SCHOOL OF
ACCOUNTING
Spears School of Business

School of Accounting
439 Business Building
Stillwater, Oklahoma 74078-4016
O | 405.744.5123
business.okstate.edu/accounting

understanding of the contractual restriction that is present such as when and how this restriction will come into effect for the future.

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

Response: We agree with the board that the implementation of this transition should be a prospective approach. We would like to see previous contractual restrictions also be adopted over to the new method to promote uniformity among all companies, but understand that extensive amounts of time and resources may be required to do so. If constituents are able to make a retrospective approach we encourage it, but it should not be mandated. Again, with this new method a disclosure should be made if this transition takes place.

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.

Response: We do not believe there to be significant time or cost related to the implementation of the proposed amendments. We propose that nonpublic companies should be allowed a greater amount of time to implement these procedures. This would be consistent with currently pending content in ASC 820 (Fair Value Measurement), with the exception of 820-10-50-2H which provides guidance for not-for-profit entities. Consistency in implementation timing is important for reporting and investing reasons.

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

SCHOOL OF
ACCOUNTING
Spears School of Business

School of Accounting
439 Business Building
Stillwater, Oklahoma 74078-4016
O | 405.744.5123
business.okstate.edu/accounting

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?

Response: We believe that clarity in the discussion of restricted securities could be improved. Further clarification would reduce the amount of variability and further strengthen the proposed amendments. This amendment does not change any fundamental principles of fair value measurement, as it is mainly adding clarification on the topic. There should be no risk of operability or auditability of the amendment. We believe that even without further clarification of restricted securities, the proposed amendments are both operable and auditable.

We again thank the Board for the opportunity to comment on this matter and we hope our comments have been helpful in the process of updating this standard. Should you have any questions or would like to discuss our responses please feel free to reach out to Emme Cain at emme.cain@okstate.edu or Preston Myer at preston.myer@okstate.edu.

Sincerely,

Emme Cain and Preston Myer

Oklahoma State University Wilton T. Anderson School of Accounting

Master of Accounting Class of 2022