2021-005
Comment Letter No. 27

Florida Institute of Certified Public Accountants

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FASB Technical Director
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Via e-mail: director@fasb.org

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

Dear Ms. Salo:

The Accounting Principles and Auditing Standards Committee (the Committee) of the Florida Institute of Certified Public Accountants (FICPA) respectfully submits its comments on the referenced proposal. The Committee is a technical committee of the FICPA and has reviewed and discussed the above referenced ITC. The Committee is comprised of 22 members, of whom 41% are from local or regional firms, 14% are from large multi-office firms, 9% are sole practitioners, 5% are in international firms, 9% are in academia, and 22% in industry. The response below reflects only the views of the Committee. The Committee has the following comments related to the questions below:

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.***

Comment: The Committee agrees with the Board's decision to include all contractual restrictions that prohibit the sale of an equity security because this would create consistency in the treatment of equity securities as to the required exclusion of the contractual restrictions when measuring the fair value of the security. There is currently inconsistency in the measurement practices in place and this proposed amendment would streamline further consistent and comparable financial statements internal to the company and across different businesses.

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?***

Comment: The Committee agrees with the Board's decision that a contractual restriction prohibits the sale of an equity security should not be considered part of the unit of account of the equity security and therefore should not be considered in measuring fair value because of the current diversity in practice to measure the fair value of such securities. As noted above, this would create further consistency and comparability for entities with such securities in the financial statements.

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.***

Comment: The Committee believes that in order to be consistent with the transition guidance allowed within the proposed standard, investment companies as defined under ASC 946 should use a different unit of account, whereas all other companies should use the same unit of account when measuring the fair value of an equity security subject to contractual sale restrictions.

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?***

Comment: The Committee believes that the qualitative and quantitative disclosures for businesses with material amounts of equity securities subject to contractual sale restrictions would be helpful to the users of the financial statements in order to understand the risk and volatility associated with the liquidity and potential future sale impact. The cost to disclose would require additional processes in place in order to track the restrictions on the equity securities for qualitative and quantitative disclosure, as well as potentially additional valuation specialists to assist with potential quantitative impact. For private companies, this may be a higher cost than benefit to the users of the financial statements over all and should take into consideration a private company expedient if possible.

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

Comment: The Committee believes that the transition guidance proposed is adequate due to the nature of the industries and entities with material impacts. The committee agrees that due the nature and volume of the securities for investment companies, the historical treatment would likely be needed to run out with the new fair value measurement implemented prospectively. For all other industries, this would likely not be needed and would provide additional benefit immediately versus the cost.

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.***

Comment: The Committee believes the proposed amendments should be able to be implemented within 2 fiscal years from issuance, e.g. fiscal years ending after December 15, 2023, for both public and private companies because the scope of companies impacted for assessing the impact and the new processes needed to streamline the fair value measurement for small companies.

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?*

Comment: The Committee believes that this will resolve the existing diversity in existing practices related to fair value measurement because of the current lack of clarity in the inclusion of the fair value related to the sale restrictions within equity securities. By eliminating the methodology discrepancies in the measurement, the measurement diversity will be narrowed.

There are no operability or auditability issues noted based on the fact pattern and proposed accounting standard changes as outlined.

Respectfully submitted,

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Tracy Genevieve Hancock, CPA
Vice-Chairperson FICPA Accounting Principles and Auditing Standards Committee