



November 12, 2021

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

**RE: File Reference No. 2021-005**

Dear Ms. Salo,

PricewaterhouseCoopers LLP appreciates 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 commend the FASB for its continuing efforts to improve the financial information available to investors and other financial statement users across reporting entities relating to valuation matters.

We generally agree that the proposed amendments, which would prohibit an entity from considering contractual restrictions that restrict the sale of an equity security in measuring an equity security's fair value, are consistent with the principles of Topic 820, which broadly requires the unit of measurement to be consistent with the unit of account. However, consistent with the alternative views expressed in the proposed ASU, we believe that investment companies subject to the guidance in Topic 946 or real estate funds that measure investments at fair value on a recurring basis and issue financial statements that are consistent with the measurement principles in Topic 946 should be required to include certain contractual restrictions in measuring fair value. These entities follow specialized industry accounting designed around the importance of reported net asset value (NAV), which may impact asset-based fees and incentives as well as the pricing of transactions with investors. We believe that for the purposes of computing NAV, it is important to reflect the impact on value of an entity's inability to monetize its holdings during the restricted period.

We recognize that this may result in different reporting entities computing fair value differently for the same investment. However, the accounting and reporting model for entities that do not apply Topic 946 was not designed around the reported NAV. In addition, in many cases, entities that do not apply Topic 946 would not seek to monetize these investments prior to the end of the restriction period even if there were no restrictions. They also do not have fee arrangements or similar transactions with investors as investment companies. As a result, the restrictions may not impact their business as significantly. We therefore believe that whether an entity is in the scope of Topic 946 or not represents a reasonable, while not perfect, determinant for when contractual restrictions should be required or prohibited from being considered in the measurement of fair value.

We do not believe that every contractual restriction that entities in the scope of Topic 946 are subject to should be considered in measuring fair value. For example, we do not believe an entity should consider restrictions on the transfer of an investment because it is pledged as collateral against a borrowing. However, contractual restrictions that impact market participants beyond those that are counterparty to the arrangement should be included in the measurement of fair value.



To determine which contractual restrictions should be included in the measurement of fair value, the Board could require the consideration of factors such as whether:

- there is involvement of the issuer of the security,
- the contractual restriction is designed to support activities of the issuer of the security,
- there is publicly available information about the existence of the restrictions, and
- the ability to enforce the arrangement is broader than in a traditional bi-lateral agreement (which we understand is the case in some circumstances).

Lastly, we are concerned that creating a new definition of a restricted security in the master glossary may create confusion and give the mistaken impression that only instruments with restrictions similar to those required by Rule 144 or similar rules of the SEC would be considered in computing fair value under Topic 820. We believe that the proposed definition should instead be incorporated into the proposed example.

The appendix contains our responses to the Questions for Respondents and other comments and suggestions for the Board's consideration.

\* \* \* \* \*

If you have any questions regarding our comments, please contact Chris Brabham at [christopher.brabham@pwc.com](mailto:christopher.brabham@pwc.com) or Heather Horn at [heather.horn@pwc.com](mailto:heather.horn@pwc.com).

Sincerely,

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

PricewaterhouseCoopers LLP



**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 understand that the scope of the proposed guidance, which would prohibit the consideration of contractual restrictions in determining fair value under Topic 820, is limited to contractual restrictions that are not legally part of the equity security or part of the agreements that create the equity security or govern its terms. Based on this understanding, we agree with the Board’s decision to include all contractual restrictions of this nature as opposed to limiting its scope to a specific type of a contractual restriction.

**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 generally agree with the proposed amendments that would prohibit an entity from considering contractual restrictions on the ability to sell an equity security in measuring that security’s fair value. We believe that the proposed guidance is consistent with a principle of Topic 820, which generally requires the unit of measurement under Topic 820 to be consistent with the unit of account determined by other GAAP. However, we are concerned that creating a new definition of a restricted security in the master glossary may create confusion and give the mistaken impression that only instruments with restrictions similar to those required by Rule 144 or similar rules of the SEC would be considered in computing fair value under Topic 820. We believe that the proposed definition should instead be incorporated into the proposed example. See our response to Question 7 for suggestions on how the guidance on restricted securities could be clarified.

In addition, as further explained in our response to Question 3, we believe that investment companies subject to the guidance in Topic 946, or real estate funds that measure investments at fair value on a recurring basis and issue financial statements that are consistent with the measurement principles in Topic 946, should be required to include certain contractual restrictions in measuring fair value.

**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.**

Consistent with the alternative views expressed in the proposed ASU, we believe that investment companies subject to the guidance in Topic 946, or real estate funds that measure investments at fair value on a recurring basis and issue financial statements that are consistent with the measurement principles in Topic 946, should be required to include certain contractual restrictions in measuring fair value. These entities follow specialized industry accounting designed around the importance of reported net asset value



(NAV), which may impact asset-based fees and transactions with investors. We believe that it is important to reflect the value of an entity's inability to monetize its holdings for the purpose of computing NAV.

We believe that this could be accomplished by adding new guidance on the unit of measurement for equity securities and certain contractual restrictions into Topic 946. We also observe that requiring entities applying Topic 946 to include the impact of certain restrictions in the computation of fair value will also impact reporting entities that are investors in these entities that apply the practical expedient to measure their investments at NAV. We believe that this is appropriate and results in a reported amount consistent with the Board's intent of providing the NAV practical expedient.

We do not believe that every contractual restriction that entities in the scope of Topic 946 are subject to should be considered in measuring fair value. For example, we do not believe an entity should consider restrictions on the transfer of an investment because it is pledged as collateral against a borrowing. However, contractual restrictions that impact market participants beyond those that are counterparty to the arrangement should be included in the measurement of fair value. When the issuer of the security is involved with (and may be a counterparty to) a contractual restriction agreement, it is generally because the restriction is designed (in part) to support activities of the issuer. For example, the arrangement may be designed to support the longer-term stability of the stock price for a newly public company (e.g., a lock up in connection with an initial public offering).

In addition, when contractual restrictions are designed to impact the broader market for the issuer's stock, the existence of the nature and terms of contractual restrictions is public information. We understand that these types of agreements may be required to be disclosed by the issuer to comply with relevant securities laws. We also understand that, in some cases, the ability to enforce these agreements is broader than under a traditional bi-lateral agreement. For example, we understand that in some cases, violations of these agreements would be considered securities law violations and custodians and securities transfer agents may act to prohibit transfers that would violate these contractual agreements. In these circumstances, the arrangements do not seem to be designed to solely impact the investors holding the shares to which these arrangements pertain and thus could be interpreted to not be entity specific. Instead these agreements are designed to impact the market for the company's stock (which impacts investors with contractual restrictions and investors without such restrictions). These types of arrangements are different from bi-lateral arrangements such as those that restrict the transfer of an investment because it is pledged as collateral against a borrowing. These types of borrowing arrangements are attributes of the reporting entity as opposed to attributes impacting the broader market for the shares.

We recognize that this may result in different reporting entities computing fair value differently for the same investment. However, the accounting and reporting model for entities that do not apply Topic 946 was not designed around the reported NAV. In addition, in many cases, entities that do not apply Topic 946 would not seek to monetize these investments prior to the end of the restriction period even if there were no restrictions. They also do not have fee arrangements or similar transactions with investors as investment companies. As a result, the restrictions may not impact their business as significantly. We therefore believe that whether an entity is in the scope of Topic 946 or not represents a reasonable, while not perfect, determinant for when contractual restrictions should be required or prohibited from being considered in the measurement of fair value.



**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?**

We believe that qualitative disclosures describing the nature of contractual sale restrictions not otherwise required to be disclosed would be beneficial to users of financial statements regardless of whether an entity is permitted to include the impact of a contractual sale restriction.

Under our proposal as described in Question 3, we believe entities should disclose whether contractual restrictions have been included in the measurement of fair value. We do not believe that additional quantitative disclosures should be required for entities required to include the impact of a contractual sale restriction in the unit of measurement in applying ASC 820. We believe that the existing disclosures within Topic ASC 820 are sufficient. We also do not believe the cost of quantitative disclosures, such as the value of restrictions not included in the Topic 820 measurement, would justify the benefits for entities precluded from including the impact of a contractual sale restriction in applying Topic 820.

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

Yes, we support the proposed transition guidance.

**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.**

We believe that this question is best addressed by financial statement preparers. If the FASB requires entities that apply Topic 946 to include the impact of contractual restrictions, we believe it may take preparers some time to create policies, procedures, controls, and processes to incorporate the impact of contractual restrictions into their estimates of fair value.

We are not aware of any specific factors that would require additional time for entities other than public business entities.

We believe that early adoption should be permitted.

**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 are concerned that creating a new definition of a restricted security that is only used in an example may create confusion and give the mistaken impression that only instruments with restrictions similar to



those required by Rule 144 or similar rules of the SEC would be considered in computing fair value under Topic 820. The proposed definition only focuses on restrictions relating to a security being registered or not. In addition, the definition refers to “other equity securities from the same class of stock.” We do not believe that this definition fully captures the types of restrictions that exist in practice which would be considered part of the same unit of account or an attribute of securities. For example, a company may issue two classes of preferred stock. The first class may be freely transferable (although it may not be a registered security). The second class may require the holder to obtain the company’s approval to transfer the security. We believe that the second class would have a restriction that is an attribute of the asset; therefore, this restriction is a part of its unit of account that should be considered in estimating its fair value under Topic 820.

We suggest that the proposed definition of restricted security be deleted and incorporated into the examples within paragraph 820-10-55-52 through 52A. With the removal of the proposed definition, the proposed guidance could be drafted as follows:

820-10-55-52 A reporting entity holds an **equity security** {add glossary link to 1st definition} that is not registered for sale with a national securities exchange or an over-the-counter market, either domestic or foreign, when other equity securities from the same class of stock are registered for sale with a national securities exchange or an over-the-counter market. To be legally sold on a national securities exchange or an over-the-counter market, the unregistered security must be registered or satisfy the conditions necessary for an exemption from registration. Therefore, it is not identical to an equity security of the same class that is registered for sale on a national securities exchange or an over-the-counter market. Because a restricted security remains ineligible for sale on a national securities exchange or an over-the-counter market until either the share is registered or it meets the conditions necessary for an exemption from registration, the sale would occur in a different market on the measurement date. Because a market participant would consider the inability to resell the restricted security in a national securities exchange or an over-the-counter market when pricing the equity security, the reporting entity would consider that restriction a characteristic of the asset. In that case, the reporting entity should measure the fair value of the restricted security on the basis of the market price of the similar, unrestricted equity security adjusted to reflect the effect of the restriction. The adjustment will vary depending on all of the following:

- a. The nature and duration of the restriction
- b. The extent to which buyers are limited by the restriction (for example, there might be a large number of qualifying investors)
- c. Qualitative and quantitative factors specific to both the instrument and the issuer.

820-10-55-52A A reporting entity holds an **equity security** that is subject to a contractual restriction that prohibits sale of the equity security by the reporting entity. A contractual restriction may be referred to as a lock-up agreement or a market standoff agreement or may be the result of a provision within a separate agreement between shareholders (that is, separate from the legal documents that establish the rights and obligations of all holders of a particular class of stock). In that instance, the restriction is not a characteristic of the asset and is ignored for the purposes of measuring fair value. The equity security subject to the contractual restriction is identical to an equity security of the same class that is not subject to a contractual restriction. Therefore, consistent with the guidance in paragraphs 820-10-35-6B and 820-10-35-36B, the fair value of the equity security subject to the contractual restriction should be measured on the basis of the market price of the same equity security without the contractual sale restriction and should



not be adjusted to reflect the reporting entity's inability to sell the equity security on the measurement date.

If the Board agrees with our proposal regarding entities that apply Topic 946, the first sentence of 820-10-55-52A could be further amended:

820-10-55-52A A reporting entity that does not apply Topic 946 holds an **equity security** that is subject to a contractual restriction that prohibits sale of the equity security by the reporting entity...