From: Ron DiMattia <ron@corporatevaluepartners.com>
Sent: Tuesday, September 8, 2020 10:22 AM
To: Director - FASB <director@fasb.org>
Subject: File Reference No. 2020-200 Compensation-Stock Compensation (Topic 718)

Thank you for the opportunity to submit my comments on File Reference No. 2020-200, "Determining the Current Price of an Underlying Share for Equity-Classified Share-Option Awards," a proposal of the Private Company Council.

I offer the following comments for your consideration:

I support your proposal. Thank you. I believe that it is an improvement to our accounting standards, for a few important reasons.

First, the proposal acknowledges the validity of a long-standing valuation framework (other than SFAS 157) for financial reporting purposes. This framework has been in existence for many years; companies and regulators have been well served through its use.

Second, the proposal acknowledges that the "reasonable application of reasonable methods" is valid for financial reporting purposes. This is extremely important because it acknowledges that valuation cannot be automated or legislated into the prescribed use of specific methods / techniques / assumptions. Each company, situation and analyst are different, and a one-size-fits-all method is expensive, complex, inefficient and just as likely to be incorrect as other methods.

Third, the proposal moves us away from an inaccurate argument that was advanced to support the original development and issuance of SFAS 157. The argument was that the FASB needed to develop a new valuation framework to avoid being drug into precedents established in Tax Court. This has always been an inaccurate argument. Business courts are not bound by Tax Court decisions. When matters before business courts touch on matters decided in Tax Court, business courts have shown that they are not compelled to follow Tax Court precedent (see Delaware MRI).

I have only one specific comment. Page three of the Exposure Draft includes the following text: "The PCC decided that the practical expedient in this proposed Update should not be available for liability-classified awards, primarily because those awards are required to be remeasured at the end of each reporting period. It is not expected that nonpublic entities would obtain valuations that satisfy the presumption of reasonableness requirements of Section 409A at each reporting date."

I don't know if the following information helps, but I will offer it just in case. Subsequent valuations of an entity are often billed at a substantial discount, particularly if the valuations are recurring. Some companies may be able to strike a deal with their valuation firm to allow for 409A-compliant, updated valuations at a fairly reasonable cost. As a result, I don't think it hurts to allow a 409A valuation as an option to be used for liability-classified awards if your concern was based on cost. There may well be some companies that could benefit from such an option.

Thanks again. I appreciate it.

Sincerely,

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