



In This Issue

- [Overview](#)
- [Proposed Revisions to Chapter 8](#)
- [Proposed Revisions to Chapter 9](#)
- [Contacts](#)

AICPA Releases Working Draft of Two Revised Chapters for Next Edition of Accounting and Valuation Guide

Overview

On June 23, 2024, the AICPA's Financial Reporting Executive Committee ("FinREC") announced the release of a [working draft](#) of two revised chapters that are ultimately expected to be included in the next edition of the AICPA Accounting and Valuation Guide [Valuation of Privately-Held-Company Equity Securities Issued as Compensation](#) (the "AICPA Valuation Guide"):

- Chapter 8, "Inferring Value From Transactions in a Private Company's Securities."
- Chapter 9, "Selected Accounting and Disclosure Matters."

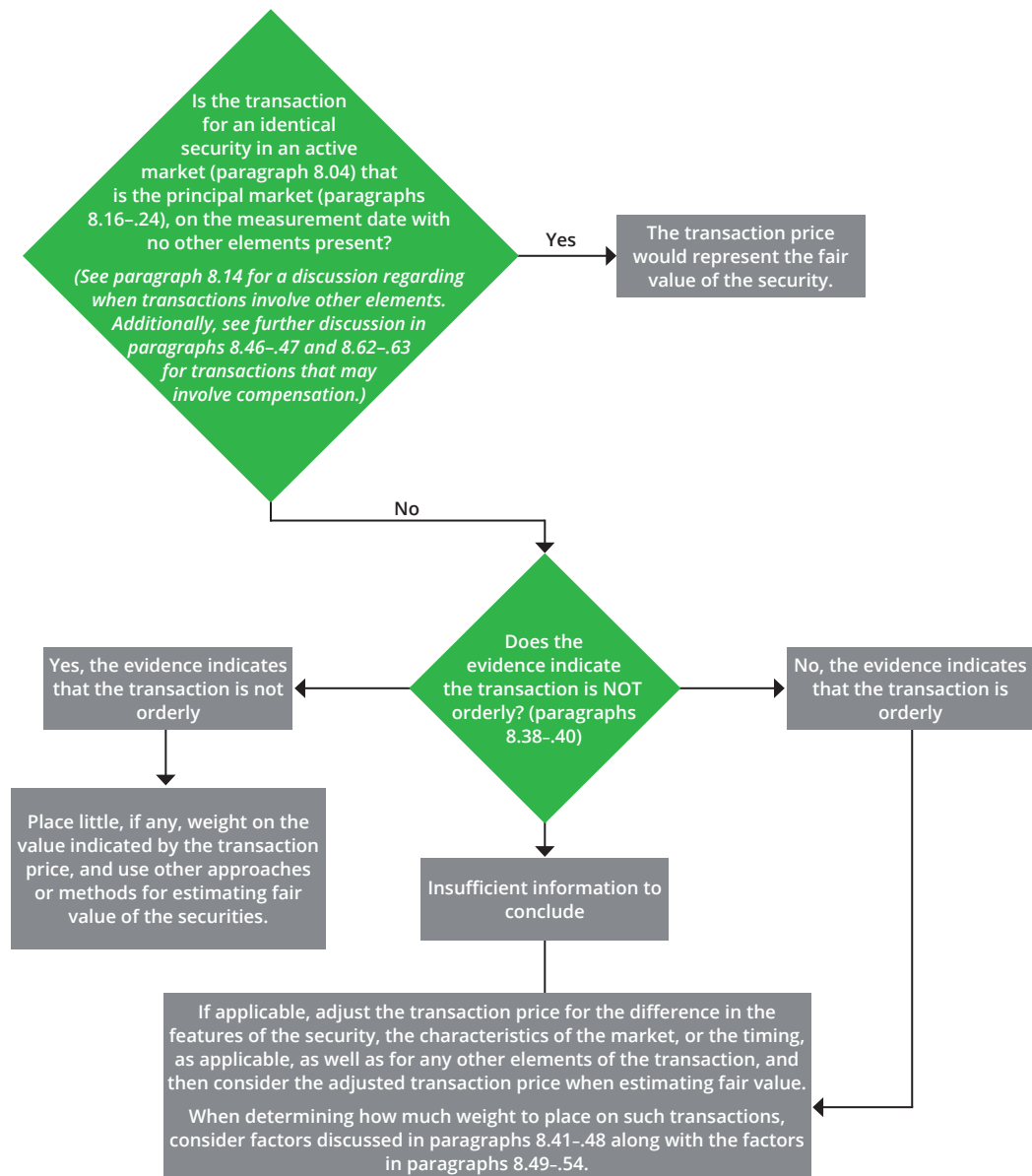
FinREC established the Equity Securities Task Force (the "Task Force") to develop the revisions, which are primarily intended to expand the interpretive guidance on the comprehensive framework for evaluating and assessing the impact of secondary transactions and to better align the AICPA Valuation Guide with the accounting literature issued after the publication of the guide's current edition in 2013.

The Task Force is seeking informal feedback from the public on the working draft by September 20, 2024, and has indicated that it will keep comments confidential and will not post them on the AICPA's Web site.

Proposed Revisions to Chapter 8

Background

The purpose of the guidance in Chapter 8 is to give entities a “framework for calibrating to [primary¹ and secondary²] transactions in the company securities for evaluating and assessing their impact on estimating fair value of the equity securities underlying awards of stock-based compensation.” The updates to the chapter expand the interpretive guidance and the framework for applying the measurement principles in ASC 820³ as well as for assessing the relevance of primary and secondary transactions associated with such estimations. The decision tree below, which the Task Force developed for the assessment of secondary transactions, is reproduced from paragraph 8.07 of the working draft.



¹ A primary transaction is defined in Chapter 8 as “[a] transaction involving the original issuance of an equity interest in or debt instrument of a privately-held company directly by the company to an investor, other than in a public offering. Note that primary transactions may involve existing investors, new investors, or both.”

² A secondary transaction is defined in Chapter 8 as “[a]ny purchase or sale, other than the original issuance, of an equity interest in or debt instrument of a privately-held company. Such transactions may be completed either in a private transaction between two or more parties, or through a secondary exchange. A secondary transaction differs from a public market transaction in that the securities transacted are not public; therefore, generally the buyers in these transactions are accredited investors, and the issuers of the securities are not subject to public company reporting requirements. For purposes of this guide, a purchase of an equity interest or debt instrument by the company (or its related parties or other economic interest holders) from employees are also considered to be within the scope of secondary transactions.”

³ FASB Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*. The Task Force believes that the measurement principles in ASC 820 should be applied unless they are inconsistent with the guidance in FASB Accounting Standards Codification Topic 718, *Compensation — Stock Compensation*.

The Task Force believes that entities will most likely navigate to the bottom box of the above decision tree because a secondary transaction that involves a private company's equity securities is highly unlikely to be for identical securities in an active market that is the principal market on the same measurement date. Secondary transactions for a private company typically occur in a secondary market, which would not typically be considered an active market. In addition, the Task Force believes that it is rare for a transaction to be considered not orderly. The revised chapter summarizes the considerations presented in the above decision tree, including how much weight to place on these transactions:

Topic	Considerations	Revised Chapter 8 Paragraphs
Unit of account	Understanding which security is being valued and the purpose of the measurement is a critical first step in working through the decision tree above.	8.13 through 8.15
Determining the principal market	Determining whether the transaction took place in the principal market ⁴ or the most advantageous market ⁵ is an important step in the framework and may be challenging or require the use of judgment.	8.16 through 8.24
Calibrating the transactions	Private companies periodically may have both primary transactions and secondary transactions. Entities should calibrate their valuation models on the basis of these transactions when they are observable and provide evidence of fair value.	8.25 through 8.40
Weighing secondary transactions	Entities must use significant judgment and consider various factors in determining the relevance of a secondary transaction and how much weight to place on it when calibrating a valuation model.	8.41 through 8.48
Weighing other indications of fair value	Observable secondary transactions may need to be supplemented with other valuation approaches.	8.49 through 8.54
Different types of transactions	To help users apply the framework outlined in Chapter 8, the Task Force provided a list of the types of primary and secondary transactions that may be relevant to the fair valuation of equity securities underlying share-based payment awards.	8.55 through 8.66

Proposed Revisions to Chapter 9

The updates to Chapter 9 provide a framework based on ASC 718 for assessing whether a secondary transaction is compensatory. The chapter also discusses certain disclosure considerations for share-based payment awards.

⁴ ASC 820-10-20 defines a principal market as "[t]he market with the greatest volume and level of activity for the asset or liability."

⁵ ASC 820-10-20 defines the most advantageous market as "[t]he market that maximizes the amount that would be received to sell the asset or minimizes the amount that would be paid to transfer the liability, after taking into account transaction costs and transportation costs."

Contacts



Sean May
Audit & Assurance
Partner
Deloitte & Touche LLP
+1 415 783 6930
semay@deloitte.com



Henry Wilson
Audit & Assurance
Senior Manager
Deloitte & Touche LLP
+1 312 802 4897
hwilson@deloitte.com

Dbriefs for Financial Executives

We invite you to participate in [Dbriefs](#), Deloitte's live webcasts that give you valuable insights into important developments affecting your business. Topics covered in the [Dbriefs for Financial Executives](#) series include financial reporting, tax accounting, business strategy, governance, and risk. Dbriefs also provide a convenient and flexible way to earn CPE credit — right at your desk.

Subscriptions

To subscribe to Dbriefs, or to receive accounting publications issued by Deloitte's Accounting and Reporting Services Department, please visit My.Deloitte.com.

The Deloitte Accounting Research Tool

The Deloitte Accounting Research Tool (DART) is a comprehensive online library of accounting and financial disclosure literature. It contains material from the FASB, EITF, AICPA, PCAOB, and SEC, in addition to Deloitte's own accounting manuals and other interpretive guidance and publications.

Updated every business day, DART has an intuitive design and powerful search features that enable users to quickly locate information anytime, from any device and any browser. Users can also work seamlessly between their desktop and mobile device by downloading the DART by Deloitte [mobile app](#) from the App Store or Google Play. While much of the content on DART is available at no cost, subscribers have access to premium content, such as Deloitte's *FASB Accounting Standards Codification Manual*. DART subscribers and others can also [subscribe](#) to *Weekly Accounting Roundup*, which provides links to recent news articles, publications, and other additions to DART. For more information, or to sign up for a free 30-day trial of premium DART content, visit dart.deloitte.com.



Heads Up is prepared by members of Deloitte's National Office as developments warrant. This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

The services described herein are illustrative in nature and are intended to demonstrate our experience and capabilities in these areas; however, due to independence restrictions that may apply to audit clients (including affiliates) of Deloitte & Touche LLP, we may be unable to provide certain services based on individual facts and circumstances.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the "Deloitte" name in the United States and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see www.deloitte.com/us/about to learn more about our global network of member firms.