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October 27, 2025

Mr. Jackson M. Day
Technical Director
Financial Accounting Standards Board
801 Main Avenue, PO Box 5116
Norwalk, CT 06856-5116

Via Email to director@fasb.org

Re: File Reference No. 2025-ED300

Dear Mr. Day:

Grant Thornton LLP appreciates the opportunity to comment on the FASB's Proposed Accounting Standards Update (ASU), *Initial Measurement of Paid-in-Kind Dividends on Equity-Classified Preferred Stock (Topic 505, Equity)*. We support the proposal and believe that it provides much-needed guidance in U.S. GAAP for the measurement of paid in kind (PIK) dividends on equity classified preferred stock. We agree that the proposed guidance would improve comparability by reducing diversity in practice for measuring the PIK dividends on equity classified preferred stock. Our comments on specific questions included in the proposal are as follows.

Question 1: Is the scope of the amendments in this proposed Update in paragraphs 505-10-15-2(e) and 505-10-15-3 clear and operable? Please explain why or why not. If not, what changes would you suggest?

Yes, the scope of the amendments in paragraphs 505-10-15-2(e) and 505-10-15-3 is clear and operable. We agree that the guidance should not be applied to preferred stock instruments where the issuer satisfies dividend obligations by issuing a variable number of preferred shares with a fixed monetary value.

It is not clear to us why the proposed guidance in ASC 505-10-15-3 should specify that the proposed guidance in ASC 505-10-30-1 applies to PIK dividends when the monetary value of the PIK dividends varies based on the additional preferred stock issued, since the only scenario we are aware of in which this condition is not met is when the monetary value of the shares issued is fixed. Accordingly, we have the following suggestion to clarify the proposed scope guidance in ASC 505-10-15-3:

505-10-15-3 ~~An entity shall apply the guidance in paragraph 505-10-30-1 on paid-in-kind dividends on preferred stock when the monetary value of the paid-in-kind dividends varies on the basis of the additional preferred stock issued.~~ The guidance in paragraph 505-10-30-1 shall not apply if the issuer of the preferred stock satisfies dividend obligations by issuing a variable number of shares of the same preferred stock instrument that has a fixed monetary value. For example, an obligation to pay dividends worth \$1,000 by delivering a variable number of shares worth \$1,000 would not be in the scope of the guidance in paragraph 505-10-15-2(e).

Also, we believe that the proposed guidance could be clarified by changing the description of PIK dividends in ASC 505-10-15-2(e) to align with the definition of a “stock dividend,” and to align with the notion that, in issuing additional preferred shares as a dividend, the issuer is satisfying a “dividend obligation” rather than a “dividend,” as follows:

505-10-15-2(e). Paid-in-kind dividends on preferred stock (see paragraph 505-10-15-3), which are ~~dividends that an issuer satisfies either by delivering to the holder~~ issuances of additional preferred stock with the same terms as the original preferred stock or ~~by increasing~~ increases to the value of the original preferred stock in accordance with the preferred stock agreement (for example, ~~by increasing~~ increases to the original preferred stock's liquidation value)...

Question 2: The proposed amendments would require PIK dividends on equity-classified preferred stock to be initially measured on the basis of the PIK dividend rate stated in the preferred stock agreement. This differs from the requirement under Subtopic 505-20, Equity—Stock Dividends and Stock Splits, to measure stock dividends on common stock at fair value. Do you agree with the proposed initial measurement method for PIK dividends on equity-classified preferred stock? Please explain why or why not. If not, what measurement method would you suggest?

We agree that the initial measurement method for PIK dividends on equity classified preferred stock should be based on the PIK dividend rate stated in the preferred stock agreement.

Consistent with our suggested clarifications described in our response to Question, 1, we have an editorial suggestion for the guidance in ASC 505-10-30-1 to acknowledge that a PIK dividend is itself an issuance, as follows:

505-10-30-1 Paid-in-kind dividends ~~issued to satisfy dividend payment obligations~~ on preferred stock shall be initially measured on the basis of the paid-in-kind dividend rate stated in the preferred stock agreement. For example, if the preferred stock agreement specifies that paid-in-kind dividends are calculated by multiplying the paid-in-kind dividend rate by the liquidation value of the preferred stock outstanding, an entity should measure the paid-in-kind dividend at that amount.

Question 3: Would the proposed amendments provide decision-useful information? Are the proposed amendments clear and operable? Do you anticipate any auditing challenges? Please explain your reasoning.

We do not anticipate any auditing challenges associated with the proposed amendments.

Question 4: The proposed transition requirements would allow entities to apply the proposed amendments on a prospective basis or on a modified retrospective basis for equity-classified preferred stock instruments that are outstanding as of the initial application date.

- a. Are the proposed transition requirements clear and operable? Please explain why or why not. If not, what transition method would be more appropriate and why?
- b. For preparers, do you anticipate electing the modified retrospective application?
- c. For investors, would the modified retrospective application increase the decision usefulness of the financial statements? If not, why not?
- d. For investors, would the information required to be disclosed under the proposed transition method be decision useful? Please explain why or why not.

The proposed transition requirements are clear and operable.

Question 5: How much time would be needed to implement the proposed amendments? Should the effective date for entities other than public business entities differ from the effective date for public business entities? If so, how much additional time would you recommend for entities other than public business entities? Please explain your reasoning.

We believe that entities other than public business entities should be given an additional year after the first annual period in which public business entities are required to adopt the final guidance, consistent with the FASB's *Private Company Decision Making Framework*.

Question 6: The proposed amendments would permit early adoption. Do you agree that early adoption should be permitted? Please explain why or why not.

We agree that early adoption should be permitted considering the guidance provides a simpler measurement approach and would reduce diversity in practice.

We would be pleased to discuss our comments with you. If you have any questions, please contact Rahul Gupta at rahul.gupta@us.gt.com; Ryan Brady at ryan.brady@us.gt.com; or Graham Dyer at graham.dyer@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP