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Via email to director@fasb.org

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

Re: Initial Measurement of Paid-in-Kind Dividends on Equity-Classified Preferred Stock (File Reference No. 2025-ED300)

Dear Mr. Day:

We appreciate the opportunity to respond to the Board's exposure draft. Overall, we support the Board's proposal on the initial measurement of paid-in-kind (PIK) dividends on equity-classified preferred stock.

We agree with the Board's proposal to require PIK dividends on equity-classified preferred stock to be initially measured based on the stated dividend rate in the preferred stock agreement. This measurement approach aligns with current practice, and we expect these proposed amendments to reduce diversity in the treatment of PIK dividends. Our responses to the Questions for Respondents are in the attached Appendix.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Adam Brown at (214) 665-0673.

Very truly yours,

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Appendix

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?

Overall, we find the proposed amendments in paragraphs 505-10-15-2(e) and 505-10-15-3 to be clear and operable, particularly as they appropriately limit the scope to paid-in-kind (PIK) dividends with terms consistent with the original instrument and properly exclude variable share distributions with fixed values.

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 with the proposed amendments requiring PIK dividends on equity-classified preferred stock to be initially measured based on the dividend rate specified in the preferred stock agreement. The proposed measurement approach is consistent with current practice for many entities. For those entities, the cost of adopting the proposal would be negligible. Requiring all entities to apply the proposed amendments would promote greater consistency in the treatment of PIK dividends and enhance the decision-usefulness of financial information provided to stakeholders.

We agree with the views expressed by members of the Emerging Issue Tax Force that PIK dividends differ from stock dividends in that PIK dividends typically have a stated or cumulative rate, whereas stock dividends typically are discretionary and determined on a case-by-case basis by the entity. As such, we agree with the proposal to measure PIK dividends differently from stock dividends on common stock.

We believe the Board should consider adding the following statement at the end of paragraph BC21 of the Basis for Conclusions in the final amendments:

“...The Board also notes an entity would still assess the instrument under other applicable areas of U.S. GAAP, including ASC 815-15.”

We believe that even if this proposal were finalized, entities must still assess PIK shares for bifurcation of embedded derivatives in accordance with Accounting Standards Codification (ASC) 815-15, *Derivatives and Hedging – Embedded Derivatives*. Consider a preferred stock instrument that includes a redemption feature that requires bifurcation. At initial recognition, the proceeds are allocated between the preferred stock and the bifurcated redemption feature. When PIK dividends are issued, their measurement is based on the dividend rate specified in the agreement. However, because the PIK shares have the same terms as the host preferred stock, we believe part of the PIK dividend must also be allocated to the bifurcated redemption feature. If the Board agrees, adding a reference to ASC 815-15 in the Basis for Conclusions may be helpful.

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.?

As noted in our response to question #2, we believe the proposed amendments would result in decision-useful information.

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.*

We believe the proposed transition requirements are clear and operable. However, we acknowledge that applying the amendments prospectively would result in differing measurement methodologies for dividends in periods before and after adoption. While this may not be a material issue in many cases, we defer to investors on the costs and benefits of allowing two adoption approaches.

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 do not expect entities to need significant time to adopt the proposed amendments because the amendments are straight-forward and may be applied prospectively. For the same reasons, we do not believe private entities will require more time than public business entities to adopt the final ASU. However, we would not object to a later effective date for private entities, consistent with many other ASUs, as long as early adoption is allowed.

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 with permitting early adoption. Some entities may have the relevant information readily available and decide to adopt the final ASU as soon as is practical.