

October 24, 2025

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

File Reference No. 2025-ED300

Dear Mr. Day:

RSM US LLP is pleased to provide feedback on the Financial Accounting Standards Board's (FASB or Board) proposed Accounting Standards Update (ASU), *Equity (Topic 505): Initial Measurement of Paid-in-Kind Dividends on Equity-Classified Preferred Stock* (the proposed Update).

We support the Board's efforts to address stakeholders' concerns about the lack of accounting guidance on how an issuer should initially measure paid-in-kind (PIK) dividends on equity-classified preferred stock and the diversity in practice that has resulted from the lack of measurement guidance for those dividends. Overall, we agree with the amendments in the proposed Update, including the use of the contractually stated rate to initially measure the PIK dividends.

Our responses to the questions posed in the proposed Update, other than those specifically directed solely at investors or preparers, are included in the remainder of this letter.

Responses to Questions for Respondents

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?

We believe the scope of the proposed Update is both clear and operable. Specifically addressing preferred stock that is classified as temporary equity in accordance with paragraph 480-10-S99-3A and clarifying that the guidance would apply to PIK dividends when the monetary value of such dividends varies on the basis of the additional preferred stock issued is particularly helpful.

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 that would require PIK dividends on equity-classified preferred stock to be initially measured using the PIK dividend rate stated in the preferred stock agreement. We believe this approach is objective and consistent with one of the methods commonly used in practice today. Requiring the use of this method would avoid the complexity and additional costs associated with the alternative method that is based on fair value measurements and enhance comparability across reporting entities.

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 defer to users of financial statements to determine if the proposed Update would provide decision-useful information and to the preparers of financial statements as to whether the proposed Update is clear and operable.

We do not anticipate any auditing challenges as a result of the proposed Update. Initially measuring the PIK dividends on the basis of the rate stated in the preferred stock agreement should simplify the auditing of the dividend calculation.

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. [Intentionally omitted]
- c. [Intentionally omitted]
- d. [Intentionally omitted]

We believe the proposed transition requirements are both 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 generally defer to financial statement preparers as to how much time may be needed to implement the amendments in the proposed Update. However, because the information required to measure the PIK dividend should be readily available within the preferred stock agreements, implementation should not require significant time or effort. Given the nature of the proposed amendments and the fact that they should simplify the initial measurement approach, we see no reason why the effective date should not be the same for all entities.

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Question 6:

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

Yes, we believe that early adoption should be permitted for all entities because we see no significant detriments in allowing entities to do so.

We appreciate this opportunity to provide feedback on the proposed Update and would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to Ginger Buechler at 612.455.9411 or Joseph Cascio at 212.372.1139.

Sincerely,

RSM US LLP

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