

SEC Staff Seeks More Succinct Disclosure on Stock Valuation for IPO Registration Statements

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At the recent Securities Regulation Institute, Keith Higgins, the head of the SEC Division of Corporation Finance, indicated that the SEC staff will be looking for less detailed disclosure in the S-1 regarding a company's historical practice and grant by grant valuation description for establishing the fair value of the company's common stock in connection with stock-based compensation in IPO registration statements.

Currently, companies provide lengthy discussions of how stock was valued and ultimately the difference between the estimated IPO price and the historical fair value of stock at various points in time as private companies. Companies disclose in MD&A the analysis to support their judgments and estimates regarding the valuations. Staff comments often request a description of significant intervening events within the company and changes in assumptions as well as weighting and selection of valuation methodologies employed that explain the changes in the fair value of common stock up to the filing of the registration statement. The questionable value of the disclosure was raised in the SEC's own report examining its disclosure requirement, which we discussed [here](#), noting that commenters recommended eliminating or reducing this disclosure, arguing the information is not significant to investors.

It appears that going forward, the SEC staff will no longer require or expect the level of detail that companies have been providing, and instead a few paragraphs describing the historical valuation methodology and what it will be post-IPO will be considered sufficient. However, the SEC staff will still expect a more thorough discussion in the comment letter in order to help the staff ensure that it agrees that the accounting is correct.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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