



October 14, 2019

Shayne Kuhaneck  
Acting Technical Director  
FASB  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

**Re: FASB July 31, 2019 Proposed Accounting Standards Update (ED), *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40)* [File Reference No. 2019-730]**

Dear Mr. Kuhaneck:

The American Institute of CPAs (AICPA) is the world’s largest member association representing the accounting profession, with more than 418,000 members in 143 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms’ interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC appreciates the Board’s efforts to undertake this project to address issues identified as a result of the complexity associated with applying generally accepted accounting principles (GAAP) for certain financial instruments with characteristics of liabilities and equity. TIC agrees that this is one of the more complex areas of GAAP and can be very challenging to apply to specific situations and fact patterns.

Since TIC’s primary focus is on firms that provide services to private companies, TIC’s comments in this letter mainly are focused on the ED questions and provisions related to private companies and therefore not every question in the ED- has a response from TIC.

***Question 1:*** *Should convertible instruments be accounted for as a single unit of account, except in circumstances in which the conversion features are required to be bifurcated by guidance in Topic 815? Please explain why or why not. Under this simplification, would any specific information about convertible instruments be missing in order to understand an entity’s financial position and financial performance? If so, please explain what information would be missing and how that information is used.*

Yes, TIC agrees with the sentiment that most financial statement users do not find the current separation models for convertible instruments useful and relevant because they generally view and analyze those instruments on a whole-instrument basis as discussed in BC 22. TIC believes that separating the instrument into two different components creates confusion for many private company financial statement preparers and users.

TIC believes the disclosure requirements for these instruments are sufficient to understand the entity's financial position and performance and additional disclosures are not necessary.

**Question 2:** *Do the disclosure amendments in this proposed Update for convertible debt instruments in paragraphs 470-20-50-1A through 50-11 and for convertible preferred stock in paragraphs 505-10-50-12 through 50-18 provide decision-useful information? Should any of these disclosures be required for every annual and interim period for which a statement of financial position and a statement of financial performance are presented? Should any other disclosures for convertible instruments be required? Please explain why or why not.*

Adding disclosures seems inconsistent with BC 26 of the ED which states user feedback indicates existing disclosure requirements are generally sufficient. TIC recommends additional user-focused outreach on this question if sufficient user feedback is not obtained through the comment letter process.

**Question 3:** *Should remote settlement features be disregarded for purposes of determining the classification of a contract in an entity's own equity (for both indexation and settlement)? Is remote an operable threshold? Please explain why or why not.*

Yes, TIC believes that disregarding remote settlement features would allow the accounting treatment of these instruments to better reflect their economics. TIC fully supports moving to a substance over form approach in this area of accounting.

TIC believes that "remote" is an operable threshold and support the treatment of this as a qualitative threshold. Throughout professional standards accountants are asked to make judgements, and the term remote is not new to the profession and generally should not be more difficult to apply in this standard than any other standard.

**Question 4:** *Should a requirement to settle a contract in registered shares not affect the classification of a contract in the entity's own equity? Please explain why or why not.*

TIC agrees with the proposed amendments to remove the condition about settlement in unregistered shares as such a requirement is not determinative in and of itself of whether or not an entity can share settle an instrument. The condition can be difficult to assess and as currently applied can result in accounting answers that are inconsistent with legal opinions on the subject as noted in BC 74 of this ED. TIC also appreciates the further alignment of ASC 815 with ASC 718.

**Question 5:** *Should a requirement to post collateral not affect the classification of a contract in an entity's own equity? Please explain why or why not.*

TIC agrees with the Board's conclusions that although posting collateral requires using assets in the short term, the nature of collateral is that it may be returned, so it may not be considered cash settlement.

**Question 6:** *Should the hierarchy of a counterparty's rights or shareholder rights not affect the classification of a contract in an entity's own equity? Please explain why or why not.*

TIC agrees with the Board's conclusions that including this condition in the guidance is unrelated to whether the contract will be cash settled or share settled and supports the removal of this condition.

**Question 7:** *Are the proposed amendments about reassessment of the derivatives scope exception operable? Should reassessment of the derivatives scope exception occur only upon a reassessment event (as defined in paragraph 815-40-35-8)? If not, should the reassessment be performed more frequently even if a reassessment event has not occurred, for example, on an annual basis? If performed annually, should the likelihood threshold be remote or should a different threshold be applied? Please explain your rationale for each of the answers provided.*

TIC believes the proposed amendments about reassessment of the derivatives scope exception are operable, and TIC does not support an annual or more frequent reassessment. The proposal to only reassess upon the occurrence of certain events helps to reduce cost and complexity. This approach is similar to trigger-based impairment testing of goodwill that is currently available to private companies under the PCC accounting alternative for goodwill, which has proven to be operable in the experience of the various members of TIC.

**Question 8:** *Do the proposed disclosure amendments for contracts in an entity's own equity in paragraph 815-40-50-5(f) through (g) provide decision-useful information? Please explain why or why not. Should any other disclosures for contracts in an entity's own equity be required? Please explain which disclosures should be required and why.*

Refer to response to question #2. TIC did not note any other disclosures that should be required.

**Question 13:** *Should the proposed amendments that affect classification, recognition, and measurement be applied on a modified retrospective basis, with an option for full retrospective application? Do you agree with the Board's proposed transition expedient? Please explain why or why not.*

TIC agrees with the proposed transition guidance of applying the standard on a modified retrospective basis with an option for full retrospective application. The modified retrospective application allows for consistent presentation within a given year, which is less confusing for users of the financial statements. TIC believes that keeping the full retrospective application as

an option as opposed to a requirement provides preparers some relief in accounting for the changes.

**Question 15:** *How much time would be needed to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities? Should early adoption be permitted? Please explain your response.*

TIC appreciates the objectives of the simplifications proposed in this area and believes most private companies would appreciate the opportunity to early adopt these changes. However, with that being said, there may be certain organizations with larger portfolios of instruments, which would be subject to these changes. In those cases, having the option to learn from public company implementation efforts would be greatly appreciated.

For these reasons, TIC would recommend adopting an effective date strategy similar to that which is outlined in the FASB August 15, 2019 Exposure Draft, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, which would permit private companies two years from the effective date for larger PBEs to adopt the standard. If early application is permitted, private entities can always adopt earlier if they are ready.

**Question 16:** *The proposed amendments would affect all entities that issue convertible instruments and/or contracts in an entity's own equity. Are there any specific private company considerations, in the context of applying the Private Company Decision Making Framework, that the Board should be aware of?*

Overall, TIC believes this ED will help provide more substance over form types of conclusions in the classification of some of these instruments. TIC would ask the Board to consider whether there can be any additional disclosure relief for private companies that could be supported by the Private Company Decision-Making Framework given their access to management.

**Question 17:** *The proposed amendments would supersede various areas of guidance (such as the guidance on certain accounting models for convertible instruments). Do you expect that superseding that guidance will result in any unintended consequences? For example, is there guidance that is currently analogized in practice to account for transactions for which there is no explicit guidance under current GAAP? Please explain what those unintended consequences are and potential solutions, if applicable.*

TIC is not aware of other transactions that analogize to the guidance that would be superseded nor is it aware of any other unintended consequences.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "Danielle Supkis-Cheek". The signature is fluid and cursive, with a long, sweeping tail that extends to the right.

Danielle Supkis-Cheek, Chair  
On Behalf of the PCPS Technical Issues Committee