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October 14, 2019

Shayne Kuhaneck, Acting Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Via Email to director@fasb.org

Re: File Reference No. 2019-730

Dear Mr. Kuhaneck:

Grant Thornton LLP appreciates the opportunity to comment on Proposed Accounting Standards Update, *Accounting for Convertible Instruments and Contracts in an Entity's Own Equity (Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)*. We support the Board's objective to address accounting for financial instruments with characteristics of both liabilities and equity and acknowledge that the accounting guidance for such instruments is extremely complex. We however believe that this proposal in many aspects will increase complexity and therefore suggest that the Board should consider undertaking a broad scope project that resolves the fundamental issues in this area. This subject has challenged the Board for many years, resulting in a half-finished project with numerous changes directed at narrow scope issues. As we noted in our comment letter on the FASB's August 2016 Invitation to Comment, *Agenda Consultation*, as presently written, the guidance in this area is a collection of rules issued over the years that are extremely complex to follow, costly to apply, and that result in very different accounting for economically similar instruments.

Our answers to selected questions for respondents follow.

Questions for Respondents

Convertible Instruments

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.

We acknowledge that the accounting model for convertible debt instruments in ASC 470-20 is complex, however accounting for convertible instruments as a single unit of account will prevent borrowers from recognizing interest expense in a manner that represents the actual economic cost of the borrowing, and in some cases may require an entity to recognize negative interest expense. We therefore believe that the Board should retain the cash conversion model in ASC 470-20 and extend its scope to all convertible debt instruments, except in circumstances in which the conversion features are required to be bifurcated by guidance in ASC 815-15. We believe that this approach would accomplish the goal of simplifying the convertible instrument guidance while reflecting the economic substance of the arrangement. In addition, such an approach would better align this area of US GAAP with the guidance under IFRS in IAS 32, *Financial Instruments: Disclosure and Presentation*.

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.

While disclosures are an integral element of decision-useful financial reporting, we do not believe that disclosures, no matter how decision-useful, are a substitute for appropriate recognition and measurement guidance based on the economic substance of a transaction.

Regarding whether the specific disclosures identified provide decision useful information, we believe this question is best addressed by financial statement users.

Derivatives Scope Exception for Contracts in an Entity's Own Equity

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.

We conceptually agree that remote settlement features should not determine the classification of a contract in an entity's own equity, however we believe that assessing whether a feature is remote will be challenging in many circumstances. We believe that settlement features are generally substantive by virtue of having been deliberately included in a contract, and we expect that application challenges will arise as entities attempt to support a conclusion that a settlement outcome is remote despite the settlement feature being a substantive term of the contract. We therefore believe that the Board should clarify, including providing illustrative examples, how an

entity should determine whether a feature is remote. In addition, the guidance should also clarify how the remote assessment should be made if a qualitative assessment cannot be made. In other words, we believe that the Board should clarify whether a quantitative assessment should be performed by calculating the FV of the contract with and without the feature to determine whether the feature is remote or not. In addition, we believe that the proposed guidance requires each feature to be assessed on a standalone basis with respect to the remote threshold and does not allow the feature being assessed to be combined with other features for such assessment. If our understanding about the application of the guidance is correct, we believe the final guidance should clearly articulate this requirement. If our interpretation is incorrect, then we believe that the final guidance should clarify how and when features should be aggregated for assessing whether a settlement feature is remote.

Further, we believe that the Board should consider aligning the debt-equity guidance in ASC 480 on obligations to repurchase an issuer's equity shares by transferring assets, which does not allow remote events to be disregarded, with the proposed guidance. Similarly, the SEC staff guidance in ASC 480-10-S99-3A also does not currently allow remote events to be disregarded for the purposes of determining whether an instrument should be classified outside of permanent equity.

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.

We agree that a requirement in a contract to settle in registered shares should not affect the classification of a contract. We have generally noted that this condition can be overcome by inclusion of an explicit statement in a contract that in the absence of registered shares the contract will not be settled in cash. However, if such a statement is not included, then this condition results in significant discussions between the accountants and the attorneys, because the attorneys consider the likelihood of availability of registered shares, whereas the accountants do not. We believe that the amendments in ASC 815-40-25-4(a)(1) would allow an appropriate assessment to be made for this condition, if it is included in a contract.

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.

We do not believe that a requirement to post collateral should affect the classification of a contract because such a requirement does not necessarily determine whether the contract will be settled in cash or shares.

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.

Yes, we agree that the hierarchy of a counterparty's rights or shareholder rights should not affect the classification of a contract. Such rights do not affect whether the contract will be settled in cash or shares. In addition, we believe any rights that can only affect the settlement of a contract in a bankruptcy or liquidation should be analyzed in the same manner as other rights that may result in cash settlement of the contract.

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.

We believe that that requiring a continuous reassessment (or a more frequent reassessment such as at each balance sheet date or annually) of the derivative scope exception would reduce the benefits of the remote threshold that is incorporated in the guidance and will be costly to apply. We agree that a trigger-based reassessment will result in more cost beneficial application of the guidance. We however believe that the following two reassessment events should be added in ASC 815-40-35-8:

- Modification of a contract – a contract’s modification should require reassessment based on all the features included in the contract, including the revised terms. Such reassessment should be performed as of the date of modification based on the conditions that exist as of that date.
- Issuance of a new contract – We believe this will allow similar contracts to be classified similarly in the financial statements.

EPS

Question 10: Should diluted EPS for all convertible instruments be calculated using the if-converted method of diluted EPS? Is the revision to the if-converted method in paragraph 260-10-45-40(b) operable? Please explain why or why not.

We agree that requiring dilutive effect of convertible instruments to be calculated using if-converted method will simplify the guidance and the revisions to the if-converted method in paragraph 260-10-45-40(b) are operable.

Question 11: For a contract that may be settled in either cash or shares (except for certain share-based payment arrangements that are classified as liabilities), should an entity presume (and not be allowed to overcome the presumption) share settlement when calculating diluted EPS? Please explain why or why not.

Yes, an entity should presume share settlement when calculating diluted EPS for contracts that may be settled in either cash or shares and this presumption should not be allowed to be overcome. However, we believe that share-based payment arrangements that are classified as liabilities should not be exempt and all contracts that may be settled in either cash or shares should be required to follow the same principle in calculating diluted EPS.

Question 12: Should the Board consider a project about the effect of antidilutive instruments on the diluted EPS calculation (for example, the effect of call options used to offset the potential dilution from convertible instruments)? Should any other EPS improvements be considered? If yes, please provide details.

We do not believe that the Board should consider a separate project about the effect of antidilutive instruments on the diluted EPS calculation. We would however support the Board undertaking a broad project (or a research project) related to the diluted EPS calculation, which should include reconsideration of the principle behind the diluted EPS calculation and how it should apply to various contracts.

Transition and Effective Date

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.

Yes, we agree that the proposed amendments that affect classification, recognition, and measurement should be applied using a modified retrospective approach, with an option for full retrospective application. We also agree with the proposed transition expedient provided in ASC 815-40-65-1(d) and believe that such expedient will allow entities to adopt the guidance without undue cost and effort.

Question 14: Should the proposed amendments to EPS be applied as of the initial date of adoption for the transition from treasury stock method to if-converted method and applied retrospectively for instruments that may be settled in cash or shares? Please explain why or why not.

We believe that the transition guidance for the proposed amendments to EPS should be the same for both transition from the treasury stock method to the if-converted method and for instruments that may be settled in cash or shares. If the Board decides to require full retrospective application of amendments related to EPS for instruments that may be settled in cash or shares, we believe a modified retrospective approach that allows retrospective application only to those instruments that are outstanding as of the date of adoption should be permitted.

Overall

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?

We have not identified any specific private company considerations that the Board should consider with respect to this proposal.

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.

We have not identified any unintended consequences of superseding various areas of guidance as proposed.



We would be pleased to discuss our comments with you. If you have any questions, please contact Rahul Gupta, Partner, 312.602.8084, rahul.gupta@us.gt.com or Ryan Brady, Partner, 312.602.8741, ryan.brady@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP