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March 18, 2024

Hillary H. Salo
Technical Director
Financial Accounting Standards Board
801 Main Avenue, PO Box 5116
Norwalk, CT 06856-5116

Via Email to director@fasb.org

Re: File Reference No. 2023-ED600

Dear Ms. Salo:

Grant Thornton LLP appreciates the opportunity to comment on the Proposed Accounting Standards Update (ASU), *Debt—Debt with Conversion and Other Options (Subtopic 470-20)*.

Overview of our comments

Overall, we support the Board's objective of clarifying the requirements for determining whether certain settlements of convertible debt instruments should be accounted for as induced conversions. We agree that the proposed amendments would provide greater clarity and result in more consistent application of the guidance for induced conversions. However, we believe further clarification may be required, as described in our response to Question 1 below.

Our responses to selected questions

Question 1: Do you agree with the proposed amendments to the induced conversion criterion in paragraph 470-20-40-13(b) that would require that an inducement offer preserve the consideration (in form and amount) issuable pursuant to conversion privileges provided in the terms of the debt instrument? Please explain why or why not.

We agree with the proposed amendments that would require an inducement offer to preserve the consideration issuable pursuant to conversion privileges provided in the original terms of the debt instrument. However, we believe that certain aspects of the proposed guidance should be clarified.

Same form of consideration

We believe the guidance should clarify what is meant by the “form” of consideration. For example, would equity-classified preferred shares or equity-classified options to purchase common shares be considered the same form of consideration as common shares?

We encourage the staff to consider providing an illustrative example to address whether a change in the class of shares issued preserves the form of the initial debt instrument. For example, the guidance could include an example that describes the considerations required when analyzing an inducement offer that provides the entity with preferred shares and cash when the initial debt instrument provides common shares and cash.

Change in the form of settlement

The proposed guidance in ASC 470-20-40-13A(b) states that “Changes that result in the amount of cash (or other assets) and number of shares being indexed to something other than the future price of the issuer’s shares ... shall be considered a change in the form of settlement.”

If the Board’s intent is for such changes to trigger extinguishment accounting, then we suggest replacing the phrase “a change in the form of settlement” with “an extinguishment.” We believe this would avoid confusion regarding what is meant by the *form* of consideration when the Board says that a change in the form of consideration could be triggered by a change in the amount of consideration without a change in the type of asset or equity instrument used to settle the conversion.

Although we believe these circumstances would be unusual, it is possible that an existing convertible instrument could include a provision that links the conversion settlement amount to changes in a non-share price variable, such as a commodity index, between the exercise and settlement date of the conversion option. If the Board, in fact, intends for entities to apply inducement accounting to a conversion option subject to an inducement offer that preserves the indexation to a non-share price variable between the offer acceptance and settlement dates, we would ask the Board to clearly state this—that is, an offer could qualify for induced conversion accounting as long as the inducement offer does not *introduce* a new non-share price variable.

Finally, we believe it is possible that a conversion provision would require entities to compute an average share price over a period that includes the offer acceptance date. For example, the settlement amount might be calculated based on the volume-weighted average price (VWAP) of the issuer’s shares for the 30-day period ending on the settlement date, which itself occurs 15 days after the offer acceptance date. In such circumstances it might be argued that the settlement amount is indexed to something other than the future price of the issuer’s shares, because (1) the VWAP would incorporate pre-acceptance date share prices, and (2) the extent to which such prices impact the settlement amount would be a function of the amount of time between the offer acceptance date and the settlement date. If this is determined to be

an issue, the Board might consider removing the word “future” that appears before “price of the issuer’s shares” proposed in ASC 470-20-40-13A(b).

Measurement date

Additionally, we ask the Board to further clarify whether the same share price that is used to determine whether induced conversion accounting applies should be used to measure the induced conversion expense.

Based on the proposed amendments in ASC 470-20-40-13A(a), “an entity shall use the fair value of the shares as of the date the inducement offer is accepted” in place of a future share price or average of future share prices to compare “the amount of cash (or other assets) and number of shares issuable” under the conversion privileges provided in the terms of the existing instrument and the inducement offer.

It is unclear whether this convention extends to measuring the inducement expense based on the proposed guidance in ASC 470-20-40-16, which states:

... [T]he issuer shall recognize an expense equal to the fair value of all the securities and other consideration transferred in the transaction in excess of the fair value of securities and other consideration issuable pursuant to the conversion privileges provided in the terms of the existing instrument.

ASC 470-20-40-16 also states:

The fair value of the securities or other consideration shall be measured as of the date the inducement offer is accepted by the convertible debt holder.

We believe these two excerpts might lead to inconsistent application of the guidance when there’s a period of time between the offer acceptance date and the settlement date, and the settlement amount is affected by changes in share price during that period.

For example, assume that a convertible note gives the holder the right to convert the note into 100 shares, and that the issuer has the right to settle the conversion in cash, shares, or any combination of the two. The amount of cash needed to settle all or a portion of the conversion amount is calculated based on the VWAP of the issuer’s shares over the five days immediately preceding the settlement date. The issuer induces conversion by offering to transfer cash to the holder equal to the fair value of 110 shares based on the VWAP over the five days immediately preceding the settlement date. The fair value of 110 and 100 shares on the offer acceptance date is \$110 and \$100, respectively, and the cash transferred to settle the debt, measured on the settlement date, is \$104.50. The amount of cash that would have been required to settle a conversion on the same settlement date under the original terms is \$95.

One way to view this scenario is that the inducement expense is \$9.50, based on the difference between “the fair value of all the ... consideration transferred in the transaction [\$104.50] in excess of the fair value of ... consideration issuable pursuant to the conversion privileges provided in the terms of the existing instrument [\$95]”, as discussed in ASC 470-20-40-16. This view assumes that the fair value of the cash consideration transferred is \$104.50, whether that amount of cash is measured on the date the offer is accepted or on the conversion date.

A second way to look at this scenario is that the inducement expense is \$10, based on the difference between “the fair value of all the ... consideration transferred in the transaction [\$110, measured as of the date the inducement offer is accepted] in excess of the fair value of ... consideration issuable pursuant to the conversion privileges provided in the terms of the existing instrument [\$100, measured as of the date the inducement offer is accepted]”. This view assumes that the fair value of the consideration transferred should be measured as if it were transferred on the offer acceptance date, consistent with the proposed guidance in ASC 470-20-40-13A.

Examples

As proposed, Case C in ASC 470-20-55-9A states that Entity A’s offer applies to each “bond that is converted within 60 days.” It is unclear whether the conversion date in this example refers to the date when the offer is accepted or the date when the consideration is transferred to the bond holder. If the offer is meant to apply to bonds for which the inducement offer is accepted within 60 days of the offering date, then we recommend amending this phrase to read “bond for which the offer is accepted ~~that is converted~~ within 60 days.”

Question 2: Do you agree that the proposed induced conversion criterion in paragraph 470-20-40-13(b) should be assessed as of the date the inducement offer is accepted by the convertible debt holder? Please explain why or why not.

We agree that the proposed criterion should be assessed as of the date the inducement offer is accepted.

Question 3: Do you agree with the proposed amendments in paragraph 470-20-40-13A(c) that, if the debt has been exchanged or modified (without being deemed to be substantially different) within the one-year period preceding the offer acceptance date, then the conversion privileges provided in the debt terms that existed one year before the offer acceptance date (rather than the conversion privileges provided in the terms of the debt instrument) should be used for the induced conversion assessment? If not, please explain why and state which alternative approach you would support (see paragraph BC52 for other approaches considered by the Task Force, including a principle-based approach).

If the debt has been exchanged or modified within the one-year period preceding the offer acceptance date, then we agree that the conversion privileges provided in the debt terms that existed one year before the offer acceptance date should be used for the induced conversion assessment.

Question 4: Do you agree that all convertible debt instruments, including convertible debt instruments that are not currently convertible, should be eligible for induced conversion accounting if they contained a substantive conversion feature at issuance and the other criteria in paragraph 470-20-40-13 are met? Please explain why or why not.

We agree that convertible debt instruments that are not currently convertible but become convertible upon inducement should be included under the proposed guidance as discussed in paragraphs BC54 through BC58 of the proposed ASU.

Question 6: The proposed transition requirements would allow entities to apply the proposed amendments on either a prospective or a retrospective basis. Would the information required to be disclosed under the proposed transition method be decision useful? Please explain why or why not. Are the proposed transition requirements operable? If not, why not and what transition method would be more appropriate and why?

We believe the proposed transition requirements are operable. We defer to financial statement users to offer their views on whether the information required to be disclosed under the proposed transition method will be decision useful.

Question 7: In evaluating the effective date, how much time would be needed to implement the proposed amendments? Should the effective date for entities other than public business entities be different from the effective date for public business entities? Should early adoption be permitted? Please explain why or why not.

We believe early adoption of the guidance should be permitted. As suggested in the Private Company Decision-Making Framework, entities other than public business entities should be provided with a deferred effective date, and the final standard should, therefore, be effective for non-public business entities one year after the first annual period for which public business entities would be required to adopt the new guidance.

We would be pleased to discuss our comments with you. If you have any questions, please contact Ryan Brady (Ryan.Brady@us.gt.com) or Rahul Gupta (Rahul.Gupta@us.gt.com).

Sincerely,

/s/ Grant Thornton LLP