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December 28, 2020

Hillary H. Salo
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. 2020-800

Dear Ms. Salo:

Grant Thornton LLP appreciates the opportunity to comment on proposed Accounting Standards Update (ASU), *Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Forwards and Options – a consensus of the Emerging Issues Task Force*.

We appreciate the Board's efforts to address diversity in accounting for modifications or exchanges of freestanding equity-classified forwards and options by developing a framework that relies on the economic substance of the modification or exchange. We agree that that the proposed amendments will reduce diversity and will lead to consistent financial reporting for modifications or exchanges of such instruments.

Our responses to the questions for respondents follow.

Overall

Question 1: Do you agree that the amendments in this proposed Update should apply to freestanding equity-classified forwards and options that remain equity classified after modification or exchange and are not within the scope of Topic 718 or accounted for as derivatives under Topic 815? Why or why not?

Yes, we agree that the guidance in the proposed ASU should apply to freestanding equity-classified forwards and options that remain equity-classified after modification or exchange and are not within the scope of Topic 718 or accounted for as derivatives under Topic 815.

ASC 718 already includes guidance on modifications and exchanges for instruments within its scope and instruments that are accounted for as derivatives under ASC 815

are measured at fair value each reporting period - we are not aware of diversity in practice in accounting for such instruments.

However, we believe that the Board should clarify the accounting for purchased instruments as explained in our response to question 4 below.

Question 2: Do you agree that an issuer should recognize the effect of a modification or an exchange of a freestanding equity-classified forward or option on the basis of the substance of the transaction as described in paragraph 815-40-35-17? Why or why not?

Yes, we agree that the issuer of a freestanding equity-classified forward or option should recognize the effect of a modification or an exchange on the basis of the substance of the transaction. We agree with the Board's conclusion that the accounting for a modification or exchange of a freestanding equity-classified forward or option should not differ from a transaction where cash is paid to achieve a similar economic outcome by the issuer. In other words, the form of consideration should not result in different accounting.

Question 3: For modifications or exchanges of freestanding equity-classified forwards and options that are within the scope of the proposed amendments, an issuer would not recognize the effect of a modification or an exchange that results in a reduction in the fair value of that instrument (similar to the share-based payment model in Topic 718). Do you agree with that accounting? Why or why not?

We do not believe that for modifications or exchanges of freestanding equity-classified forwards and options, an issuer should not recognize the effect of a modification or an exchange that results in a reduction in the fair value of that instrument in *all* circumstances. We believe that the proposed guidance should apply to both increases and decreases in fair value of the instrument, if the modification or exchange of the instrument is directly attributable to an equity issuance, debt origination, debt modification, or exchange transactions addressed by other Topics (for example, transactions with customers), unless a Topic explicitly requires decreases to not be recognized (for example, ASC 718). We believe that transactions that result in a decrease in the fair value of the instrument should be accounted for similar to transactions where the issuer receives cash (or a reduced fee). For example, the guidance in ASC 470-50-40-12 and 470-50-40-17 requires consideration of both the amounts paid by the debtor to the creditor and the amounts received by the debtor from the creditor.

However, we agree that transactions within the scope of the proposed guidance in ASC 815-40-35-17(d) (that is, transactions not within the scope of other Topics) should be limited to those that involve an increase in the fair value of the instrument.

Question 4: Are the proposed amendments operable, including for situations in which the substance of the transaction includes multiple elements (for example, debt financing and equity financing)? If not, what changes do you recommend and why?

We believe that the guidance in the proposed ASU is operable for written options and forwards, however we do not believe that the proposed guidance will be operable for purchased equity-classified instruments, such as purchased call options (unless the Board decides to change the recognition to both increases and decreases, as discussed in our response to question 3 above). The proposed ASU requires an issuer to recognize only an increase in the fair value upon modification or exchange, which would result in the issuer recognizing only economic benefits from a modification or an exchange of a purchased instrument. This would be inconsistent with the intent of Board in the proposed ASU and also inconsistent with the ASC 718 model on recognizing modifications and exchanges of share-based payments. We therefore believe that the Board should either scope out purchased instruments or should clarify that if the instrument that is subject to the proposed guidance is purchased (rather than written) then the issuer should recognize reductions in fair value rather than increases.

We believe that the Board should consider limiting the scope to written instruments rather than pursuing a model that requires recognition of a decrease in the fair value of a purchased instrument because we believe that the practice issue that the Board is addressing is primarily related to modifications or exchanges of warrants (i.e. written options) and we have not observed modifications or exchanges of purchased instruments to be common transactions.

We also believe that in modification or exchange transactions that include multiple elements, issuers should apply a relative fair value allocation method to allocate the change in fair value to the different elements.

Compensation for Goods or Services

Question 5: For modifications or exchanges of freestanding equity-classified forwards and options that represent compensation for goods or services, are the proposed amendments in paragraph 815-40-35-18 and to Topic 718 necessary to clarify that those transactions are within the scope of Topic 718?

We believe that the clarification to the scope guidance in ASC 718 is important to ensure that an issuer can identify the appropriate guidance to apply to its underlying transaction. We believe that the proposed guidance in ASC 815-40-35-18 may not be necessary since the guidance in ASC 815-40-35-17(d) is similar.

Other Modifications That Are Not Related to Financings, Compensation for Goods or Services, or Other Exchanges

Question 6: Do you agree that an issuer should recognize the effect of a modification or an exchange of a freestanding equity-classified forward or option as a dividend when the substance of the transaction is not related to a financing, compensation for goods or services, or exchange transactions addressed by other Topics? Why or why not?

Yes, we agree that the issuer should recognize the effect of a modification or an exchange of a freestanding equity-classified forward or option as a dividend when the substance of the transaction is not related to a financing, compensation for goods or services, or exchange transactions addressed by other Topics. We believe that this

guidance is consistent with the notion that the transactions within its scope are non-exchange transfers of value to equity holders.

Transition and Effective Date

Question 7: Do you agree with the transition provisions, including early adoption in an interim period as of the beginning of the fiscal year that includes that interim period? If not, what changes do you recommend and why?

We agree with the transition provisions.

Question 8: How much time would be necessary to adopt the proposed amendments? Would the amount of time needed to apply the proposed amendments by entities other than public business entities and public business entities that do not meet the definition of a Securities and Exchange Commission (SEC) filer be different from the amount of time needed by public business entities that meet the SEC filer definition?

We defer to financial statement preparers to comment on the time needed to implement the amendments in the proposed ASU.

Other Comments

Amendments to ASC 470-50

We believe that the proposed guidance ASC 470-50-40-12A and 470-50-40-17A are inconsistent with the existing guidance in ASC 470-50. The guidance in 470-50-40-12 and 470-50-40-17 require consideration of both the amounts paid by the debtor to the creditor and the amounts received by the debtor from the creditor, whereas the guidance in ASC 470-50-40-12A and 470-50-40-17A only requires consideration of increases in fair value that represents amounts paid by debtor to the creditor.

However, if the Board proceeds with the proposed model under which solely increases in fair value are recognized, we believe that the guidance in ASC 470-50-40-12A should reflect the words (*but not a decrease*) to be consistent with the guidance in ASC 470-50-40-17A. If the Board's intent is for entities to consider both increases and decreases in fair value when performing the "ten percent test" described in ASC 470-50-40-10, and to consider only increases in fair value for recognition purposes under ASC 470-50-40-17 and 40-18, then we believe this distinction should be clearly stated in the guidance.

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

Sincerely,

/s/ Grant Thornton LLP