

December 17, 2013

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. EITF-13G

Dear Ms. Cospers:

McGladrey LLP is pleased to comment on the Proposed Accounting Standards Update, “*Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity*”, a consensus of the FASB Emerging Issues Task Force (the “proposed ASU”). We are generally supportive of the decisions reached by the Task Force, as elaborated on in the responses to the specific questions raised in the proposed ASU that follow.

Question 1: *Should the scope of the proposed amendments be extended beyond hybrid financial instruments issued in the form of a share? If yes, please explain why and identify other hybrid instruments that should be considered by the Task Force.*

We are not aware of any significant application issues with other types of hybrid financial instruments. That being said, however, it seems appropriate that the analysis for other types of instruments should be consistent with what is proposed for hybrid instruments in the form of a share (consider all terms and features, including the embedded feature under evaluation).

Question 2: *Do you agree that a reporting entity should consider all terms and features—including the embedded derivative feature being evaluated for bifurcation—when determining whether the nature of a host contract is more akin to debt or to equity? If another method should be used, please explain that method and why it would be an improvement.*

We are in agreement that an entity should consider all terms and features and also believe that this is the approach most commonly followed in practice.

Question 3: *Do you agree that no single feature should be determinative in concluding whether the host contract is more akin to debt or to equity? Furthermore, do you agree that a fixed-price, noncontingent redemption option held by an investor embedded in a share is not, in and of itself, determinative in concluding that the nature of the host contract is more akin to debt? If not, please explain why.*

While we believe that generally a significant amount of weight should be placed on a substantive fixed-price noncontingent redemption option, we agree that no single feature should be determinative in concluding on the nature of the host contract as more akin to debt or to equity.

Financial Accounting Standards Board
File Reference No. EITF-13G
Page 2

Question 4: *Will the proposed amendments help reduce diversity in practice with respect to determining the nature of the host contract within hybrid financial instruments issued in the form of a share? If not, please explain why.*

We believe the proposed amendment to consider all terms and features of the instrument, including the embedded feature under evaluation, will reduce diversity in practice to a degree by eliminating the use of an approach that would exclude the feature under evaluation, an approach which we believe was applied by a minority of reporting entities. Similar to the views of one Task Force member summarized in paragraph BC 16 of the proposed ASU, we do not believe that diversity in practice will be reduced from the perspective of how much weight to place on various features such as non-contingent redemption options in relation to other features, given that there are no proposed changes to the guidance in this respect. (There was not a rebuttable presumption in existing guidance and the Task Force decided against instituting a rebuttable presumption in the proposed guidance). While we are not necessarily in favor of the rebuttable presumption, similar to the views of the Task Force member expressed in paragraph BC 16, without illustrations of how an entity might consider and weight each term and feature on the basis of relevant facts and circumstances, we suspect the proposed ASU will do little to reduce divergence in practice as it relates to how much weight is placed on various features.

Question 5: *Do you agree that the effects of the proposed amendments should be applied on a modified retrospective basis to existing hybrid financial instruments issued in the form of a share as of the beginning of the annual reporting period in which the proposed amendments are effective? Do you further agree that retrospective application should be allowed?*

We are in agreement with the proposed transition provisions and allowing retrospective application. While we believe that in certain cases it will be rather difficult and costly to go back to the inception of an instrument to determine the fair value of the derivative at that date, it appears appropriate that transition for this proposed ASU be consistent with the transition guidance that was issued with Derivatives Implementation Group Issue K5, "Transition Provisions for Applying the Guidance in Statement 133 Implementation Issues".

If the scope of the proposed ASU is expanded to include all hybrid financial instruments as is suggested by our response to Question 1, consideration should be given to allowing application to be limited prospectively to newly issued or acquired instruments for those instruments that are not in the form of a share, under the assumption that there are not significant practice issues associated with other types of host instruments, and given the amount of effort it could take for reporting entities to reconsider an expanded population of hybrid instruments.

Question 6: *Do you agree that an entity should be permitted to early adopt the proposed amendments? If not, please explain why.*

We are in agreement with permitting early adoption.

Question 7: *The proposed amendments would apply to public and nonpublic entities. Should the proposed amendments be different for nonpublic entities? If so, please describe how and why you think they should be different.*

We believe that consideration should be given to simplifying the transition provisions by allowing prospective application for nonpublic entities. The cost may likely not justify the benefit of looking back to the inception date of the instrument and determining the impact as though the derivative had been accounted for as such from inception.

Financial Accounting Standards Board
File Reference No. EITF-13G
Page 3

Question 8: *How much time would be needed to implement the proposed amendments and would the implementation period differ for nonpublic entities versus public entities? Please explain why.*

We believe that a full year implementation period from the time a final standard is issued should allow sufficient time for both public and nonpublic entities to re-evaluate hybrid instruments and quantify the necessary adjustments for transition.

We appreciate this opportunity to provide feedback on the proposed guidance and would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to Rick Day (563.888.4017) or Faye Miller (410.246.9194).

Sincerely,

A handwritten signature in cursive script that reads "McGladrey LLP".

McGladrey LLP