

January 26, 2017

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

By e-mail: [director@fasb.org](mailto:director@fasb.org)

**Re: Proposed Accounting Standards Update—*Distinguishing Liabilities from Equity (Topic 480): I. Accounting for Certain Financial Instruments with Down Round Features and II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception***

**(File Reference No. 2016-370)**

Dear Ms. Cospers:

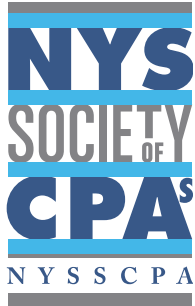
The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 26,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above-captioned exposure draft.

The NYSSCPA's Financial Accounting Standards Committee deliberated the proposed accounting standards update and prepared the attached comments. If you would like additional discussion with us, please contact Craig T. Goodman, Chair of the Financial Accounting Standards Committee, at (212) 324-7048, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

F. Michael Zovistoski  
President

Attachment



**NEW YORK STATE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON**

**PROPOSED ACCOUNTING STANDARDS UPDATE—*DISTINGUISHING LIABILITIES  
FROM EQUITY (TOPIC 480): I. ACCOUNTING FOR CERTAIN FINANCIAL  
INSTRUMENTS WITH DOWN ROUND FEATURES AND  
II. REPLACEMENT OF THE INDEFINITE DEFERRAL FOR MANDATORILY  
REDEEMABLE FINANCIAL INSTRUMENTS OF CERTAIN NONPUBLIC ENTITIES  
AND CERTAIN MANDATORILY REDEEMABLE NONCONTROLLING INTERESTS  
WITH A SCOPE EXCEPTION***

**(File Reference No. 2016-370)**

**January 26, 2017**

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Craig T. Goodman  
Jeffrey A. Keene  
Margaret A. Wood**

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## New York State Society of Certified Public Accountants

### Comments on

#### **Proposed Accounting Standards Update—*Distinguishing Liabilities from Equity (Topic 480): I. Accounting for Certain Financial Instruments with Down Round Features and II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception***

(File Reference No. 2016-370)

### General Comments

We welcome the opportunity to respond to the Financial Accounting Standards Board's (FASB or the Board) invitation to comment on the Proposed Accounting Standards Update—*Distinguishing Liabilities from Equity (Topic 480): I. Accounting for Certain Financial Instruments with Down Round Features and II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception* (Proposed Update).

We support this proposed accounting standard update that seeks to reduce the complexities and cost to account for financial instruments with down round features.

### Specific Comments

We have the following responses to questions posed in the Proposed Update.

**Question 1:** Do you agree that when classifying certain financial instruments with down round features, the down round feature should be excluded from the assessment of whether an instrument is indexed to an entity's own stock (in accordance with the guidance in Subtopic 815-40)? If not, please explain why and suggest alternatives.

**Response:** Yes, we agree.

**Question 2:** Do you agree that for certain financial instruments with down round features, the effect of the down round feature should be recognized when it is triggered and that the approach for recognition should follow the classification (liability or equity) of the instrument? If not, please explain why and suggest alternatives.

**Response:** Yes, we agree. We respectfully request that the Board confirm that for entities whose balance sheets present equity as stockholders' equity, it is appropriate to record the impact of a down round feature of an equity classified instrument as an adjustment to additional paid in capital for entities with no retained earnings or a negative capital account; and when the effect

will reduce retained earnings to less than zero, to record the impact of a down round feature of an equity classified instrument as an adjustment to additional paid in capital.

**Question 3:** The proposed amendments in paragraphs 480-20-30-1 through 30-2 describe how to measure the effect of the down round trigger. Do you agree with that approach? If not, please explain why and suggest alternatives.

**Response:** Yes, we agree with the approach.

**Question 4:** Do you agree that for certain financial instruments with down round features that have been triggered during the reporting period, an entity should disclose the fact that the feature has been triggered, the value of the effect of the down round being triggered, and the financial statement line item in which that effect has been recorded? If not, please explain why and suggest alternatives.

**Response:** Yes, we agree.

**Question 5:** Do you agree that entities should apply the proposed guidance to outstanding instruments as of the effective date of the change, with no adjustments to prior periods presented, with the cumulative effect of the change recognized as an adjustment of the opening balance of retained earnings in the fiscal year or interim period of adoption? If not, please explain why and suggest alternatives.

**Response:** Yes, we agree.

**Question 6:** How much time would be necessary to adopt the amendments in this proposed Update? Should early adoption be permitted? Would the amount of time needed to apply the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities?

**Response:** The time necessary to adopt the amendments in this Proposed Update is difficult to estimate because of the complex and unique nature of the underlying transactions. However, we expect that in most cases the evaluation of the agreement will have been completed under the existing standards and limited time will be required to refresh that evaluation with consideration of the amendments. There may be circumstances where a more thorough review is required because the entity limited its initial evaluation of the underlying agreement to the existence of a triggered down round and concluded the instrument was a liability.

We believe that an effective date of December 17, 2017 is reasonable. The effective date should be the same for both public business entities and entities other than public business entities, with early adoption permitted at the option of the reporting entity.