Feb. 6, 2017

Technical Director
File Reference No. EITF-16A
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Submitted via email to 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*

Dear Technical Director:

The Virginia Society of CPAs (VSCPA) Accounting & Auditing Advisory Committee (Committee) has reviewed the Proposed Accounting Standards Update (ASU)*, 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* (ED), issued by the Financial Accounting Standards Board (the Board). The VSCPA is a leading professional association dedicated to enhancing the success of all CPAs and their profession by communicating information and vision, promoting professionalism and advocating members' interests. The VSCPA membership consists of more than 12,000 individual members who actively work in public accounting, corporate finance, government and education. We appreciate the work the Board has undertaken on this effort and the opportunity to respond to the ED.

The Committee offers the following comments related to the "Questions for Respondents" section of the proposed ASU.

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: 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: We agree that the down round feature should only be recognized when triggered and that the approach for recognition should follow whether the instrument is a liability or equity.

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: The proposed method appears to ignore any intrinsic value that a down round feature might have. A financial instrument with a down round feature would appear to be more valuable than one not containing such a feature, especially in a declining market.

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: Assuming that the provisions in this ED are adopted (e.g. the value of the down round feature is not recorded until triggered), we agree that the effect of the down round being triggered, and the financial statement line item in which that effect has been recorded of the down round feature should be disclosed.

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: Restating the prior periods presented is preferable to a cumulative effect adjustment in the opening retained earnings balance in the fiscal year or interim period of adoption primarily due to improved comparability. Using the proposed valuation methodology in paragraphs 480-20-30-1 through 30-2 does not appear to create an unreasonable burden on financial statement preparers that would prevent restating prior periods.

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 Committee is offering no response to this question.

Again, the VSCPA appreciates the opportunity to respond to this ED. Please direct any questions or concerns to VSCPA Vice President, Advocacy Emily Walker, CAE, at ewalker@vscpa.com or (804) 612-9428 or VSCPA Communications Manager Chip Knighton at cknighton@vscpa.com or (804) 612-9408.

Sincerely,

Charles M. Valadez, CPA, CGMA, CITP
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