



February 6, 2017

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

File Reference No. 2016-370

The Accounting Principles Committee of the Illinois CPA Society (“Committee”) appreciates the opportunity to provide its perspective on the Proposed Accounting Standards Update (“ASU”), *Distinguishing Liabilities from Equity* (Topic 480). The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of the Committee are outlined in Appendix A to this letter.

We do not believe the Board should move forward with Part I of the proposed ASU at this time. Rather, we encourage the Board to first undertake a research project to identify and understand the specific issues associated with applying the liabilities and equity accounting model under current US GAAP (other than the fact that the guidance is complex). In performing this research, we believe the Board should obtain feedback from those who most frequently assess complex debt and equity instruments – small and middle market companies, both private and public, their investors, and their auditors.

The proposed guidance appears to be a response to perceived complexity under ASC 815-40 (former EITF Issue 07-5), but it does not appear that the Board has established whether the accounting complexity is warranted, or represents a shortcoming of the existing classification and measurement model.

We believe that the effort required to analyze and measure instruments that include a down round adjustment feature is a natural result of applying a model that requires a strict fixed-for-fixed structure in order for stock options to qualify as an equity classified instrument. The proposed guidance would permit an exception to that requirement, and permit reporting entities to disregard a substantive feature of a share settled instrument when classifying stock options. The reason for such an exception is unclear, other than that disregarding a down round feature arguably reduces accounting complexity for some instruments.

We are concerned about establishing a precedent for resolving complexities associated with applying an accounting model by exempting certain features from consideration within that model, without conceptual underpinnings. Historically, rules based exceptions create uncertainty about their scope and the potential to account for similar features by analogy.

We agree with the Board’s proposal in Part II of the ASU.

* * * * *

We appreciate the opportunity to provide our comments and observations on the proposed ASU and would be pleased to discuss them with the Board members or the FASB staff at your convenience.

Sincerely,

Ryan Brady, CPA

Chair, Accounting Principles Committee

Brian Kot, CPA

Vice Chair, Accounting Principles Committee

APPENDIX A

ACCOUNTING PRINCIPLES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2016-2017

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

Large: (national & regional)

Jared Bourgeois, CPA	PricewaterhouseCoopers LLP
Ryan Brady, CPA (Chair)	Grant Thornton LLP
Rakesh Desai, CPA	KPMG LLP
William Keirse, CPA	Ernst & Young LLP
Scott Lehman, CPA	Crowe Horwath LLP
Reid Mitchell, CPA	Wipfli LLP
Elizabeth Prossnitz, CPA	BDO USA LLP

Medium: (more than 40 professionals)

Timothy Bellazzini, CPA	Sikich LLP
Michael Kidd, CPA	Mowery & Schoenfeld LLC
Matthew Mitzen, CPA	Marcum LLP
Jeffery Watson, CPA	Miller Cooper & Company Ltd

Small: (less than 40 professionals)

Peggy Brady, CPA	Selden Fox, Ltd.
Marvin Hoffman, CPA	Bronswick, Reicin, Pollack, Ltd.
Brian Kot, CPA (Vice Chair)	Cray Kaiser Ltd CPAs
Joshua Lance, CPA	Joshua Lance CPA, LLC

Educators:

John Hepp, CPA	University of Illinois at Urbana-Champaign
----------------	--

Industry:

Rose Cammarata, CPA	Mattersight Corp.
Ashlee Earl, CPA	Seaway Bank and Trust Company
Jeffrey Ellis, CPA	FTI Consulting, Inc.
Christopher Hamm, CPA	Artex Risk Solutions, Inc.
Marianne Lorenz, CPA	AGL Resources Inc.
Michael Maffei, CPA	GATX Corporation
Joshua Shenton, CPA	Northern Trust Corp.
Richard Tarapchak, CPA	Reynolds Group Holdings

Staff Representative:

Gayle Floresca, CPA	Illinois CPA Society
---------------------	----------------------