February 6, 2017

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

Re: File Reference 2016-370

Dear Ms. Cosper:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the FASB's 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.*

The current accounting model for financial instruments with a down round feature (as defined in the proposed ASU) is complex and creates a significant reporting burden for preparers without any clear indication that the information provided to users is justified by that cost. Although we support the Board's decision to address the accounting model for these instruments, we have some concerns with the proposed solution. We do not believe the presence of a down round feature in a financial instrument should require liability classification for either the whole instrument or an embedded derivative. Accordingly, we agree with the Board that a down round feature should be excluded from the analysis of whether a financial instrument or embedded equity-related derivative is solely indexed to an entity's own stock under ASC 815-40-15-5 through 15-8.

We also agree that the effect of the down round feature should be recognized in accordance with existing contingent beneficial conversion feature guidance for convertible instruments. However, we do not agree with the proposed accounting for nonconvertible instruments. For nonconvertible instruments classified as a liability, we believe that recognizing the effect of the down round in earnings and then reversing that charge through subsequent amortization of the resulting basis adjustment in the liability, only to be potentially re-recognized as a charge at the time of settlement does not provide useful information. For nonconvertible instruments classified as equity, we believe recognizing the effect of the down round through a transfer from retained earnings to additional paid-in-capital is of marginal benefit to users. We recommend the Board limit the accounting recognition for down round features to (1) the application of the guidance for contingent BCFs for all convertible instruments, and (2) settlement accounting for all non-convertible liability instruments. This accounting, supplemented with disclosure of the existence of a down round feature and its effects at the time of the triggering event, would provide sufficient information about these instruments.

We agree with the proposed amendments in Part II to replace the indefinite deferral of certain guidance in subtopic 480-10 with a scope exception.

Our detailed responses to the questions in the exposure draft and certain other observations related to the proposed guidance are contained in the appendix to this letter.

* * * * *

If you have any questions regarding our comments, please contact Patrick Durbin at (973) 236-5152 or John Althoff at (973) 236-7021.

Very truly yours,

PricewaterhouseCoopers LLP

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Appendix

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.*

We support the Board's position.

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.*

We agree that the effect of the down round feature should be recognized in accordance with existing contingent beneficial conversion feature guidance for convertible instruments. However, we do not agree with the proposed accounting for nonconvertible instruments. For nonconvertible instruments classified as a liability, we believe that recognizing the effect of the down round in earnings and then reversing that charge through subsequent amortization of the resulting basis adjustment in the liability, only to be potentially re-recognized as a charge at the time of settlement does not provide useful information. For instruments classified as equity, we believe recognizing the effect of the down round through a transfer from retained earnings to additional paid-in-capital is of marginal benefit to users. We recommend the Board limit the accounting recognition for down round features to (1) the application of the guidance for contingent BCFs for all convertible instruments and (2) settlement accounting for all non-convertible liability instruments. This accounting, supplemented with disclosure of the existence of a down round feature and its effects at the time of the triggering event, would provide sufficient information about these instruments.

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.*

Assuming that the Board elects to move forward with the recognition and measurement aspects of the proposed guidance, we agree with the proposed amendments to the description in paragraphs 480-20-30-1 through 30-2 on how to measure the effect of the down round trigger.

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.*

Assuming the Board elects to move forward with the recognition and measurement aspects of the proposed guidance, we agree with the proposed disclosures. We recommend, however, that the Board amend ASC 505-10-50-3 to specifically mention down round features as a feature to be disclosed. The Board should also clarify when the disclosures with respect to down round triggering events would be required. We believe the Board intended these disclosures to only be required in the period in which the down round is triggered and only if that period is presented in the financial statements.

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.*

We agree with the Board's proposed transition provisions.

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?*

We believe that the FASB should consider the input of preparers from both public and private entities regarding how much time would be needed to apply the proposed amendments. We note that if a down round feature was the basis for concluding an instrument was a liability in the past, further analysis of those instruments may be required under ASC 815 to ensure that other provisions do not result in liability classification.

Other Comments

Scope Paragraph
We believe that the recognition and measurement aspects of the proposed ASU are not applicable to <u>any</u> convertible instruments. We are concerned that the scope paragraph, as worded in the proposed ASU, is unclear on this matter. We recommend that the scope paragraph explicitly exclude <u>all</u> convertible financial instruments from the recognition and measurement aspects of the proposed guidance.

Earnings Per Share
For equity-classified non-convertible instruments, such as a warrant on common or preferred shares, the proposed guidance requires the triggering of a down round feature to be recognized as a reduction of retained earnings. However, it does not state how this is to be treated for purposes of computing earnings per share. We recommend that the Board address whether the recognition of a down round feature impacts the numerator in the earnings per share computation.