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Financial Accounting Standards Board
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Proposed Accounting Standards Update, *Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity’s Own Equity (Subtopic 815-40) – Accounting for Convertible Instruments and Contracts in Entity’s Own Equity*

Dear Mr. Kuhaneck:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update issued by the Financial Accounting Standards Board (FASB or Board). We generally support the FASB’s simplification initiative and applaud the Board’s efforts to reduce the cost and complexities associated with the current guidance on accounting for convertible instruments and contracts in an entity’s own equity. We believe the proposal would simplify the accounting for convertible instruments and reduce accounting conclusions based on form rather than substance for contracts in an entity’s own equity. We also understand that the proposed changes would result in information that users would find helpful, based on feedback the Board received.

Our responses to the questions in the proposal are in Appendix A to this letter. We provide additional suggestions to further clarify the proposal in Appendix B.

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We would be pleased to discuss our comments with the Board or its staff at its convenience.

Very truly yours,

Appendix A – Responses to Questions for Respondents included in the FASB’s proposal

Convertible instruments

Question 1: Should convertible instruments be accounted for as a single unit of account, except in circumstances in which the conversion features are required to be bifurcated by guidance in Topic 815? Please explain why or why not. Under this simplification, would any specific information about convertible instruments be missing in order to understand an entity’s financial position and financial performance? If so, please explain what information would be missing and how that information is used.

We agree with the proposal to eliminate the three separation models and to require an embedded conversion option to be accounted for separately only when that treatment is required under Accounting Standards Codification (ASC) 815. In our view, the proposal would reduce costs for preparers and, based on the staff’s outreach, would improve understandability for users. In addition, we believe the proposed disclosures would provide users with sufficient information to evaluate the risks and economics of each instrument.

The current separation models in ASC 470 are unnecessarily complex. We understand, based on the staff’s outreach, that financial statement users generally analyze these instruments on a whole-instrument basis and are primarily concerned with cash interest expense (which is based on the instrument’s stated interest rate), not an imputed interest expense that results from the separation of conversion options. While we recognize that the conversion option is consideration in lieu of a higher stated interest rate, we found that the input the Board received from users coupled with the significant costs associated with the current model support making this change.

While we support eliminating the three separation models, we believe that entities should not be able to recognize interest income on their own debt. Under the proposal, a debt instrument could be issued at a significant premium due to a deeply in-the-money conversion feature. If the amortization of the premium exceeds the contractual coupon on the debt, interest income would be recognized. Therefore, we believe the amortization of a premium should be limited to the amount of the contractual coupon. Any premium that is not amortized as a result of this limit would be recognized in equity if the conversion option is exercised or in income if the debt matures or is redeemed.

Question 2: Do the disclosure amendments in this proposed update for convertible debt instruments in paragraphs 470-20-50-1A through 50-1I and for convertible preferred stock in paragraphs 505-10-50-12 through 50-18 provide decision-useful information? Should any of these disclosures be required for every annual and interim period for which a statement of financial position and a statement of financial performance are presented? Should any other disclosures for convertible instruments be required? Please explain why or why not.

We agree that proposed disclosures for convertible instruments provide decision-useful information.

We believe that the proposed disclosures for each convertible instrument about pertinent rights, privileges and terms that do not change over time (i.e., paragraphs 470-20-50-1B, 470-20-50-1C, 505-10-50-13 and 505-10-50-14) should be provided in the period in which the instrument is issued and when the instrument is amended (in both the interim and annual periods in which the amendment is made). All other proposed disclosures should be required for every annual and interim period for which a statement of financial position and a statement of financial performance are presented.

Separately, we believe that the guidance in paragraphs 470-20-50-1E(b), 470-20-55-1B and 505-10-50-16(b) may need further clarification. Convertible instruments often include provisions that affect conversion conditions upon events such as a change of control, subsequent financings and various events related to business combinations. It is not clear how an entity could comply with these disclosure requirements in cases where such events are considered confidential or proprietary.

In addition, paragraph 470-20-55-1B, which would provide guidance on applying the disclosure requirements in paragraphs 470-20-50-1E(b) and 505-10-50-16(b), states that events requiring disclosure "*... include those that indicate that, in the following reporting period, the conversion contingencies may be met or the conversion terms may be changed and, therefore, significantly affect the assessment of financial statement users ...*." We believe that this language could be interpreted to require the disclosure of any event or change in circumstance that has occurred where the event or change in circumstance could affect the conversion condition regardless of probability. If the FASB includes the proposed disclosures in paragraphs 470-20-50-1E(b) and 505-10-50-16(b) in a final Accounting Standards Update, we suggest that the word "therefore" be deleted from paragraph 470-20-55-1B.

In our response to Question 4, we suggest requiring disclosure of contracts that may require settlement in registered shares.

Derivatives scope exception for contracts in an entity's own equity

Question 3: Should remote settlement features be disregarded for purposes of determining the classification of a contract in an entity's own equity (for both indexation and settlement)? Is *remote* an operable threshold? Please explain why or why not.

We agree with the proposal to disregard remote events for purposes of determining the classification of a contract in an entity's own equity. We believe that the classification of an instrument should focus on the economic substance of transactions, rather than the form, and should not be affected by features that would be triggered only in remote scenarios.

We believe the remote threshold would be operable if the FASB follows our recommendation and states in any final guidance that the threshold doesn't apply to the triggering events we cite below. There are various areas in US GAAP that require a reporting entity to assess the probability of an event occurring, including those outside the entity's control, and we are not aware of significant practice issues in those areas.

We recommend that the Board permit entities to disregard certain common triggering events that haven't yet occurred, regardless of their probability of occurring. That is, we believe that the Board should consider permitting entities to disregard for purposes of classification triggering events related

to a change of control, a business combination or a subsequent round of financing because determining whether the likelihood of these events occurring is remote may be challenging. In fact, it may not be possible for an entity to conclude that the likelihood of a change in control occurring over a long-time horizon is remote. Likewise, because many owners of private entities have exit strategies that include, among other things, an initial public offering, it may be difficult for those entities to conclude that the likelihood of subsequent round of financing occurring over a long-time horizon is remote.

The proposed disclosure requirements for freestanding contracts in an entity's own equity (paragraph 815-40-50-5) and convertible instruments (paragraphs 470-20-50-1B through 50-1C; paragraphs 505-10-50-13 through 50-14) would require entities to disclose the terms of each settlement alternative in the notes to the financial statements. In the case of freestanding contracts in an entity's own equity, the proposed disclosures in paragraph 815-40-50-5 would include the amount that would be paid, or the number of shares that would be issued and their fair value, determined under the condition specified in the contract if the settlement were to occur at the reporting date. We believe similar disclosures should be required for convertible instruments under ASC 470 and ASC 505. We believe that these disclosures would provide users with information that is necessary for them to understand how an instrument could affect an entity's liquidity and capital structure and would reduce the need to assess the events for these items using the proposed remote threshold.

We also recommend that the Board engage with the Securities and Exchange Commission (SEC) staff to clarify the effect of the proposed guidance on the application of ASC 480-10-S99-3A (i.e., the SEC's guidance on redeemable equity). In particular, ASC 480-10-S99-3A (3)(b) essentially states that equity-classified freestanding options and forward contracts are not in the scope of this SEC guidance because freestanding equity derivatives that are subject to redemption for cash or other assets on a specified date or upon an event that is not in the control of the issuer are classified as liabilities in accordance with the guidance in ASC 815-40. Because the proposed amendments to ASC 815-40 would permit equity classification for contracts that can be potentially settled for net cash (i.e., in remote scenarios), this aspect of the guidance should be clarified.

In addition, ASC 480-10-S99-3A (6) requires an entity to use the guidance in ASC 815-40-25 to evaluate whether there are situations that would force an entity to settle in cash. As we stated above, because the proposed amendments to ASC 815-40 would permit equity classification for some contracts that could require an entity to net-cash settle, this aspect of the guidance also should be clarified.

Question 4: Should a requirement to settle a contract in registered shares not affect the classification of a contract in the entity's own equity? Please explain why or why not.

We agree with the proposal to eliminate from the settlement guidance the requirement that an entity be permitted to settle a contract in an entity's own equity in unregistered shares. Applying the proposed remote threshold to this condition would result in undue cost and complexity. Nevertheless, we believe that financial statement users should know whether an entity may be required to deliver registered shares. Therefore, we recommend that the Board require entities to disclose whether they are required to use registered shares to share-settle a contract and any consequences (e.g., cash settlement) of not having a sufficient number of registered shares.

Question 5: Should a requirement to post collateral not affect the classification of a contract in an entity's own equity? Please explain why or why not.

We do not agree with removing today's guidance that a contract cannot be classified as equity if it includes a requirement to post collateral. We believe that a right to hold collateral given to a holder of an equity contract is inconsistent with the general rights of an equity holder. Equity holders generally hold the residual interest in an entity and would not be entitled to any claim on their residual interests until all creditor claims are satisfied. If this condition were to be removed, the holder of an equity contract would have a claim to assets (likely cash) in certain settlement scenarios (e.g., defined default events) that, absent the collateral arrangement, would be claimed by creditors. In addition, this condition is rarely an issue in practice and does not require a complex analysis.

Regardless of whether the Board adopts its proposal to remove this condition, we suggest clarifying how collateral would be defined and accounted for by the entity (i.e., what qualifies as collateral and how the collateral should be accounted for by the issuer of the contract in its own shares).

Question 6: Should the hierarchy of a counterparty's rights or shareholder rights not affect the classification of a contract in an entity's own equity? Please explain why or why not.

We do not agree with removing this condition. The conceptual basis for permitting a holder of an equity-classified contract to have rights that rank higher than those of the holders of the shares underlying the contract is unclear to us. In addition, this condition is rarely an issue in practice and does not require a complex analysis.

Question 7: Are the proposed amendments about reassessment of the derivatives scope exception operable? Should reassessment of the derivatives scope exception occur only upon a reassessment event (as defined in paragraph 815-40-35-8)? If not, should the reassessment be performed more frequently even if a reassessment event has not occurred, for example, on an annual basis? If performed annually, should the likelihood threshold be *remote* or should a different threshold be applied? Please explain your rationale for each of the answers provided.

We generally agree with the proposed reassessment requirements and believe that the proposal would be operable. The proposed reassessment events would be clearly defined and simple for preparers to apply and users to understand.

For the sake of simplicity, we believe that the FASB should not require an automatic quarterly or annual reassessment of the likelihood of an event occurring when the likelihood of that event occurring was deemed remote at inception. Instead, we suggest that the Board require a reassessment when an event that is deemed remote at inception occurs (and, if the Board were to accept our recommendation in our response to Question 3, we recommend that it require reassessment when one of the events discussed in that response occurs).

The proposed classification guidance would require entities to disregard features that can cause settlement only upon a triggering event that is deemed remote of occurring, because those features lack substance. However, if those remote triggering events (or any of the triggering events discussed

in our response to Question 3) were to occur, the classification of the affected instruments should reflect the change in conditions. We believe requiring a reassessment of a contract at that point (in addition to the proposed reassessment events) would strike the right balance between reflecting the substance of the transaction and adding undue cost of the preparer and confusion to the financial statement user from frequent reclassifications in and out of equity.

We also suggest that the Board clarify that a reassessment is required whenever a contract is amended.

Question 8: Do the proposed disclosure amendments for contracts in an entity's own equity in paragraph 815-40-50-5(f) through (g) provide decision-useful information? Please explain why or why not. Should any other disclosures for contracts in an entity's own equity be required? Please explain which disclosures should be required and why.

We believe that the proposed disclosures would provide decision-useful information that would help users understand the amount and nature of consideration required upon each settlement alternative.

We suggest that the Board consider, in addition to the proposed disclosures, requiring a disclosure similar those in paragraphs 470-20-50-1E(b) and 505-10-50-16(b) that would describe events or changes in circumstances that occur during the period that may significantly affect the conversion conditions in the following period.

While we offer the Board suggestions on these disclosures (see our response to Question 2), if these disclosures are required for convertible instruments, we believe they should also be required for freestanding instruments. This is because both convertible instruments and freestanding instruments in the scope of this guidance provide for the conversion into equity instruments, and a description of events or changes in circumstances that occur during the period that significantly affect the conversion conditions would seem to be decision-useful information for both types of instruments.

In our response to Question 4, we suggest requiring disclosure of contracts that may need to be settled in registered shares.

Question 9: Under current guidance in Topic 825, fair value disclosures are required for financial instruments that are classified as liabilities but are not required for financial instruments that are classified as equity. Should new fair value disclosures be considered for public business entities for all equity-classified instruments, including those outside the scope of the proposed amendments (such as employee stock options)? If yes, how would you use that information? If yes, which equity-classified instruments should the disclosures be required for?

We do not believe the benefit for users of having fair value disclosures for equity-classified instruments outweighs the cost for preparers. We believe that the proposed disclosures in paragraph 815-40-50-5 and our suggested additional disclosure similar to those in paragraphs 470-20-50-1E(b) and 505-10-50-16(b) (see our response to Question 8) would provide users with the information they need to assess the economics and risks of the instruments. See our responses to Questions 2 and 4 for further comments on the proposed disclosure requirements.

EPS

Question 10: Should diluted EPS for all convertible instruments be calculated using the if-converted method of diluted EPS? Is the revision to the if-converted method in paragraph 260-10-45-40(b) operable? Please explain why or why not.

We support the proposal to require the use of the if-converted method for all convertible instruments. In particular, we note that this will change the method of calculating diluted earnings per share (EPS) for Instrument C, as described in paragraph 260-10-45-40. Assuming the FASB moves forward with the proposed amendments in paragraphs 260-10-45-45 through 45-46, we understand that only the effect of the conversion spread for Instrument C would be reflected in the diluted EPS calculation. This is because the principal amount of the debt is required to be settled in cash and, therefore, there is no effect on EPS. We observe that the outcome of applying the if-converted method to the conversion spread would be consistent with the current requirements in US GAAP to apply the treasury stock method for Instrument C.

We believe application of the if-converted method as revised in paragraph 260-10-45-40(b) would be operable. We understand that an entity would not allocate interest expense between the conversion spread and the principal amount of the debt for Instrument C for purposes of calculating a numerator adjustment in the diluted EPS calculation. Consistent with the Board's objective to simplify the accounting for these instruments, we support that approach. However, we believe the Board should clarify its intent. One suggestion for the Board's consideration would be to include the following in paragraph 260-10-45-40(b):

Interest charges applicable to the convertible debt shall be added back to the numerator. As a practical matter, ~~F~~for convertible debt for which the principal is required to be paid in cash, the interest charges shall not be added back to the numerator.

Question 11: For a contract that may be settled in either cash or shares (except for certain share-based payment arrangements that are classified as liabilities), should an entity presume (and not be allowed to overcome the presumption) share settlement when calculating diluted EPS? Please explain why or why not.

We support the proposal to require an entity to presume share settlement for contracts that can be settled in either cash or shares. We believe that removing the ability to overcome the presumption of share settlement would be consistent with the Board's objective to maximize dilution. We also observe that the proposal would simplify the accounting for these contracts and eliminate diversity in practice because applying the guidance would require less judgment than current US GAAP.

Question 12: Should the Board consider a project about the effect of antidilutive instruments on the diluted EPS calculation (for example, the effect of call options used to offset the potential dilution from convertible instruments)? Should any other EPS improvements be considered? If yes, please provide details.

We believe the guidance on antidilution in paragraphs 260-10-45-17 through 45-20 is clear with respect to the unit of account an entity should use when determining whether potential common shares are dilutive or antidilutive. We are not aware of significant practice issues in this area. Therefore, we do not believe further amendments to ASC 260 are needed at this time.

Transition and effective date

Question 13: Should the proposed amendments that affect classification, recognition, and measurement be applied on a modified retrospective basis, with an option for full retrospective application? Do you agree with the Board's proposed transition expedient? Please explain why or why not.

We agree with the proposed transition approach, including the proposed transition expedient for determining whether the likelihood of a triggering event occurring is remote. We believe that requiring entities to assess the likelihood of contingent events occurring in assessing the derivatives scope exception as of an instrument's issuance date could be onerous for preparers if those instruments have been outstanding for a significant period of time.

Question 14: Should the proposed amendments to EPS be applied as of the initial date of adoption for the transition from treasury stock method to if-converted method and applied retrospectively for instruments that may be settled in cash or shares? Please explain why or why not.

While we would not object to the Board's proposed transition approach to EPS, we believe the Board should consider a single transition approach because it would be more consistent with the objective of simplification.

For the transition from the treasury stock method to the if-converted method, we support adoption as of the initial date of application. Consistent with our response to Question 10, we do not believe the effect on diluted EPS would be significant.

Regarding the transition for instruments that may be settled in cash or shares, we understand that the Board has proposed full retrospective application to provide comparable information across reporting periods. However, we do not believe this would be necessary, and we observe that in practice an entity would account for changes in settlement assumptions prospectively for these instruments under current US GAAP. Therefore, we would support and recommend the Board consider a modified retrospective approach, consistent with the other aspects of this proposal.

Question 15: How much time would be needed to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities? Should early adoption be permitted? Please explain your response.

We do not believe a period longer than one year would be necessary for public business entities (PBEs), since most entities do not have a significant number of convertible instruments or liability/asset-classified contracts in their own equity. However, we believe that non-PBEs should have one additional year to implement the guidance.

Because the proposal may significantly alter the accounting for convertible instruments and the classification of contracts in an entity's own equity, we do not recommend permitting early adoption for PBEs to maintain the comparability of financial statement information. For non-PBEs, early adoption should be permitted any time after the required adoption date of PBEs.

Overall

Question 16: The proposed amendments would affect all entities that issue convertible instruments and/or contracts in an entity's own equity. Are there any specific private company considerations, in the context of applying the Private Company Decision Making Framework, that the Board should be aware of?

We support the Board's decision to require contracts in an entity's own equity to be marked to market through earnings if they do not meet the definition of a derivative and they are not indexed to an entity's equity under ASC 815-40-15. Such an amendment would align the accounting for those contracts that are not ASC 815 derivatives and are indexed to an entity's own equity but fail the cash settlement guidance in ASC 815-40-35. However, we understand that many of these contracts are held by private companies that could incur significant costs to obtain valuations for the underlying shares. Therefore, we recommend that the Board consider feedback from those preparers on the operability and cost of the proposed requirement.

Question 17: The proposed amendments would supersede various areas of guidance (such as the guidance on certain accounting models for convertible instruments). Do you expect that superseding that guidance will result in any unintended consequences? For example, is there guidance that is currently analogized in practice to account for transactions for which there is no explicit guidance under current GAAP? Please explain what those unintended consequences are and potential solutions, if applicable.

We are not aware of any unintended consequences other than those noted above.

Appendix B – Other comments

We recommend making the following clarifications to the proposal:

- 1) Paragraph 260-10-45-21A would refer to paragraphs 260-10-55-4 through 55-5. We suggest removing the reference to the treasury stock method in paragraph 260-10-55-4 (shown below), since this guidance would also be applicable when applying the if-converted method:

~~In applying the treasury stock method, t~~The average market price of common stock shall represent a meaningful average. Theoretically, every market transaction for an entity's common stock could be included in determining the average market price. As a practical matter, however, a simple average of weekly or monthly prices usually will be adequate.

- 2) Paragraph 260-10-45-23(c) would refer to paragraph 260-10-45-21A. However, paragraph 260-10-45-21A would provide guidance on using the average market price when the exercise price of a financial instrument or number of shares that would be used to settle the financial instrument are variable. We believe the reference to paragraph 260-10-45-21A would be more relevant in paragraph 260-10-45-23(b) because paragraph 260-10-10-45-23(b) addresses the price to use when applying the treasury stock method. Therefore, we recommend revising paragraph 260-10-45-23 as follows:

Under the treasury stock method:

- a. Exercise of options and warrants shall be assumed at the beginning of the period (or at time of issuance, if later) and common shares shall be assumed to be issued.
- b. The proceeds from exercise shall be assumed to be used to purchase common stock at the average market price during the period. (See paragraphs 260-10-45-29 and 260-10-55-4 through 55-5.) See paragraph 260-10-45-21A if the incremental shares are variable.
- c. The incremental shares (the difference between the number of shares assumed issued and the number of shares assumed purchased) shall be included in the denominator of the diluted EPS computation. See paragraph 260-10-45-21A if the incremental shares are variable.

Example 15 (see paragraph 260-10-55-92) provides an illustration of this guidance.

- 3) Regarding the second sentence in paragraph 260-10-45-45, we believe the Board's intent is for entities to use the calculation that would be the most advantageous to the holder when several conversion alternatives exist (e.g., when the number of shares presumed to be issued is variable). If our understanding is correct, we suggest clarifying the second sentence as follows:

~~If the number of shares presumed to be issued is variable, s~~See paragraph 260-10-55-8 if the election to settle in shares is contingent upon the occurrence of a specified event.

- 4) Regarding the third sentence in paragraph 260-10-45-45, we believe the Board's intent is for entities to presume share settlement unless or until the liquidation event occurs (consistent with the guidance in former EITF 00-19). If our understanding is correct, we suggest clarifying the third sentence as follows:

If the payment of cash is required only upon the final liquidation of the entity, then the entity should presume share settlement until the liquidation occurs ~~that potential outcome need not be considered when applying the guidance in this Subtopic.~~

- 5) We believe the fourth sentence in paragraph 260-10-45-45 (shown below for reference only) should be moved to follow the first sentence in paragraph 260-10-45-45 because this sentence provides an example of the type of contract described in the first sentence (i.e., it describes a contract in which the holder has a choice of settling in common stock or in cash).

An example of such a contract accounted for pursuant to this paragraph and paragraph 260-10-45-46 is a written call option that gives the holder a choice of settling in common stock or in cash.

- 6) We recommend adding a reference to ASC 718 in paragraph 260-10-45-45A because the guidance in paragraph 260-10-45-45A only would apply to share-based payment awards classified as a liability in accordance with ASC 718. We suggest editing paragraph 260-10-45-45A as follows:

For a share-based payment arrangement that is classified as a liability because of the requirements in paragraph 718-10-25-15 and may be settled in common stock or in cash at the election of either the entity or the holder, the determination of whether that contract shall be reflected in the computation of diluted EPS shall be made on the basis of the facts available each period. It shall be presumed that the contract will be settled in common stock and the resulting potential common shares included in diluted EPS (in accordance with the relevant guidance of this Topic) if the effect is more dilutive. The presumption that the contract will be settled in common stock may be overcome if past experience or a stated policy provides a reasonable basis to conclude that contract will be paid partially or wholly in cash.

- 7) Paragraph 260-10-55-36A illustrates the guidance in paragraphs 260-10-45-45 through 45-46 and 260-10-55-32 through 55-34 and summarizes the effect on the numerator and denominator of the diluted EPS calculation when there is a difference between the accounting for book purposes and the presumed method of settlement for EPS purposes. We recommend clarifying the circumstances in which each scenario in this paragraph would be applicable. For example, we understand the only scenario in which an entity can overcome the presumption of share settlement is when the instrument is a liability-classified share-based payment award. If our understanding is correct, we recommend adding a reference to ASC 718 in the table heading for Column 2.

- 8) We believe the guidance in paragraph 260-10-45-46 would also be relevant to Example 13, specifically paragraph 260-10-55-89. Therefore, we recommend revising paragraph 260-10-55-89 as follows:

The treasury stock transaction would result in an immediate reduction of outstanding shares used to calculate the weighted-average common shares outstanding for both basic and diluted EPS. The effect of the forward contract on diluted EPS would be calculated in accordance with this Subtopic. An entity should apply the guidance in paragraphs 260-10-45-45 and 260-10-45-46 when determining the impact of a forward contract in the diluted EPS denominator.

- 9) In paragraphs 470-20-50-1C(a) and 505-10-50-14(a), it is unclear what is meant by events that "adjust or change the contingency." If the Board's intent is to require a company to disclose events that change the likelihood of the contingency being triggered, that should be clarified.

- 10) We recommend correcting the following in paragraph 470-20-50-1D:

An entity shall disclose the following information for each convertible debt instrument, as of each date for which a statement of financial position is presented.

- a. The unamortized premium, or discount, and any~~or~~ issuance costs

- 11) Throughout the proposal, the words *convertible instruments* and *convertible securities* are used interchangeably. We recommend using "convertible instrument(s)" consistently.

- 12) We recommend correcting the following in paragraph 815-40-25-4:

Accordingly, unless the economic substance indicates otherwise:

- a. Contracts shall be initially classified as either assets or liabilities in both of the following situations:
1. Contracts that require net cash settlement (including a requirement to net cash settle the contract if an event occurs and if that event is outside the control of the entity, unless the likelihood occurrence of that event occurring is **remote**)

- 13) We recommend correcting the following in paragraph 815-40-55-2:

An event that causes a change in control of an entity is not within the entity's control and, therefore, if a contract requires **net cash settlement** upon a change in control, the contract generally must be classified as an asset or a liability, unless the likelihood occurrence of that event occurring is **remote**.

- 14) We recommend clarifying the example in paragraph 815-40-55-49A as follows because Entity A has exceeded the revenue target in the past, indicating that this is an annual revenue target:

Entity A has qualitatively determined that the likelihood of not achieving aggregate revenues of at least \$500 million by December 31, 20X4, is remote at inception of the contract because it has exceeded such a level of revenues since inception and is forecasting to significantly exceed this level over the next 4 years. The warrants will settle in shares. Therefore, the warrants qualify for the scope exception in this Subtopic and are equity classified.

- 15) We recommend clarifying the following sentence in paragraph BC54 of the Background Information and Basis for Conclusions because remote events would not be aggregated either quantitatively or qualitatively for the purpose of applying the proposed guidance:

With that said, the Board did not intend that an entity would have to quantitatively or qualitatively determine whether several remote features would have a more than remote likelihood of occurring in the aggregate. The remote threshold is intended to be a qualitative threshold.

- 16) We recommend correcting the following reference in BC97 of the Basis for Conclusions:

The amendments in this proposed Update would align the wording in paragraph 815-40-50-5(d) with the wording in paragraph ~~480-40~~10-50-2 to clarify the disclosure requirement.