

October 14, 2019

Technical Director
Financial Accounting Standards Board
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Via e-mail – director@fasb.org

Re: File Reference No. 2019-730. 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 an Entity’s Own Equity

Plante & Moran, PLLC is pleased to offer comments on the above referenced Exposure Draft. We strongly support the efforts of the Financial Accounting Standards Board (“Board”) to simplify the accounting for convertible instruments. In our experience, the accounting for convertible instruments and contracts in an entity’s own equity is an area that challenges preparers, practitioners, and financial statement users. Existing guidance in this area is highly complex and difficult to apply in practice leading to significant time being incurred to evaluate these arrangements. As the current guidance includes multiple different accounting models, it is not uncommon for economically similar arrangements to end up being accounted for differently, which causes confusion for preparers and reduces the usefulness of the information for financial statement users. Given this, we strongly support the Board’s efforts to improve guidance in this area.

As our firm works primarily with private companies, not-for-profit entities, and smaller public companies, our comments are based on our experience working with these entities and the types of convertible instruments they issue. We acknowledge there may be different considerations for larger public companies based on the complexity of their arrangements and the needs of their financial statement users. If there are concerns with the Board’s simplification efforts for those larger entities, we would encourage the Board to consider this as an area for a private company accounting alternative.

Following, please find our responses to the specific Questions for Respondents in the proposed Update.

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.

Response 1: Yes, we support the Board's proposal to reduce the number of accounting models for convertible debt instruments from five to two. From our experience, having multiple accounting models that require embedded conversion features to be separated leads to additional complexity in applying the guidance and can result in economically similar arrangements being accounted for differently. This can also result in information between entities being less comparable for financial statement users. We believe using a single unit of account model, except in circumstances where the conversion feature is required to be bifurcated under the guidance in Topic 815, will accomplish the objective of reducing complexity in financial reporting.

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.

Response 2: We believe the proposed disclosures provide decision useful information and is important information for users to understand the arrangements if the Board moves forward in reducing the number of accounting models. We would defer to the feedback the Board receives from financial statement users related to the frequency of the required disclosures.

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.

Response 3: We agree with the proposal that remote settlement features be disregarded for purposes of determining the classification of a contract in an entity's own equity. We also believe the remote settlement threshold is operational. The concept of a remote threshold is utilized in other areas of GAAP and preparers and practitioners are accustomed to its use. We believe utilizing a different threshold, such as more-likely-than-not, would result in too many settlement features being disregarded when determining classification. Given this, we believe the remote threshold strikes the right balance between the cost to preparers and practitioners and the benefit to financial statement users.

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.

Response 4: We do not believe that a requirement to settle a contract in registered shares should affect the classification of a contract in the entity's own equity.

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.

Response 5: We do not believe that a requirement to post collateral should affect the classification of a contract in the entity's own equity.

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.

Response 6: We do not believe the hierarchy of a counterparty's rights or shareholder rights should affect the classification of a contract in the entity's own equity.

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.

Response 7: We agree with the proposal that the derivatives scope exception should be reassessed only upon the occurrence of a reassessment event. We believe this approach is operable and will be easier to apply than an annual reassessment.

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.

Response 8: We believe the proposed disclosure provide decision-useful information. We do not believe any other specific disclosures should be required.

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?

Response 9: We would defer to the feedback the Board receives from financial statement users as to whether fair value disclosures for equity-classified instruments would provide them with decision useful information.

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.

Response 10: We agree with the proposal to calculate diluted EPS for all convertible instruments using the if-converted method. We believe the changes to paragraph 260-10-45-

40(b) are operable as the amounts that are not added back would have previously been calculated and thus involves information that should already be available to preparers.

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.

Response 11: We agree with the proposal that contracts that can be settled in either cash or shares should be presumed to be settled in shares when calculating diluted EPS.

However, we believe the Board should retain the ability to overcome the presumption of share settlement. While allowing entities the ability to overcome the presumption of share settlement may increase complexity, we believe it provides more relevant information to financial statement users if there is strong evidence to support the contract will be settled in cash. If the Board elects to go down this path, we would encourage the Board to provide implementation guidance to help preparers and practitioners determine if the presumption of share settlement can be overcome. We believe implementation guidance would alleviate some of the complexity that would result.

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.

Response 12: We would encourage the Board to perform outreach to preparers and investors to determine if improvements can be made to the diluted EPS calculations to make them more relevant to users, as well as areas to identify areas for reducing complexity in the calculations.

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.

Response 13: We agree that the proposed amendments that affect classification, recognition, and measurement be applied on a modified retrospective basis with an option for full retrospective application.

We support the proposed transition expedient that would allow for the use of hindsight when assessing the likelihood of contingent events for purposes of indexation and settlement evaluations. We believe this transition expedient will assist preparers in adopting the amendments and still provide useful information to financial statement users.

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.

Response 14: We believe the transition method should be the same for all proposed amendments related to EPS. We believe that having different transition methods for different aspects that impact EPS will lead to confusion for financial statement users. Given the importance investors place on EPS metrics, we would encourage the Board to solicit feedback from financial statement users to determine if retrospective application provides more useful information to their investing decisions.

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.

Response 15: As adoption of the proposed update may require entities to reassess existing contracts, we believe that adopting the amendments may be time consuming, especially for smaller public companies and private companies. Because entities are currently devoting significant resources to the adoption of other large accounting standards, such as revenue recognition and leases, we believe many companies will be facing resource constraints in the coming years when it comes to adopting new accounting standards. Accordingly, smaller public companies and private companies may need additional time to implement the new proposed guidance. We also believe early adoption should be permitted.

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?

Response 16: We do not suggest any other private company considerations. However, if there are concerns with the proposed model for public companies, we would encourage the Board to consider moving forward with the proposal as a private company alternative.

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.

Response 17: We are not aware of any unintended consequences as a result of the proposed guidance.

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Thank you again for the opportunity to comment on this exposure draft. We would be pleased to respond to any questions the Board or its staff may have about these comments. Please direct any questions to David Grubb at david.grubb@platemoran.com or at (248) 223-3745 or Curt Hurd at curt.hurd@platemoran.com or at (248) 223-3946.

Very truly yours,

PLANTE & MORAN, PLLC