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FASB  
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Via e-mail: [director@fasb.org](mailto:director@fasb.org)

Re: Proposed ASU 2019-730: 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*.

Dear Technical Director:

The Accounting Principles and Auditing Standards Committee (the “Committee”) of the Florida Institute of Certified Public Accountants (FICPA) respectfully submits its comments on the referenced proposal. The Committee is a technical committee of the FICPA and has reviewed and discussed the above referenced proposed ASU. The FICPA has more than 19,500 members, with its membership comprised primarily of CPAs in public practice and industry. The Committee is comprised of 19 members, of whom 48% are from local or regional firms, 16% are from large multi-office firms, 21% are sole practitioners, 5% are in international firms, 5% are in education, and 5% in industry. The Committee has the following comments related to the questions numbered below:

**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.**

Yes. The Committee believes that convertible instruments should be accounted for a single unit of account, except in circumstances in which conversion features are required to be bifurcated by guidance in Topic 815. The Committee believes that bifurcating a convertible debt instrument into two dissimilar financial instruments through the required application of certain models, some whose conditions of conversion are remote, does not provide useful information to the users of financial statements and makes the accounting for such instruments more complex for financial statement preparers. The Committee does not believe that, under this simplification, any specific significant information about convertible instruments would be missing.

**Question 2: Do the disclosure amendments in this proposed Update for convertible debt instruments in paragraphs 470-20-50-1A through 50-11 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.**

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Yes. The Committee believes that the disclosure amendments in paragraphs 470-20-50-1A through 50-11 and 505-10-50-12 through 50-18 provide decision-useful information. However, the Committee believes that further guidance would be useful for the proposed required disclosure in 470-20-50-1C(b), “Information on whether the shares that would be issued if the contingently convertible securities were converted are included in the calculation of diluted earnings per share (EPS) and the reasons why or why not.” The Committee assumes that the basis of determining whether or not a contingently convertible instrument is included in the calculation of diluted earnings per shares involves a probability assessment by the entity of whether the entity believes the contingent event will or will not occur. Finally, given the breadth of the proposed disclosures, the Committee does not believe all such disclosures should be required in interim periods.

**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.**

Yes. The Committee believes that a remote settlement feature should be disregarded for purposes of determining the classification of a contract in an entity’s own equity (for both indexation and settlement). The Committee believes that the term “remote” is operable because there is a presumption that if the occurrence of an event is deemed remote it will not occur, whereas a term such as “not probable” is more subjective.

**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.**

Yes. The Committee believes that the condition that settlement of the contract is permitted in unregistered shares should not affect the classification of a contract in the entity’s own equity. The Committee believes an entity should have the option to settle a contract in its own equity in either registered or unregistered shares, but that the condition permitting settlement in unregistered shares does not have to be present. For example, a contract indexed to an entity’s own stock may require that it be settled in registered shares and not unregistered shares or vice versa. In each case, the contract would be considered indexed to the entity’s own equity.

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

Yes. The Committee believes that a requirement in a contract to post collateral at any point for any reason should not preclude equity classification of such contract in an entity’s own equity. The Committee agrees with the Board in that this condition is not consistent with the concept of settlement and that, in certain instances, an entity may be required to issue contracts in its own equity that require collateral.

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

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Yes. The Committee believes that the hierarchy of counterparty’s rights or shareholder rights should not affect the classification of a contract in an entity’s own equity. For example, a warrant issued to a preferred stockholder of the entity may have rights that rank higher than the rights of a shareholder of the underlying common stock. This should not preclude equity classification of the warrant 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.**

Yes. The Committee believes that the proposed amendments in ASC 815-40-35-8 about reassessment of the derivatives scope exception are operable and also believes that an entity should not be required to reassess the likelihood of these events at every financial statement event if they were deemed to be remote at the inception of the contract in evaluating the indexation and settlement criteria, unless one of the three reassessment events listed in ASC 805-40-35-8 has occurred during the period.

**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 disclosure for contracts in an entity’s own equity be required? Please explain which disclosures should be provided and why?**

Yes. The Committee believes that the proposed disclosure amendments for contracts in an entity’s own equity in paragraph ASC 815-40-50-5(f) through (g) provide decision-useful information and that it is appropriate to require these disclosures within ASC Topic 505, “Equity.” Furthermore, for the proposed disclosure in ASC 815-40-50-5(d), the Committee recommends that the first sentence should be revised as follows: “For each settlement alternative, **with a likelihood of greater than remote** (Emphasis added) the amount that would be paid...”

**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?**

No. The Committee strongly believes that new fair value disclosures should not be considered for public business entities for all equity-classified instruments, including those outside the scope of the proposed of the proposed amendments (such as employee stock options). The Committee agrees that most users noted that disclosures about the terms and features of contracts are more important than disclosures about fair value for their analyses. Finally, the Committee also believes inclusion of such disclosures would be contrary to the overall objective of simplification in financial reporting.

**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?**

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Yes. The Committee believes that diluted EPS for all convertible instruments should be calculated using the if-converted method of diluted EPS as this would align the EPS guidance with the proposed amendments to the related guidance on convertible debt guidance, whereby the intent is to view a convertible debt instrument economically as one instrument that is only convertible into shares of stock (as opposed to cash only, or cash and share settlement). The Committee also believes that the revision to the if-converted method in paragraph 260-10-45-40(b) is operable because if the principal portion of the convertible debt is required to be paid in cash (thereby, requiring continued payment of the associated interest), the entity should not be permitted to add back the interest expense to the numerator in calculating earnings per share.

**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.**

Yes. The Committee believes that for a contract that may be settled in either cash or shares (except for certain share-based payments that are classified as liabilities), an entity should presume (and not be able to overcome the presumption) share settlement when calculating diluted EPS. The Committee believes this will eliminate the disconnect of an entity classifying a contract as equity, as opposed to a free-standing financial instrument subject to fair value accounting, and then not including the underlying shares in the diluted EPS calculation by presuming the contract could be settled in cash (based on historical experience, accounting policy, etc.).

**Question 12: Should the Board consider a project about the effect of antidilutive instruments in 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.**

The Committee believes the Board should consider any project whose objective is to provide (or improve) decision-useful information and to amend any inconsistencies in the current guidance. With regard to the effect of call options used to offset the potential dilution from convertible securities, it appears that the use of this hedging technique is not aligned with the definition of antidilutive in the Master Glossary (i.e. since exercise of the call option would improve diluted EPS by offsetting the shares assumed issued on the conversion, the call option is considered antidilutive and not included in the denominator of the diluted EPS calculation). Thus, a project to consider the effects of antidilutive instruments, or to address the definition of antidilutive would seem prudent.

**Question 13: Should the proposed amendments that effect 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?**

The Committee believes that the Board should require that the proposed amendments be applied using either the modified retrospective method or the full retrospective method, in other words, an entity would not have the option to apply either method. This would enable all entities that are affected by the proposed amendments to adopt the ASU using the same method. As far as which method, the modified retrospective method or the full retrospective method, should be required, the Committee endorsed the modified retrospective method due to its practicality. As noted in the Board’s Basis of Conclusions, in many cases instruments that were previously bifurcated into separate units of account for accounting

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purposes would need to be recombined. Thus recombination may be complex in scenarios in which there are multiple features in an instrument. Therefore, the Committee believes the modified retrospective approach (i.e. applied to instruments outstanding as of the date of initial date of adoption) would be more practical and less costly than application of the full retrospective method. Finally, the Committee agrees with the Board’s proposed transition expedient for entities to use in reassessing the amendments on the derivatives scope exception related to the consideration of likelihood (i.e. contingent events in the indexation and settlement evaluations).

**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.**

Yes. The Committee believes 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 the instruments that may be settled in cash or shares. The Committee agrees with the Board’s Basis of Conclusions that transition to the presumption that the conversion feature will be settled in shares could potentially have a significant impact on diluted EPS. Therefore, full retrospective method of adoption for this proposed amendment is appropriate, whereas the transition from the treasury stock method to the if-converted method would most likely not have a significant impact on an entity’s diluted EPS; thus, modified retrospective method of adoption for this proposed amendment is appropriate.

**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 entities? Should early adoption be permitted? Please explain your response.**

The Committee does not believe that early adoption be permitted. Similar to the Committee’s rationale in its response to Question 13, all entities impacted by the proposed amendments should have the same initial date of adoption. The Committee believes that the amount of time needed to adopt the proposed amendments for those entities impacted will vary from entity-to-entity, depending upon, among other things, how complex the features are in their respective convertible instruments and contracts indexed to the entity’s own equity. Therefore, in determining the time needed to implement the proposed amendments, the Board should use as a guide the time allowed for previously issued amendments to Subtopics that are technical in nature and have a high degree of complexity. Finally, the Committee believes that whatever time frame for adoption by public business entities that the Board decides on, the timeframe for adoption by other than public business entities should be longer.

**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?**

No. The Committee does not believe that there are any specific private company considerations in applying the Private Company Decision Making Framework (the “Framework”) to the proposed amendments in the ASU. The Committee does acknowledge, per the guidance in the Framework, that:

- The capital structure and capital funding of private companies vary from public companies
- The typical types of ownership and capital structures of private companies versus public companies should be considered in evaluating the applicability and consequences of some accounting guidance;

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- Private companies generally have relatively fewer and less specialized accounting personnel than do public companies;
- Because of their resource constraints, some private companies may find it more challenging than public companies to dedicate the time and resources necessary to evaluate and apply certain new standards.

However, in this instance, the Committee believes that if a private company has issued convertible debt instruments or contracts indexed to the entity’s own equity, it is presumed that the private company will have the resources to evaluate and apply the proposed amendments in this ASU.

**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 consequences are and potential solutions, if applicable.**

No. The Committee does not expect that any guidance that is superseded by the proposed amendments would result in any unintended consequences. However, as with any significant change in accounting guidance, especially a change that could potentially reduce diluted EPS for certain entities prospectively, new types of structured financial instruments designed to mute the effects of the proposed amendments in the ASU may emerge in the marketplace.

The Committee appreciates this opportunity to respond to the proposed accounting standards update. Member of the Committee are available to discuss any questions or concerns raised by this response.

Respectfully submitted,

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Chairman

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