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Question Text	Response	Status
* Please select the type of entity or individual responding to this feedback form.	Not Asked	Not Asked
Other, please specify (Specified)		
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Other, please specify (Specified)	Consultant	
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Organization *	Mind the GAAP, LLC	
First name *	Scott	
Middle initial	A	
Last name *	Ehrlich	
Email address *	sehrlich@mindthegaap.com	
Phone number	773-732-0654	
Do you agree that the amendments in this proposed Update should apply to freestanding equity-classified forwards and options that remain equity classified after modification or exchange and are not within the scope of Topic 718 or accounted for as derivatives under Topic 815? Why or why not?	<p>We agree that the scope of the proposed Update should focus on modifications not addressed by other Accounting Standards Codification Topics, such as Topic 718, Compensation – Stock Compensation or Topic 815, Derivatives and Hedging.</p> <p>However, we believe that the scope of this proposed Update be limited to freestanding warrants issued by the reporting entity (i.e., written call option contracts). Expanding the scope of the proposed ASU to address forwards and other types of option contracts appears to transcend the intent of the original issue the EITF was asked to address and could introduce unintended consequences.</p> <p>By way of background, Mind the GAAP was a member of the group that submitted the agenda request (AR-2018, Comment Letter #28) that was the basis for (a) EITF 19-C: Issuer’s Accounting for Certain Modifications of Freestanding Equity Classified Forwards and Options (EITF 19-C) and (b) this proposed Update.</p>	Completed

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	<p>At the time our group submitted this agenda request, we had witnessed a number of companies that had modified freestanding warrants that had previously been issued to investors. Our group had seen diversity in practice around the accounting for those warrant modifications. The intent of our agenda request was to gain clarity around this specific matter. That is, we were seeking guidance on the narrow issue of how to account for modifications of warrants previously issued by the reporting entity to investors.</p> <p>The proposed Update would expand the scope of this guidance to cover equity-classified forward contracts, as well as other types of equity-classified option contracts. We are concerned that this scope expansion could result in unintended consequences. For instance, assume a reporting entity purchased an equity-classified call option on its own shares. Furthermore, the counterparty and the reporting entity agree to reduce the exercise price of the option or extend its term. In either situation, the call option would increase in value. The proposed Update, as written, could require the reporting entity to recognize a gain for the increase in value of the issue call option. It is debatable whether this outcome is appropriate and provides relevant information to financial statement users. But more importantly, we believe that even considering the accounting for this particular fact pattern is beyond the scope of the specific issue our group was hoping to address when submitting the original agenda request. We at Mind the GAAP worry that expanding the scope of this project to address instruments besides warrants could delay the timely issuance of a final standard, as the FASB staff researches and considers potential consequences of expanding the project beyond its initial intended scope.</p> <p>Moreover, in practice, we are aware of few, if any, actual situations of reporting entities modifying forward contracts or purchased options. Hence, the potential delays and costs of expanding the scope of this project to address all equity-classified forwards and options would likely far exceed the limited benefits from doing so.</p>	
<p>Do you agree that an issuer should recognize the effect of a modification or an exchange of a freestanding equity-classified forward or option on the basis of the substance of the transaction as described in</p>	<p>We generally support the principles and decision framework described in proposed paragraph 815-40-35-17.</p> <p>As discussed in our response to Question 6, though, we would prefer that the effects of the “other” category of modifications – as described in subparagraph (d) – be recorded in income rather than as a deemed dividend.</p> <p>Moreover, we would recommend deleting the last sentence in subparagraph (a) in any final Update – “For additional guidance see SAB Topic 5.A, Expenses of Offering</p>	<p>Completed</p>

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<p>paragraph 815-40-35-17? Why or why not?</p>	<p>(paragraph 340-10-S99-1).” As a final Accounting Standards Update will apply to both public and nonpublic business entities, referring to guidance in a SEC Staff Accounting Bulletin may be confusing, particularly to private companies. Furthermore, the guidance in SAB Topic 5.A includes bright-lines – e.g., specifying a 90-day timeframe when evaluating whether a short-term postponement represents an aborted offering – which seems to be inconsistent with the principles-based guidance set out in paragraph 815-40-35-17 and elsewhere in the proposed Update. Lastly, there are circumstances under SAB Topic 5.A where the costs of an offering would be charged to expense – this could potentially conflict with the framework set-out in proposed paragraph 815-40-35-17. For example, assume that a reporting entity agrees to offer a temporary reduction in the exercise price of warrants to induce warrant holders to exercise and purchase the underlying shares. After 90 days, the offer expires and no warrant holders elect to purchase shares at the reduced exercise price. It is uncertain whether the principles of SAB Topic 5.A or the framework in ASC 815-40-35-17 would prevail in this fact pattern. That is, we are not sure whether the value of the warrant modification should be (a) charged to the income statement as a result of an aborted offering, or (b) treated as a dividend under paragraph 815-40-35-17(d), under the view that the modification was for other reasons besides a financing transaction, a debt modification, or in exchange for a good or service. Regardless of whether the reference to SAB Topic 5.A is retained in paragraph 815-40-35-17(a), it may be beneficial to provide guidance on this particular fact pattern as part of the newly proposed Example 22 in paragraphs 49-51 of 815-40-55, as we can definitely see it occurring in practice.</p> <p>Finally, we would recommend incorporating into paragraph 470-50-40-21(c) language similar to that suggested in paragraphs 17A and 18A of 470-50-40 of the proposed Update. Specifically, it would be helpful to clarify how the incremental value associated with a warrant modification should be recognized if the warrant modification was associated with a change in the terms of a line-of-credit or revolving-debt arrangement.</p>	
<p>For modifications or exchanges of freestanding equity-classified forwards and options that are within the scope of the proposed amendments, an issuer would not</p>	<p>Yes. We believe that most warrant modifications are designed to transfer additional value to warrant holders. In the rare circumstances where a modification decreases the value of a warrant, we agree that this diminution in value should not be recognized, consistent with the analogous principles in Topic 718.</p>	<p>Completed</p>

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<p>recognize the effect of a modification or an exchange that results in a reduction in the fair value of that instrument (similar to the share-based payment model in Topic 718). Do you agree with that accounting? Why or why not?</p>		
<p>Are the proposed amendments operable, including for situations in which the substance of the transaction includes multiple elements (for example, debt financing and equity financing)? If not, what changes do you recommend and why?</p>	<p>We believe the amendments are operable, including situations in which the warrant modification is associated with a multiple element transaction. Of note, the proposed guidance in paragraph 815-40-35-16 seems to be clear and also consistent with how reporting entities have longed allocated proceeds and transaction costs when issuing a basket of securities (e.g., as described in paragraph 470-20-25-2 for issuances of debt instruments with detachable warrants).</p>	<p>Completed</p>
<p>For modifications or exchanges of freestanding equity-classified forwards and options that represent compensation for goods or services, are the proposed amendments in paragraph 815-40-35-18 and to Topic 718 necessary to clarify that those transactions are within the scope of Topic 718?</p>	<p>We believe that the amendments in paragraph 815-40-35-18 are clear, but we found the proposed edits to paragraph 718-10-15-5 to be a bit confusing and/or circular. We would instead suggest that the proposed edits to paragraph 718-10-15-5 be removed, and instead replaced with the following new sentence: "See paragraphs 815-40-35-14 through 35-19 for guidance on accounting for modifications or exchanges of warrants that were granted to a lender or an investor that provided financing to the issuer." Alternatively, the Board might consider including a flowchart or decision tree in paragraphs 718-10-15-5 and/or 815-40-35-18 (or in the implementation guidance section of those Topics) to help users determine which Accounting Standards Codification paragraphs might apply based on the nature of the modification.</p>	<p>Completed</p>
<p>Do you agree that an issuer should recognize the effect of a modification or an exchange of a freestanding equity-classified forward or option as a dividend when the substance</p>	<p>We would prefer that in the circumstances specified in paragraph 815-40-35-17(d), the effects of the modification be reported as an expense in the income statement.</p> <p>In our experience, the types of modifications that fall into this category are often gestures of goodwill towards certain investors. For example, a reporting entity may voluntarily agree to reduce the exercise price of an outstanding warrant due to a subsequent equity issuance at a lower price than</p>	<p>Completed</p>

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<p>of the transaction is not related to a financing, compensation for goods or services, or exchange transactions addressed by other Topics? Why or why not?</p>	<p>past financings (presuming that the outstanding warrant did not contain down round protection). We understand the Board’s logic in accounting for this modification as a dividend – i.e., value was transferred to an equity holder (and there is no requirement that all equity holders receive commensurate value for a dividend to be recognized under U.S. GAAP). However, the nature of this transaction seems to be more akin to an investor relations expense. Therefore our preference would be for the cost of these types of modifications to be recognized in the income statement.</p> <p>We also understand that some practitioners may believe that modifications of this type are rare. We would disagree with this assertion. One of the reasons our group authored the original agenda request (AR-2018, Comment Letter #28) is because we saw a fair number of warrant modifications that did not appear to be related to financing transactions, debt modifications, or in exchange for a good or service. Hence, we would strongly urge the Board to retain this “catch-all” category as part of its accounting framework outlined in paragraphs 14-19 of 815-40-35.</p>	
<p>Do you agree with the transition provisions, including early adoption in an interim period as of the beginning of the fiscal year that includes that interim period? If not, what changes do you recommend and why?</p>	<p>Yes. We agree that reporting entities should be permitted to adopt the new guidance on either a retrospective or prospective basis. We also agree with permitting early adoption in an interim period as of the beginning of the fiscal year that includes that interim period.</p>	<p>Completed</p>
<p>How much time would be necessary to adopt the proposed amendments? Would the amount of time needed to apply the proposed amendments by entities other than public business entities and public business entities that do not meet the definition of a Securities and Exchange Commission (SEC)</p>	<p>For reporting entities that adopt on a prospective basis, there would be little to no time necessary to adopt the proposed amendments. For entities that adopt on a retrospective basis, there will be time needed to transition to the new guidance, but such time should not be significant. Perhaps the most time consuming aspect of adopting retrospectively may involve obtaining valuations to support the incremental change in value resulting from the modification, if those valuations had not been previously obtained.</p> <p>Unlike many other new accounting standards, we actually do not see any reason why different types of reporting entities should be provided shorter or longer periods to adopt this standard. This is because reporting entities can elect to adopt the new guidance on a prospective basis or, if desired, to early adopt. In other words, there is a lot of flexibility in terms of when and how an entity can adopt the</p>	<p>Completed</p>

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<p>filer be different from the amount of time needed by public business entities that meet the SEC filer definition?</p>	<p>new guidance such that this standard may not need different mandatory adoption dates by class of reporting entity.</p>	
<p>Please provide any additional comments on the Proposed Update:</p>	<p>We are sincerely grateful to the EITF and FASB for taking on this project in response to our initial agenda request (AR-2018, Comment Letter #28).</p>	<p>Completed</p>
<p>Please provide any comments on the electronic feedback process:</p>	<p>N/A.</p>	<p>Completed</p>