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December 22, 2020

Hillary H. Salo
Senior Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 2020-800

Dear Ms. Salo:

RSM US LLP is pleased to provide feedback on the proposed Accounting Standards Update (ASU), *Earnings Per Share (Topic 260)*, *Debt—Modifications and Extinguishments (Subtopic 470-50)*, *Compensation—Stock Compensation (Topic 718)*, and *Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Forwards and Options (a consensus of the Emerging Issues Task Force)*. We appreciate the continued efforts of the Financial Accounting Standards Board and the Emerging Issues Task Force to address areas in which explicit guidance is lacking and diversity in practice exists. We support the proposed ASU as is indicated in our responses to the specific questions in the proposed ASU that follow.

Responses to Questions for Respondents

Question 1: *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?*

We agree that the 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. We believe the proposed scope is appropriate because, while subsequent measurement and recognition guidance exists for liability classified forwards and options to address the accounting for modifications or exchanges of such instruments, there is currently no such guidance for similar equity-classified instruments. Further, we believe it is appropriate for the scope to exclude instruments that are within the scope of Topic 718 and Topic 815 as relevant guidance currently exists for modifications and exchanges of forwards and options within the scope of these Topics. If the Board decides the scope should be limited to written options, we encourage the Board not to restrict the ability to analogize and apply the amendments in the proposed ASU to similar instruments (e.g., other equity-classified options and forward contracts). Finally, to avoid unintended accounting consequences, we believe it would be appropriate to clarify in proposed paragraph 260-10-45-15 that the amendments are applicable to the issuer's accounting only.

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Question 2: *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 paragraph 815-40-35-17? Why or why not?*

We agree that the manner of recognition of the effect of a modification or an exchange should be determined based on the substance of the transaction. Paragraphs 815-40-35-17 and 815-40-35-18 comprehensively address the different reasons for a modification or exchange, and the resulting recognition of the effect of the modification or exchange. We support the concept, as expressed in paragraph 815-40-35-17, that the same accounting recognition should result as had cash been paid instead of a modification or exchange of those instruments.

Question 3: *For modifications or exchanges of freestanding equity-classified forwards and options that are within the scope of the proposed amendments, an issuer would not 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?*

We agree that, in the context of written options such as warrants, only the increased fair value resulting from a modification or exchange should be recognized. Such accounting is consistent with the treatment of modifications or exchanges under Topic 718, and thus will avoid confusion. We also point out that, in our experience, most modifications and exchanges will result in additional value being provided, and as such, the absence of accounting for a reduction in the value of an instrument is unlikely to be impactful. In the event the Board moves forward with including purchased options and forward contracts in the scope of this guidance, proposed paragraph 815-40-35-16 should be modified to indicate that, while the effect of a modification or an exchange shall be determined by comparing the fair value of the modified or exchanged instrument to the fair value of the original instrument immediately before it is modified or exchanged, only detrimental or compensatory effects should be recognized, to be consistent with the treatment under Topic 718. Proposed paragraph 470-50-40-18A would also need to be modified accordingly.

Question 4: *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?*

Yes, we believe the proposed amendments are operable. Both financial statement preparers and users are already familiar with the Topic 718 model for accounting for modifications or exchanges upon which the proposed measurement and accounting guidance is based. Also, the concept that the manner of recognition should be the same as if cash had been paid is easy to understand and apply. Finally, the applicable accounting model for each of the scenarios provided in paragraph 815-40-35-17 are ones for which practice is already well developed and as such should be operable, even for transactions with multiple elements.

Question 5: *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?*

We agree with the proposed amendments in paragraph 815-40-35-18 and Topic 718. Amendments to freestanding equity-classified forwards or options, such as warrants issued to shareholders, may be for the purpose of compensating those individuals for goods or services (particularly if a company is closely held). Without these clarifications, companies may conclude Topic 718 is not relevant and thus fail to recognize expense for such goods and services, and instead erroneously account for the

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increased value as a dividend pursuant to the guidance on other modifications in paragraph 815-40-35-17(d).

Question 6: *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 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?*

We agree, in situations in which the substance of the transaction is not related to a financing, compensation for goods or services, or exchange transactions addressed by other Topics, the effect of the modification or exchange should be treated as a dividend. While such situations are not common in practice, recognition as a dividend is an acceptable accounting outcome and would provide for a consistent accounting result.

Question 7: *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?*

We agree with the proposed transition provisions.

Question 8: *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) filer be different from the amount of time needed by public business entities that meet the SEC filer definition??*

We do not believe that significant time will be necessary to adopt the proposed amendments. We believe a one-year deferral for entities other than public business entities will be beneficial to allow additional time for these entities to become aware of and familiar with the final ASU.

We appreciate this opportunity to provide feedback on the proposed ASU and would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to Faye Miller at 410.246.9194 or Ginger Buechler at 612.455.9411.

Sincerely,

RSM US LLP

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