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Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Sent via email to: director@fasb.org, File Reference No. 2020-800

**RE: Exposure Draft—*Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Forwards and Options* (File Reference 2020-800)**

Dear Technical Director:

CliftonLarsonAllen LLP appreciates the opportunity to comment on the Financial Accounting Standards Board's (the FASB's or the Board's) Exposure Draft on Proposed Accounting Standards Update, *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) (proposed Update).

Our clients comprise private companies and not-for-profit entities and we support the Board's objective to provide clarity and reduce diversity in practice in this area.

We have provided our responses to the questions for respondents included in the Exposure Draft in the attachment to this letter.

Sincerely,

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

**Exposure Draft:** ***Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Forwards and Options*** **(File Reference No. 2020-800)**

CliftonLarsonAllen LLP is pleased to provide the following responses to the specific questions for respondents in the Exposure Draft. In summary, we support the Board's objective to provide clarity and reduce diversity in practice in this area.

**Overall**

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?**

   Yes, we agree with the proposed scope of the guidance. We believe the proposed scope will address the diversity in practice in accounting for modifications to these equity instruments.

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?**

   Yes, we agree the issuer's recognition of modifications or exchanges of freestanding equity-classified forwards and options should be based on the substance of the transaction and that an issuer should recognize those modifications or exchanges in the same manner as if cash were paid instead of modifying or exchanging those instruments. That is, an issuer should not reach a different accounting conclusion depending on the form of the consideration (cash or noncash).

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?**

   Although infrequent in practice, we agree that an issuer's accounting should be consistent with Topic 718 in that an issuer would not recognize the effect of a reduction in fair value as a result of the modification or an exchange of the equity instrument.

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.

**Compensation for Goods or Services**

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?**

   Yes, we agree with the proposed amendment. Though previously scoped out of 815-40 via 815-40-15-3(b), 815-40-35-18 specifically adds clarification that an entity shall recognize the effect of such modifications of freestanding equity-classified forwards and options that represent compensation for goods or services by applying the requirements in Topic 718.

**Other Modifications That Are Not Related to Financings, Compensation for Goods or Services, or Other Exchanges**

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 disagree with the default treatment of modifications not related to financings or compensation for goods or services being accounted for as a dividend because this may result in certain modifications not being accounted for in accordance with their substance. Though we believe instances of the effect of a modification or an exchange of a freestanding equity-classified forward or option not being related to financing, compensation for goods or services, or exchange transactions addressed by other Topics to be rare, we recommend the effect should be recognized at the discretion of the issuer in accordance with the substance of the modification or exchange versus defaulting to dividend treatment.

**Transition and Effective Date**

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?**

   Yes, we agree with the transition provisions, including early adoption in an interim period.

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 believe the time to apply the proposed amendments will vary based on the frequency and number of transactions subject to the proposed amendments. We also believe applying the proposed amendments will take longer for entities other than public business entities and public business entities that do not meet the definition of an SEC filer because rarely do such entities have equity instruments with readily determinable fair values and valuing the effect of modifications or exchanges will require more time and effort.