

October 7, 2019

Mr. Shayne Kuhaneck
Acting Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

By e-mail: director@fasb.org

Re: 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*

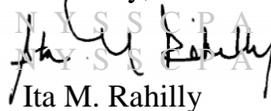
(File Reference No. 2019-730)

Dear Mr. Kuhaneck:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 24,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above-captioned exposure draft.

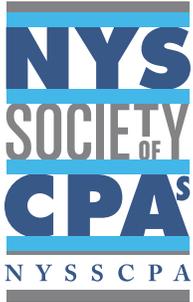
The NYSSCPA’s Financial Accounting Standards Committee deliberated the proposed accounting standards update and prepared the attached comments. If you would like additional discussion with us, please contact Jeffrey A. Keene, Chair of the Financial Accounting Standards Committee, at (732) 750-0900, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,



Ita M. Rahilly
President

Attachment



**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

COMMENTS ON

***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***

(File Reference No. 2019-730)

October 7, 2019

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New York State Society of Certified Public Accountants

Comments on

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*

We welcome the opportunity to respond to the Financial Accounting Standards Board’s (FASB or the Board) invitation to comment on 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* (proposed Update).

General Comment

We support the Board’s proposal to simplify the accounting for convertible instruments and contracts in an entity’s own equity. We generally agree with the proposed changes and believe they will reduce the complexity of applying this guidance and improve the quality of the results reported. In addition, we encourage the Board to continue to further simplify the accounting for these types of instruments in future standard-setting activities.

Specific Comments

Our responses to the Questions for Respondents are presented below.

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: We support the Board’s proposal to account for convertible instruments as a single unit of account, except when a feature is required to be bifurcated and accounted for separately as a derivative under Topic 815. While the proposed amendment in the proposed Update generally would have the effect of reducing the amount of interest expense recognized for convertible instruments, we believe the resulting simplification in application of the guidance outweighs the benefit of more precisely calculating the instrument’s effective yield.

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: The disclosure amendments in the proposed Update for convertible debt instruments and convertible preferred stock provide decision-useful information. We believe these disclosures should be required annually and on an interim basis when there is a change in facts or circumstances. We believe the quantitative measures, including carrying amount and fair value should be required annually and each interim period. The disclosure amendments in the proposed Update capture all decision-useful information and we do not believe any other disclosures for convertible instruments is required.

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: We believe that the current requirement to consider any potential contingent settlement provisions, regardless of the likelihood of the contingency occurring, often results in form-over-substance-based accounting conclusions. Accordingly, remote settlement features should be disregarded for purposes of determining the classification of a contract in an entity's own equity (for both indexation and settlement). We believe *remote* is an operable threshold as it is consistent with Topic ASC 450 – Contingencies.

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: The requirement to settle a contract in registered shares should not affect the classification of a contract in the entity's own equity. The determination of whether the contract permits settlement in unregistered shares or not can be costly and require significant time commitments. Further, we believe that under current accounting rules, users ignore the effects when a reporting entity records a contract liability and a change in market value of the liability because the contract requires settlement in registered shares. We also note that the accounting results can be distortive (e.g., a loss-making company could report net income because of a reduction in the contract liability).

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: We agree that the requirement to post collateral should not affect the classification of a contract in an entity's own equity. The requirement to post collateral does not alter the way the contract is settled.

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: We agree that the hierarchy of a counterparty's rights or shareholder rights should not affect the classification of a contract in an entity's own stock. We believe this should not be included in the evaluation since such rights do not affect settlement.

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: We believe the proposed amendments about reassessment of the derivatives scope exception are operable. The reassessment of the derivatives scope exception should occur only upon a reassessment event. We considered if a more frequent reassessment model or additional reassessment factors would be beneficial. We considered a model where features that affected classification but were disregarded because they were deemed remote to occur were reassessed upon a change in likelihood of occurrence. We determined that this model would be overly complex to apply and concluded that the reassessment events defined in paragraph 815-40-35-8 were the best and most appropriate.

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: The proposed disclosure amendments for contracts in an entity's own equity provide decision-useful information. The proposed disclosures capture the important and relevant information required for a user of the financial statements to understand the key terms and accounting conclusions for affected contracts when applying the proposed guidance. We do not believe any other disclosures for contracts in an entity's own equity are 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: We believe more evaluation and outreach should be conducted before expanding the fair value disclosure requirements to all equity classified instruments for public business entities (PBEs). We note that current disclosure requirements include the relevant terms for exercise and exercise period. Further, the share price is generally well established for PBEs, so a user could determine the relevant fair values.

EPS

Question 10: Should diluted earnings-per-share (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: We believe diluted EPS for all convertible instruments should be calculated using the if-converted method of diluted EPS, and that the revision to the if-converted method is operable. The revision, which results in excluding the add-back of interest for convertible notes that are required to be paid in cash, is known and measured or measurable. Therefore, we believe it is operable.

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: For contracts that may be settled in cash or shares (except for certain share-based payment arrangements that are classified as liabilities), an entity should presume share settlement when calculating diluted EPS companies. However, we believe that entities should continue to be allowed to overcome that presumption if the facts and circumstances support cash settlement. While eliminating the ability to overcome the presumption of share settlement reduces accounting complexities, entities that can support a cash settlement outcome should continue to have the ability to compute EPS accordingly.

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: The Board should consider a project about the effect of antidilutive instruments on the diluted EPS calculation. We also believe the Board should consider improvements to EPS for participating securities and applying the two-class method, as well as the impact of liability classified derivative contracts and the impact to EPS. Both topics are complex, require significant costs and would benefit from a simplified model.

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: We believe the Board should provide entities with an option to apply the proposed amendments on a prospective basis. In certain cases, the costs of adopting the proposed amendments on a modified retrospective basis (in terms of time and effort required) could be significant, especially if doing so would require an entity to reallocate transaction proceeds among multiple instruments that were originally issued together. This is consistent with the Board's approach to simplify the accounting treatment.

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: Reporting entities should have the choice, with appropriate disclosure, to apply retrospectively or prospectively upon adoption. EPS is an important measure and changing historical amounts may give the impression that an error existed in the previously reported amounts. Regardless of method, users will have to adjust and will likely have available the previously reported amounts.

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: We believe that the proposed method of transition may require considerable time and effort by reporting entities. Either of the proposed transition methods would require the reporting entity to reevaluate the instrument and potentially reallocate proceeds across multiple instruments. As noted in our response to Question 13, we believe reporting entities should be allowed to limit the application of the proposed accounting standard to subsequent transactions. We support permitting early adoption, and we are not aware of reasons why entities other than PBEs would need more time to implement the proposed amendments. That said, consistent with the general philosophy of the Private Company Decision Making Framework, we support providing non-PBEs an extra year to adopt.

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: We do not believe there are incremental or specific private company considerations that the Board should be aware of.

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: In our evaluation of the proposed Update, we identified that removing the requirements to evaluate the impact of posting collateral and counterparty rights could result in an expansion of such features in ways not anticipated and could cause accounting results disparate to the related economics. We request that FASB monitor the impact of the amendments through post-adoption reviews and evaluate appropriate changes after completing the outreach.