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March 15, 2024

Via email to director@fasb.org

Ms. Hillary H. Salo, Technical Director
Financial Accounting Standards Board
801 Main Avenue
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Debt—Debt with Conversion and Other Options (Subtopic 470-20) Induced Conversions of Convertible Debt Instruments (File Reference No. 2023-ED600)

Dear Ms. Salo:

We appreciate the opportunity to respond to the Board's exposure draft on Debt—Debt with Conversion and Other Options (Subtopic 470-20) Induced Conversions of Convertible Debt Instruments.

We believe the proposed amendments would clarify how to apply the induced conversion model. Toward that end, we believe the Board should consider clarifying certain aspects of the proposal to remove ambiguity and the potential for diversity in practice.

Prior to finalizing the ASU, we also suggest that the Board consider whether financial statement users would prefer a simplified approach that uses a single, consistent model for early conversions or settlements that do not occur pursuant to the convertible debt instrument's original terms, such as the extinguishment model in ASC 470-50. This approach would apply a single model regardless of whether an early settlement or conversion resulted from an inducement offer. It would also include disclosures of any consideration transferred that differed from the original terms, including the reasons for such differences. In addition, simplifying GAAP in this area would have the benefit of mitigating potential structuring opportunities. We elaborate on this approach and have included other suggestions in our responses to the Questions for Respondents in the attached Appendix.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Roscelle Holgado at (312) 233-1825 or Adam Brown at (214) 665-0673.

Very truly yours,

BDO USA, P.A.

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Appendix

Question 1: Do you agree with the proposed amendments to the induced conversion criterion in paragraph 470-20-40-13(b) that would require that an inducement offer preserve the consideration (in form and amount) issuable pursuant to conversion privileges provided in the terms of the debt instrument? Please explain why or why not.

As a clarification to the existing induced conversion model, we agree with the proposed amendments to paragraph 470-20-40-13(b). They reflect the Task Force's observation in paragraph BC34 that an instrument's conversion pursuant to its original terms (in form and amount) distinguishes a conversion from an extinguishment. However, we suggest that the Board consider whether a single derecognition model for the settlement or conversion of convertible debt instruments that do not occur pursuant to the original terms may be beneficial to financial statement users. See our response to Question 5.

We believe the proposed amendments clarify how an entity should apply the amended criterion, which will promote more consistent application to debt instruments with cash conversion features.

Question 2: Do you agree that the proposed induced conversion criterion in paragraph 470-20-40-13(b) should be assessed as of the date the inducement offer is accepted by the convertible debt holder? Please explain why or why not.

We agree that the criterion in paragraph 470-20-40-13(b) should be assessed at the offer acceptance date. We note that it is consistent with the existing induced conversion guidance, specifically paragraph 470-20-40-16 which states that "*[u]ntil the holder accepts the offer, no exchange has been made…*". Further, we believe it generally represents the date when the parties have committed to consummate the transaction. We believe requiring the use of a single date (that is, the offer acceptance date) in determining whether inducement accounting applies and in calculating the inducement expense makes the induced conversion model more cohesive.

Question 3: Do you agree with the proposed amendments in paragraph 470-20-40-13A(c) that, if the debt has been exchanged or modified (without being deemed to be substantially different) within the one-year period preceding the offer acceptance date, then the conversion privileges provided in the debt terms that existed one year before the offer acceptance date (rather than the conversion privileges provided in the terms of the debt instrument) should be used for the induced conversion assessment? If not, please explain why and state which alternative approach you would support (see paragraph BC52 for other approaches considered by the Task Force, including a principle-based approach).

We agree with the proposed amendments to require a one-year look-back for instruments modified during the preceding 12 months. We agree that this approach requires less judgment than the combination guidance in ASC 815-10-15-9.

Question 4: Do you agree that all convertible debt instruments, including convertible debt instruments that are not currently convertible, should be eligible for induced conversion accounting if they contained a substantive conversion feature at issuance and the other criteria in paragraph 470-20-40-13 are met? Please explain why or why not.

We agree all convertible debt instruments, including convertible debt instruments that are not currently convertible should be eligible for induced conversion accounting if they contain a substantive conversion feature and the other criteria in ASC 470-20-40-13 are met. We believe this will promote consistency where historically there was diversity in practice.

Question 5: Would the proposed amendments provide decision-useful information? Are the proposed amendments clear and operable? Please explain why or why not.

We defer to investors and other financial statement users regarding the proposal's usefulness. However, we note that the Board addressed a similar issue regarding the usefulness of multiple accounting models for the issuance of convertible debt in ASU 2020-06.[1] Over time, multiple recognition models had been developed to separate a debt instrument into components, which was a source of complexity in GAAP and confusing for users. The Basis for Conclusions[2] in that ASU indicates:

- The Board received feedback from financial statement users that most of them did not find the historic separation models for convertible instruments useful and relevant because they generally view and analyze those instruments on a whole-instrument basis.
- Comprehensive disclosures about the terms and features of convertible instruments are more important and useful than maintaining multiple different accounting models.
- Most financial statement users stated they prefer a simple recognition, measurement, and presentation approach with sufficient disclosures for convertible instruments to have a simplified and consistent starting point across entities to perform their analysis.

Therefore, the Board may want to consider whether financial statement users would prefer the same simplicity in accounting for the settlement of a convertible debt instrument that does not occur pursuant to its original terms using the guidance in ASC 470-50 rather than maintaining a separate induced conversion model in ASC 470-20. In that context, ASC 470-50 could be amended to require additional disclosures regarding any consideration issued to settle the instrument that was not contemplated in the contract's original terms, including the reasons for such differences.

A single accounting model for such settlements or conversions would also mitigate potential structuring opportunities. By maintaining a separate induced conversion model, we note that a settlement with the same economics may be accounted for differently depending on the form of consideration. For instance, if the facts in Case B in paragraph 470-20-55-6 through 55-9 were changed such that Entity B offers the same aggregate consideration value of $600, but in the form of 39 shares (instead of 50 shares), plus cash of $132, the transaction would be accounted for as an extinguishment with a gain of $400 ($1,000 less $600) instead of as an induced conversion with an inducement expense of $120. This creates a situation in which entities are able to choose whether to record a gain or a loss by altering the form of consideration for the same settlement economics (that is, the same early settlement amount). We believe that a single extinguishment accounting model would mitigate these scenarios.

If the Board decides to retain the induced conversion guidance, we agree the proposed amendments are operable. However, we believe the following enhancements to the examples would improve clarity:

[1] Accounting for Convertible Instruments and Contracts in an Entity's Own Equity
[2] See BC23.

- We suggest including an example of how a difference in the fair value of the shares issued at settlement and the fair value of the shares used to calculate the inducement expense affects (or does not affect) the total amount of expense recognized from the transaction.
- We also suggest expanding Case C in paragraph 470-20-55-9A through 55-9D and Case D in paragraph 470-20-55-9E through 55-9G to illustrate how Entity A would calculate the inducement expense and the journal entries to record upon conversion. This would align with the approach used in Case A and Case B.
- To enhance Case A in paragraph 470-20-55-3 through 55-5 and Case B in paragraph 470-20-55-6 through 55-9, we suggest clarifying the relevance of an increase or decrease in the bond's fair value when assessing the induced conversion criteria and in calculating the inducement expense, or adding a statement that it does not affect either (if that is the case).

Question 6: The proposed transition requirements would allow entities to apply the proposed amendments on either a prospective or a retrospective basis. Would the information required to be disclosed under the proposed transition method be decision useful? Please explain why or why not. Are the proposed transition requirements operable? If not, why not and what transition method would be more appropriate and why?

We agree with the proposed transition requirements and support the option to apply the amendments retrospectively or prospectively. We defer to investors and other financial statement users on whether the required disclosures will provide decision-useful information.

We believe the proposed transition requirements are operable.

Question 7: In evaluating the effective date, how much time would be needed to implement the proposed amendments? Should the effective date for entities other than public business entities be different from the effective date for public business entities? Should early adoption be permitted? Please explain why or why not.

We believe adopting the proposed amendments would not require significant time as the proposed amendments would clarify how entities apply the existing guidance in practice. We believe private companies would not require more time for adoption than public companies due to the transactional nature of induced conversions.

We also believe early adoption should be allowed, as entities would reasonably consider the final ASU to account for induced conversions even if early adoption is not permitted.