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October 5, 2015

Via email to director@fasb.org

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

Re: Proposed Accounting Standards Update (ASU), Derivatives and Hedging – Contingent Put and Call Options in Debt Instruments (Topic 815) (File Reference No. EITF-15E)

Dear Ms. Cosper:

We are pleased to provide comments on the proposed accounting changes to assess whether contingent puts and calls are clearly and closely related to debt host instruments. The proposed ASU addresses the discrepancy in practice caused by the two different approaches enumerated in the ED for assessing puts and calls. BDO supports the proposal to clarify that only four steps are required to assess whether the economic characteristics and risks of contingent calls/puts are clearly and closely related to their debt hosts. We agree that this assessment should not also include analyzing the nature of the exercise contingency.

Accounting for complex financial instruments is challenging, especially when they contain embedded features with exercise contingencies. Clear guidance is required for consistent application and accounting, and we support the Board's Simplification Initiative. In this regard, we also believe it is important to clarify the scope of the proposed amendments to indicate whether they address certain share-settlement features that are commonly embedded in debt host instruments, or not. We elaborate on this issue in the appendix.

Our responses to the Board's specific questions are provided in the appendix to this letter. We would be pleased to discuss our comments with the FASB staff. Please direct questions to Adam Brown at (214) 665-0673, Gautam Goswami at (312) 616-4631 or Liza Prossnitz at (312) 233-1818.

Very truly yours,

BDO USA, LLP

BDO USA, LLP

Appendix

Question 1: Do you agree that the assessment of whether a contingent call (put) option in a debt instrument that can accelerate the repayment of principal is clearly and closely related to its debt host should require only an assessment of the four-step decision sequence and not an additional assessment of the event that triggers the ability to exercise the call (put) option? If not, why?

Yes, we agree that the assessment should require only an assessment of the four-step decision sequence. We believe this approach can be more consistently applied than the alternative approach.

We believe that the guidance in DIG Issue B16 (B16) was intended to clarify that the focus of the call/put assessment is on whether the payoff (not the contingent event) is debt-related. We believe that Example 7 of B16, now Example 7 in 815-15-55-13, supports this view. In this example, debt can be put at par upon an IPO. The contingent event, the IPO, is clearly not debt-related, but Example 7 concludes that the put option is considered clearly and closely to the debt. Similarly, Examples 2, 8 and 9 all indicate the contingent feature is not clearly and closely related because the payoff is indexed to equity.

We note that ASC 815-15-25-42, which is the primary guidance under which instruments within the scope of the amendments would henceforth be assessed, has conforming amendments. We suggest that the basis discuss conforming amendments for which the reason may not be clear from the proposal, such as the necessity of removing the parenthetical statement in Step 1 of ASC 815-15-25-42, as discussed in the EITF Issue Summary.

Question 2: Do you agree that the effects of the proposed amendment should be applied on a modified retrospective basis as of the beginning of the fiscal year, and interim periods within that fiscal year, for which the proposed amendments are effective? If not, why not?

We agree that the cost of full retrospective adoption provides nominal benefit to financial statement users, and therefore support the proposed transition method.

Question 3: Do you agree that a reporting entity should have a one-time option, as of the beginning of the fiscal year for which the proposed amendments are effective, to irrevocably elect to measure a debt instrument affected by the proposed amendments in its entirety at fair value with changes in fair value recognized in earnings? If not, why?

Yes, we agree that reporting entities should have the one-time option.

Question 4: How much time would be needed to implement the proposed amendments and should the implementation period for entities other than public business entities differ from the implementation period for public business entities? Please explain why.

Considering the one-time option discussed above, we believe that the standard should allow at least one year to implement for public business entities and an additional year for other entities, with early adoption allowed for all entities.

Question 5: Should a reporting entity be required to provide the transition disclosures specified in the proposed Update? Should any other disclosures be required? If so, please explain why.

We believe that the disclosure requirements are appropriate and that no additional disclosures are required.

Additional Issue: What call (put) features embedded in debt instruments are within the scope of the Proposed ASU?

Under the ED, paragraph BC5 states the amendments would apply to all reporting entities that are issuers of or investors in debt instruments (or hybrid financial instruments that are determined to have a debt host) with embedded call (put) options.

In practice, it can be unclear whether certain share settlement features commonly embedded in a debt host are considered a put or a call and thus, are within the scope of the guidance in ASC 815-15-25-42. Further, if they are, should reporting entities also consider the exception in ASC 815-10-15-74(a) to determine whether the embedded derivative would, pursuant to ASC 815-15-25-1(c), be a derivative instrument? We offer the examples below to highlight this issue from the issuer's perspective, with the following assumptions:[1]

1. They are outside the scope of 480-10; and
2. The conversion/redemption contingent feature embedded in the debt would meet the conditions in 815-10-15-74(a) for the issuer (reporting entity).
3. The debt has only one embedded feature; if the contingent event doesn't occur, the debt will be paid in cash at maturity.

	Embedded Feature	**Details of Settlement**	**In the scope of 25-42?**[2]	**Comments**
Ex. 1	Holder has option to convert/settle upon a contingent event	Holder has option to convert/settle the debt into a fixed number of the issuer's equity securities upon a contingent event. The number of shares can be adjusted upon certain standard antidilutive events. The value the holder receives upon exercise is based entirely on the issuer's share price.	No	This instrument is debt with an embedded conversion option. The conversion option is contingent, but once the event occurs, exercise is within the holder's control. The value received at settlement is based on the issuer's share price, not the principal amount of the debt. It would not be bifurcated under 815-10-15-74(a).

[1] The term "debt" in our examples include both debt instruments as well as hybrid financial instruments that are determined to have a debt host.
[2] The table includes similar and contrasting examples to illustrate the interaction of 815-15-25-42 and 815-10-15-74(a).

Ex. 2	Issuer has option to convert/settle upon a continent event	Same as Ex. 1, except exercisable by the issuer.	Maybe	ASC 815-10-15-74(a) refers to "contracts issued or held by [the] reporting entity." It does not address whether the party with control of the option (issuer vs. holder) is relevant to the analysis. As such, the feature would not require bifurcation under 15-74(a) but it would require bifurcation under Step 2 of 815-15-25-42 because the payoff is indexed to equity. The application of 15-74(a) vs. 25-42 is unclear.
Ex. 3	Holder has obligation to convert/settle upon a contingent event	Holder has obligation to convert/settle the debt into a fixed number of the issuer's equity securities upon a contingent event. The number of shares can be adjusted upon certain standard antidilutive events. Consequently, the value the holder receives upon conversion is based on the issuer's share price. These features are commonly described as "mandatory conversion" or "automatic conversion" features.	No	Neither party controls exercise once the contingent event occurs. However, the value received at settlement is based on the issuer's stock. As such, one view would conclude paragraph 15-74(a) applies instead of 25-42; the party that controls settlement is irrelevant.
Ex. 4	Holder has option to convert/settle upon a contingent event	Holder has option to convert/settle the debt into a variable number of the issuer's equity securities equal to the debt's principal amount upon a contingent event. This option might also be offered at a discount to the market price of the stock. For example, debt that could be settled for a number of shares equal to the face amount of the debt divided by the market price of the stock multiplied by 80 or 90%.	Maybe	This instrument is debt with an option that can be viewed either as a conversion or a redemption option. The holder has control over exercise making it similar to a conversion option. However, the value received at settlement is based, in part, on the principal of the debt (or at a premium to the debt) making it similar to a redemption option. The application of 15-74(a) vs. 25-42 is unclear.
Ex. 5	Holder has obligation to convert/settle upon a contingent event	Holder has obligation to convert/settle their debt into a variable number of the issuer's equity securities equal to the debt's principal amount upon a contingent event. This obligation might also be offered at a discount to the market price of the stock.	Yes	This instrument is debt with a redemption feature. Neither party controls the redemption feature after the contingency has been met. The value received at settlement is based in part on the principal of the debt (or at a premium to the

				debt) making it a redemption feature under 25-42.

As discussed above, slight changes to the contractual terms of the share-settlement features may be relevant to determining the scope of 815-15-25-42 vs. 815-10-15-74(a). As such, we request that the Task Force further define a "(call) put feature," or consider providing examples or indicators for this purpose. We would be happy to discuss these issues further with the FASB staff.