October 6, 2015

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

File Reference No. EITF-15E

Dear Ms. Cosper:

Connor Group, Inc. is pleased to provide our comments on the Proposed Accounting Standards Update, Derivatives and Hedging (Topic 815), Contingent Put and Call Options in Debt Instruments. Connor Group was founded in 2005 and is a technical accounting advisory firm built of Big 4 alumni and industry executives. We currently have over 400 clients and specialize in helping our clients solve complex technical accounting issues under both U.S. GAAP and IFRS. Our clients represent industries such as technology, software, internet, cloud services, life sciences and manufacturing, amongst others. In addition, we assist many of our clients with aspects of their accounting and financial reporting during their IPO filing process.

We have included below our responses to each of the “Questions for Respondents” posed in the Exposure Draft.

Comments on Questions for Respondents

**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?

**Response 1:** Yes, we support the Board’s proposal 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 include an additional assessment of the event that triggers the ability to exercise the call (put) option.
Embedded call (put) options are present in many debt agreements, including convertible bridge financing arrangements utilized by many pre-IPO and early stage companies. While for many embedded contingent put and call features the underlying contingencies are directly related to a potential change in the issuer’s credit standing, for other contingent features the principal underlying may not necessarily be solely based on a change in the creditworthiness of the issuer. Examples of such contingent events include change in control or change in capital structure of the issuer provisions. Notwithstanding that the triggering event is not solely related to interest rates or credit risk, frequently, the key consideration for inclusion of such contingent redemption features in the debt host instrument is to protect either the issuer or investors from changes in the creditworthiness of the issuer triggered by contingencies which are not factored by market participants when negotiating interest and other terms of the debt host instrument. Including an additional criterion to evaluate whether the contingent event is based solely on interest rates or credit risk may cause these embedded features to be bifurcated and accounted for separately even though they would simply result in the payment of principal plus accrued and unpaid interest. Thus, this may result in accounting which is not consistent with how these features are viewed by market participants. Accordingly, we believe requiring an additional assessment of the event that triggers the ability to exercise the call (put) option will result in accounting consequences that do not truly reflect the economic nature of the underlying instrument, as well as adding unnecessary costs and complexity to the preparer without a corresponding benefit in the quality of financial reporting. In our view the four-step decision sequence appropriately limits the potential for significant embedded features having economic characteristics substantially different from the debt host instrument to go unrecorded as an entity is already required to evaluate whether a substantial discount or premium exists either upon issuance of the debt host instrument or through a change to the payoff amount.

Additionally, we note that under the existing guidance many of our clients follow the four-step decision sequence for contingent put and call options embedded in debt host instruments without evaluating whether the contingencies are based solely on interest rates or credit risk. We believe that explicitly requiring an assessment whether the contingent event is based solely on interest rates or credit risk will be a significant change in current practice.

**Question 2:** Do you agree that the effects of the proposed amendments 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?
Response 2: Yes, we agree that the proposed amendments should be applied on a modified retrospective basis. We believe that while a full retrospective approach or a modified retrospective approach with a cumulative-effect adjustment to beginning retained earnings would increase comparability amongst reporting entities who previously applied different interpretations, the cost and complexity of adjusting the prior period financial statements outweighs the financial reporting benefit as, in many cases, the value ascribed to the separated feature would be not significant.

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?

Response 3: No, we do not believe 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. We believe adding a one-time option to report the debt host instrument at fair value decreases the comparability of financial statements to the user without providing any other significant benefits to users or preparers of the financial statements. In particular, we note that upon adoption using this option the fair value of the debt would also reflect the impact of various factors other than just the fair value of the previously bifurcated derivative, which we feel is inconsistent with the conceptual basis and the objective of the proposal.

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? Should early adoption be permitted? Please explain why.

Response 4: We believe the time and costs needed to implement the proposed amendments would be minimal. Reporting entities who have already bifurcated contingent call (put) options from their debt host instruments due to an alternative interpretation of the existing guidance should be able to identify those bifurcated contingent call (put) options and perform the four-step decision analysis outlined in ASC 815-15-25-42 to determine if the contingent call (put) option would still be required to be bifurcated with little additional effort. Most reporting entities do not have an extensive number of debt arrangements, so the population of instances where contingent call (put) options have been bifurcated is expected to be minimal.
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As reporting entities would have been required to record these bifurcated contingent call (put) options at fair value at each reporting period, the reporting entity would either continue to do so if the contingent call (put) option would still be required to be bifurcated under ASC 815-15-25-42 (i.e. no change to the existing accounting) or would reclassify the contingent call (put) option to the same account as the debt host instrument. We believe both of these potential outcomes would require minor incremental effort from preparers.

We believe a different implementation period for public business entities would not be necessary given the relative infrequency of these transactions, and the limited additional analysis which would be required. As such, we support consistent implementation periods for both public business entities and non-public entities.

We note that the proposed amendments are a clarification of existing authoritative accounting literature and would result in a simplification of the accounting for contingent call (put) options for reporting entities that applied an alternative interpretation of the literature prior to the proposed amendments. As such we feel an early adoption should be permitted for all entities.

We also believe it would be helpful to include subsequent measurement guidance in the proposed amendments. As was noted in BC11 of the proposed update, “a premium or discount may result when combining the carrying value of the debt host contract and the fair value of the previously bifurcated embedded derivative at the date of adoption”. The proposed update however does not include guidance on how to subsequently account for this premium or discount. We believe that the reasonable approach is to amortize the premium or discount over the term of the debt host contract utilizing a new effective interest rate calculated on the adoption date of the proposed amendments.

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

**Response 5:** Yes, we believe that a reporting entity should be required to provide the transition disclosures specified in the proposed update. Reporting entities should clearly articulate to the users of the financial statements the nature and the reason for the change in accounting principle and the cumulative impact that this change has on retained earnings as of the earliest period presented. We believe that this information is important for maintaining comparability of financial statements. We do not believe the cost of providing the transition disclosures would be significant as the disclosures are not overly burdensome and the financial statement impacts are relatively straightforward.
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We would be pleased to respond to any questions the FASB or its staff may have concerning our comments. Please direct any questions to Denis Kozhevnikov (denis.kozhevnikov@connorgp.com; (650) 521-3099), partner in our Accounting Standards and Professional Practice group, or Dominick Kerr (dominick.kerr@connorgp.com; (516) 316-8063), director in our Technical Accounting practice.  

Sincerely,  

Connor Group, Inc