

April 28, 2015

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

File Reference No. 2015-220

Dear Ms. Cospers:

McGladrey LLP is pleased to comment on the Proposed Accounting Standards Update, “*Disclosures about Hybrid Financial Instruments with Bifurcated Embedded Derivatives*” (the “proposed ASU”). Our responses to the specific questions raised in the proposed ASU follow:

Question 1: *Will the amendments in this proposed Update result in more transparent, decision-useful information about hybrid financial instruments with bifurcated embedded derivatives? If not, please explain why.*

We believe that the proposed balance sheet disclosures may result in decision-useful information and increased transparency; however, we question the usefulness of the proposed requirement to disclose amounts reported in the statement of financial performance related to the host contract. In many cases, the host contract will be a debt instrument, for which the statement of financial performance (interest income or expense) is impacted by not only a discount or premium created through bifurcating a derivative, but also by other factors such as discounts created by allocating debt proceeds to beneficial conversion features recognized under ASC 470-20 or to separate financial instruments issued in the same transaction such as warrants. We question the usefulness of requiring this disclosure of the impact on the statement of financial performance in this limited circumstance, given these other factors that impact reported amounts.

We believe decision-useful information in circumstances such as this would be the effective interest rate on the host contract, which is already required under ASC 835-30-45-2.

Question 2: *Should the scope of the amendments in this proposed Update be extended to include nonfinancial hybrid instruments with embedded derivatives that require bifurcation under Topic 815? If yes, please explain why and identify any other instruments that should be included in the proposed amendments.*

We do not advocate extending the scope of the amendments to nonfinancial hybrid instruments. As indicated in our response to Question 1, we do not believe that the statement of financial performance disclosures for the host contract would be useful and, in many cases, nonfinancial host contracts are not recognized on the balance sheet, rendering the balance sheet disclosures less meaningful.

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Question 3: *Are the proposed disclosure requirements operable and auditable? If not, which aspects pose operability or auditability issues and why?*

As proposed in ASC 815-10-50-4EE, the disclosures are required for each bifurcated embedded derivative and each host contract related to each bifurcated embedded derivative. As indicated in 815-10-55-183A, aggregation by derivative type is permissible. It is not uncommon for host contracts to contain multiple types of embedded derivatives such as a debt instrument with both a bifurcated put option and a conversion option. ASC 815-15-25-7 requires accounting for the multiple derivatives as a single compound embedded derivative. Presumably, in such cases, it would not be operative to aggregate by derivative type for disclosure purposes since multiple embedded derivatives that are combined for purposes of valuation and reporting may consist of multiple derivative types.

Question 4: *The proposed amendments would apply to all entities. Should the proposed amendments be different for entities that are not public business entities? If so, please describe how and why you think they should be different.*

We do not see a reason for the proposed amendments to be different for entities that are not public business entities.

Question 5: *How much time would be needed to implement the proposed guidance? Should the amount of time needed to implement the proposed amendments by entities that are not public business entities be different from the amount of time needed by public business entities?*

We believe compliance with the new requirements as proposed would necessitate significant financial reporting system changes as systems are generally not equipped to provide statement of financial performance activity for host contracts by instrument or derivative type. As a result, we believe that at least a year should be provided for implementation time for public business entities and an additional year for entities that are not public business entities.

We appreciate this opportunity to provide feedback on the proposed guidance. We would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to Rick Day at 563.888.4017 or Faye Miller at 410.246.9194.

Sincerely,



McGladrey LLP