Tel: 312-856-9100
Fax: 312-856-1379
www.bdo.com

330 North Wabash, Suite 3200
Chicago, IL 60611

April 29, 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, *Disclosures about Hybrid Financial Instruments with Bifurcated Embedded Derivatives* (File Reference No. 2015-220) ("the ED")

Dear Ms. Cosper:

We are pleased to provide comments on the proposed derivative disclosures. We support the Board's objective of increasing the transparency and usefulness of the information provided in the notes to financial statements. However, we are not convinced that the proposal would lead to relevant information about derivative instruments that are separate units of account under GAAP. Since an embedded derivative is bifurcated in large part because its economic characteristics differ from those of its host, we question the usefulness of disclosures linking the two instruments together. Our views, including responses to the specific questions in the ED, are further elaborated 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 or Gautam Goswami at (312) 616-4631.

Very truly yours,

BDO USA, LLP

BDO USA, LLP

Appendix

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.

An embedded derivative and its host are separated for accounting purposes because their economics differ. The concept of an embedded derivative arises because the characteristics and risks of that derivative are not closely related to *another* type of contract (the host contract); that is, the effect of embedding a derivative modifies the cash flows of the host instrument. As a result, when an embedded derivative is separated from its host contract, the Board concluded the host should be accounted for based on other GAAP applicable to instruments that lack embedded derivatives.

We do not believe requiring disclosures linking the derivative and the host is consistent with the related accounting model. While we acknowledge that these separate instruments for accounting purposes arise from the same arrangement, this is also true for other accounting constructs, such as beneficial or cash conversion features. Consequently, it is not clear how linking separate accounting instruments for which the economic characteristics and risks are not clearly and closely related increases transparency and provides relevant information.

ASC 815 does not specifically address the statement of financial position (or statement of financial performance) presentation for bifurcated embedded derivatives. We note that an equity classified host may have a bifurcated derivative, which by definition is classified outside of equity in the statement of financial position. Even within the statement of financial position, a bifurcated embedded derivative may be classified differently than the host e.g., a derivative liability with an asset host or vice versa and current versus non-current. While some of these scenarios are uncommon, they raise further questions about the relevance of the proposed disclosures.

To our knowledge, requests for additional disclosures focused on any particular sub-section of the derivatives literature have been limited, perhaps in part because many stakeholders find the literature itself complex. The Board's deliberations on the separate hedge accounting part of the financial instruments project appears to acknowledge this by focusing on simplifying hedge accounting rather than providing additional disclosures to make the current guidance more transparent, although that also may be done at a later stage. While acknowledging that this separate project currently is focused on hedge accounting, we believe that both users and preparers of financial statements similarly would be more appreciative of a concentrated effort to simplify the guidance around evaluating embedded derivatives for bifurcation, instead of requiring additional or linked disclosures. Accordingly, we are encouraged to note the separate project on evaluation of contingent put and call options embedded in debt instruments.

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.

If the ED is finalized, we are not supportive of extending the scope.

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

Considering that information for recognized bifurcated embedded derivatives should already be available with preparers, we believe that the disclosure requirements are auditable, if they are ultimately required. However, considering that the proposed disclosures can be aggregated by derivative type, we are unsure how that would be applied for bifurcated compound derivatives.

Further, we note that the Board's related project ("project") on classification and measurement of financial instrument proposes that entities disclose in the notes all financial liabilities and financial assets grouped by measurement category and form. If the Board determines to finalize the disclosures in the ED, we note that the classification of such bifurcated embedded derivatives may require clarification in that separate project. That is, if the bifurcated embedded derivative is classified in the notes in a separate category from the related host under that project, the embedded derivatives disclosures proposed by the ED may add confusion.

Similarly, we note that public business entities generally would be required by the project to disclose the fair value of financial assets and financial liabilities measured at amortized cost. The disclosure can be presented either parenthetically on the face of the statement of financial position or in the notes to the financial statements. It is unclear how an entity would provide this disclosure for a line item that has both the amortized cost host and a "related" bifurcated embedded derivative. However, if an entity elects to present the fair value in parentheses, presumably including fair value of the related bifurcated derivative, the embedded derivatives disclosures proposed by the ED again may be confusing or repetitive. Regardless, we suggest that in redeliberations, the Board re-evaluate the interaction of the ED with the presentation and disclosures proposed in that separate project.

We observe that primarily due to materiality considerations, many entities currently do not recognize embedded derivatives that otherwise would require bifurcation. While we acknowledge that GAAP, including disclosures, are generally to be applied only for material items, the proposed disclosures potentially would result in a disproportionate focus on such non-bifurcated embedded derivatives. In that context, we question whether consequential costs resulting from the ED are justified for a narrow subset of financial instruments, when there are no compelling benefits.

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 believe that our views apply equally to public and nonpublic entities. However, if the Board moves forward with the ED, we recommend exploring the merits of an exception for private entities with the Private Company Council.

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?

This question is best addressed by preparers, although we note there are numerous recent standards as well as several projects nearing completion, all of which will contribute to ongoing transition efforts over the next several years.

If the ED is finalized, the Board also may consider having the same effective date as the related project on classification of financial instruments to avoid multiple updates in the near term to an entity's systems and processes.