

153 East 53<sup>rd</sup> Street New York, NY 10043

July 29, 2005

Mr. Lawrence Smith
Director of Technical Application and Implem
Financial Accounting Standards Board
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Letter of Comment No:
File Reference: FSP123R-A
Date Received:

Re: Proposed FASB Staff Position No. FAS 123(R)-a, "Classification and Measurement of Freestanding Financial Instruments Originally Issued as Employee Compensation" (Proposed FSP)

Dear Mr. Smith:

Citigroup is pleased to comment on the Proposed FSP. We support the Board's decision to defer certain requirements in Statement 123(R). However, we do not agree with limiting the deferral to awards granted for employee service.

## **Proposal to Defer Certain Requirements**

In our comment letter on the Exposure Draft leading to Statement 123(R), we requested that the final standard reconcile potentially conflicting guidance on classification and measurement in the Exposure Draft, Statement 133, Statement 150 and various EITF Issues. While Statement 123(R) addresses some of the areas of potential conflicting guidance, we believe that significant inconsistencies remain that should be addressed comprehensively as part of the broader project on liabilities and equity.

## Limited Deferral to Awards Granted for Employee Service

Paragraph 6 of the Proposed FSP would defer the relevant requirements only for awards granted "for substantive employee service." We do not agree with that limitation. Statement 123(R) and Statement 123 address "all share-based payments in which an entity acquires goods or services" and provide consistent classification guidance for all awards. The only significant area not addressed for non-employee awards is the measurement date (addressed in EITF Issue No. 96-18). We see no basis for limiting the deferral to awards granted for employee service. That limited deferral could result in significantly different classification for awards granted to employees versus non-employees, while the substance of the transactions is identical (delivery of shares in return for goods or services). The Board expects to address accounting for non-employee awards in a comprehensive project going forward, and should not create another difference between accounting for employee versus non-employee awards at this time.

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We also note the following:

- IFRS 2 applies the same classification and measurement model for all awards. The limited deferral in the Proposed FSP could create another (unjustified) reconciling item between Statement 123(R) and IFRS 2.
- The SEC recently addressed accounting for awards to non-employees. Section A of SAB 107 states that where specific guidance does not exist related to non-employee awards, application of the guidance in Statement 123(R) is reasonable and appropriate "unless other authoritative literature more clearly addresses the appropriate accounting." We do not believe that existing literature addresses this issue.

If the Board decides to limit the deferral to awards for employee service, it should provide a Basis for Conclusions, particularly since practice has likely not applied the guidance in Statement 133 and related EITF Issues in determining the appropriate classification of awards granted to non-employees.

## Potential for Significant Implementation Issues

Neither the Proposed FSP nor Statement 123(R) define "substantive employee service." If the Board issues the final FSP with the limited deferral, significant implementation issues will arise. For example:

- Does the deferral apply to awards granted to shareholder-elected members of the Board of Directors? Statement 123(R) requires those awards to be accounted for like awards to employees. As such, the deferral should apply.
- Does the deferral apply to awards granted to retirement-eligible employees where the entity concludes there is no future requisite service period? Absent a separate contract (for example, to provide consulting services after retirement), it would seem such awards were granted for prior employee service. We believe the deferral should apply.
- Does the deferral apply to awards granted to retirement-eligible employees where a substantive noncompete agreement in the original terms of the award creates a future requisite service period? Should the deferral apply while the employees are still actively employed, for the entire requisite service period, or not at all? Since the measurement and recognition guidance in Statement 123(R) would apply, we believe the deferral should also apply to ensure consistent classification.

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We thank the Board for its consideration and would welcome the opportunity to further discuss this matter. Please do not hesitate to contact me at (212) 559-7721.

Sincerely,

Robert Traficanti
Vice President and Deputy Controller
Citigroup