



KPMG LLP
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Letter of Comment No: 5
File Reference: FSP123R-A
Date Received:

July 28, 2005

Mr. Lawrence W. Smith, Director
Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

RE: Proposed FASB Staff Position FAS 123(R)-a, "Classification and Measurement of Freestanding Financial Instruments Originally Issued as Employee Compensation"

Dear Mr. Smith:

We agree with the Board's conclusions expressed in the proposed FASB Staff Position FAS 123(R)-a, "Classification and Measurement of Freestanding Financial Instruments Originally Issued as Employee Compensation." There are inconsistencies in the accounting for similar instruments under existing generally accepted accounting principles (GAAP) depending on, for example, the circumstances under which the instruments are issued and whether they are freestanding or embedded. Implementation questions have arisen from those inconsistencies and the interaction of the classification provisions in FASB Statement No. 123 (revised 2004), *Share-Based Payment*, and other GAAP once an instrument originally issued as employee compensation becomes subject to other GAAP when the rights conveyed by the instrument are no longer dependent on the holder being an employee. Until the Board completes its project on liabilities and equity, we agree that an instrument originally issued as employee compensation within the scope of Statement 123(R) should remain within its scope for recognition and measurement purposes throughout the life of the instrument (unless it is modified *after* the rights conveyed by the instrument are no longer dependent on the holder's employment).

The guidance in FASB Staff Position EITF 00-19-1, "Application of EITF Issue No. 00-19 to Freestanding Financial Instruments Originally Issued as Employee Compensation," would no longer appear to be needed during the deferral to be provided by the proposed



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FSP. The Board should clarify the status of FSP EITF 00-19-1 in the final FSP FAS 123(R)-a. Additionally, DIG Issue C3, "Scope Exceptions: Exception Related to Share-Based Payment Arrangements," refers to the guidance in paragraph A231 of Statement 123(R) in support of its conclusions that share-based payment arrangements issued to nonemployees become subject to FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, once performance has occurred. Since this proposed FSP would defer the effective date of paragraph A231 of Statement 123(R), DIG Issue C3 should be revised accordingly. In doing so, we believe that DIG Issue C3 should make clear that its guidance is only applicable to share-based payment arrangements issued to nonemployees.

* * * * *

If you have any questions about our comments or wish to discuss any of the matters addressed herein, please contact Mark Bielstein at (212) 909-5419 or Paul Munter at (212) 909-5567.

Sincerely,

KPMG LLP



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