



KPMG LLP  
280 Park Avenue  
New York, N.Y. 10017  
8<sup>th</sup> Floor

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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

**Proposed FASB Staff Position FAS 150-e, "Issuer's Accounting under Statement 150 for Freestanding Warrants and Other Similar Instruments on Shares That Are Redeemable"**

Dear Mr. Smith:

We appreciate the opportunity to comment on the proposed FASB Staff Position FAS 150-e, "Issuer's Accounting under Statement 150 for Freestanding Warrants and Other Similar Instruments on Shares That Are Redeemable." We agree with the conclusion set forth in the proposed FSP that warrants to acquire shares that are either puttable or mandatorily redeemable are within the scope of FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, regardless of the timing of the redemption feature or the redemption price. Following are suggestions for clarifying certain aspects of the proposed guidance.

Consistent with the discussion in footnote 1 of the proposed FSP and paragraph 1 of FASB Staff Position FAS 150-1, "Issuer's Accounting for Freestanding Financial Instruments Composed of More Than One Option or Forward Contract Embodying Obligations under FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*," we believe that, in addition to warrants to acquire redeemable shares as described in the proposed FSP, paragraph 11 of Statement 150 also applies to warrants to acquire *contingently* redeemable shares and *contingently* exercisable warrants to acquire redeemable shares, regardless of the probability that the contingent event(s) will occur. Such instruments embody conditional obligations to repurchase the issuer's equity shares and may require the issuer to settle the obligations by transferring assets. The proposed FSP is clear that paragraph 11 of Statement 150 applies to warrants to acquire shares that are either



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puttable or mandatorily redeemable. The proposed FSP also acknowledges that warrants to acquire redeemable shares embody a *conditional* obligation. However, the FSP should also state that paragraph 11 of Statement 150 applies to warrants to acquire contingently redeemable shares and contingently exercisable warrants to acquire redeemable shares.

To further clarify how Statement 150 applies to warrants and similar instruments to acquire redeemable shares that are subject to one or more contingencies, we suggest that additional financial instruments subject to the guidance in the FSP be identified for illustrative purposes. Examples of additional financial instruments with contingencies that are liabilities under paragraph 11 of Statement 150 include the following:

- A warrant, exercisable at any time, that entitles the holder to acquire shares that are puttable only upon a change in control;
- A warrant, exercisable at any time, that entitles the holder to acquire shares that are required to be redeemed only if the S&P 500 index increases by more than 15 percent per annum over a three-year period;
- A warrant, exercisable only upon completion of an initial public offering, that entitles the holder to acquire shares that are puttable at any time; and
- A warrant, exercisable only if a specified industry index increases by more than 20 percent, that entitles the holder to acquire shares that are required to be redeemed upon the death of the holder.

The proposed FSP should explicitly state that the applicability of Statement 150 to the shares underlying a warrant does not impact whether the warrant itself is within the scope of that Statement. For example, Statement 150 does not apply to certain shares that are mandatorily redeemable because of the deferrals provided by FASB Staff Position FAS 150-3, "Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.*" Additionally, while puttable shares embody conditional obligations to repurchase the issuer's equity shares and may require the issuer to settle the obligation by transferring assets, such shares are not within the scope of Statement 150 (provided that such shares are not also mandatorily redeemable) because paragraph 11 of that Statement does not apply to instruments issued in the form of shares. However, as stated in FSP FAS 150-1 and the proposed FSP, warrants or similar instruments to acquire mandatorily redeemable



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shares or puttable shares are within the scope of paragraph 11 of Statement 150. Accordingly, the proposed FSP should explicitly acknowledge that warrants or similar instruments to acquire redeemable shares are required to be classified as liabilities even though upon exercise the underlying shares may be classified as equity (or temporary equity for SEC registrants).

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If you have any questions about our comments or wish to discuss any of the matters addressed herein, please contact Enrique Tejerina at (212) 909-5530.

Sincerely,

KPMG LLP