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September 26, 2003

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Financial Accounting Standards Board
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File Reference No. FAS 150-b
Accounting for Mandatorily Redeemable Shares Requiring Redemption by Payment of an Amount that Differs from the Book Value of Those Shares, under FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*

Dear Mr. Smith:

We are pleased to comment on the Proposed FASB Staff Position No. FAS 150-b, "Accounting for Mandatorily Redeemable Shares Requiring Redemption by Payment of an Amount that Differs from the Book Value of Those Shares, under FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*" (the "Proposed FSP").

We generally support the conclusions reached in the Proposed FSP on FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* (FASB 150), however, we have some suggestions that we believe will enhance the usefulness of the guidance that the staff has proposed. Our concerns center mostly on a lack of distinction between guidance in the Proposed FSP that we believe should be considered generally applicable and guidance related to the specific examples in the Proposed FSP when the redemption value varies based on specified conditions. This lack of distinction may be a source of confusion for constituents who seek to apply the general principles underlying the guidance to broader circumstances.

1. *Clarify that the Proposed FSP applies when redemption value varies based on specified conditions and when it is a fixed amount.* The general issue that the Proposed FSP intends to address is how to deal with a circumstance in which the redemption value of a mandatorily redeemable share is different from the book value. We note that the background to the

question, as well as the example provided in the answer focus on a situation in which the shares will be redeemed at an amount that varies based on specified conditions (and, more specifically, based on fair value.) However, we believe the conclusions would be applicable in any circumstance in which there is an excess of the redemption value over the book value (even if redemption is not variable). If the redemption value and the date are fixed, the amount initially recorded at transition is not the redemption price, rather it is the present value of the amount to be paid upon settlement discounted at the rate implicit at inception. We recommend that the background to the question make clear that it is applicable to mandatorily redeemable instruments with either a fixed or variable redemption price, or that the scope be limited to those with a redemption price that varies. If the scope is to include both, we suggest that an example be included to illustrate the applicability of the guidance to an instrument whose redemption value is fixed, e.g., common stocks originally issued at discount from the fixed redemption value.

2. *Distinguish redemption value from fair value when redemption value varies based on specified conditions.* Whether or not the staff decides to specifically address instruments with fixed redemption values, we believe the principles that underlie the guidance in the Proposed FSP would be clearer if the FSP better distinguished between the general guidance (which relates to the circumstance when the redemption value varies based on specified conditions), and the specific examples used to illustrate that general guidance (the circumstance in which the shares are redeemable at fair value). That is, we found parts of the Proposed FSP confusing because what we believe is general guidance is expressed in the limited context of the fair value example. In addition, because the discussion related to the general guidance and that related to the specific example (redemption at fair value) are not distinct, the Proposed FSP seems to imply that it is attempting to clarify that mandatorily redeemable shares should be measured at fair value at transition under FASB 150, which will not always be the case. To avoid confusion about the general applicability of the FSP we have the following suggestions:

- We suggest that the background information be made more general and the focus on fair value be limited to the discussion of the example. That is, the second and third sentences could be eliminated from the background and the last sentence could be modified to read as follows:

Any difference between the redemption value on the date of adoption and the amounts previously recognized in equity is reported in the statement of income as a cumulative effect of a change in accounting principle.

- We suggest that the reference to “the fair value of the mandatorily redeemable shares” in the second paragraph of the answer be changed to “the redemption value of the mandatorily redeemable shares.”
- We suggest that the second sentence of the fourth paragraph of the answer section be modified as follows:

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For mandatorily redeemable shares that will be redeemed at a variable amount (fair value in the examples herein), the initial measure of the liability at transition is the amount that would be paid. . . .

3. *Distinguish what is required from what is illustrative of disclosure and presentation.* We are pleased that the staff has included an illustration of the application of the proposed guidance. We suggest that certain aspects of that illustration be clarified to distinguish the general principles from the specific example as follows:

- We suggest that the illustration state that the balance sheet presentation in the example is consistent with the requirements under paragraph 28 of FASB 150 and is included for illustrative purpose only; however, if the entity had other classes of shares outstanding and classified in equity, there are no special presentation and disclosure requirements.
- We suggest that the illustration indicate that the disclosures are included for illustrative purpose only and that FASB 150 does not prescribe any specific income statement presentation or “geography” for either (1) changes in the redemption value or (2) amounts paid to holders of mandatorily redeemable shares, but merely that those amounts be reflected as interest cost.
- We suggest that the statement of financial position and the income statement presented in the first example be labeled as such.

3. *Other Comments.* We have the following additional comment:

- The question in the proposed FSP asks about differences between the redemption value and the book value of shares both for transition and for “subsequent adjustments.” The answer states that the two would be reported as a deficit in equity even though the shares are liabilities. It would be helpful for the guidance to clarify the relationship between that guidance and the guidance in paragraph 22 of FASB 150 that deals with subsequent adjustments to the carrying amount of mandatorily redeemable shares and requires them to be treated as interest cost. That is, the connection may not be intuitive.

We appreciate your consideration of our comments. Should you have any questions regarding our response, please contact Robert Uhl at (203) 761-3705 or James Johnson at (203) 761-3709.

Yours truly,

Deloitte & Touche LLP