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September 26, 2003

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

Re: Proposed FASB Staff Position, "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:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the proposed FASB Staff Position (the "Proposed FSP"), "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 ("FAS 150"), *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*". We have the following suggestions to improve the guidance in the proposed FSP.

- We believe that if an entity does not have any shares that qualify for equity classification, the balance sheet of such an entity should not have line items described as "Equity", "Deficit in Equity", "Total Equity (deficit)", or "Total Liabilities and Equity (deficit)". If the entity is deemed to have no equity stakeholders for accounting purposes, then the financial statements should not present any equity-related account balances. We recommend that under the circumstances described in the proposed FSP, the better descriptors would be (1) "Excess of liabilities over assets" – when the fair value of shares exceeds the book value, and (2) "Excess of assets over liabilities" – when the fair value of shares is less than the book value.

- A financial statement presentation of a for-profit enterprise that has no "equity" is unusual. In those situations where all of the entity's legal capital is mandatorily redeemable at other than book value, a financial statement reader will logically wonder who "owns" that balance if there is a net asset balance or who is responsible for funding that balance if there is a net liability balance. Accordingly, we recommend the FASB incorporate into the disclosures required by FAS 150 a provision to explain how the net asset/net liability balance arose, what it represents and who is entitled to it or responsible for funding it.

- The proposed FSP describes a situation in which the shares are redeemable at fair value. We believe that the background description should be modified to more clearly indicate that the guidance would apply to any situation in which the redemption is at other than book value. For example, a similar presentation would be necessary if the shares are redeemable at a formula price (i.e., a formula other than net book value).

- We suggest that the two illustrative examples in the proposed FSP include a line item for "Accumulated Other Comprehensive Income" (AOCI) -- similar to the one in paragraph A6 of FAS 150. In addition to making the example more realistic, it will provide the Board with an opportunity to clarify its intent with respect to how an entity with no "equity" should account for transactions that would normally impact AOCI. We believe that just because all of the entity's "equity" instruments must be classified as liabilities, it does not mean that the entity is precluded from (1) classifying marketable securities as available for sale pursuant to FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* (2) applying cash flow hedge accounting pursuant to FAS 133, *Accounting for Derivatives Instruments and Hedging Activities,* (3) translating a subsidiary's foreign-currency-denominated financial statements pursuant to FASB Statement No. 52, *Foreign Currency Translation,* or (4) recognizing a minimum pension liability pursuant to FASB Statement No. 87, *Employers' Accounting for Pensions.* We understand that such accounting continues to apply but the entry that would have previously been made to an AOCI account will now be made to AOCI in a memo form, and the actual entry will be recorded directly to the liability account of the redeemable securities themselves. A clarification of the Board's intent on this issue would be helpful.

- The examples in the final FSP should be clarified to (1) indicate that the second table under the Notes to Financial Statements in Example 1 is actually an example condensed income statement and not part of the note disclosure, (2) present not only the balance sheet and the income statement but also the statement of cash flows, and (3) present Example 2 on a similar comparative period basis as in Example 1.

- The proposed transition provision states that if this guidance results in changes to previously reported information, the cumulative effect should be reported according to the provisions of Statement 150 in the first period ***ending after*** the final FSP is posted to the FASB website. We suggest that the transition provision be changed so that entities have to report the cumulative effect in the first period ***beginning after*** the final FSP is posted to the FASB website. Our suggested change is consistent with the approach followed for the transition of guidance in many Derivatives Implementation Group (DIG) issues and also with paragraph 29 of FAS 150.

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If you should have any questions regarding our comments, please feel free to contact John Althoff at (973) 236-7288, Deidre Schiela at (973) 236-7222, or Bob Bhave at (201) 521-3058.

Sincerely,

PricewaterhouseCoopers LLP