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LETTER OF COMMENT NO. 2

September 5, 2006

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

RE: Proposed FASB Staff Position FAS 123(R)-f, "Technical Corrections of FASB Statement No. 123(R)"

Dear Technical Director:

We appreciate the opportunity to respond to the proposed FASB Staff Position FAS 123(R)-f, "Technical Corrections of FASB Statement No. 123(R)." We agree with all three technical corrections proposed by the Board in the FSP.

In addition to the technical corrections proposed in the FSP, we have identified an additional technical correction that we believe the Board should consider as it finalizes this FSP. Specifically, we believe there is a conflict between the definition of a short-term inducement and the accounting for the settlement of a share-based payment award that should be addressed by the Board.

Appendix E of Statement 123R defines a short-term inducement as:

An offer by the entity that would result in modification **or settlement** of an award to which an award holder may subscribe for a limited period of time. (emphasis added)

Paragraph 52 of Statement 123R states that a short-term inducement is accounted for as a modification for those who accept the inducement. Paragraph 55 of Statement 123R specifies the accounting for a settlement of an award. In our experience, most offers to settle outstanding awards include a relatively short period of time for holders of the awards to decide whether to participate. If all of those are deemed short-term inducements that are required to be accounted for as modifications, the settlement guidance in paragraph 55 would seem to be moot. Therefore, we believe that the phrase "or settlement" should be removed from the definition of a short-term inducement to



FASB Technical Director
September 5, 2006
Page 2

clearly distinguish between a short-term inducement giving rise to modification accounting and the settlement of an equity-classified award.

To illustrate the conflict between these two paragraphs, consider the following situation in which a company offers to settle an award at more than fair value:

Company A offers a short-term inducement to settle employee share option awards for \$50 cash per share option. At that date, the fair value of the share options is \$45 per share option. The grant date fair value of the share options is \$32 and the share options are fully vested. Assume that employees holding 100 share options accept the short-term inducement.

If this arrangement is deemed to be a short-term inducement, the application of the guidance in paragraph 52 would result in the inducement being treated as a modification of the awards which changes their classification from equity- to liability-classified. As such, Company A would recognize additional compensation of \$18 per share option (total compensation of \$1,800) for the excess of the fair value of the short-term inducement (\$50) over the grant date fair value of the share options (\$32).

Conversely, if the arrangement is deemed to be a settlement, the application of the guidance in paragraph 55 would result in the recognition of \$5 per share option (total compensation of \$500). As specified in paragraph 55, additional compensation is recognized for a settlement only to the extent that the amount paid to settle the share options (\$50) exceeds the fair value of the share options at the date of the settlement (\$45).

If you have any questions concerning our comments or wish to discuss any of the matters addressed herein, please contact Mark Bielstein at (212) 909-5419, Paul Munter at (212) 909-5567 or Jeff Jones at (212) 909-5490.

Sincerely,

KPMG LLP