North Carolina State Board of Certified Public Accountant Examiners
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May 19, 2008

1550-100

LETTER OF COMMENT NO. 5

Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 1550-100

To Whom It May Concern:

The North Carolina State Board of CPA Examiners (Board) has reviewed the Preliminary Views *Financial Instruments with Characteristics of Equity* that addresses various approaches for distinguishing between equity and liabilities or assets. The Board agrees with the preliminary view reached by the FASB that the basic ownership approach provides more decision-useful information to investors and significantly simplifies the accounting requirements for issuers and their auditors.

The Board offers the following comments regarding the basic ownership approach:

Perpetual Instruments

The Board does not have any operational concerns regarding the classification of perpetual instruments such as preferred shares as liabilities. The Board supports the FASB's conclusion to classify only basic ownership instruments as equity. This approach makes the reported information easy to understand by those who prepare, audit, and use the financial information. The Board also agrees that a valuable by-product of this simple approach is that it will reduce the opportunities to structure very similar transactions differently to achieve a different financial reporting result.

The Board does not have additional suggestions about measurement requirements for perpetual instruments that are classified as liabilities; but supports the concept of not remeasuring and reporting dividends as an expense either when declared or at regular intervals (if dividends are normally paid each period). The view of not remeasuring is consistent with the current principles surrounding the measurement of preferred stock.

Separation

The Board agrees with FASB's interpretation of the facts surrounding a basic ownership instrument with a required dividend payment and agrees with the idea to separate the liability and equity components of the instrument.

Linkage

The Board is not aware of any circumstances that would cause the use of the linkage principle in paragraph 41 to result in a classification that would not reflect the economics of the transaction. The Board fully supports the ultimate purpose of the linkage requirement of eliminating the opportunity to choose between alternative accounting results by altering the structure of an arrangement.

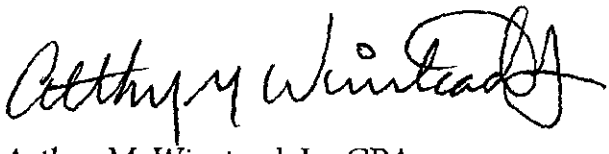
Presentation Issues

Statement of Financial Position
The Board agrees with the requirement of reporting basic ownership instruments with redemption requirements separate from perpetual basic ownership instruments. The Board supports the notion of additional separate display requirements, regarding liabilities to be settled in cash or equity, either in the liability section or by note disclosure in order to provide more information about an entity's potential cash requirements or change in equity.

Income Statement
The Board agrees with the idea to disaggregate and separately display changes such as interest expense and unrealized gains and losses that are related to the change in an instrument's fair value.

The Board wishes to commend the FASB on a job well done. The Board is appreciative of the continued efforts of the FASB to establish consistent accounting and financial reporting standards that benefit financial statement preparers, auditors, and users.

Sincerely,



Arthur M. Winstead, Jr., CPA
President