



Mr. Larry Smith  
Director of Technical Application & Implementation Activities  
Financial Accounting Standards Board

Via Email

May 22, 2007

Dear Mr. Smith:

Thank you for the opportunity to comment on the tentative conclusion reached by the FASB in DIG Issue C21, *Whether Options (Including Embedded Conversion Options) Are Indexed to both an Entity's Own Stock and Currency Exchange Rates*. We have many clients who enter into transactions (or issue bonds) with the characteristics described in Proposed Issue C21. We believe there are two key points that need to be clarified in the Proposed Issue.

The first concerns whether the guidance in Proposed Issue C21 applies to net-share settled instruments such as the conversion option in an EITF Issue 90-19 Instrument C Bond. Both Questions 1 and 2 of Proposed Issue C21 address "an option to acquire a fixed number of an issuer's equity shares." Some instruments (including an Instrument C Bond) are indexed to a fixed number of shares but are settled by issuing net-shares (i.e. a variable number of shares). We believe Proposed Issue C21 applies to net-share settled instruments as well as gross share settled instruments (and understand most FASB constituents believe that as well) but think the FASB Staff should clarify this point as the current language in Proposed Issue C21 may be confusing to constituents with net-share settled instruments. It may also be confusing to constituents who apply both IFRS and US GAAP as a distinction is drawn between net-share settled and gross physically settled instruments under IFRS.

The second point of clarification pertains to companies that have shares trading on multiple exchanges. Based on the Response in Proposed Issue C21 it seems that the relevant question regarding the currency of an option on an entity's own stock is whether the transaction is denominated in the entity's functional currency. The Response indicates that the currency in which the shares underlying the derivative transaction trade is irrelevant. The Response to Question 2 states:

An equity share is not inherently "denominated" in a particular currency, so an issuer's analysis of whether an option (including an embedded conversion option) qualifies for the scope exception in paragraph 11(a) is not affected by the currencies in which third-party investors transact the issuer's shares.

However, in both Question 2 and the Illustrative Convertible Debt Instrument – Question 2 the FASB Staff states as one of the facts that the shares issuable are traded **only** on

exchanges on which trades are not executed in the issuer's functional currency. We believe that Proposed Issue C21 should also address a more common fact pattern, which is one in which the issuer's shares traded on multiple exchanges including one on which trades are executed in the issuer's functional currency. Based on the conclusion sited above that an equity share is not inherently denominated in a particular currency we believe that the conclusion would not differ regardless of the exchange on which the underlying shares trade. However, we believe it is important for the FASB to clarify whether the answer in Question 2 is unchanged (or drop the reference to shares not trading on an exchange on which trades are executed in the issuer's functional currency) to avoid confusion.

Thank you for your consideration of these points. If you would like to discuss our comments or any other issues further you can contact me at 212-902-7052 or Nora Joyce at 212-357-8391.

Sincerely,

Timothy J. Bridges  
Managing Director

Copy: Nora Joyce