



PricewaterhouseCoopers LLP
400 Campus Dr.
Florham Park NJ 07932
Telephone (973) 236 4000
Facsimile (973) 236 5000
www.pwc.com

May 24, 2007

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

File Reference: Proposed Implementation Issue C21

Dear Mr. Smith:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the guidance that the Financial Accounting Standards Board has proposed in Statement 133 Implementation Issue No. C21, *Scope Exceptions: Whether Options (Including Embedded Conversion Options) Are Indexed to both an Entity's Own Stock and Currency Exchange Rates* ("Proposed Issue C21").

We support Proposed Issue C21, as we agree that freestanding options to acquire a fixed number of an issuer's equity shares with an exercise price denominated in a foreign currency should be considered dual-indexed for purposes of applying the scope exception in paragraph 11(a) of Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("Statement 133"). The fair value of the option to the issuer will be directly affected by the amount and nature of the consideration paid upon exercise. By denominating the exercise price in a currency other than the issuer's functional currency, the option exposes the issuer to foreign currency risk and violates the requirement in paragraph 11(a) of Statement 133 that the instrument be solely indexed to the issuer's stock. Because paragraph 12(c) of Statement 133 requires an embedded derivative feature to be analyzed as if it were a separate instrument, we believe that a conversion option embedded in a foreign-currency-denominated debt instrument should similarly be considered dual-indexed.

We recognize that applying the same logic to most convertible debt instruments denominated in the issuer's functional currency would mean that they too are dual-indexed, because the exercise price is typically paid by tendering a fixed-rate debt instrument. Thus, the fair value of the conversion option will be affected by changes in the issuer's interest rate risk and credit risk. However, the guidance in paragraph 61(k) of Statement 133 indicates such instruments do not require bifurcation. We have always interpreted this guidance to simply be an exception to the general applicability of the "no dual indexation" requirement for typical convertible debt instruments relative to the inherent interest rate risk and credit risk. We believe that the Board provided this exception in recognition of its intention to address the broader issue of convertible debt accounting in the liabilities and equity project.

The "Alternative View" expressed in Proposed Issue C21 proposes to expand this exception to include foreign currency risk. Given that practice has generally considered the conversion option embedded in a foreign-currency-denominated debt instrument to be dual-indexed and therefore ineligible for the paragraph 11(a) of Statement 133 scope exception, we do not support the "Alternative View". Such an expansion in the scope exception seems unwarranted and will only lead to further disparity between the treatment of a freestanding option to acquire an issuer's equity shares and an embedded conversion option.

Notwithstanding our general agreement with the conclusions reached in Proposed Issue C21, we suggest that the FASB clarify certain aspects of the proposed guidance. We propose the following editorial suggestions for your consideration:

The guidance in Proposed Issue C21 relates to freestanding options and convertible debt instruments. We suggest the Board comment on its applicability to convertible preferred stock that is redeemable in a currency other than the issuer's functional currency. We would expect that the guidance would be similarly applicable to such convertible preferred stock.

The third paragraph of the "Background" section states that Proposed Issue C21 provides guidance for evaluating whether an option (including an embedded conversion option) is indexed to the issuer's own stock. We suggest clarifying that this proposed guidance is applicable in evaluating whether the option is indexed to the issuer's own stock *and* a foreign currency. We do not believe it should be analogized to any other type of risk.

The third paragraph of the "Background" section references other applicable generally accepted accounting principles that would be applied to determine if the second criterion of paragraph 11(a) of Statement 133 is met. We suggest also referencing EITF 01-6, *The Meaning of "Indexed to a Company's Own Stock,"* which is often relevant when addressing the first criterion of paragraph 11(a) for convertible debt instruments.

Illustrative Convertible Debt Instrument - Question 1 does not indicate the exchange on which Company A's common stock is traded, although this information is included in the table in Attachment A. We suggest clarifying in the "Responses" Question 1 section that the exchange on which the stock is traded is irrelevant to the conclusion.

Proposed Issue C21 is effective on the first day of the first fiscal quarter beginning after the guidance is posted to the FASB website for all new financial instruments entered into or modified after the guidance is posted. Once the Board has cleared this Implementation Issue, we do not believe that its application should be delayed until the next quarter for new or modified financial instruments. We therefore recommend that the guidance be effective immediately for all newly issued or modified financial instruments once the guidance is posted.

The third paragraph of the "Effective Date and Transition" section provides guidance for situations in which a previously bifurcated option now qualifies for the paragraph 11(a) of Statement 133 scope exception. We suggest referring readers to EITF Issue 06-07, *Issuers Accounting for a Previously Bifurcated Conversion Option in a Convertible Debt Instrument When the Conversion Option No Longer Meets the Bifurcation Criteria in FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities*, for further guidance on subsequent accounting for unamortized debt discounts.



We appreciate the opportunity to express our views on the proposed guidance. If you have any questions regarding our comments, please contact John Lawton (973-236-7449) or John Althoff (973-236-7288).

Sincerely,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP