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Mr. Lawrence W. Smith
Director, TA&I
Financial Accounting Standards Board
401 Merritt 7
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LETTER OF COMMENT NO. 9

Re: Proposed Statement 133 Implementation Issue No. C21, “Whether Options (Including Embedded Conversion Options) Are Indexed to Both an Entity’s Own Stock and Currency Exchange Rates”

Dear Mr. Smith:

Deloitte & Touche LLP is pleased to comment on proposed Statement 133 Implementation Issue No. C21, “Whether Options (Including Embedded Conversion Options) Are Indexed to Both an Entity’s Own Stock and Currency Exchange Rates” (the “Exposure Draft” or the “proposed Implementation Issue”).

The Exposure Draft proposes guidance for evaluating whether the currency denomination of the exercise price causes an option contract not to be solely indexed to the issuer’s own stock. The second response in the proposed Implementation Issue indicates that if the exercise price is denominated in a currency that is the entity’s functional currency the contract is considered indexed to the issuer’s own stock. We agree with that conclusion. The proposed Implementation Issue’s first response indicates that if the exercise price is denominated in a currency other than the issuer’s functional currency, the option contract is considered dual-indexed (i.e., indexed to both the issuer’s own stock and foreign currency exchange rates). Presumably, contracts that are not considered indexed solely to the issuer’s own stock would be precluded from being classified as equity by the issuer (e.g., if they are derivatives under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, that must be classified as assets or liabilities). We are unclear on why, under the conceptual framework, a physically settled contract, for example, for the issuer to sell its shares in the same currency or currencies of the markets in which the underlying shares actively trade, but is not the functional currency of the issuer, is a liability and not an equity instrument.

We generally agree with the principle cited in paragraph 286 of Statement 133 that a contract indexed in part or in full to something other than the entity’s stock should not be classified in equity, but is a derivative classified as an asset or liability if it meets definition of a derivative. However, GAAP currently includes some practical exceptions to the principle, such as permitting some indexations to interest rates as well the entity’s stock. It is not clear where such practical exceptions should stop. For example, the guidance in this Exposure Draft and FASB Statement 133 Implementation Issue C8, “Scope Exceptions: Derivatives That Are Indexed to Both an Entity’s Own Stock and Currency Exchange Rates,” do not provide a sufficient rationale to explain why the entity’s functional currency is the sole base or even a better base than the

currency or currencies used in the primary markets for trades of the underlying shares, for evaluating whether the contract is indexed to a factor extraneous to the issuer's shares.

Further, this guidance should not be issued in the form of a Statement 133 Implementation Issue. The Exposure Draft's guidance extends beyond derivatives, as not all contracts for an issuer's own stock will meet the definition of a derivative. For example, when the underlying shares are not readily convertible to cash, a physically settled forward or option contract with an exercise price in a currency other than the issuer's functional currency (or currencies of the primary markets in which the shares trade) is not in the scope of Statement 133. Further, for non-stock-based compensation arrangements, the definition of indexed to the issuer's own shares is also addressed in EITF Issue No. 01-6, "The Meaning of 'Indexed to a Company's Own Stock,'" and FASB Statement No. 150, *Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity* (e.g., see paragraphs 12(b) and A21). Constituents (1) would benefit from having guidance about the meaning of indexed to an issuer's own stock in one general standard as opposed to several pieces of authoritative literature and (2) might overlook guidance applicable to non-derivative instruments if the guidance is contained only in a Statement 133 Implementation Issue derivative.

We appreciate the opportunity to comment on the proposed Implementation Issue. If you have any questions concerning our comments, please contact Bob Uhl at (203) 761-3152.

Yours truly,

Deloitte & Touche LLP

cc: Jim Johnson