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LETTER OF COMMENT NO. 34

October 15, 2007

Mr. Russell G. Golden  
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 FSP APB 14-a**

Dear Mr. Golden:

Affiliated Managers Group, Inc. appreciates the opportunity to respond to the Financial Accounting Standards Board's (the "Board") proposed FASB Staff Position APB 14-a (the "FSP") related to the accounting treatment for convertible debt instruments that may be settled entirely or partially in cash.

We are an asset management company with equity investments in a diverse group of boutique investment management firms, and as such, we are both a preparer and user of financial statements. We, like many other companies, have used convertible debt instruments as an important component of our capital structure. Over the last several years, we have issued a number of these instruments and have used the proceeds to make investments in asset management firms and repurchase stock.

We support the Board's project to develop a comprehensive standard of accounting and reporting for financial instruments with characteristics of equity, liabilities, or both. We also support the Board's efforts with the International Accounting Standards Board to promote the convergence of accounting standards. We believe these activities will ultimately provide more relevant information to users of financial statements.

While we support the Board's broad initiatives on these topics, we believe the overall scope of the FSP and the effective date and transition provisions should be reconsidered. Our comments, including proposed alternatives, are discussed below. We hope that our comments will assist the Board in identifying potential alternatives to the issues raised.

## Scope

As the principal basis for issuing this FSP, the Board specifically cited its concern with an inconsistency that permits “convertible debt” accounting for instruments with characteristics of Instrument C<sup>1</sup> while allowing the use of the “treasury stock method” in the computation of dilutive earnings per share. The FSP aims to correct this inconsistency by requiring the liability and equity components of these instruments to be separately accounted for in a manner that will reflect the issuer’s nonconvertible debt borrowing rate when interest cost is recognized in the financial statements.

We appreciate the Board’s view that this inconsistency may provide misleading information to investors, and expected the FSP to address only those instruments having the characteristics of Instrument C. However, as drafted, this FSP would also apply to instruments that do not require cash settlement. Unlike Instrument C, the accounting for these instruments (Instruments B and X) is not inconsistent as the use of the “if-converted method” in the computation of diluted earnings per share is required for these instruments.

If released in its current form, the scope of the FSP would broadly impact many convertible debt instruments that do not have the characteristics of Instrument C. Such a wholesale change in the accounting for convertible debt seems premature considering the status of the Board’s project on Liabilities and Equity. In fact, the Board’s stated preference for the “ownership approach” appears inconsistent with the guidance in this FSP and could result in the application of another accounting change once the project has been completed.

We believe users of financial statements have come to understand the underlying economics of these instruments and the current accounting treatment under U.S. Generally Accepted Accounting Principles (“GAAP”). A change in the accounting for convertible debt instruments prior to the completion of the Board’s project on Liabilities and Equity will confuse the users of financial statements. If the Board feels that this inconsistency must be addressed currently, we believe that the Board should limit the scope of the FSP to instruments with the characteristics of Instrument C. A wholesale change in the accounting for convertible debt instruments should be reserved for the completion of the Board’s project on Liabilities and Equity.

Furthermore, considering the Securities and Exchange Commission’s proposal to eliminate a foreign private issuer’s requirement to file a reconciliation of International Financial Reporting Standards (“IFRS”) to GAAP, we believe that convergence with IFRS should be a priority when ultimately resolving the accounting for convertible debt instruments.

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<sup>1</sup> Emerging Issues Task Force Issue No. 90-19, “Convertible Bonds with Issuer Option to Settle for Cash Upon Conversion” refers to Instrument C as an instrument that requires the issuer to satisfy the accreted value of the debt obligation in cash and the conversion spread, if any, in either cash or stock.

### **Effective Date and Transition**

The Board indicated that entities should be able to obtain the data necessary to measure the fair value of the liability component of convertible debt instruments, and as a result, retroactive application of this FSP was proposed for fiscal years beginning after December 15, 2007. As a preparer with four convertible debt instruments currently outstanding, retroactive application of this FSP is anticipated to be very time consuming. Retroactive application is further complicated by the relationship between the guidance in this FSP and existing accounting guidance. For example, entities that capitalize portions of their interest expense will not only need to compute the incremental interest expense related to the FSP, but will also need to compute the impact that this incremental interest cost has on depreciation expense. This incremental depreciation may also impact the entity's deferred income taxes for any timing differences related to the change in book depreciation.

Furthermore, the proposed changes would impact several financial measures often monitored by companies' lenders (e.g. interest coverage and debt to equity ratios). The changes this FSP will have on these financial measures would further stress credit markets, providing some issuers a windfall and potentially forcing others into default. Companies will need to approach their lenders to request modifications to their covenants. In light of the recent turmoil in the credit markets, these lenders may not readily acquiesce to changes in credit terms. We believe the proposed guidance and implementation timeline both meaningfully change the assumptions upon which transactions were based, and are likely to reduce an issuer's ability to negotiate changes in credit terms with its lenders. The timeline proposed by the Board is unlikely to provide either lenders or issuers with adequate time to address these issues prior to creating an event of default.

Considering the likely impact that these changes will have on relationships with lenders and the financial reporting demands of calendar year-end companies, we believe that the adoption of these changes during the first quarter of 2008 would place an unnecessary burden on financial statement preparers. Several new accounting standards already require adoption during the first quarter of 2008, including Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" and Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115." If the Board chooses to continue with this project, we suggest the Board apply this guidance prospectively and adopt an effective date for fiscal years beginning after December 15, 2008.

We hope that our comments will assist the Board in identifying potential alternatives to the issues raised.

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We appreciate the opportunity to comment on these matters. If you should have any questions concerning our comments or our proposed alternatives, we would be happy to participate in discussions with the FASB staff, Board members or, if desired, we would also be pleased to meet. Please feel free to contact me at (617) 747-3308 at any time.

Sincerely yours,

A handwritten signature in cursive script that reads "Darrell W. Crate".

Darrell W. Crate  
Executive Vice President,  
Chief Financial Officer and Treasurer

cc: Aaron M. Galis, Affiliated Managers Group, Inc.  
Daniel J. Shea, Affiliated Managers Group, Inc.  
John M. Althoff, PricewaterhouseCoopers LLP  
John W. Stadler, PricewaterhouseCoopers LLP