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LETTER OF COMMENT NO. 37

Mr. Russell G. Golden
Director—Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Re: Proposed FSP APB 14-a

Dear Mr. Golden:

Countrywide Financial Corporation (Countrywide) is a diversified financial services company that is involved in mortgage lending, banking, capital markets, and insurance activities with approximately \$200 billion in total assets. It is one of the leading residential mortgage loan originators and servicers and financial institutions in the nation. We would like to comment on the Exposure Draft of the Proposed FASB Staff Position (FSP) No. 14-a, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)."

Amendment vs. Clarification

While we can appreciate the concepts underlying the position outlined in the proposed FSP, we are concerned that it represents an amendment rather than a clarification of the guidance in Accounting Principles Board (APB) Opinion No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*. Paragraph 12 of Opinion 14 clearly states that "no portion of the proceeds from the issuance of the types of convertible debt securities described in paragraph 3 should be accounted for as attributable to the conversion feature." Paragraph 3 does not distinguish between convertible debt that may be settled fully in stock versus a combination of cash and stock. As the APB no longer exists, we believe that there is no way for the FASB staff to truly know what the intent of the Opinion 14 was with respect to those types of convertible debt. There also is no support in the existing accounting literature for the bifurcation of the conversion feature from the debt host, as the conversion feature does not represent a derivative instrument under the scope of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended.

COUNTRYWIDE FINANCIAL CORPORATION

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In that case, we believe that the Board should consider this issue within the broader context of its project on Liabilities versus Equity to ensure that the guidance is consistent with any decisions made related to that project. We also believe that this issue might benefit from more expansive consideration of related issues for other types of convertible instruments and other types of debt instruments with equity components.

If the Board is concerned with impact of applying the accounting principles of Opinion 14 while allowing earnings per share to be computed in a manner consistent with the calculation for debt issued with detachable warrants, we believe that the Board alternatively could elect to nullify the guidance in EITF Issue No. 90-19, "Convertible Bonds with Issuer Option to Settle for Cash upon Conversion," that permits earnings per share to be computed in that manner. In that case, FASB Statement No. 128, *Earnings per Share*, would require the "if-converted" method to be used.

Measurement of Conversion Feature

If the Board does decide to issue the proposed FSP, we believe that it would be better to require the conversion feature to be measured and initially recorded at fair value rather than follow the process prescribed in the proposed FSP. Not only would that process more accurately reflect the fair value of the conversion feature recorded in equity and implied discount on the debt attributable to that conversion feature, we also believe that it would be easier to determine than the value of a hypothetical debt instrument with no conversion feature.

Transition

Finally, we urge the Board to change the prescribed transition method to from retrospective application to recording the cumulative effect of adopting the new guidance in retained earnings as of the beginning of the period of adoption. Retrospective application would be very time consuming and operationally burdensome with very little benefit to readers of financial statements. Since all companies have been following the same accounting method for this type of convertible debt (which has been the predominant type issued in recent years), we believe that the results among those companies have been reported on a comparable basis. The cumulative effect would give readers of the financial statements a sufficient understanding of the magnitude of the impact from the change in accounting.

The additional interest expense that would be reported for prior periods would represent an "accounting" expense rather than an economic expense related to a transfer of cash or other assets. As such, we believe that the usefulness of such information to readers would be diminished. Our understanding is that investors and stock analysts generally focus on the most recent results and look to future

expected profit trends with an emphasis on cash inflows vs. outflows to determine the earnings potential of a company. Therefore, historical trends, particularly related to adjusted interest costs, would represent less relevant information to those investors and analysts.

Summary

We believe that the Board should consider addressing this issue as part of its more comprehensive project on Liabilities vs. Equity to ensure that all aspects of the accounting for convertible debt are adequately considered. If not, then we believe that it would be better to measure the conversion feature separately at fair value rather than derive a value by comparing the estimated value of a hypothetical debt with no conversion feature to the proceeds received. Lastly, we strongly urge the Board to consider changing the proposed transition requirements from retrospective application to recording the cumulative effect of adoption in the period of the change in accounting.

Thank you for the opportunity to comment on the proposed guidance. We would be glad to discuss any of our comments in more detail. If you have any questions, please contact me at 818/225-3536 or "anne_mccallion@countrywide.com" or Larry Gee, Managing Director—Technical Accounting at 818/223-5822 or "larry_gee@countrywide.com."

Very truly yours,



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