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October 18, 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

LETTER OF COMMENT NO. 51

Dear Mr. Golden:

BDO Seidman, LLP is pleased to offer comments on proposed FASB Staff Position APB 14-a, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)." We support the Board's efforts to improve the accounting and reporting by issuers of convertible securities. However, we oppose issuance of the FSP, because we believe that the proposal will increase complexity in an area where the accounting guidance is already convoluted. Instead, we recommend that the Board address the accounting for all convertible securities with the objective of developing a single model of accounting for embedded conversion rights.

Complexity

Currently the accounting guidance addressing convertible securities requires issuers to account for some as a single instrument, in accordance with paragraph 12 of APB Opinion No. 14, and for others as two instruments—bifurcated between the embedded conversion feature and the host instrument. For those convertible securities that issuers are required to bifurcate, three different allocation methods are used (relative fair value allocation, fair value of the embedded conversion right with the residual assigned to the host under FASB Statement No. 133, and an intrinsic value method under EITF Issue Nos. 98-5 and 00-27). The AICPA Technical Practice Aid, "Convertible Debt, Convertible Preferred Shares, Warrants and Other Equity-Related Financial Instruments," provides a visual representation of the analysis that is required in a flowchart that spans three-pages! This complex guidance is difficult for trained accountants to apply and has resulted in numerous financial statement restatements. In the proposed FSP, the FASB proposes to further complicate this area by requiring issuers to bifurcate more (but not all) convertible securities, using a fourth allocation method. The addition of still another accounting model will lead to additional complexity that will be difficult even for accountants experienced in this area of accounting. We also struggle to see how the existing guidance, and the guidance in the proposed FSP, assists financial statement users in making informed investment decisions.

Rather than exacerbate the complexity in this area by introducing yet another set of bifurcation requirements and another allocation method, we believe the Board should address issuers' accounting for *all* convertible securities and determine whether issuers should separately account for *all* embedded conversion features. If so, we further believe that the Board should embrace a single allocation method.

We recognize that the Liability and Equity project currently on the Board's agenda plans to comprehensively address financial instruments with characteristics of debt and equity, including convertible securities. We suggest that the Board provide guidance for all convertible securities separate from the Liability and Equity project, in the interests of a more timely resolution. If the Board prefers to retain convertible security issues in the Liability and Equity project, then we recommend that the Board leave the current guidance in place until the Liability and Equity project is completed.

Effective Date and Transition

We have concerns over the operationality of the proposed effective date and transition. The final FSP will not be issued until some time in November or December and will be effective a short time thereafter. We believe it will be difficult for many issuers to meet the proposed effective date, particularly those who issued or modified multiple instruments. In many cases the information will not be readily available, particularly with respect to the fair value of the debt components of prior issuances, some of which will no longer be outstanding at the effective date. Many companies will need the assistance of valuation professionals to estimate the fair values. In other cases, the change in accounting may cause companies to violate lending and other financial covenants and they will have insufficient time to renegotiate these provisions. Finally, the short-time span between final issuance and the proposed effective date could lead to misapplication of the guidance and restatements. If the Board issues a final FSP, we recommend that the effective date be no earlier than fiscal years beginning after June 15, 2008.

We also urge the Board to reconsider the transition. We believe the FSP should be applied prospectively to instruments issued after a specified date, not retrospectively. Retrospective application of the FSP will be costly for issuers that have issued or modified multiple instruments. In our opinion, the costs of implementation on a retrospective basis outweigh the benefits.

Responses to issues identified by the Board

Issue 1: This proposed FSP requires that instruments within its scope be separated into their liability and equity components at initial recognition by (a) recording the liability component at the fair value of a similar liability that does not have an associated equity component and (b) attributing the remaining proceeds from issuance to the equity component. The rationale for the Board's decision to

require this separation methodology for convertible debt instruments within the scope of this proposed FSP is described in Appendix B. Do you agree with this method of separation? Would this proposed FSP be easier to apply if separation were achieved by (a) recording the embedded conversion feature (equity component) at its fair value and (b) attributing the remaining proceeds from issuance to the liability component?

As noted above, we believe the FSP should not be issued and that the Board should address issuers' accounting for *all* convertible securities using a single accounting model. However, if the Board decides to proceed with issuing the FSP, then we believe the increased complexity could be mitigated by using one of the existing allocation methods, such as relative fair value allocation. The existing methods are familiar to constituents, and two of them might not produce a significantly different result than the proposed new allocation method.

Of the two options provided in the proposal, we prefer measuring the liability component at fair value and attributing the residual to the equity component because we agree that in most cases, this method will be easier to apply. However, we can foresee instances where estimating the fair value of a similar liability without the conversion feature will be more difficult than estimating the fair value of the conversion right, such as when the debt instrument contains several other embedded features.

Issue 2: This proposed FSP provides guidance on the attribution of proceeds at initial recognition and at settlement for convertible debt instruments within its scope. It also requires that discounts on the liability component of instruments within its scope be amortized using the interest method over the expected life of a similar liability that does not have an associated equity component (considering the effects of prepayment features other than the conversion option). The remaining guidance in this proposed FSP, including much of the guidance on subsequent measurement and accounting for modifications, primarily consists of references to other applicable U.S. generally accepted accounting principles (GAAP). Does the inclusion of those references to other applicable U.S. GAAP improve the understandability of this proposed FSP, or should those references be eliminated from a final FSP?

We agree with the inclusions of the references.

Issue 3: Does the inclusion of the illustrative example in Appendix A improve the understandability of the guidance in this proposed FSP, or should that example be eliminated from a final FSP?

We believe inclusion of the example is critical to the understandability of the guidance in the proposed FSP.



Additional Comments:

Scope: The final FSP should clarify whether it applies to *any* convertible instruments that *may* be settled in cash upon conversion, or only to those described as instrument C in EITF Issue No. 90-19.

Deferred taxes: To clarify the treatment of deferred taxes, we suggest that the last sentence of paragraph 13 be amended to read: "If the basis difference is determined to be a temporary difference, then the initial recognition of deferred taxes for the tax effect of that temporary difference shall be recorded as an adjustment to additional paid-in capital."

Application to conversion: We suggest clarifying paragraph 19 to make it clear that the guidance contained in that paragraph applies to conversion of the convertible debt security.

Earnings per share: The basis for conclusions indicates that Issue 04-8 has been amended to incorporate the earnings per share guidance for convertible debt with the characteristics of Instrument C from Issue 90-19 directly. We recommend including this information in the body of the standard so that it is easier for readers to find.

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We would be pleased to discuss our comments with the FASB staff. Please direct questions to Ben Neuhausen at 312-616-4661.

Very truly yours,

s/ BDO Seidman, LLP