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Letter of Comment No: 6  
File Reference: FSP123R-D

Mr. Lawrence W. Smith  
Director, TA&I — FSP  
Financial Accounting Standards Board  
401 Merritt 7  
P. O. Box 5116  
Norwalk, CT 06856-5116

**Re: Proposed FASB Staff Position No. FAS 123(R)-d, "Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement Upon the Occurrence of a Contingent Event"**

Dear Mr. Smith:

Deloitte & Touche LLP is pleased to comment on the proposed FASB Staff Position No. FAS 123(R)-d, "Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement Upon the Occurrence of a Contingent Event" (the "proposed FSP").

We commend the FASB staff for acting quickly to address this practice issue and we support the issuance of the proposed FSP as a final position of the FASB staff. The amendment provided by the proposed FSP will serve to reduce the confusion and complexity surrounding the detailed liability/equity classification evaluation required by FASB Statement No. 123 (revised 2004), *Share-Based Payment*. The proposed FSP also eliminates accounting "arbitrage" opportunities by providing a consistent method of accounting for both contingently redeemable shares (including options on redeemable shares) and contingently redeemable options.

The appendix to this letter contains our responses to the specific questions raised in the Notice for Recipients.

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Deloitte & Touche LLP appreciates the opportunity to comment on the proposed FSP. If you have any questions concerning our comments, please contact Jim Kroeker at (203) 761-3726.

Yours truly,

Deloitte & Touche LLP

cc: James A. Johnson

**APPENDIX**  
**Deloitte & Touche LLP**  
**Responses to Notice For Recipients**

*Issue 1 — The proposed FSP provides amended classification guidance for options and similar instruments issued as employee compensation that allow for cash settlement upon the occurrence of contingent events. This FSP stipulates that entities must assess the probability of the contingent cash settlement event occurring in determining the classification of the option or similar instrument. Do you think the Board should restrict the guidance in this FSP only to specific types of contingent events (for example, a change in control)?*

No. Restricting the final FSP to only specific types of contingent events would create unnecessary complexity. In addressing share repurchase features, paragraph B134 of Statement 123(R) indicates that “the Board believes that interim guidance, in general, should disrupt practice as little as possible.” The probability model in the proposed FSP is identical to the model already established in Statement 123(R) related to contingently cash-settled share awards and is also consistent with existing practice.

*Issue 2 — As part of the process of issuing this proposed FSP, the Board considered an alternate approach of grandfathering existing options and similar instruments under pre-existing accounting standards while maintaining the existing requirement of paragraphs 32 and A229 of Statement 123(R) for options or similar instruments granted in the future. Do you believe the grandfathering approach more appropriately addresses this issue?*

No. Until the Board completes its framework for distinguishing between liabilities and equity that can be applied consistently to all freestanding financial instruments, we believe the approach contained in the proposed FSP provides a more operational and easily understood solution to the issue at hand. A grandfathering approach would introduce additional complexity to an already complicated accounting model.

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