

June 2, 2005

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

Letter of Comment No: 3
File Reference: FSPFAS150E
Date Received:

Proposed FASB Staff Position FAS 150-e
Issuer's Accounting under Statement 150 for Freestanding Warrants and Other Similar
Instruments on Shares That Are Redeemable

We appreciate the opportunity to comment on the above-referenced proposed FASB Staff Position. Overall we believe that it will help clarify the guidance initially provided by the FASB staff in FSP FAS 150-1, "Issuer's Accounting for Freestanding Financial Instruments Composed of More Than One Option or Forward Contract Embodying Obligations under FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.*"

While we believe that the guidance provided in the proposed FSP is consistent with that provided in FSP FAS 150-1, we would reiterate the concerns expressed in our September 22, 2003, comment letter on the exposure draft leading to that original FSP, where we stated:

Another anomaly appears to arise in Example 2. In that example, the FASB staff concluded that a warrant that can be exercised to acquire the issuer's shares that subsequently can be put to the issuer for cash is a liability under Statement 150. However, what is not discussed in the example is that if the shares resulting upon exercise of the warrant remain outstanding for a time before the holder exercises the put option, those shares would be optionally redeemable shares and therefore not subject to the guidance of Statement 150. That is, the outstanding shares would be classified as equity (although public companies must classify the potential redemption obligation outside of permanent equity). Accordingly, under the proposed FSP, an instrument that upon exercise will result in the issuance of an equity instrument must be classified as a liability.

We believe that the above described anomalies result from the FASB's unfortunate decision to split the Liabilities and Equity Project into two distinct phases. Accordingly, while we do not object to the FASB staff's interpretation of Statement 150, we encourage the FASB to reconsider whether the conclusions described in the proposed FSP are appropriate in connection with its ongoing Liabilities and Equity Project. Further, if the FASB agrees that these conclusions should be reevaluated in connection with Phase II of its Liabilities and Equity project, the FSPs should explain that the conclusions potentially could change in connection with that project.

Director, TA&I-FSP

Page 2
June 2, 2005

Additional comments specific to proposed FSP 150-e follow:

- In paragraph 3, the third sentence notes two questions that have arisen, one related to the timing of the redemption of the underlying shares and the other to the redemption price. However, the fourth sentence only notes constituents specifically questioning the timing of redemption. It would appear this fourth sentence should reference both issues for consistency within the document, as both questions are answered in the FSP.
- In paragraph 4, the proposed FSP notes that a warrant for an instrument that would be mandatorily redeemable is also a liability under paragraph 11 of Statement 150. Given the indefinite deferrals provided for some mandatorily redeemable instruments under FSP FAS 150-3, "Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FASB Statement No. 150," we would suggest the FASB staff clarify the interaction of the proposed FSP with the various provisions of FSP 150-3. For example, if an instrument receives a deferral under FSP FAS 150-3, would a warrant for that instrument still be classified as a liability under the proposed FSP?
- We believe any language related to FASB Statement No. 123(R), *Share-Based Payment*, should be reviewed for consistency with any future guidance on classification for instruments initially within the scope of, or eventually falling out of the scope of, Statement 123(R).

We would be pleased to discuss our comments with the Board members or the FASB staff at your convenience.

Very truly yours,

Ernst & Young LLP