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June 2, 2008

LETTER OF COMMENT NO.

Ms. Suzanne Q. Bielstein
Director of Major Projects
FINANCIAL ACCOUNTING STANDARDS BOARD
401 Merrit 7
Norwalk, Connecticut 06851

File Reference No. 1550-100: Preliminary Views on Financial Instruments with Characteristics of Equity

Dear Ms. Bielstein:

The Financial Reporting Committee (the "Committee" or the "FRC") of the Institute of Management Accountants ("IMA") appreciates the opportunity to provide its views to the Financial Accounting Standards Board (the "FASB") on the Preliminary Views, *Financial Instruments with Characteristics of Equity* (the "PV"). FRC is the financial reporting technical committee of the IMA. The Committee reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations.

Overall, we support the FASB's intent to improve the accounting for financial instruments with characteristics of debt and equity since it is one of the most complex areas of accounting.

The FRC is generally supportive of the Ownership-Settlement Approach, although we question certain of the decisions reached under that approach (see specific comments section below). The FRC strongly opposes the Basic Ownership Approach.

The FRC supports the Ownership-Settlement Approach because of the following reasons:

1. The current accounting model for debt and equity has become extremely difficult for users, preparers, and auditors to navigate with its many scattered and inconsistent pieces of literature. As stated in the PV, there are over 60 pieces of literature, and certain aspects of the literature are inconsistent (for example, accounting for freestanding versus embedded equity derivatives). This creates confusion that may lead to less comparable financial results and, potentially, restatements. We believe that the Ownership-Settlement Approach would alleviate the current accounting problems by bringing together in one Standard a comprehensive model that is similar to, but represents an improvement over, the current accounting model.

2. The Ownership-Settlement Approach appears to be generally consistent with IAS 32 with certain improvements. We believe that convergence may be achieved faster by pursuing the Ownership-Settlement Approach.
3. We believe that the Ownership-Settlement Approach results in a faithful representation and a common sense result. For example, equity under the Ownership-Settlement Approach would include common stock as well as other equity-based instruments that give the holder interests similar to common shareholders in that the entity has no obligation to transfer cash or any other asset (i.e., stock options and perpetual preferred stock).
4. The Ownership-Settlement Approach is somewhat aligned with the current definitions in Concepts Statement 6, with minor revisions that would need to be made.

Specific Comments:

Scope—We question why the scope is limited to equity-classified instruments, those with indexation to equity, and those settled with equity. The PV includes changes and clarifications to current accounting for modifications and settlements of debt (no 10% test as described in EITF Issue 96-19), the period to use for debt accretion (the expected life), and expensing of transaction costs. For these areas of accounting, we question why there should be two very different models for debt versus debt that is separately accounted apart from an embedded conversion option. Having competing models for similar transactions is not useful. An example follows:

Instrument 1: Entity A issues 30-year debt with a 3-year and thereafter call option, and 5-, 10- and 15-year put options.

Instrument 2: Entity A also issues 30-year convertible debt with 3-year and thereafter call and conversion options, and 5-,10-, and 15-year put options.

Under current GAAP (and after issuance the PV), Entity A accounts for Instrument 1 by accreting it to the first put date at year 5. Transaction costs are amortized over the 5-year life. If the instrument is not put back at year 5, a reasonable assumption must be made for future accretion, if any. If the entity modifies the instrument, the 10% cash flows test is applied to determine if settlement accounting is applied, and a new basis is set up for the modified debt instrument.

Under the PV, Entity A accounts for Instrument 2 by bifurcating the debt based on the expected settlement date (assume 7 years) and would accrete it based on the straight-debt rate applicable to the expected term. Transactions costs are expensed. If the instrument is not redeemed or converted at year 7, or if a modification occurs, settlement accounting is applied regardless of any specified bright-line test, and the modified debt instrument is recorded at its fair value.

For the above two instruments that are both accounted for as straight debt, very different accounting results will be reported, increasing non-comparability and complexity.

Based on the above, we believe that the PV should apply to all financial instruments.

Private Company Accounting—The Board should test the effect of either the Basic Ownership Approach or the Ownership-Settlement Approach on private and small companies. FAS 150 created havoc for private companies, and we believe that the FASB should take care in this project to not cause additional problems for these entities. We understand that the Board attempts to address the issue of “no equity” for private companies in the definition of a direct ownership instrument, but we believe that this definition should be further tested and developed to ensure it is workable. For example, we believe that the Board should clarify that a book value redemption would result in equity. It is arguable whether a book value redemption provision would meet the “designed to approximate fair value of the instrument” test in paragraph 21(a) of the PV. We understand private companies use various redemption formulas for practicality purposes (for example, EBITA times 10). We believe that, for private companies with no market liquidity or ease in determining fair value, the direct ownership test should accommodate these redeemable instruments.

As for the separate presentation of and remeasurement of equity for private companies, we believe that this presentation would have little to no value to users of financial statements of a private company; disclosure of the redemption provisions would be sufficient.

We stress that the Board should reach out to various private companies to test the PV and listen carefully to their concerns.

Conceptual Framework Interaction—The PV speaks very little about its interaction with the Concepts Statement definitions of assets and liabilities. The PV defines the concept underlying equity, and everything else is a liability or asset. How will the FASB deal with the interaction between these two projects? If the PV really is the concept, then perhaps the title and scope should be “The Definition of Equity and Accounting for Certain Financial Instruments”. Also, if the PV is intended to serve as the conceptual definition of equity, we question how this will affect the definition of liabilities and assets since they would now be the residual for classification purposes.

Substantive Features—This language should be included in all Standards. We believe preparers should consider unstated but substantive features in determining the appropriate accounting for transactions. For example, in the case of preferred stock with a dividend rate that increases, the issuer may be economically compelled to redeem.

Linkage—We are generally supportive of the linkage principles. We request that the FASB examine all the competing models for linkage that exist in the current literature and assess whether there should be one consistent method of linkage or if there is a need for different methods based on the type of transaction. Complexity would be reduced with one consistently applied method of linkage.

Cash or Equity Settlement at Entity's Discretion—The PV would classify instruments with issuer discretion over cash or equity settlement as liabilities. This does not seem consistent with either the conceptual framework or the principles behind the Ownership-Settlement Approach. We understand that this view is consistent with the IASB's view. We also understand that the IASB reached its conclusion because users did not want a model based on management intent or past practice. If the FASB decides on this requirement, then we believe that a final standard should note that the conclusion is an exception to the principle. We believe that the FASB should reconsider this decision because there is a substantive and fundamental difference between being obligated to transfer cash or other assets and being permitted to do so. The importance of that distinction seems very clear in the current liquidity crunch.

Prepaid Forward Purchase of Stock and Stock Issued in Exchange for a Note—We request that the Board clarify why these two instruments would be assets versus contra-equity under the principles of the Ownership-Settlement Approach. We have difficulty understanding why the issuer would recognize these arrangements as assets, and it seems counterintuitive since the issuer's stock is not its asset. We believe the Board should reconsider the accounting for these two instruments—especially for the well-accepted method of recognizing contra-equity for stock in exchange for a non-recourse note. In addition, we do not understand how a prepaid obligation to purchase a non-asset can itself be an asset.

Conclusion:

Overall, the FRC supports the FASB in its efforts to improve this difficult area of accounting, and we encourage you to “fix” the accounting by adopting the Ownership-Settlement Approach as modified for the comments above.

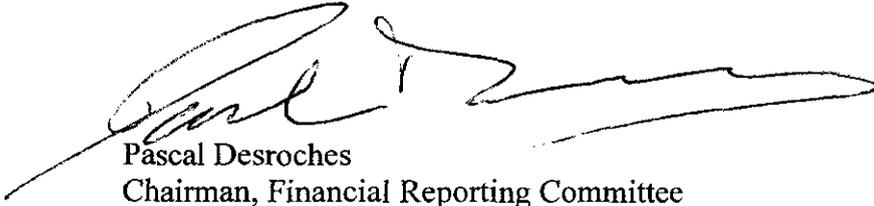
The FRC strongly opposes the Basic Ownership Approach because it is a material and fundamental change to the current Conceptual Framework and accounting model. We believe that the resulting accounting, for example, the amendment of FAS 123(R) from grant date accounting to exercise date accounting for employee stock options and liability accounting for everything but the common shareholders makes no sense. We question how the Basic Ownership Approach would be useful to the wide range of users of financial statements.

We understand that Board members are highly supportive of the Basic Ownership Approach because of its purported (1) simplicity over the Ownership-Settlement Approach and (2) representation of the dilutive effects to outstanding shareholders. In light of that fact, if the FASB pursues the Basic Ownership Approach, we believe that it should only do so in conjunction with the Financial Statement Presentation project in order to alleviate and address issues that arise due to the increase in income statement volatility due to the significant increase in asset and liability instruments that are remeasured, potentially at fair value, under that approach. Under the Basic Ownership Approach, income may be highly affected by changes in an issuer's own share price (for example, an employee stock option would be marked-to-market until exercise) and perpetual stock with no settlement requirement is classified as a liability. Although

classification decisions may be simplified, the Basic Ownership Approach increases complexity in measurements and presentation, which places more pressure on how financial statements should be changed to accommodate that approach. Without those changes, we believe that users may be confused.

If you have questions regarding our response, please feel free to contact me at (212) 484-6680.

Sincerely,



Pascal Desroches
Chairman, Financial Reporting Committee