

**PROPOSED REVISED SEC STAFF ANNOUNCEMENT**

**Topic:** *EITF Abstracts*, Topic No. D-98, "Classification and Measurement of Redeemable Securities"

**Date Discussed:** September 10, 2008

At the September 10, 2008 EITF meeting, the SEC Observer plans to announce the SEC staff's views regarding the interaction between Topic D-98 and the guidance recently issued in FASB Staff Position No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)." The SEC Observer also plans to announce a clarification to the SEC staff's views in paragraph 16A of Topic D-98 (which was added to Topic D-98 at the March 12, 2008 EITF meeting). The paragraphs to be amended and added to Topic D-98 are included below (additions are underscored and there are no deletions).

16A. Regardless of the accounting method applied (see paragraphs 15 and 16), for a redeemable equity instrument that is not a share-based payment arrangement with an employee, the SEC staff believes that reductions in the carrying amount of an equity security from the application of this SEC staff announcement are appropriate only to the extent that the registrant has previously recorded increases in the carrying amount of the equity security from the application of this SEC staff announcement.

**FSP APB 14-1**

42. In May 2008, the FASB issued FASB Staff Position No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)." FSP APB 14-1 addresses the issuer's accounting for convertible debt instruments that, by their stated terms, may be settled in cash (or other assets) upon conversion, including partial cash settlement, unless the embedded conversion option is required to be separately accounted for as a derivative under Statement 133. An issuer of a convertible debt instrument within the scope of FSP APB 14-1 is required to separate the convertible debt instrument into a liability-classified component and an equity-classified component. Depending on the terms of the convertible debt instrument and the individual facts and circumstances surrounding the convertible debt instrument, the equity-classified component may be redeemed (or may become redeemable at the option of the holder) for cash (or other assets). At the September 10, 2008 meeting, the SEC Observer announced the SEC staff's position relating to the interaction of the financial statement classification and measurement guidance in this SEC staff announcement and the guidance in FSP APB 14-1.

43. The SEC staff believes that for convertible debt instruments within the scope of FSP APB 14-1,<sup>16</sup> the guidance in this SEC staff announcement should be applied as follows:

- a. The equity-classified component of the convertible debt instrument should be considered redeemable (and an amount presented in temporary equity, as described in (b) below) if, at the balance sheet date, the convertible debt instrument is currently redeemable or currently convertible for cash (or other assets). An assessment of the probability that the convertible debt instrument will become redeemable or convertible at a future date is not required.
- b. If the equity-classified component is considered redeemable, the portion of the equity-classified component that is presented in temporary equity (if any) is measured as the excess of (1) the amount of cash (or other assets) that would be required to be paid to the holder upon a redemption or conversion over (2) the current carrying amount of the liability-classified component of the convertible debt instrument.
- c. There should be no incremental earnings per share accounting from the application of this SEC staff announcement. Statement 128 and its related interpretative guidance address the earnings per share accounting.<sup>17</sup>

44. The SEC staff views in paragraph 43 should be applied following the effective date, and using the transition provisions, described in FSP APB 14-1.

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<sup>16</sup> The SEC staff's views would also apply to other situations when a component of a convertible debt instrument is separately classified in stockholder's equity. A component of a convertible debt instrument may be separately classified in stockholder's equity pursuant to the guidance in Issue No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios," or Issue No. 06-7, "Issuer's Accounting for a Previously Bifurcated Conversion Option in a Convertible Debt Instrument When the Conversion Option No Longer Meets the Bifurcation Criteria in FASB Statement No. 133."

<sup>17</sup> Topic D-42 also does not apply to convertible debt instruments within the scope of FSP APB 14-1 because the application of Topic D-42 is limited to preferred stock instruments.