General Motors

Peter R. Bible
Chief Accounting Officer

Mail Code 482-C34-D71
300 GM Renaissance Center
Detroit, MI 48265-3000

July 14, 2004

Mr. Lawrence W. Smith
Chairman, Emerging Issues Task Force
and Director of Technical Application &
Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

Dear Mr. Smith:

General Motors (GM, we or our) wishes to comment on the tentative consensus reached by the Emerging Issues Task Force ("EITF") on Issue No. 04-8, *Accounting Issues Related to Certain Features of Contingently Convertible Debt and the Effect on Diluted Earnings per Share* ("EITF No. 04-8") at its July 2004 meeting. Contingently convertible debt restricts the conditions under which investors can convert into common stock. In GM's case, our contingently convertible debt does not permit conversion until the stock price exceeds 120% of the conversion price, among other contingencies.

GM has accounted for the dilutive effect of its contingently convertible debt by (i) considering the underlying shares to be contingently issuable and (ii) applying the if-converted method set forth in Statement of Financial Accounting Standards No. 128, *Earnings per Share* (SFAS No. 128) only when conversion is permitted. We disclose in Note 19 to our annual financial statements the number of shares underlying the contingently convertible debt and the fact that the shares have not been included in our diluted earnings per share calculation.

The relevant terms of GM's contingently convertible debt are as follows:

	GM 4.5% due '32	GM 5.25% due '32	GM 6.25% due '33
Tranche	Series A	Series B	Series C
Amount Outstanding ($ Millions)	$1,150	$2,600	$4,300
Coupon	4.50%	5.25%	6.25%
Stated Conversion Price	$70.20	$64.90	$47.62
Contingent Conversion Price	$84.24	$77.88	$57.14
Closing Market Value of GM Common on Date of Pricing	$59.92	$59.92	$35.94
Shares Underlying Convertible (Millions)	16.4	40.1	90.3

GM issued this contingently convertible debt primarily in conjunction with our initiative to fund GM's pension plans for hourly and salaried workers in the United States. These plans had become significantly underfunded as a result of the poor performance of global financial markets.

As set forth below, a large number of issuers have accessed the contingently convertible debt market over the last few years; however, the impact of the tentative consensus on EITF 04-8 is more pronounced for GM:

Issuer	Convert Size ($ Millions)	Total Shares Outstanding (Millions)	Underlying Shares (Millions)	Shares Underlying as % of Total
General Motors	$8,050	565	146.74	25.99%
Lucent Tech.	$1,631	4,285	506.76	11.83%
General Mills	$1,500	378	25.73	6.81%
Merrill Lynch & Co.	$4,651	958	57.90	6.04%
SLM Corp.	$2,000	439	30.31	6.91%
Halliburton Co.	$1,200	440	24.10	5.48%
International Paper	$1,000	487	17.58	3.61%
Cendant Corp.	$1,200	1,059	33.08	3.12%
Lockheed Martin	$1,000	448	12.05	2.69%
Medtronic, Inc.	$2,013	1,209	31.94	2.64%
American Express	$2,000	1,277	28.81	2.26%
Wells Fargo & Co.	$3,000	1,688	30.00	1.78%
Verizon Communications	$3,000	2,770	43.17	1.56%
Walt Disney Company	$1,323	2,110	31.60	1.50%
Wyeth	$1,020	1,338	18.16	1.36%
American Int'l Group	$1,000	2,633	10.83	0.41%

We are concerned with the tentative consensus on EITF 04-8 for two reasons. First and foremost, the contingent features represent substantive contingencies negotiated in deep and efficient markets in conjunction with the other terms of the debt instrument, such as coupon, tenor, put and call dates, as seen by variations of contingent conversion features across the market. Some have argued that the contingent conversion features contained in these securities are not substantive and serve only to circumvent the provisions of SFAS No. 128. GM believes that view discounts too heavily the economic consequences the contingent conversion features have on the initial pricing and the subsequent trading of the securities. The EITF may want to consult with investment banks on these valuation issues, but it would be hard to imagine the marketplace assigning value to a term of a security that was only intended for accounting consequences. GM believes that the current guidance in SFAS No. 128 under the if-converted method applied only when conversion is permitted (contingently issuable shares) best reflects the economic consequences to issuers of contingently convertible debt. Moreover, we see no basis within SFAS No. 128 to include all of the shares underlying the conversion feature in diluted earnings per share calculations.

Paragraphs 30 through 32 of SFAS No. 128 state, in pertinent part:

> Shares whose issuance is contingent upon the satisfaction of certain conditions shall be considered outstanding and included in the computation of diluted EPS as follows:
>
> a. If all necessary conditions have been satisfied by the end of the period….
> b. If all necessary conditions have not been satisfied by the end of the period, the number of contingently issuable shares included in diluted EPS shall be based on the number of shares, if any, that would be issuable if the end of the reporting period were the end of the contingency period…
>
> Paragraphs 31-34 provide general guidelines that shall be applied in determining the EPS impact of different types of contingencies…
>
> The number of shares contingently issuable may depend on the market price of the stock at a future date. In that case, computations of diluted EPS shall reflect the number of shares that would be issued based on the current market price at the end of the period being reported on if the effect is dilutive… (Footnote reference omitted)

As previously stated, GM believes the above guidance in conjunction with the if-converted method represents the best technical and economic measurement of diluted earnings per share for issuers of contingently convertible debt. We do not see a basis to differentiate between contingently issuable and contingently convertible shares because both would appear to encompass identical rights and obligations to both the issuer and the investor. As set forth in paragraph 119 of the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Concepts No. 2, *Qualitative Characteristics of Accounting Inflation*:

> … Greater comparability of accounting information … is not to be attained by making unlike things look alike any more than by making like things look different. The moral is that in seeking comparability accountants must not disguise real differences nor create false differences.

GM believes that there are real economic differences between convertible debt and contingently convertible debt to both the issuer and the investor that would not be recognized by the tentative consensus.

Our second concern is that, in reaching its tentative consensus on Issue No. 04-8, we believe that the EITF exceeded its authority. GM believes that the tentative consensus is a fundamental change to SFAS No. 128 and the manner in which it has been applied. If the prevailing view is that the tentative consensus should stand, we believe that it would require at least an FASB Staff Position and more likely an FASB Interpretation.

* * * * *

In closing, we ask that the EITF and the FASB recognize how earnings per share information is used by investors and analysts and exercise extra due care when promulgating standards that change this important measurement. We have learned time and again that markets do not always react rationally and it is important not to destroy shareholder value unless economic events warrant such an action.

We appreciate your consideration of our views as you deliberate EITF Issue No. 04-8. Please feel free to contact me at 313-667-3485 with any questions or observations that you may have.

Sincerely,

Peter R. Bible
Chief Accounting Officer