Interpretation of the Emerging Accounting Issues Working Group

INT 04-15: EITF 03-7: Accounting for the Settlement of the Equity-Settled Portion of a Convertible Debt Instrument That Permits or Requires the Conversion Spread to Be Settled in Stock (Instrument C of Issue No. 90-19)

ISSUE NULLIFIED BY SSAP NO. 15

INT 04-15 Dates Discussed

September 12, 2004; December 5, 2004

INT 04-15 References

SSAP No. 15—Debt and Holding Company Obligations (SSAP No. 15)

INT 04-15 Issue

1. *EITF 03-7, Accounting for the Settlement of the Equity-Settled Portion of a Convertible Debt Instrument That Permits or Requires the Conversion Spread to Be Settled in Stock (Instrument C of Issue No. 90-19)* (EITF 03-7) provides guidance on how the issuer should account for the partial cash-based and partial stock-based settlement of a debt instrument structured in the form of Instrument C as described in *EITF 90-19, Convertible Bonds with Issuer Option to Settle for Cash upon Conversion* (EITF 90-19) which was adopted by SSAP No. 15.

2. Instrument C is defined in EITF 90-19 as upon conversion, the issuer must satisfy the accreted value of the obligation (the amount accrued to the benefit of the holder exclusive of the conversion spread) in cash and may satisfy the conversion spread (the excess conversion value over the accreted value) in either cash or stock.

3. While the EITF 90-19 consensus provides guidance for the accounting of Instrument C at issuance, EITF 90-19 does not address the accounting at settlement for Instrument C. Further, current GAAP accounting guidance for convertible debt does not specifically address the settlement accounting for Instrument C. Questions have arisen in practice about the accounting for the excess of the conversion spread over the accreted value of the obligation at settlement. Therefore, this Issue addresses how the issuer should account at settlement for Instrument C if the issuer settles the conversion spread in stock. If settled in cash, the issuer would record a gain or loss based on the total cash consideration compared with the carrying amount of the debt.

4. The issue is how the issuer should account for the partial cash-based and partial stock-based settlement of a debt instrument structured in the form of Instrument C as described in Issue 90-19.

INT 04-15 Discussion

5. Per EITF 03-7:

> 7. The Task Force reached a consensus that upon settlement of a security with the characteristics of Instrument C in Issue 90-19 by payment of the accreted value of the obligation (recognized liability) in cash and settlement of the conversion spread (unrecognized equity instrument) with stock, only the cash payment should be considered in the computation of gain or loss on extinguishment of the recognized liability. That is, any shares transferred to settle the embedded equity instrument (referred to as the excess conversion spread in Issue 90-19) would not be considered in the settlement of the debt component.

6. The working group reached a consensus to adopt the EITF 03-7 position as an interpretation of SSAP No. 15.

INT 04-15 Status

7. No further discussion is planned.