

## PROPOSED CONSENSUS MODIFICATION

### Issue No. 05-7

**Title:** Accounting for Modifications to Conversion Options Embedded in Debt Securities and Related Issues

**Date Discussed:** March 16, 2006

At the September 15, 2005 EITF meeting, the Task Force reached a consensus in Issue 05-7 that an issuer should (1) include, upon modification of a convertible debt instrument, the change in fair value of the related embedded conversion option in the analysis to determine whether a debt instrument has been extinguished pursuant to EITF Issue No. 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments," (2) account for the affects of changes in the fair value of the related embedded conversion option in subsequent recognition of interest expense for the associated debt instrument, and (3) not recognize a beneficial conversion feature or reassess an existing beneficial conversion feature upon modification of the conversion option of a debt instrument.

Subsequent to Board ratification of Issue 05-7 on September 28, 2005, the FASB staff became aware of questions in practice about the applicability of Issue 05-7 to debt instruments that are modified to either add or eliminate an embedded conversion option (including a conversion option, in either the original or the modified instrument, that is required to be bifurcated from its host pursuant to FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*). The FASB staff believes that the scope of Issue 05-7 includes modifications to debt instruments that either add or eliminate an embedded conversion option. However, the FASB staff does not believe the scope of Issue 05-7 should include instruments with embedded conversion options, in either the original or the modified instrument, that are required to be bifurcated from their hosts pursuant to Statement 133 because the Task Force did not deliberate those types of instruments in this Issue. The FASB staff proposes that the following paragraph be added to the Status section of the abstract for Issue 05-7 to clarify the scope of Issue 05-7:

At the March 16, 2006 EITF meeting, the Task Force agreed to clarify that the consensus in Issue 05-7 also applies to a modification of a debt instrument that either adds or eliminates an embedded conversion option provided that the conversion option, in either the original or the modified instrument, is not required to be bifurcated from its host pursuant to Statement 133.