

Deferred Effective Date for Certain Provisions of Liabilities and Equity Project

Statement 150 was issued in May 2003 to conclude Phase 1 of the Board's liabilities and equity project. The Statement requires liability classification for the following financial instruments:

1. Mandatorily redeemable financial instruments
2. Obligations to repurchase the issuer's equity shares by transferring assets
3. Certain obligations to issue a variable number of shares.

In November 2003, the Board directed the staff to issue FASB Staff Position (FSP) FAS 150-3, "Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*." FSP FAS 150-3 defers the effective date for applying all or certain of the provisions of Statement 150 for certain mandatorily redeemable financial instruments. The Board directed the staff to issue the FSP for the following reasons:

First, implementation issues arose during the comment period for the proposed FSP and from several meetings with representatives of privately held businesses. Those constituents were concerned that the mandatorily redeemable provisions resulted in changes in their reported financial position and results of operations, in some cases reducing reported equity to zero or a deficit. Notwithstanding the special reporting requirements about those changes required by Statement 150, constituents said those changes were so fundamental that they would need additional time to communicate to and educate preparers and users of their financial statements.

Second, other commentators expressed concern about issues arising from the interrelationship between Statement 150's provisions for mandatorily redeemable noncontrolling interests and purchase accounting requirements that remained unresolved even as the provisions became effective.

Finally, the timing of the issuance and implementation of Statement 150 places additional burdens on the already limited resources of companies, especially smaller businesses.

During the indefinite deferral period, the Board plans to reconsider implementation issues, and perhaps classification or measurement guidance for those instruments, in conjunction with Phase 2 of the liabilities and equity project.

The first part of FSP FAS 150-3 addresses mandatorily redeemable financial instruments of certain nonpublic entities—those that are not registered with the Securities and Exchange Commission (SEC). This part of the FSP establishes two different deferrals.

Deferrals

1. The first deferral delays the effective date for instruments that are mandatorily redeemable on fixed dates for amounts that either are fixed or are determined by reference to an interest rate index, currency index or another external index by one year, so that, for those instruments, the provisions of Statement 150 are effective for fiscal periods beginning after December 15, 2004. An example of such an instrument is a share that will be redeemed on December 30, 2010, for \$10,000 along with any unpaid, but accrued, dividends.
2. For all other financial instruments that are mandatorily redeemable, the classification, measurement and disclosure provisions of Statement 150 are deferred indefinitely pending further Board action.

Although the disclosure requirements of Statement 150 do not apply for those mandatorily redeemable instruments of certain nonpublic companies during the deferral, those companies continue to be required to apply the provisions of FASB Statement No. 129, *Disclosure of Information about Capital Structure*. Under that guidance, companies must disclose the pertinent rights and privileges of the various securities outstanding, including mandatory redemption requirements.

Additionally, FSP FAS 150-3 explains that if an entity has issued shares together with a redemption agreement and the required redemption relates to those specific underlying shares, the shares are mandatorily redeemable and are eligible for the aforementioned deferrals.

**Disclosure requirements of Statement 150
continue to apply for entities having mandatorily
redeemable noncontrolling interests.**

The second part of FSP FAS 150-3 addresses certain mandatorily redeemable noncontrolling interests of all kinds of companies. (*Noncontrolling interests* in subsidiaries have been reported either as liabilities or as a separate kind of equity in consolidated financial statements. Many people know them better under an older name, *minority interests*. Statement 150 requires such instruments to be classified as liabilities.) This part of the FSP also defers the effective date in two ways:

1. The first deferral in this second part of FSP FAS 150-3 applies existing or newly created mandatorily redeemable noncontrolling interests that would not have to be classified as liabilities by the subsidiary, under the “only upon liquidation” exception in paragraph 9 of Statement 150, but would be classified as liabilities by the parent in consolidated financial statements. For those instruments, the classification and measurement provisions of Statement 150 are deferred indefinitely pending further Board action. The effective date for the provisions of Statement 150 requiring disclosures about those instruments is not deferred.

2. Finally, FSP FAS 150-3 defers indefinitely the effective date for the measurement provisions, but not the classification or disclosure provisions, of Statement 150 for all other mandatorily redeemable noncontrolling interests that were issued before November 5, 2003, both for the parent in consolidated financial statements and for the subsidiary that issued the instruments that resulted in the mandatorily redeemable noncontrolling interest. During the deferral period, such instruments must be classified as a liability but continue to be measured under other applicable guidance, such as in EITF Topic No. D-98, “Classification and Measurement of Redeemable Securities.”

Disclosure requirements of Statement 150 continue to apply for entities having mandatorily redeemable noncontrolling interests. Such a disclosure needs to include, among other requirements, the nature of the instrument and the amount of cash that would be paid if settlement occurred at the reporting date.

The document that makes all those changes, FSP FAS 150-3, is available on the FASB’s website, as is Statement 150 itself. A table of the revised Statement 150 effective dates is also available at the FASB’s website, in the liabilities and equity project update section.

Evolution of the Liabilities and Equity Project

The history of the project begins in a 1990 Discussion Memorandum, *Distinguishing between Liability and Equity Instruments and Accounting for Instruments with Characteristics of Both*. In 1997, the Board resumed deliberations on issues raised in that Discussion Memorandum resulting in the October 27, 2000 issuance of two FASB Exposure Drafts, *Accounting for Financial Instruments with Characteristics of Liabilities, Equity, or Both*, and *Proposed Amendment to FASB Concepts Statement No. 6 to Revise the Definition of Liabilities*. The Board began its redeliberations of the issues in the Exposure Drafts in light of comments received in December 2001.

In June 2002, the FASB decided to change the order of issues it would address in its redeliberations. The Board believed that rapid issuance of a limited scope Statement was needed to provide timely and necessary guidance for certain troublesome instruments, even though separation and conceptual issues affecting other instruments were not yet resolved. That led to the issuance of Statement 150 and, afterward, commencement on Phase 2 of the project.

The objectives of the liabilities and equity project are to (1) improve accounting and reporting by issuers of financial instruments that contain characteristics of equity and liabilities, assets or both and (2) amend and improve the definitions of liability, equity, and perhaps assets in FASB Concepts Statement No. 6, *Elements of Financial Statements*, such that decisions made in Statement 150 and Phase 2 of the project are consistent with those definitions.