

FASB STAFF POSITION

No. FAS 150-3

Title: 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*

Date Posted: November 7, 2003

The Board directed the FASB staff to issue this FASB Staff Position (FSP) deferring the effective date for applying the provisions of Statement 150 for:

1. Mandatorily redeemable financial instruments of certain nonpublic entities
2. Certain mandatorily redeemable noncontrolling interests.

The Board also directed the staff to set forth disclosure and transition guidance for entities that are subject to this deferral.

Background

Statement 150 as issued is effective for mandatorily redeemable financial instruments of nonpublic entities for the first fiscal period beginning after December 15, 2003. For mandatorily redeemable instruments of other entities, Statement 150 as issued is effective for financial instruments entered into or modified after May 31, 2003, and for all other instruments for interim periods beginning after June 15, 2003. Paragraph 9 requires that "a mandatorily redeemable financial instrument shall be classified as a liability *unless the redemption is required to occur only upon the liquidation or termination of the reporting entity*" (emphasis added). However, that "only upon liquidation" exception in paragraph 9 does not apply to financial instruments issued by subsidiaries in the consolidated financial statements of a parent of that entity. Many entities are concerned about the implications of applying those provisions of Statement 150 and have requested that the provisions be either changed or delayed to allow companies to adapt to those provisions and educate users of their financial statements. Additionally, some commentators have expressed concern about the interrelationship between Statement 150 and purchase accounting for mandatorily redeemable noncontrolling interests (for example, whether to apply or not apply step acquisition accounting when the interests are reclassified as liabilities or when they are redeemed). Others have expressed concern about implementation issues that remain unresolved as financial reports adopting Statement 150 are being completed. Those entities have also requested that those provisions of Statement 150 be changed or delayed.

Part 1—Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities

This FSP defers the effective date of Statement 150 for mandatorily redeemable financial instruments issued by nonpublic entities that are *not* Securities and Exchange Commission (SEC) registrants,¹ as follows:

- a. 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, the classification, measurement, and disclosure provisions of Statement 150 shall be effective for fiscal periods beginning after December 15, 2004
- b. 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. During that indefinite deferral, the Board plans to reconsider implementation issues and, perhaps, classification or measurement guidance for those instruments in conjunction with the Board's ongoing project on liabilities and equity.

Mandatorily redeemable financial instruments issued by SEC registrants are not eligible for either of those deferrals, even if the entity meets the definition of a nonpublic entity in Statement 150. Those entities shall follow the effective dates required by Statement 150 and related guidance, including the deferral for certain mandatorily redeemable noncontrolling interests in the second part of this FSP, as appropriate.

Some entities have issued shares that are required to be redeemed under related agreements. If the shares are issued with the redemption agreement and the required redemption relates to those specific underlying shares, the shares are mandatorily redeemable. If an entity with such shares and redemption agreement is a nonpublic entity that is not an SEC registrant, the effective date for those mandatorily redeemable shares is deferred by this FSP.

Although the disclosure requirements of Statement 150 do not apply for those mandatorily redeemable instruments of certain nonpublic companies while application of Statement 150 to those instruments is deferred, the requirements of FASB Statement No. 129, *Disclosure of Information about Capital Structure*, still apply. In particular, paragraph 4 of Statement 129 requires information about the pertinent rights and privileges of the various securities outstanding, which includes mandatory redemption requirements. Paragraph 8 also requires disclosure of the amount of redemption requirements for all issues of stock that are redeemable at fixed or determinable prices on fixed or determinable dates in each of the next five years.

¹ For purposes of this FSP, SEC registrants are entities, or entities that are controlled by entities, (a) that have issued or will issue debt or equity securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets), (b) that are required to file financial statements with the SEC, or (c) that provide financial statements for the purpose of issuing any class of securities in a public market.

Part 2—Certain Mandatorily Redeemable Noncontrolling Interests

This FSP defers the effective date of Statement 150 for certain mandatorily redeemable noncontrolling interests (of all entities, public and nonpublic) as follows:

- a. For 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, the classification and measurement provisions of Statement 150 are deferred indefinitely pending further Board action.
- b. For other mandatorily redeemable noncontrolling interests that were issued before November 5, 2003, the *measurement* provisions of Statement 150 are deferred indefinitely, both for the parent in consolidated financial statements and for the subsidiary that issued the instruments that result in the mandatorily redeemable noncontrolling interest, pending further Board action. For those instruments, the measurement guidance for redeemable shares and noncontrolling interests in other literature (for example, in *EITF Abstracts*, Topic No. D-98, "Classification and Measurement of Redeemable Securities") continues to apply during the deferral period. However, the *classification* provisions are not deferred.

The Board plans to reconsider implementation issues and, perhaps, classification or measurement guidance for those noncontrolling interests during the deferral period, in conjunction with the Board's ongoing projects on liabilities and equity and business combinations: purchase method procedures.

During the deferral period, all public entities as well as nonpublic entities that are SEC registrants are required to follow the disclosure requirements in paragraphs 26 and 27 of Statement 150 as well as disclosures required by other applicable guidance.

Part 3—Transition

For mandatorily redeemable financial instruments that were created before the effective date designated by Statement 150 (or in this FSP) for those instruments and that still exist at the beginning of the period in which Statement 150 is adopted for those instruments, transition shall be achieved by reporting the cumulative effect of a change in an accounting principle by initially measuring the financial instruments at fair value or other measurement attribute required by Statement 150. Paragraph A30 of Statement 150 provides more information about the initial measurement and cumulative effect entries upon transition.

Early adoption of the provisions of Statement 150 for instruments within the scope of the indefinite deferrals established by this FSP is precluded during the deferral period. Entities that already have adopted Statement 150 for instruments within the scope of that indefinite deferral shall reverse the effects of that adoption (including both the initial cumulative effect upon adoption and the subsequent recognition of related interest costs).

That reversal may be reported either by recognizing the cumulative effect of the reversal or by restating financial statements for periods presented subsequent to the original adoption of Statement 150. Those entities shall report that reversal in either (a) the period beginning after the final FSP is posted to the FASB website or (b) an earlier period, if the financial statements for that period have not been issued.