MINUTES

To:	Board Members
From:	Financial Instruments with Characteristics of Equity Team (Woo, x393)
Subject:	Minutes of March 11, 2010, Board Meeting: Financial Instruments with Characteristics of Equity
Date:	April 7, 2010
cc:	Leisenring, Bielstein, Golden, Bossio, Lott, McGarity, Klimek, Chookaszian, Posta, Guasp, Mills, Ampofo, Sangiuolo, Glotzer, C. Smith, Stoklosa, Proestakes, Sutay, Mechanick, Petrone, Hood, Davis, Woo, Gabriele, Finden (GASB), Liz Figgie (IASB), Gavin Francis (IASB), Joanna Yeoh (IASB), FASB Intranet

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue an Accounting Standards Update or a Statement of Financial Accounting Concepts.

Topic: Financial Instruments with Characteristics of Equity

Basis for Discussion: Memos 89, 90, 91, and 92

Length of Discussion: 11:00 AM to 12:30 PM

Attendance:

Board members present: FASB: Herz, Linsmeier, Seidman, Siegel, Smith

IASB: Tweedie, Cooper, Danjou, Engström, Finnegan, Gélard, Gomes, Kalavacherla,

	Leisenring, McConnell, McGregor, Smith, Yamada, Zhang
Board members absent:	IASB: Garnett
Staff in charge of topic:	FASB: Switter
Other staff at Board table:	FASB: Davis, Lott and Woo
	IASB: Francis, Lark, Yeoh
Outside participants:	None

Type of Document and Timing Based on the Technical Plan:

The Board met to discuss issues relating to the development of an Exposure Draft addressing financial instruments with characteristics of equity.

The Board's technical plan calls for that Exposure Draft to be issued in June 2010.

Summary of Decisions Reached:

The Boards decided the following:

Accounting for Conversion or Settlement of Convertible Debt and Exercises of Options

Shares issued upon exercise of written call options should be reported at their fair values on the issuance date (current trading price if available). If the option has been classified as equity, the difference between the fair value of the shares and the carrying value of the option plus the cash received should be reported in the statement of stockholders' equity. If the instrument that is being exercised is classified as a liability, the difference between the fair value of the shares and the carrying value of the instrument should be reported in net income.

Shares issued upon conversion of convertible debt should be reported at their fair values on the issuance date (current trading price if available). If the convertible debt has been separated into liability and equity components, a gain or loss should be recognized equal to the difference between the carrying value of the liability component and the fair value of that component (which is equal to the fair value of a comparable freestanding instrument without an equity component). The remainder of the fair value of the shares issued (the total fair value of the shares less the fair value of the liability component) should be reported in equity. (FASB: unanimous, IASB: 11 to 3)

Reassessment of Classification

An instrument should be reclassified if events occur or circumstances change so that the instrument no longer meets the conditions for its existing classification. The reclassification should take place as of the date of the event that changed the classification.
An entity should immediately remeasure a reclassified instrument according to the requirements for the new classification as if it were a newly issued instrument on the date of reclassification. If an instrument classified as equity is reclassified as a liability, the difference between the carrying value before the reclassification and the measurement after reclassification should be reported as an adjustment to equity. If an instrument classified as a liability is reclassified as equity, the difference between the carrying value before the reclassification and the measurement after reclassification should reported as a gain or loss in income. There is no limit on the amount of times an instrument may be reclassified.

If an instrument is required to be reclassified, the issuer should disclose a description of the instrument, the amount that was reclassified, and the reason for reclassification. (FASB: unanimous, IASB: unanimous)

Economic Compulsion

Economic compulsion (as distinguished from expressed or implied contractual obligations) should not be considered in determining an instrument's classification. (FASB: 3 to 2, IASB: 9 to 5)

Fair Value Option

An issuer may not avoid separation of an instrument with a liability and equity component by electing the fair value option for the instrument in its entirety. (FASB: unanimous, IASB: unanimous)

Scope

The proposed requirements would apply to all financial instruments except:

1. Interests in subsidiaries, associates, or joint ventures that are accounted for under other standards
2. Employers' rights and obligations under employee benefit plans
3. Insurance contracts accounted for under other standards
4. Share-based payment awards accounted for under IFRS 2, *Share-based Payment,* and *FASB Accounting Standards Codification*™ Topic 718, Compensation—Stock Compensation.

The proposed standard would also apply to contracts to buy or sell a nonfinancial item that can be settled in net cash or another financial instrument or by exchanging financial instruments. (FASB: unanimous, IASB: unanimous)

Transition

An entity would apply the proposed requirements to all instruments outstanding at the beginning of the first period presented in the financial statements for the period of adoption. Net income would be restated for all periods presented. If the proposed requirements result in an instrument being reclassified from a liability to equity, any measurement change upon reclassification should result in an adjustment to beginning retained earnings. If the proposed requirements result in an instrument being reclassified from equity to a liability, any measurement change upon reclassification should result in an adjustment to equity. (FASB: unanimous, IASB: unanimous)

Disclosures

An entity should disclose the nature and terms of instruments with settlement alternatives—liability or asset instruments. That disclosure should include:

1. The identity of the entity that controls the settlement alternatives
2. The amount that would be paid, or the number of shares that would be issued and their fair value, determined under the conditions specified in the contract if the settlement were to occur at the reporting date
3. How changes in the fair value of the issuer's equity shares would affect those settlement amounts (for example, "the issuer is obligated to issue an additional X shares or pay an additional Y dollars in cash for each $1 decrease in the fair value of one share")
4. The maximum amount that the issuer could be required to pay to redeem the instrument by physical settlement, if applicable
5. The maximum number of shares that could be required to be issued, if applicable
6. That a contract does not limit the amount that the issuer could be required to pay or the number of shares that the issuer could be required to issue, if applicable
7. For a forward contract or an option indexed to the issuer's equity shares, all of the following:

   a. The forward price or option strike price

   b. The number of issuer's shares to which the contract is indexed

   c. The settlement date or dates of the contract, as applicable.

(FASB: unanimous, IASB: unanimous)

In addition, a public company should present a statement of capitalization at fair value. The statement would show the beginning balance plus issuances less repurchases or expirations plus (or minus) changes in fair values of equity instruments and long-term debt instruments. (FASB: 4 to 1, IASB: 7 to 7)

Comment Period

The comment period will be approximately 120 days. (FASB: unanimous, IASB: unanimous)

<u>General Announcements</u>: The Boards directed the staff to begin drafting an Exposure Draft on reporting financial instruments with characteristics of equity for vote by written ballot.