

MINUTES



MEMORANDUM

**To:** Board Members

**From:** Distinguishing Liabilities from Equity Team (Stansel x264)

**Subject:** Minutes of June 6, 2018 Board Meeting on Distinguishing Liabilities and Equity (Including Convertible Debt) **Date:** June 21, 2018

**cc:** Tosches

*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: Distinguishing Liabilities from Equity (Including Convertible Debt)

Basis for Discussion: FASB Memo 8, *Cover Memo*, FASB Memo 9, *Convertible Instruments—Summary of Current Accounting Guidance*, FASB Memo 10, *Convertible Instruments—Potential Paths*, and FASB Memo 11, *Indexation—Project Direction*

Length of Discussion: 10:10 a.m. to 11:20 a.m.

Attendance:

Board members present: Golden, Kroeker, Botosan, Hunt, Schroeder, and Siegel

Board members absent: None

Staff in charge of topic: Mazzella

Other staff at Board table: Kuhaneck, Friend, Cheng, and Stansel,

Outside participants: Buesser (incoming July 2018 Board member)

**Type of Document and Timing Based on the Technical Plan:**

The Board met to discuss issues relating to the accounting for instruments with characteristics of liabilities and equity (including convertible debt). The Board has yet to determine the timing of a due-process document.

**Tentative Board Decisions:**

The Board began deliberations by discussing the direction of the project as it relates to the paths for (1) accounting for convertible instruments and (2) determining whether instruments are indexed to an entity's own stock (referred to as indexation) within the context of the derivative scope exception.

*Convertible Instruments*

The Board directed the staff to further research convertible instruments. The research will focus on accounting for convertible instruments with embedded conversion features as a single unit of account based on the model for traditional convertible debt. Convertible instruments with embedded conversion features that meet the definition of a derivative and that are ineligible for the derivative scope exception are outside the scope of the research. The research also will focus on how to improve disclosures and provide information about earnings per share.

(Vote: 6-0)

*Indexation*

The Board directed the staff to further research the classification, disclosures, and earnings per share related to the following paths for determining whether a contract is indexed to an entity's own stock within the context of the derivative scope exception:

1. Monetary value. An instrument (or feature) would not be indexed to an entity's own stock if the monetary value of the obligation is based solely or predominantly on a fixed monetary amount or variations in something other than the fair value of the entity's shares.
2. Antidilution. An instrument (or embedded feature) would be considered indexed to an entity's own stock if its settlement amount will equal the difference between (a) the fair value of a fixed number of the entity's equity shares and (b) a fixed monetary amount or a fixed amount of a debt instrument issued by the entity. If the instrument's strike price, or the number of shares, used to calculate the settlement amount is variable, the instrument (or embedded feature) would be indexed to the entity's own stock if the only variables that could affect the settlement amount would be a standard antidilution provision.

**General Announcements:** None