

MINUTES



MEMORANDUM

**To:** Board Members  
**From:** Liabilities and Equity Team  
**Subject:** September 16, 2015 Board Meeting—Liabilities and Equity—Targeted Improvements Minutes of Board Meeting  
**Date:** September 18, 2015  
**cc:** Stacey Sutay

*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: Liabilities and Equity—Targeted Improvements

Basis for Discussion: FASB Memo No. 8—Cover Memo  
FASB Memo No. 9—Accounting for Financial Instruments with Down Round Features  
FASB Memo No. 10—Indefinite deferral in Topic 480 related to mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests (formerly FSP FAS 150-3)  
FASB Memo No. 11—Cost Benefit Analysis and Permission to Draft Proposed ASU

Length of Discussion: 11:00 a.m. to 12:00 p.m.

Attendance:

Board members present: Golden, Kroeker, Buck, Schroeder, Siegel, and Smith

Board members absent: Linsmeier

Staff in charge of topic: Mazzella and Sangiuolo

Other staff at Board table: Cospers and Wiley

Outside participants: None

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

The Board directed the staff to draft a proposed Accounting Standards Update for a vote by written ballot.

**Tentative Board Decisions:**

The Board discussed the accounting for (1) equity-linked financial instruments containing “down round” features and (2) the indefinite deferral of Topic 480, Distinguishing Liabilities from Equity, for mandatorily redeemable financial instruments for certain nonpublic entities and certain mandatorily redeemable noncontrolling interests.

*Accounting for Instruments with Down-Round Features*

The Board decided to change the accounting for an equity-linked financial instrument with a down-round feature.

(Vote: 5 to 2)

A down-round feature is a provision in an equity-linked financial instrument, such as a warrant or a convertible instrument, that provides for a downward adjustment of the exercise price specified in the contract in certain circumstances. The Board decided that in determining whether the instrument should be classified as a liability or equity instrument, an entity would not consider the down-round feature when assessing whether the instrument is indexed to its own stock. However, the effect of the feature would be recognized when the feature is triggered, as follows:

1. For a financial instrument classified as equity, the fair value of the effect of the down-round feature would be recognized in equity as a deemed dividend.
2. For a financial instrument classified as a liability, the fair value of the effect of the down-round feature, when triggered, would be recognized through a charge to net income.

(Vote: 6 to 1)

The Board decided that instruments included in the scope of this guidance are those that give the holder the option to purchase equity shares at a fixed strike price that would be reduced if the entity sells shares of its common stock for an amount less than the initial strike price or issues an equity-linked financial instrument with a strike price below the initial strike price of the instrument.

(Vote: unanimous)

For financial instruments with down-round features that have been triggered during the reporting period, the Board decided that an entity would disclose that the feature has been triggered and where the effect of the down-round feature is recorded (that is, retained earnings or earnings).

(Vote: unanimous)

The Board decided to require entities to transition to the proposed guidance by applying the proposed guidance to outstanding instruments as of the effective date of the change, with no adjustments to prior periods presented (a cumulative-effect approach). The cumulative effect of the change would be recognized as an adjustment of the opening balance of retained earnings in the annual or interim period of adoption.

(Vote: 6 to 1)

The Board decided that entities would not be required to provide the transition disclosures in paragraphs 250-10-50-1(b)(2) and 50-3 of Topic 250, Accounting Changes and Error Corrections, in the period of adoption.

(Vote: unanimous)

*Indefinite Deferral in Topic 480 Related to Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests*

The Board decided to replace the indefinite deferral in Topic 480 with a scope exception in order to improve the readability of the *FASB Accounting Standards Codification*<sup>®</sup>.

(Vote: 6 to 1)

The scope exception will be defined using the current scope of the deferral, based on a “nonpublic entity that is not an SEC registrant” and the U.S. Securities and Exchange Commission (SEC) registrant definition in Topic 480.

(Vote: 6 to 1)

*Comment Period*

The Board decided to expose these proposed changes for at least 60 days, providing a comment period ending no earlier than February 16, 2016.

*Next Steps*

The Board directed the staff to draft a proposed Accounting Standards Update for a vote by written ballot.

(Vote: 6 to 1)

**General Announcements:** None