MINUTES

To: FASB Board Members

From: Financial Instruments with Characteristics of Equity Team
(Woo x393)

Subject: Minutes of the February 18, 2010, Joint Board Meeting: Financial Instruments with Characteristics of Equity

Date: February 19, 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 a final Accounting Standards Update.

Topic:	Remaining classification issues
Basis for Discussion:	FASB Memos 85, 86, 87, 88 IASB Agenda Papers 15, 15A, 15B, 15C
Length of Discussion:	8:30–10:00 a.m. (EST)
Attendance:	
FASB Board members present:	Herz, Siegel, Linsmeier, L. Smith
IASB Board members present:	Tweedie, Cooper, Danjou, Engstöm, Finnegan, Garnett, Gélard, Gomes, Kalavacherla, Leisenring, McConnell, McGregor, J. Smith, Yamada, Zhang
FASB Board members absent:	Seidman
Staff in charge of topic:	Switter

Other staff at Board table: Davis, Golden, Lott, Upton (IASB), Woo

Summary of Decisions Reached:

The Boards affirmed their support for the following key classification decisions:

1. Instruments currently accounted for under IFRS 2, *Share-based Payment*, and *FASB Accounting Standards Codification*™ Topic 718, Compensation—Stock Compensation (originally issued as FASB Statement No. 123 (revised 2004), *Share-Based Payment)*, are not within the scope of this project.
2. The following types of instruments should be equity in their entirety:
   a. Perpetual instruments (instruments not required to be redeemed unless the entity decides to or is forced to liquidate its assets and settle claims against the entity) issued by entities without specified limits to their lives. (That includes both ordinary and preferred shares.)
   b. Mandatorily redeemable and puttable instruments that meet either of the following criteria:
      i. The instrument's terms require, or permit the holder or issuer to require, redemption to allow an existing group of shareholders, partners, or other participants to maintain control of the entity when one of them chooses to withdraw.
      ii. The holder must own the instrument in order to engage in transactions with the entity or otherwise participate in the activities of the entity, and the instrument's terms require, or permit the holder or issuer to require, redemption when the holder ceases to engage in transactions or otherwise participate.
3. All other mandatorily redeemable instruments (instruments that an entity is required to redeem on a certain date or on the occurrence of an event that is certain to occur) should be classified as liabilities.
4. Contracts that require or may require an entity to issue a specified number of its own perpetual equity instruments in exchange for a specified price (for example, call options, forward contracts to issue shares, rights issues, and purchase warrants) should be classified as equity. For this purpose, the specified number must be either fixed or vary only so that the counterparty will receive a specified percentage of total shares that were outstanding on the issuance date for a specified price. The specified price must be fixed in the reporting entity's currency unless the domestic currency of the shareholder that holds the derivative (or functional currency if the shareholder is a reporting entity or a unit of a reporting entity) is different from the currency in which the issuing entity issues equity instruments to domestic shareholders. In that case, the price may be

specified in the currency of the shareholder instead of in the currency of the issuer.

5. Instruments that require an entity to issue a specified number of its own perpetual equity instruments for no further compensation should be classified as equity (for example, prepaid forward contracts to issue shares).
6. The entity's ability to issue its own perpetual equity instruments to settle share-settled instruments classified as equity should be assessed at the date that each instrument is issued and at each reporting date thereafter. If, at any time, the entity does not have enough authorized shares to settle a share-settled instrument classified as equity, that instrument should be reclassified as a liability and left there for the remainder of its life.
7. Preferred shares required to be converted into a specified number of common shares on a specified date or on the occurrence of an event that is certain to occur should be classified as equity.
8. Contracts that require an entity to repurchase its own shares on a specified date or on the occurrence of an event that is certain to occur should be separated into a liability representing the amount to be paid (measured according to standards for similar freestanding instruments) and an offsetting debit to equity (grossed up).

Equity instruments

The Boards decided that the following types of instruments should be classified as equity:

1. A nominally perpetual instrument issued by an entity with a specified limit on its life or that must be liquidated at the option of an instrument holder. (That means an instrument that would otherwise be equity will not become a liability merely because it is issued by an entity that is not or may not be able to continue to exist indefinitely.)
2. A contract that requires an entity to issue for a specified price (or for no future consideration) a specified number of puttable or mandatorily redeemable instruments that will be equity in their entirety when issued. Examples are a forward contract to issue mandatorily redeemable equity instruments and an identical forward contract that has been prepaid.
3. A contract that requires the entity to issue for a specified price (or for no future consideration) a specified number of derivatives that will require the entity to issue a specified number of instruments that will be equity in their entirety when issued. Examples are a forward contract to issue a written call option on the entity's own shares and an identical forward contract that has been prepaid.
4. Preferred shares that are required to be converted into a specified number of perpetual equity instruments.

5. Preferred shares that are required to be converted into a specified number of puttable or mandatorily redeemable instruments that will be equity in their entirety when issued.

Convertible debt

The Boards decided that a bond (or other debt instrument) should be separated into a liability component and an equity component if it is convertible at the option of the holder into a specified number of instruments that will be equity in their entirety when issued. All other convertible debt instruments should be classified as liabilities in their entirety.

Puttable shares (shares that are redeemable at the option of the holder)

Puttable shares that are not classified as equity in their entirety should be separated into liability and equity components. The liability component, which represents a written put option, should be accounted for as a freestanding written put option.

Presentation of freestanding written put options

A freestanding written put option should be presented net as a liability in its entirety.

Classification of subsidiary instruments in consolidated financial statements

Equity classification in a subsidiary's financial statements should carry forward into consolidated financial statements unless the nature of the instrument changes in consolidation because of arrangements between the instrument holder and another member of the consolidated group. If the nature of the instrument changes in consolidation, classification should be reconsidered in the consolidated financial statements.

Follow-up Items:

None.

General Announcements:

None.