

MINUTES



MEMORANDUM

**To:** Board Members

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

**Subject:** Minutes of June 19, 2019 Board Meeting on Distinguishing Liabilities and Equity (Including Convertible Debt)      **Date:** June 21, 2019

**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 27, *External Review, Sweep Issues, Comment Period, and Cost-Benefit Analysis*; Appendix A, *External Review Comment Log*; and Appendix B, *Summary of External Review Comments*

Length of Discussion: 9:45 a.m. to 10:37 a.m. EDT

Attendance:

Board members present: Golden, Kroeker, Botosan, Buesser, Cosper, Hunt, and Schroeder

Staff in charge of topic: Mazzella

Other staff at Board table: Kuhaneck, Friend, Cheng, Olcott, and Cole

Outside participants: None

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

The Board met to discuss issues addressing the development of an Exposure Draft on the accounting for instruments with characteristics of liabilities and equity (including convertible debt).

The Board's technical plan calls for that document to be issued in the third quarter of 2019.

**Tentative Board Decisions:**

The Board deliberated sweep issues and decided to:

1. Modify the scope of Section 815-40-50, Derivatives and Hedging—Contracts in Entity's Own Equity—Disclosure, to apply only to freestanding instruments. Embedded features would not be subject to Section 815-40-50 requirements.  
**(Vote: 7-0)**
2. Retain the existing language related to the disclosure frequency for convertible instruments in Section 470-20-50, Debt—Debt with Conversion and Other Options—Disclosure.  
**(Vote: 7-0)**
3. Clarify that an entity should use the average share price when calculating the diluted earnings-per-share denominator for contracts if there is variability in the pricing or number of shares that would be issued.  
**(Vote: 7-0)**
4. Reverse its prior decision to make a technical correction to paragraph 470-20-25-2 that would have clarified that an entity should consider Topics 480, Distinguishing Liabilities from Equity, and 815, Derivatives and Hedging, for the classification of the detachable stock purchase warrant.  
**(Vote: 7-0)**
5. Clarify that the remote threshold in Section 815-40-25, Derivatives and Hedging—Contracts in Entity's Own Equity—Recognition, applies to the likelihood of the occurrence of contingent events that could cause net cash settlement, not to the likelihood of net cash settlement.  
**(Vote: 7-0)**

6. Clarify that penalty payments, if the entity fails to make timely filings with the U.S. Securities and Exchange Commission, would not preclude equity classification under paragraph 815-40-25-10(d) because they would not result in settlement of a contract.

**(Vote: 7-0)**

*Analysis of Costs and Benefits*

The Board concluded that it has received sufficient information and analysis to make an informed decision on the perceived costs of the changes and that the expected benefits would justify the expected costs of the amendments in the proposed Update.

**(Vote: 5-2)**

*Next Steps*

The Board directed the staff to draft a proposed Accounting Standards Update for vote by written ballot, with a comment period of 75 days.

**(Vote: 5-2)**

**General Announcements:** None