

MINUTES



MEMORANDUM

To: Board Members

From: Distinguishing Liabilities from Equity Team (Japhet x443)

Subject: Minutes of December 11, 2019 Board Meeting on Distinguishing Liabilities and Equity (Including Convertible Debt) **Date:** December 13, 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 30, “Comment Letter Feedback Summary”

FASB Memo 31, “Project Direction and Redeliberations Plan”

Length of Discussion: 9:00 a.m. to 9:55 a.m. EST

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, Cole, and Japhet

Outside participants: None

Type of Document and Timing Based on the Technical Plan:

The Board discussed comment letter feedback on the proposed Accounting Standards Update, *Debt—Debt with Conversion and Other Options (Subtopic 470-20)* and *Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity*, and began redeliberations.

Please refer to the current technical plan for information about project deadlines.

Tentative Board Decisions:

The Board affirmed the following decisions:

1. To account for convertible instruments as a single unit of account, except in circumstances in which the conversion features are required to be bifurcated by the guidance in Topic 815, Derivatives and Hedging
(Vote: 7-0)
2. To remove an entity’s ability to overcome the presumption about share settlement when calculating diluted earnings per share (EPS) for a contract that may be settled in either cash or shares
(Vote: 7-0)
3. To remove the following settlement criteria from Section 815-40-25, Derivatives and Hedging—Contracts in Entity’s Own Equity—Recognition:
 - a. Condition regarding settlement in unregistered shares in paragraph 815-40-25-10(a)
(Vote: 7-0)
 - b. Collateral condition in paragraph 815-40-25-10(g)
(Vote: 6-1)
 - c. Shareholder rights condition in paragraph 815-40-25-10(f).
(Vote: 5-2)

The Board directed the staff not to conduct any further research on the following:

1. Fair value disclosures for all equity-classified instruments
(Vote: 6-1)
2. The effect of antidilutive instruments on the diluted EPS calculation
(Vote: 7-0)

3. EPS improvements included in the comment letter responses that are beyond the scope of the amendments included in the proposed Update.
(Vote: 7-0)

Next Steps

The Board directed the staff to continue developing a remote likelihood threshold for purposes of determining the classification of a contract in an entity's own equity when applying the derivatives scope exception.

(Vote: 5-2)

The Board plans to continue redeliberations in the first quarter of 2020.

General Announcements: None