

Distinguishing Liabilities from Equity Phase 2 Tentative Board Decisions to Date As of February 3, 2021

The Tentative Board Decisions to date is provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Accounting Standards Update.

Topic	Decisions Reached	Meeting Date
Initial Deliberations		
<i>Project Direction and Scope</i>	<p>The Board decided that the project scope should include the following instruments and features:</p> <ol style="list-style-type: none"> 1. Freestanding financial instruments that have all the characteristics of a derivative instrument 2. Freestanding instruments that potentially are settled in an entity's own stock, regardless of whether the instrument has all the characteristics of a derivative instrument 3. Embedded features that have the characteristics of a derivative instrument. <p>The Board also decided that the project scope should include both Step 1 (contingent exercise provisions) and Step 2 (settlement provisions) of the indexation guidance in Subtopic 815-40, Derivatives and Hedging—Contracts in Entity's Own Equity.</p> <p>Additionally, the Board directed the staff to develop alternatives for indexation guidance that focus on:</p> <ol style="list-style-type: none"> 1. Both a qualitative principle and a quantitative threshold, rather than alternatives that are solely qualitative or quantitative in nature 	February 3, 2021

	<ol style="list-style-type: none"> 2. Instruments or features that are <i>not indexed</i> to an entity's own equity, rather than instruments or features that are <i>indexed</i> to an entity's own equity. 	
<i>Project Objective and Scope</i>	<ol style="list-style-type: none"> 1. The Board decided that the project objective is to improve and align the two existing indexation models used to evaluate financial instruments with characteristics of equity by developing an indexation principle to reduce inconsistencies across GAAP. The scope of the project includes the indexation guidance in Topic 480, Distinguishing Liabilities from Equity, and Subtopic 815-40, Derivatives and Hedging—Contracts in Entity's Own Equity. 	August 26, 2020
<i>Agenda Decision</i>	<p>The Board decided to:</p> <ol style="list-style-type: none"> 1. Remove from the scope of the Phase 1 project proposed amendments that would have added a remote likelihood threshold to existing guidance in Section 815-40-15 and changed the reassessment frequency and disclosures. 2. Add a separate project to its technical agenda (Phase 2) to explore improvements to aspects of the derivatives scope exception guidance in Subtopic 815-40. The objective and scope of this separate project will be discussed at a future Board meeting. 	February 5, 2020