

MINUTES



MEMORANDUM

To: Board Members
From: Hitchcock (x384)
Phua (x205)
Subject: Minutes of the September 16, 2020 Board Meeting: EITF Ratification
Date: September 21, 2020
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: Board ratification of the consensus-for-exposure reached on EITF Issue No. 19-C

Basis for Discussion: EITF Ratification Memorandum

Length of Discussion: 9:00am to 9:09am

Attendance:

Board members present: Jones, Kroeker, Botosan, Buesser, Cospers, Hunt, and Schroeder

Board members absent: None

Staff in charge of topic: Gwinn

Other staff at Board table: Salo, Kuhaneck, Casas, Yates, Phua, and Hitchcock

Outside participants: None

Type of Document and Timing Based on the Technical Plan:

The Board met to discuss the issuance of a proposed Update resulting from the consensus-for-exposure reached on EITF Issue No. 19-C, “Warrant Modifications: Issuers’ Accounting for Modifications of Equity Classified Freestanding Call Options That Are Not within the Scope of Topic 718, Compensation—Stock Compensation, or Topic 815, Derivatives and Hedging.”

Tentative Board Decisions:

Ratification of an EITF consensus-for-exposure. The Board ratified the following consensus-for-exposure reached by the EITF at its September 3, 2020 meeting and directed the staff to draft a proposed Accounting Standards Update reflecting the consensus-for-exposure for vote by written ballot.

(Vote: 7-0)

Issue No. 19-C, “Warrant Modifications: Issuers’ Accounting for Modifications of Equity Classified Freestanding Call Options That Are Not within the Scope of Topic 718, Compensation—Stock Compensation, or Topic 815, Derivatives and Hedging”

The Task Force reached a consensus-for-exposure to expand the scope of this Issue to include modifications of all freestanding equity-classified derivative instruments that remain equity classified after modification.

The Task Force reached a consensus-for-exposure that an entity should treat a modification of the terms or conditions of a freestanding equity-classified derivative instrument as an exchange of the original instrument for a new instrument. The Task Force also reached a consensus-for-exposure that an entity should measure the effect of a modification of a freestanding equity-classified derivative instrument as the excess, if any, of the fair value of the modified instrument over the fair value of the original instrument immediately before its terms are modified.

The Task Force reached a consensus-for-exposure that an entity should recognize the effect of a modification of a freestanding equity-classified derivative instrument based on the substance of the transaction as follows:

1. Scenario A: *Financing Transaction to Raise Equity*. An equity issuance cost in accordance with the guidance in paragraph 340-10-S99-1.
2. Scenario B: *Financing Transaction to Raise or Modify Debt*. An expense in accordance with the guidance in Topic 470, Debt, and Topic 835, Interest.

3. Scenario C: *Transaction to Compensate for Goods or Services*. Compensation cost in accordance with the guidance in Topic 718.
4. Scenario D: *Other Modifications That Are Not Related to Financings or Compensation for Goods or Services*. A dividend.

The Task Force reached a consensus-for-exposure that an entity would have the option to apply the amendments in the proposed Update on a prospective or a full retrospective basis. The Task Force also reached a consensus-for-exposure that an entity would provide transition disclosures in accordance with Topic 250, Accounting Changes and Error Corrections, excluding the disclosure requirements in paragraphs 250-10-50-1(b)(2) and 250-10-50-3. In addition, the Task Force reached a consensus-for-exposure not to require any recurring disclosures related to modifications within the scope of this Issue.

The Board decided to provide a 60-day comment period for the proposed Update.

(Vote: 7-0)

General Announcements: None.