

Liabilities & Equity—Targeted Improvements: Down Rounds

Private Company Council Meeting
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Topic 6



FINANCIAL
ACCOUNTING
STANDARDS BOARD



Liabilities and Equity—Targeted Improvements: Down Rounds

Scope: Instrument that gives the holder the option to purchase equity shares at a fixed strike price that would be reduced if the entity sells shares of its common stock for an amount less than the initial strike price or issues an equity-linked financial instrument with a strike price below the initial strike price of the instrument

	Current Accounting	Proposed Accounting
Classification	Liability	Down round does not impact classification; May be equity or liability based on instrument and other features
Initial Measurement	Fair Value	No accounting for the down round feature on Day 1...accounting for instrument depends on whether it's equity or liability classified
Subsequent Measurement	Fair value; P&L Impact	Only account for the down round feature when triggered: If equity classified, then deemed a dividend If liability classified, then P&L impact