# Chart of Principles for the Ownership-Settlement Approach

## Linking Instruments

**1. Linking Instruments**—A reporting entity should link (account for as a single instrument) two or more instruments that are part of the same arrangement if accounting for the instruments individually differs from accounting for them as if they were a single instrument with the same or similar outcome (or possible outcomes). A linked group of instruments should be classified, measured, and displayed as if it were a single instrument, which includes possible separation into an equity component and a nonequity component under Principle 4.

## Classification

**2. Substantive Features**—An entity should classify a single instrument, a linked group of instruments (as described in Principle 1), or a component of an instrument (as described in Principle 4) in the same manner as another instrument with the same or similar outcome (or set of possible outcomes with the same or similar probabilities of occurrence). To do so, an entity should consider substantive settlement features (stated or unstated) and ignore any settlement features that are not substantive.

**3. Equity Instruments**—An equity instrument represents an ownership interest of a reporting entity and is determined by the type of return the instrument conveys to the counterparty and the settlement outcome. An equity instrument may be a single instrument or a component of an instrument (identified based on differing outcomes and payoffs at settlement). There are three types of equity instruments: (a) a perpetual instrument issued by the reporting entity, (b) a direct ownership instrument issued by the reporting entity, and (c) an indirect ownership instrument issued or held by the reporting entity that is based on and will be settled with the same direct ownership instrument or instruments.

**4. Separation of Components**—An instrument is separated into equity and nonequity components if it (a) embodies an obligation and (b) has both equity and nonequity outcomes with differing counterparty payoffs at the outcome date. No instrument should be separated into more than two components. A separated component of an instrument should be classified and displayed as if it were a single instrument and measured under the requirements described in Principles 6–10.

**5. Other Instruments**—All other instruments that are not equity instruments or are not separated into equity and nonequity components are classified as liabilities or assets in their entirety.

## Measurement and Display

**6. Initial Measurement: Single Instruments**—An instrument that is equity or nonequity in its entirety should be initially measured at its transaction price, which, for assets and liabilities is generally its fair value. The transaction price does not include issuance costs or any unstated rights or privileges whether they are included in the price quoted by the seller (to the buyer) or billed and paid separately.

**7. Initial Measurement: Separated Components**—The initial measurement of the two components of a separated instrument should always sum up to the transaction price of the entire instrument as described in Principle 6. In dividing that total transaction price between the two components, an entity should first determine the fair value of a hypothetical nonequity instrument with terms that would produce the same or a similar outcome as the separated nonequity component. The separated nonequity component is initially measured at that amount (which is the component's hypothetical transaction price). The equity component is measured by deducting the amount assigned to the nonequity component from the transaction price of the instrument as a whole.

**8. Separate Reporting Within Equity**—Equity instruments or components that may be settled with cash or other assets should be reported under a separate heading within equity from equity instruments that are perpetual or settled with other equity instruments. Measurement requirements are described in Principle 9.

**9. Subsequent Measurement: Equity Instruments**—An equity instrument or component that may be settled with cash or other assets is remeasured at each reporting period. The subsequent measurement attribute is the current settlement value—the fair value of the consideration that would be paid if the instrument were settled according to its terms at the reporting date. Other equity instruments are not remeasured unless required by another accounting standard.

**10. Subsequent Measurement: Nonequity Instruments**—Nonequity instruments or components with varying payoffs at settlement should be remeasured at fair value at each reporting period. Other nonequity instruments or components should also be remeasured at fair value at each reporting period unless a different attribute is specified by another accounting standard.

## Reassessment and Extinguishment

**11. Reassessment of Classification**—An instrument should be reassessed at each reporting date to determine if the previous classification is still appropriate. No gain or loss is recognized as a result of the reclassification unless there is an extinguishment (or contractual modification—see Principle 13).

**12. Classification in Consolidated Financial Statements**—The classification of an instrument of a consolidated subsidiary or variable interest entity should be reconsidered in the consolidated financial statements and could be different from its classification in the subsidiary's separate financial statements.

**13. Extinguishment Accounting**—An entity should apply extinguishment accounting consistently. Extinguishment accounting includes settlement (a) per contractual terms, (b) at an amount outside the contractual terms, (c) by conversion into equity instruments, or (d) by modification of an instrument. If an instrument has been separated into liability and equity components and the liability component is subsequently extinguished or modified, that event is accounted for as if both components of the original instrument had been replaced by issuing a new instrument with the new terms. The new instrument is assessed for separation considering the modified terms according to Principle 4. If the entire extinguishment amount differs from the carrying amount of the liability at the date of extinguishment, a gain or loss will result for any remaining amount after reallocation to the liability and equity components.