

Classification under the Ownership-Settlement Approach

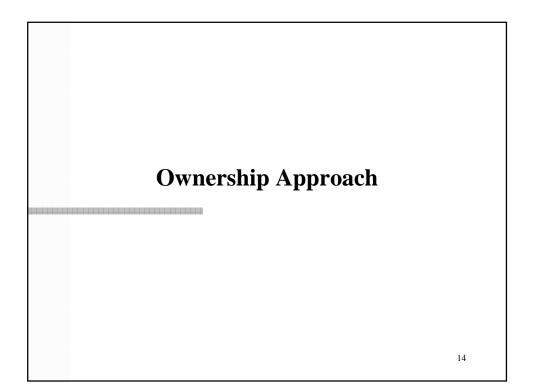
- An instrument is separated into equity and nonequity components if it:
 - -Embodies an obligation
 - -Has both equity and nonequity outcomes with differing counterparty payoffs at the outcome date.
- All other instruments that are not equity instruments or are not separated are classified as assets or liabilities.

Measurement of Single Instruments under the Ownership-Settlement Approach Initial Measurement All Instruments Transaction price disregarding issuance costs. Subsequent Measurement Equity - (P) None - (D) Settlement Value By applying the redemption formula at the reporting date in the same manner it would be applied at the redemption date - (I1) None. Non-Equity - (I2) Fair Value - (O) Fair Value Unless Otherwise Required by Other GAAP · Mandatorily redeemable shares with fixed redemptions and other debt instruments are accreted at present value using the expected settlement date.

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B Measurement of Separated Instruments under the Ownership-Settlement Approach

- The nonequity component to be separated is measured at its fair value.
 - Present value of amount to be paid under a 100 percent debt outcome using the expected settlement date.
- The remainder is allocated to equity.
- Fair value option is not available in lieu of separation.
- Debt extinguishment, modification, or conversion results in reallocation and possible gain or loss (similar to IAS 32).
 - Conversion at the expected settlement date would not result in a gain or loss unless modified.



Ownership Approach

- The Board developed the ownership approach (a narrower view of equity) based on the ownership-settlement approach.
- Refer to the draft version of the "Chart of Principles for the Ownership Approach" (Attachment 3).
- The key differences between the two approaches are described next.
- The objective is to identify the owners of an entity (equity instruments) and the instruments that will or may affect the net assets available to those owners (how owners may be diluted).

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• Another objective is to reduce complexity.

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BOwnership Approach—Key Differences

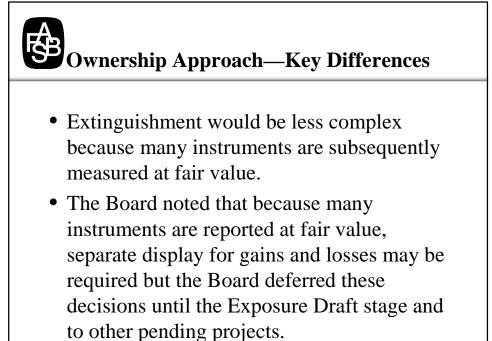
- Substantive features and linkage issues still arise but are less prevalent because many instruments are liabilities or assets in their entirety recorded at fair value.
 - Linkage examples include puttable stock versus a share and a separately issued written put option.
 - Substantive examples include stock with a minimal registration rights penalty or a remote put option.

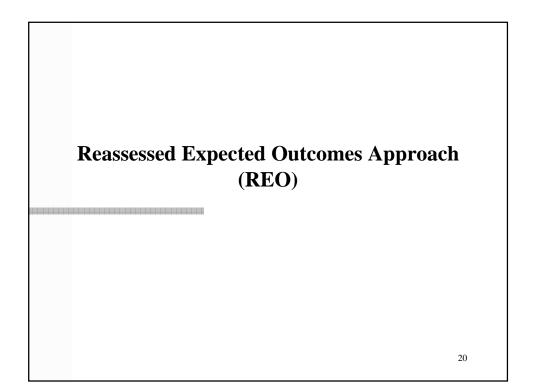
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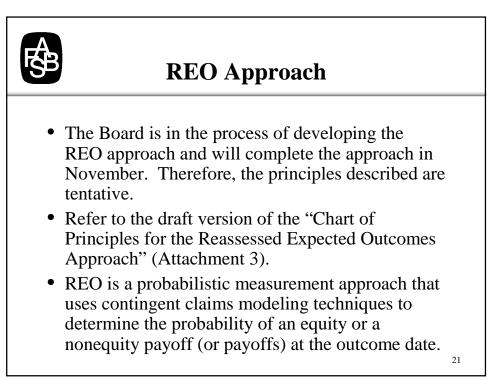
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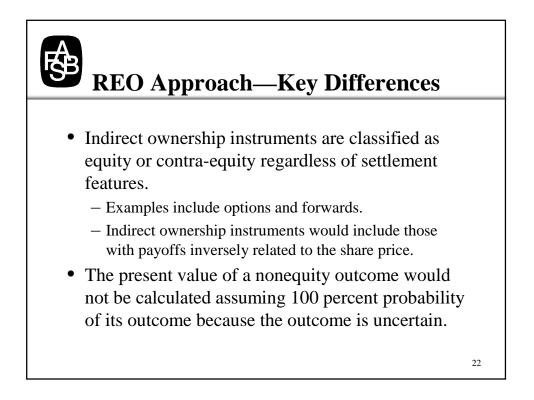
BOwnership Approach—Key Differences

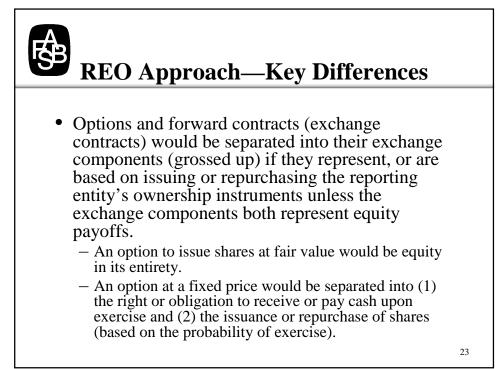
- Separation would be limited: an equity instrument that also embodies a distinct nonequity obligation and will result in the retention of the ownership interest after the obligation is settled is reported as both equity and nonequity instruments.
 - Examples are stock with required dividend payments, stock with a substantive registration rights penalty, and a net-cash settled puttable share/make whole provision.

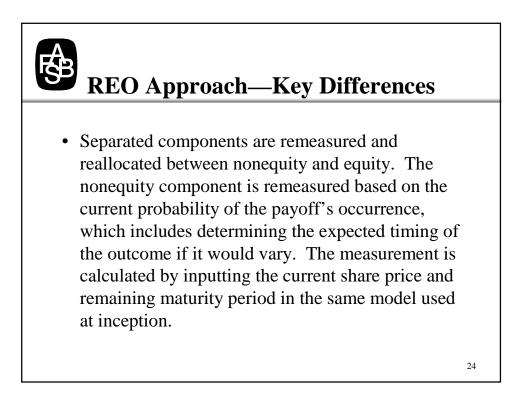


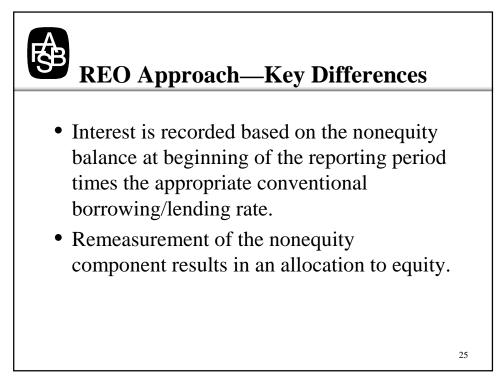


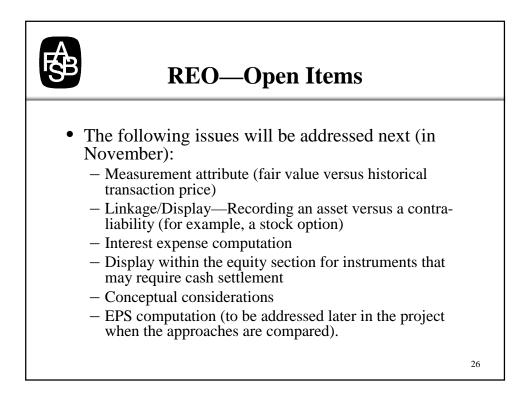






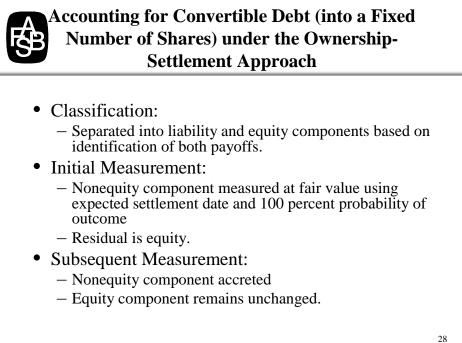






Accounting for Certain Instruments				
	Ownership Settlement Approach	Ownership Approach	REO at Transaction Price	REO at Fair Value
Convertible Debt and Puttable Stock	Separate Liability (Financial) and Residual Equity (liability not probability-weighted)	Liability (Financial) Fair Valued	Separate Liability (Financial) and Residual Equity (liability probability-weighted considering current share price)	Separate Liability (Financial) and Equity (liability probability- weighted considering all variables)
Shares Redeemable at Fair Value	Equity (separate display)	Equity (separate display)	Equity (display?)	Equity (display?)
Written Call, Physically Settled	Equity	Liability (Derivative)	Separate Asset and Residual Equity (asset probability- weighted considering current share price)	Separate Asset and Equity (probability-weighted considering all variables)
Written Put, Physically Settled	Liability (Derivative)	Liability (Derivative)	Separate Liability (Financial) and Residual Contra-Equity (liability probability-weighted considering current share price)	Separate Liability (Financial and Contra-Equity (probability-weighted considering all variables)

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Accounting for Convertible Debt (into a Fixed Number of Shares) under the Ownership Approach

- Classification:
 - -Liability in its entirety.
- Initial Measurement:
 - Initially measured at transaction price (disregard issuance costs).
- Subsequent Measurement:
 - Subsequently measured at fair value
 - Changes in fair value recorded in income.

Accounting for Convertible Debt (into a Fixed Number of Shares) under the REO Approach (at Transaction Price)

- Classification:
 - Separated into liability and equity components based on identification of both payoffs.
- Initial Measurement:
 - Components are initially measured at fair value considering the probability of each outcome and expected settlement date
- Subsequent Measurement:
 - Nonequity component is remeasured based on probability of occurrence by adjusting the current share price and remaining term
 - Remeasurement of nonequity component results in allocation to equity by forcing back to the transaction price (considering interest).

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