



Financial Instruments with Characteristics of Equity

December 2009



Issues for this Meeting

1. Share-settled instruments
 - Implicit settlement provisions
 - Dilution effects
2. Scope
3. Structuring prevention
4. Cash-settled instruments



Share-settled Instruments

- When are shares used as currency?
(*Paper 5A*)
 - Prohibited exposures
 - Required exposures
 - Acceptable exposures
- Exceptions?
 - Convertible debt (*Paper 5A*)

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Structuring Prevention

- Linkage (*Paper 5F*)
- Implicit cash or net settlement
- Provisions with no effects (remote)
- Economic compulsion
- Finite-lived subsidiaries or VIEs

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Dilution Effects

- How should dilution of shareholders' interests caused by equity derivatives be reported?
 - Possible requirements in stockholders' equity? (*Paper 5D*)

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Scope

- Stock-based compensation (*Papers 5B and 5C*)
 - Only relatively simple fixed arrangements would be equity
- Other issues?

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Cash-settled Instruments

- Physically settled forwards and written puts (*Paper 5E*)
 - Net presentation as liabilities or assets
 - Presentation of cash outflow as debt and shares receivable as contra-equity (+ expiration/extinguishment)

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Other Issues

1. Substance of share-settled provisions and implicit settlement provisions
2. Classification in consolidation
3. Reassessment
4. Accounting upon settlement, conversion, expiration or modification

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