Project	**Financial instruments with characteristics of equity**
Topic	**Cover memo**

Introduction

1. This Board package contains the following:

   (a) **Agenda Paper 5A/ Memo 73** describes three major classes of issues raised by classifying some share-settled instruments as equity.

   (b) **Agenda Paper 5B/Memo 74** addresses the implications of applying Approach 4.1 to instruments within the scope of Topic 718, Stock Compensation (originally issued as FASB Statement No. 123 (revised 2004), *Share-Based Payment*).

   (c) **Agenda Paper 5C/Memo 75** addresses the implications of applying Approach 4.1 to instruments within the scope of IFRS 2, *Share-based Payment.*

   (d) **Agenda Paper 5D/Memo 76** addresses possible additional requirements in the statement of stockholders' equity that would provide information about dilution of derivatives classified as equity.

   (e) **Agenda Paper 5E/Memo 77** addresses the presentation of physically settled forward repurchase contracts and written put options (gross versus net).

   (f) **Agenda Paper 5F/Memo 78** addresses possible linkage criteria.

2. The Boards will probably not have time to address all of the papers at the December joint Board meeting. The papers that are not discussed at the December meeting will be discussed at a future meeting. All of the papers are

being provided at this time to ensure that Board members understand the depth and the breadth of some the issues surrounding Approach 4.1.

3. The issues outlined in Agenda Paper 5A/ Memo 73 will require further Board discussion. In addition, the following issues still remain:

   (a) Whether stated terms that are unlikely to have any effect on settlement should be ignored for classification purposes, and if so, when?

   (b) Whether settlement alternatives that are implied or otherwise legally available but not stated should be considered for classification purposes, and if so, when?

   (c) Whether an instrument should ever be classified as a liability if the issuer feels compelled to settle or redeem because not doing so imposes significant negative economic consequences, and if so, when?

   (d) Whether an entity should be required to reassess an instruments classification, and if so, when? How should instruments be measured upon reclassification?

   (e) How should an instrument be accounted for upon settlement, conversion, expiration, or modification?

   (f) How should a subsidiary's equity instruments be classified in consolidated financial statements?

   (g) What information should be disclosed? This will include a discussion about whether the amount of share-settled liabilities should be required to be disclosed

   (h) How should a derivative settled with an instrument that will be separate when issued be classified?

4. Several Board members have also asked us to describe how earnings per share (as currently required under Topic 260, Earnings Per Share (originally issued as FASB Statement No. 128, *Earnings per Share)* and IAS 33, *Earnings Per Share)* would be affected by the classification approach developed in this project.

5. We expect to be able to prepare an analysis of some, but not all, of the issues for the January meeting.