



IASB/FASB Meeting January 2010

IASB
agenda
reference

FASB memo
reference

**Revised
Appendix B for
5A
Revised
Appendix B for
Memo 80**

Project **Financial instruments with characteristics of equity**

Topic **Cover memo**

Introduction

1. Attached is a revised copy of Appendix B of Agenda Paper 5A /FASB memo 80. The classification of instruments 18(a) and 18(b) under Approach 4.2 are incorrect in the original version. Other than the amendment to the classification of instruments 18(a) and 18(b), no other changes were made.

This paper has been prepared by the technical staff of the FASB and the IASCF for discussion at a public meeting of the FASB or the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the FASB or the IASB.

Comments made in relation to the application of IFRSs or U.S. GAAP do not purport to be acceptable or unacceptable application of IFRSs or U.S. GAAP.

The tentative decisions made by the FASB or the IASB at public meetings are reported in FASB *Action Alert* or in IASB *Update*. Official pronouncements of the FASB or the IASB are published only after each board has completed its full due process, including appropriate public consultation and formal voting procedures.

Appendix B (Revised)

	Instrument	Approach 4.2	Current IFRS	Current U.S. GAAP¹
1	Common share	Equity	Equity	Equity
2	Perpetual preferred share	Equity	Equity	Equity
3	Share issued by a subsidiary that is a limited life entity	Equity	Liability or Equity²	Equity
4	General partnership interest Classification assumes that (a) the general partner takes an active role in the management of the partnership and (b) the instrument must be redeemed if the general partner retires from the partnership	Equity	Liability or Equity²	Equity

¹Current U.S. GAAP includes the requirements of Topic 480, originally issued as Statement 150, before the deferral under Section 480-10-65, originally issued as FSP FAS 150-3. Instruments denoted by a * indicate those that might have been subject to an indefinite deferral for certain nonpublic entities.

² IAS 32 classifies instruments that are required to be redeemed and that are redeemable at the option of the holder as financial liabilities, unless they have particular features and meet particular conditions.

	Instrument	Approach 4.2	Current IFRS	Current U.S. GAAP¹
5	<p>Limited partnership interest</p> <p>Classification assumes that (a) the limited partner does not participate in the management of the partnership, but, rather, only has a financial interest in the partnership and (b) the instrument is redeemable at the option of the partner</p>	Liability and Equity	Liability or Equity²	Equity
6	<p>Limited liability partnership instrument</p> <p>Classification assumes that (a) the limited liability partner takes an active role in the management of the partnership and (b) the instrument must be redeemed if the partner retires from the partnership</p>	Equity	Liability or Equity²	Liability*
7	<p>Ownership instrument that is redeemable at the option of the holder (other than upon retirement or death)</p>	Liability and Equity	Liability or Equity²	Equity (Temporary equity for public companies)

	Instrument	Approach 4.2	Current IFRS	Current U.S. GAAP¹
8	Ownership instrument that is required to be redeemed if an uncertain event occurs	Liability and Equity	Liability or Equity²	Equity
9	Ordinary share with a required dividend	Liability and Equity	Liability and Equity	Equity
10	Ordinary share with a substantive registration rights penalty ³	Liability and Equity	Liability and Equity	Liability and Equity
11	Preferred share convertible into a variable number of ordinary shares at the option of the holder	Liability and Equity	Liability	Equity
12	Preferred share that is required to be converted into a variable number of ordinary shares on a specific date or on an event that is certain to occur (other than death or retirement)	Liability	Liability	Equity

³A promise to remit consideration to an investor if an instrument held by that investor is (a) not registered for public trading by a specified date or (b) not listed on a stock exchange by a specified date.

	Instrument	Approach 4.2	Current IFRS	Current U.S. GAAP¹
13	Instrument issued by a cooperative that gives the holder the right to request redemption, but in which the cooperative can refuse that request	Equity	Equity	Equity
14	Instrument issued by a cooperative that must be redeemed upon the holder's death, retirement, or decreased participation	Equity	Liability or Equity²	Liability*
15	Instrument that <i>converts</i> mandatorily on a specific date or event that is certain to occur (other than death or retirement) into a variable number of share instruments with a fixed monetary amount (for example, share-settled debt)	Liability	Liability	Liability
16(a)	Physically (gross) settled written call option	Equity if meet criteria in paragraph 7 of this paper , otherwise liability	Equity⁴	Equity

⁴ Classification as equity assumes that the instrument will be settled only by the issuer exchanging a fixed amount of cash for a fixed number of its own equity instruments.

	Instrument	Approach 4.2	Current IFRS	Current U.S. GAAP¹
16(b)	Net-share-settled written call option	Liability	Liability	Equity
16(c)	Physically (gross) settled option that gives the holder the rights to acquire a fixed number of the entity's own equity instruments at a fixed price (a rights issue) denominated in a currency that is not the entity's functional currency (example assumes that the options were offered pro-rata to all existing shareholders).	Equity if meet criteria in paragraph 7 of this paper , otherwise liability	Equity⁵	Liability
17	Net-cash-settled written call option and cash SAR	Liability	Liability	Liability
18(a)	Net-cash- or net-share-settled forward purchase contract at a fixed price	Liability or Asset	Liability or Asset	Liability or Asset
18(b)	Physically settled forward purchase contract	Liability or gross liability and contra-equity (see Agenda paper 5B/memo 81)	Gross liability and contra-equity	Gross liability and contra-equity

⁵ Classification is based on the IASB's recent amendment to IAS 32.

	Instrument	Approach 4.2	Current IFRS	Current U.S. GAAP¹
19	Prepaid forward purchase contract for a fixed number of shares	Asset	Contra-equity⁶	Generally, contra-equity
20(a)	Net-cash- or net-share-settled written put option	Liability	Liability	Liability
20(b)	Physically settled written put option	Liability or gross liability and contra-equity (see Agenda paper 5B/memo 81)	Gross liability and contra-equity	Liability
21	Prepaid written put option for a fixed number of shares	Asset	Contra-equity⁶	Generally, contra-equity
22	Convertible debt for fixed number of shares	Liability	Equity and Liability	Liability⁷
23	Share redeemable at the option of the issuer (callable share)	Equity	Equity	Equity
24(a)	Preferred share convertible into a fixed number of ordinary shares at the option of the holder	Equity	Equity⁸	Equity

⁶ Classification as contra-equity assumes that the issuer has prepaid a fixed amount of cash and that the instrument will be settled by the issuer receiving a fixed number of its own equity instruments.

⁷ Classification assumes the instrument (a) may not be settled in cash upon conversion (including partial cash settlement) and (b) does not have a beneficial conversion feature.

⁸ Classification as equity assumes that the preferred share includes no other contractual obligations.

	Instrument	Approach 4.2	Current IFRS	Current U.S. GAAP¹
24(b)	Preferred share required to be converted into a fixed number of ordinary shares	Equity	Equity⁸	Equity
25	Preferred share puttable, callable, and convertible	Liability and Equity	Liability	Equity (Temporary equity for public companies)
26	Note receivable settled with cash or a variable number of shares ⁹	Asset	Asset	Asset (if cash settled) Contra-equity (if share settled)
27	Debt indexed to shares (for example, convertible debt for which the entire conversion value is settled in cash)	Liability	Liability	Liability (with a separated embedded derivative)

⁹The example assumes the counterparty can choose the form of settlement. That fact is relevant to current U.S. GAAP classification only.