



Indexation—Debt and Equity

FASB—IASB Education Meeting

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Project Timeline

Debt and equity included in 2025
Invitation to Comment,
Agenda Consultation

March 2026

The Board will
continue deliberations



January 2025

The Board added
Indexation—Debt and
Equity to the technical
agenda

2nd Quarter 2026

Stakeholder outreach

Overview

Primary areas of GAAP

- Topic 480, Distinguishing Liabilities from Equity
- Subtopic 815-10, Derivatives and Hedging—Overall
- Subtopic 815-40, Derivatives and Hedging—Contracts in Entity’s Own Equity

Significant stakeholder feedback

- 2025 Invitation to Comment, *Agenda Consultation*, feedback
- Several rounds of practitioner feedback in 2025 and 2026
- Past and recent investor views
- Past attempts to change the liabilities and equity guidance

Board added project to Technical Agenda March 18, 2026

- To address the indexation guidance in Subtopic 815-40

Subtopic 815-40 Overview

- An entity does not consider* contracts issued or held by the reporting entity to be derivative instruments (commonly referred to as the **derivatives scope exception**) if the following criteria are met:

Indexed to an
entity's own
stock



Classified in
stockholders' equity
in its statement of
financial position

*Notwithstanding instruments subject to other criteria within the derivatives scope exception guidance

Consequences of Subtopic 815-40

	Freestanding Financial Instruments	Embedded Features
Does not meet the derivative scope exception	<ul style="list-style-type: none"> • Asset or liability classification • Potentially accounted for as a derivative • Remeasured every period at fair value through net income 	<ul style="list-style-type: none"> • Bifurcation from the host contract and asset or liability classification as a derivative • Remeasured every period at fair value through net income
Meets the derivative scope exception	<ul style="list-style-type: none"> • Equity classification • No remeasurement 	<ul style="list-style-type: none"> • No bifurcation from the host contract (either as liability or equity) • No separate accounting

Indexation Guidance in Subtopic 815-40

Step 1: Evaluate contingent exercise provisions, if any

- Precluded from being considered indexed to an entity's own stock if based on:
 - Observable market other than the market for the issuer's stock
 - Observable index other than by reference to issuer's own operations

Step 2: Evaluate settlement provisions

- Considered indexed to an entity's own shares if "fixed-for-fixed"
- In practice, provisions that adjust a settlement amount would not preclude the contract from being indexed to an entity's own shares if the variable is an **input to the fair value of a forward or option on equity shares**

Section 815-40-55 includes 20 distinct examples that entities leverage when determining whether a contract is indexed to an entity's own stock.

Key Takeaways from Indexation Outreach

Current guidance and outcomes are often unintuitive.

Improvements to Step 2 of the indexation guidance should be prioritized.

Introducing probability may not reduce complexity.

Distinguishing between acceptable and nonacceptable leverage factors is challenging.

Indexation—Debt and Equity—Objective and Key Improvements

■ Project Objective:

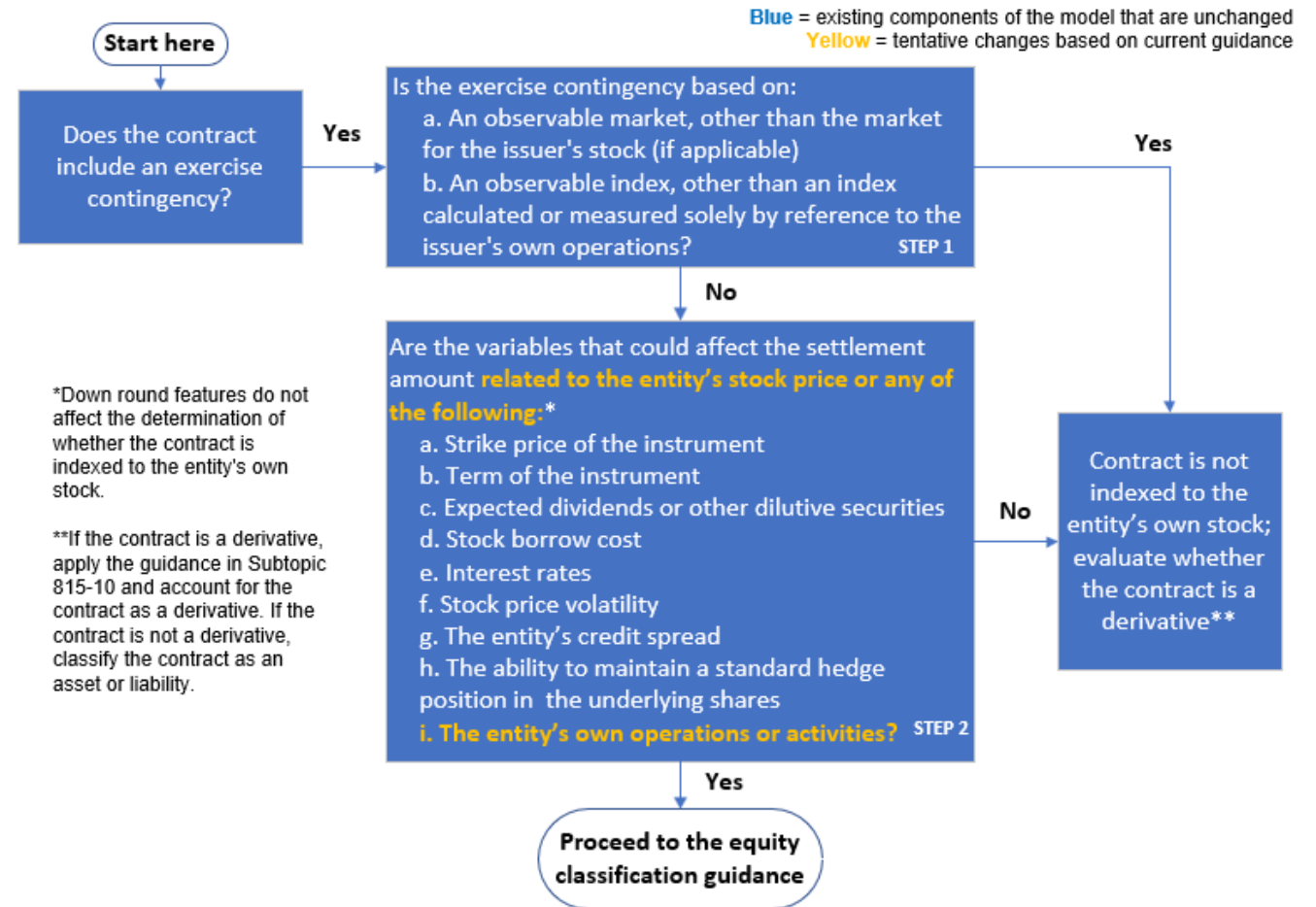
- Make the guidance less complex to apply and understand.
- Reduce inconsistent interpretation and application of the guidance.

■ Key Improvements:

- Eliminate the fixed-for-fixed assessment.
- Specify that settlement adjustments that are related to an **entity's own operations, activities, or stock price** do not preclude an instrument from being considered indexed.
- Address leverage factors.

Acceptable Variables Approach

- Targeted improvements to Step 2 of the indexation guidance to address current practice issues:
 - Would not change Step 1
- An instrument should be indexed unless it contains variables that are not related to the entity, the entity's own stock, or the pricing of an equity-linked instrument.
- Would simplify the analysis in Step 2 by:
 - Removing the fixed-for-fixed analysis, including the fixed-for-fixed forward or option pricing model analysis
 - Expanding the population of instruments that meet indexation by clarifying that variables that affect the settlement amount related to the entity's own operations or activities are okay
 - Allowing all leverage, as long as it relates to the acceptable variables.



Other Considerations



Down Round Features

- Down round features reduce the strike price of an instrument if the issuer:
 - Sells shares of its stock for an amount less than the currently stated strike price of the issued financial instrument
 - Issues an equity-linked financial instrument with a strike price below the currently stated strike price of the issued financial instrument.
- Under current GAAP, down round features are explicitly not within the scope of the indexation guidance in but are still evaluated in the context of the classification guidance in Section 815-40-25.
- The amendments in [Update 2017-11](#)* related to down round features were a result of feedback raised by members of the PCC and TIC.

* Accounting Standards Update No. 2017-11, *Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): I. Accounting for Certain Financing Instruments with Down Round Features, II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception*

Current Disclosure Requirements

Liability- and Equity-Classified Instruments

- Terms and feature disclosures, such as strike price, number of shares, settlement date, and the accounting (that is, asset, liability, or equity)
- Settlement alternative disclosures, such as who controls the alternatives, a description of those alternatives, and maximum number of shares that could be required to be issued to settle a contract, including the amount that would be paid or number of shares that would be issued and their fair value and how changes in the fair value of the equity affect those settlement amounts
- Earnings per share (EPS) disclosures, including reconciliation of income and shares, dilutive securities, and the methods used in the diluted EPS computation for each type of dilutive instrument
- Other disclosures, such as reclassifications into or out of equity and modifications and exchanges

Additional for Liability-Classified Instruments Only

- The changes in fair value of those instruments as long as they remain classified as assets or liabilities
- **Fair value measurement and derivative disclosures**, including valuation techniques and inputs used to develop the measurements and gain and loss disaggregation