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On a Mission to Classify

An Update on the FASB's and IASB's Joint Project on Financial Instruments With Characteristics of Equity

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Introduction

Entities have long struggled with the question of whether instruments they issue to raise capital should be reported as liabilities or equity when those instruments possess characteristics of both debt and equity. The demand for a set of accounting principles that clearly distinguishes between equity and nonequity instruments is greater than ever in this era of increasing sophistication and rapid change in financial markets. The current accounting requirements governing the classification of financial instruments as liabilities or equity under both IFRSs and U.S. GAAP have been criticized for lacking a clear and consistently applied set of principles and for not distinguishing between equity and nonequity in a manner that best reflects the economics of the transactions involving those instruments.

Responding to these concerns, in February 2006, as part of their Memorandum of Understanding, the IASB and FASB agreed to undertake a joint project on financial instruments with characteristics of equity to improve and simplify the financial reporting for financial instruments considered to have one or more characteristics of equity.[1] In this project, the two boards have developed a new classification approach (see the Decisions Reached to Date section below) that we expect will be exposed for public comment in June 2010. The boards have agreed that the exposure draft will have a 120-day comment period and hope to publish a final standard in the first half of 2011; the effective date is yet to be determined.

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The classification approach contemplated by the two boards would, if finalized, significantly affect the manner in which entities determine whether to classify many financial instruments as liabilities or equity and account for exercises of options and conversions of debt into equity instruments. Entities are well-advised to begin assessing the implications of, and planning for, these changes and their effect on debt and equity, interest coverage, and other financial ratios; earnings; and compliance with debt covenants.

[1] As we discussed in our December 21, 2007, *Heads Up*, in November 2007, the FASB published a preliminary views (PV) document, *Financial Instruments With Characteristics of Equity*, which included three potential approaches for distinguishing between equity and nonequity instruments. Then, in 2008, the IASB issued a discussion paper in which it sought views on the FASB's PV. The two boards have subsequently decided not to pursue any of the approaches identified in the PV.

This *Heads Up* presents an overview of the new classification approach. The appendix of this *Heads Up* contains a table that gives examples of certain instruments and compares the classification of these instruments under (1) existing U.S. GAAP, (2) IFRSs, and (3) the new classification approach.

Decisions Reached to Date

Scope

The new classification approach would apply to the issuer's accounting for equity shares and other ownership interests (e.g., common and preferred shares, general and limited partnership interests), derivatives on such ownership interests (e.g., warrants, options, and forward contracts over an entity's own equity), and instruments with embedded equity features (e.g., convertible debt). The boards have agreed that the proposed requirements would apply to the classification of all financial instruments as liabilities or equity, except the following:

- Share-based payment awards.
- Interests in subsidiaries, associates, or joint ventures.
- Employers' rights and obligations under employee benefit plans.
- Insurance contracts accounted for under other standards.

The new classification approach would apply to the issuer's accounting for equity shares and other ownership interests, derivatives on such ownership interests, and instruments with embedded equity features.

Classification

Perpetual Instruments

A perpetual instrument is an instrument (such as an ordinary or preferred share) whose life does not have a specified limit and that either (1) cannot be required to be redeemed or (2) can be required to be redeemed only if the entity decides or is forced to liquidate its assets and settle claims against the entity. The boards have agreed that the issuer should classify a perpetual instrument as equity. Similarly, a perpetual instrument issued by a limited-life entity or by an entity that can be required to be liquidated at the option of the instrument holder should be classified as equity.

Editor's Note: Under existing U.S. GAAP, perpetual equity instruments are typically classified as equity.

Equity-Classified Puttable and Mandatorily Redeemable Instruments

Puttable instruments are instruments that give the holder the right to put the instrument back to the issuer for cash or another asset or that are automatically put back to the issuer upon the occurrence or nonoccurrence of an event (e.g., a change in control of the entity). Mandatorily redeemable instruments are instruments that embody an unconditional obligation requiring the issuer to redeem the instrument for cash or other assets on a specified or determinable date or upon an event that is certain to occur (e.g., retirement or death). The boards have agreed that the following two types of puttable or mandatorily redeemable instruments should be classified as equity in their entirety:

- Instruments whose terms require, or permit either the holder or the issuer to require, redemption to allow an existing group of shareholders, partners, or other participants to maintain control of the entity when one of them chooses to withdraw (e.g., certain types of partnership interests).
- Instruments (1) that the holder must own in order to (a) engage in transactions with the entity or (b) otherwise participate in the activities of the entity and (2) whose terms require, or permit the holder or issuer to require, redemption when the holder ceases to engage in transactions or otherwise participate (e.g., certain types of membership interests issued by cooperative entities).

Editor's Note: Under existing U.S. GAAP, mandatorily redeemable financial instruments are classified as liabilities (see ASC 480-10-25-4[2]). Under the new approach, however, the two types of mandatorily redeemable financial instruments described above would be classified as equity rather than as liabilities. Under existing U.S. GAAP, puttable instruments are classified as temporary (mezzanine) equity by SEC registrants (see ASC 480-10-S99) and otherwise as permanent equity. Under the new approach, however, puttable instruments that are not one of the two types above could no longer be classified as equity in their entirety.

Other Puttable Equity Instruments

The two boards have decided that puttable equity instruments (e.g., redeemable equity securities) that are not classified as equity in their entirety should be separated into a liability component and an equity component. The liability component is the written put option embedded in the equity instrument. The option would be accounted for as a derivative at fair value. The remainder would be recorded as equity.

Editor's Note: Typically, put features embedded in equity securities are not accounted for separately from equity host contracts under existing U.S. GAAP either because they meet the scope exception in ASC 815-10-15-74 for contracts indexed to the entity's own stock and classified in stockholders' equity or because they do not meet the net settlement characteristic in the definition of a derivative in ASC 815-10-15-83(c). Under the new classification approach, entities will need to separately account for embedded put features in a wider range of circumstances than they do today.

The two boards have decided that puttable equity instruments (e.g., redeemable equity securities) that are not classified as equity in their entirety should be separated into a liability component and an equity component.

Written Put Options Over an Entity's Own Equity

As with puttable equity instruments, a freestanding put option issued by an entity over its own equity instruments (i.e., a written option contract that gives the holder the right to put an equity instrument back to the issuer for cash or other assets) would be classified as a liability.

The two boards have decided that written put options (whether freestanding or embedded) should be presented **net** as a liability rather than gross. Under a gross presentation approach, the option is presented as a liability on the basis of the payment obligation upon exercise (i.e., the shares over which the option is written are treated as already repurchased, and a liability is recorded for the option exercise price), with an initial offsetting entry to equity. Under a net presentation approach, the option is presented as a liability on the basis of the fair value of the option contract (i.e., initially typically equal to the consideration received). A net presentation approach typically results in a much smaller recorded liability than a gross presentation approach. For instance, a written option that has a variable strike price equal to the current fair value of the shares generally will have a fair value close to zero, such that only a small liability will be recorded, whereas a liability for the fair value of the shares would be recorded under a gross presentation approach (see the Measurement section below for the boards' decision on how to measure a written put option).

Editor's Note: Under existing U.S. GAAP, freestanding put options written over an entity's own equity are classified as liabilities and presented net at fair value (see ASC 480-10-25-8 and ASC 480-10-35-5). In voting on a gross versus net presentation of written put options over an entity's own equity at their joint meeting in February, most of the board members believed that any alternative that involves gross presentation would be complex to implement.

[2] For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

Example — Gross Versus Net Presentation for Written Put Option

On February 1, 20X4, Entity A enters into a put option contract with Entity B to pay a fixed amount of CU98,000 in cash on January 31, 20X5, and to receive 1,000 of its own outstanding ordinary shares as of January 31, 20X5, if B exercises the put option. The initial fair value of the option contract on February 1, 20X4, is CU5,000, which B pays to A in cash on that date. The market price per share on January 31, 20X5, is CU95. The fair value of the option is CU4,000 and CU3,000 on December 31, 20X4, and January 31, 20X5, respectively. Entity A records the following journal entries:

Gross Presentation Approach			**Net Presentation Approach**		
February 1, 20X4			**February 1, 20X4**		
Cash	CU 5,000		Cash	CU 5,000	
Equity		CU 5,000	Put option liability		CU 5,000
(To recognize the option premium received)			*(To recognize the option premium received)*		
Equity	CU 95,000				
Liability		CU 95,000			
(To record the obligation to deliver CU98,000 in one year at its present value of CU95,000)					
December 31, 20X4			**December 31, 20X4**		
Interest expense	CU 2,750		Put option liability	CU 1,000	
Liability		CU 2,750	Gain		CU 1,000
(To accrue interest in accordance with the effective interest method on the liability for the share redemption amount)			*(To record the decrease in fair value of the put option)*		
January 31, 20X5			**January 31, 20X5**		
Interest expense	CU 250		Put option liability	CU 1,000	
Liability		CU 250	Gain		CU 1,000
(To accrue interest in accordance with the effective interest method on the liability for the share redemption amount)			*(To record the decrease in fair value of the put option)*		
January 31, 20X5			**January 31, 20X5**		
Liability	CU 98,000		Equity	CU 95,000	
Cash		CU 98,000	Put option liability	CU 3,000	
			Cash		CU 98,000
(To record the settlement of the option contract)			*(To record the settlement of the option contract)*		

The proposed classification approach for forward repurchase contracts over an entity's own equity is similar to existing U.S. GAAP.

Obligation to Repurchase an Entity's Own Shares

The boards have agreed that contracts that require an entity to repurchase its own shares (e.g., forward contracts to repurchase an entity's own shares) on a specified date or upon the occurrence of an event that is certain to occur should be recorded as a gross liability for the amount of the obligation to be paid to redeem the shares, with an initial offsetting debit entry to contra-equity.

> **Editor's Note:** This classification approach for forward repurchase contracts over an entity's own equity is similar to existing U.S. GAAP (see ASC 480-10-25-8 and ASC 480-10-35-3).

Instruments That Require Specified-for-Specified Issuances of Equity Instruments

Some instruments (e.g., call options, forward contracts, rights issues, and warrants) require or may require the entity to issue equity interests for a specified price as of a future date. Instruments that require an entity to issue a *specified number* of its own perpetual equity instruments in exchange for a *specified price* would be classified as equity if both of the following conditions are met:

- The specified number of shares to be issued is either fixed or varies only so that the counterparty receives a specified percentage of total shares that were outstanding on the issuance date for a specified price.[3]
- The specified price to be paid by the counterparty is fixed in the reporting entity's functional currency. As an exception, if the domestic currency or, if the shareholder is a reporting entity or unit of a reporting entity, functional currency of the shareholder that holds the instrument is different from the currency in which the issuing entity issues equity instruments to domestic shareholders, the price could be specified in the currency of the shareholder rather than the currency of the issuer.

Instruments that require an entity to issue a specified number of its own perpetual equity instruments for no further compensation would also be classified as equity (e.g., prepaid forward contracts to issue shares).

The boards have also agreed that instruments that require an entity to issue for a specified price (or for no future consideration) a specified number of (1) equity-classified puttable or mandatorily redeemable instruments, or (2) derivatives to issue instruments that will be classified in equity in their entirety when issued, should be classified as equity (e.g., a forward contract to issue an equity-classified mandatorily redeemable or a puttable equity instrument) provided that the counterparty holds an instrument that currently permits it to participate in the activities of the entity.

A share-settled instrument classified as equity should be reclassified as a liability and remain a liability until extinguished if, at any time, the entity does not have enough authorized shares to settle the instrument.

Editor's Note: Under existing U.S. GAAP, no specified-for-specified criterion is associated with the assessment of whether contracts over an entity's own equity should be accounted for in equity. ASC 815-40-15 permits equity-classified contracts to embody adjustments to the exercise price if the only variables that could affect the settlement would be inputs to the fair value of a fixed-for-fixed forward or option on equity shares, such as the strike price of the instrument, the term of the instrument, expected dividends or other dilutive activities, stock borrow cost, interest rates, stock price volatility, the entity's credit spread, and the ability to maintain a standard hedge position in the underlying shares. The proposed specified-for-specified criterion appears more restrictive, since it only permits adjustments that ensure that the counterparty receives a specified percentage of total shares that were outstanding on the issuance date. Stay tuned for more guidance on applying the new specified-for-specified criterion.

Under existing U.S. GAAP, a derivative to issue a mandatorily or puttable equity instrument would be classified as a liability (see ASC 480-10-55-33).

Under IAS 32,[4] a derivative that will be settled by the issuer exchanging a fixed functional currency amount of cash or another financial asset for a fixed number of its own equity instruments is typically classified as equity. In addition, "rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of **any** currency are equity instruments if the entity offers the rights, options or warrants pro rata to all existing owners of the same class of its own non-derivative equity instruments."

Ability to Settle in Shares

The boards have agreed that an entity should assess, as of the issuance date of each instrument and each subsequent reporting date, its ability to issue its own equity instruments to settle share-settled instruments classified as equity. Moreover, a share-settled instrument classified as equity should be reclassified as a liability and remain a liability until extinguished if, at any time, the entity does not have enough authorized shares to settle the instrument.

Editor's Note: Under existing U.S. GAAP, an entity assesses freestanding derivative contracts over its own equity to determine whether the entity has sufficient authorized and unissued shares to share-settle the contract (see ASC 815-40-25-19 through 25-24). If, to be able to share-settle the contract, an entity needs to obtain shareholder approval to increase its authorized shares, this criterion would not be met.

[3] For example, certain antidilution provisions might qualify under this provision.

[4] IAS 32, *Financial Instruments: Presentation*.

Convertible Perpetual Preferred Shares

Convertible perpetual preferred shares would be classified as equity when they must be converted into a specified number of:

- Perpetual equity instruments.
- Common shares on a specified date or upon the occurrence of an event that is certain to occur.
- Puttable or mandatorily redeemable instruments that will be equity in their entirety when issued.

If convertible perpetual preferred shares are convertible into a variable number of shares whose value equals a specified amount, the issuer would separate a put option from the preferred equity host contract and classify it as a liability.

Editor's Note: Under existing U.S. GAAP, convertible preferred shares are usually classified as equity unless they meet the definition of mandatorily redeemable instruments (e.g., because the preferred share has a redemption date and is convertible into mandatorily redeemable common shares).

The boards have decided that debt instruments that are convertible, at the holder's option, into a specified number of instruments that will be classified as equity in their entirety upon issuance should be separated into a liability component and an equity component.

Convertible Debt

The boards have decided that debt instruments that are convertible, at the holder's option, into a specified number of instruments that will be classified as equity in their entirety upon issuance should be separated into a liability component and an equity component. Other convertible debt instruments should be classified as liabilities in their entirety.

Editor's Note: Under existing U.S. GAAP, some convertible debt instruments are classified as liabilities in their entirety and others are bifurcated into liability and equity components (in particular, convertible debt with a beneficial conversion feature and convertible debt that the issuer may elect to settle in cash upon conversion). The new classification approach will affect the types of convertible debt that is subject to bifurcation into liability and equity components.

In considering the method for bifurcation, the boards have tentatively agreed to pursue a simplified bifurcation method under which a debt component would be allocated on the basis of a bond with the same maturity date and in which the interest rate would be the rate of a nonconvertible bond of comparable credit quality from the same issuer. The remainder of the initial total value of the convertible debt would be allocated to an equity component.

Dividend Obligations and Registration Rights Agreements

If an equity security (e.g., a preferred share) that otherwise qualifies for equity classification contains a contractual obligation to pay dividends, the issuer must separate that obligation and account for it separately as a liability. Similarly, the issuer must account for a registration rights agreement associated with an equity security separately from the equity security itself.

Classification of Subsidiary Instruments in Consolidated Financial Statements

The boards agreed that equity classification in a subsidiary's financial statements should be carried forward into consolidated financial statements unless arrangements between the instrument holder and another member of the consolidated group result in a change in the nature of the instrument in consolidation. In such cases, an entity should reconsider classification in the consolidated financial statements.

Other Instruments

All instruments that are not classified as equity in their entirety (including perpetual equity instruments, equity-classified mandatorily redeemable and puttable equity instruments, and certain derivatives over an entity's own equity) and are not separated into liability and equity components (including certain puttable equity instruments and convertible debt instruments) would be classified as liabilities or assets.

Reclassifications

The boards have agreed that an instrument should be reclassified if events occur or circumstances change so that the instrument no longer meets the conditions for its existing classification. The reclassification would take place as of the date of the events that changed the classification.

The reclassified instrument would be remeasured according to the requirements for the new classification as if it were a newly issued instrument on the date of the reclassification.

The boards also agreed that if the instrument is reclassified from equity to a liability, any difference in measurement upon reclassification should be reported as an adjustment to a separate equity account and no gain or loss should be recognized in income. However, if the instrument is reclassified from a liability to equity, the difference would be recorded in net income. The boards have agreed not to propose a limit on the number of times that an instrument may be reclassified (except for reclassifications out of equity because the entity does not have sufficient authorized shares; see Ability to Settle in Shares section above).

When an instrument is reclassified, the entity would also disclose a description of the instrument, the amount that was reclassified, and the reason for reclassification.

The boards have decided that an entity should recognize as expense all transaction costs or fees arising from the issuance of an equity instrument or an instrument consisting of both liability and equity components.

Measurement

Transaction Costs

The boards have decided that an entity should recognize as expense all transaction costs or fees arising from the issuance of an equity instrument or an instrument consisting of both liability and equity components.

Editor's Note: Under existing U.S. GAAP, direct and incremental equity issuance costs are recorded against equity rather than as an expense.

Initial Measurement of a Freestanding Equity Instrument

A freestanding equity instrument would initially be measured at its transaction price. The transaction price does not include transaction costs or fees.

Initial Measurement of the Components of a Separated Instrument

An entity would initially measure a separated liability or asset component of an instrument (e.g., a debt obligation in a convertible bond, a dividend obligation in an equity security, or a separated registration rights agreement) at fair value as if it were a freestanding liability or asset. The entity would allocate the remainder of the instrument's transaction price to the equity component.

Subsequent Measurement of a Freestanding Equity Instrument and a Separated Equity Component

With a few exceptions, the two boards do not plan to address subsequent accounting for instruments within the scope of the project.

However, an equity instrument or a separated equity component that has a redemption requirement would be remeasured in equity at the current redemption value (i.e., the amount that would have resulted from applying the redemption formula as if redemption were required as of the measurement date) as of each reporting date. An entity would record changes in current redemption value as a transfer between retained earnings and the redeemable equity instrument or component.

Editor's Note: Currently, SEC registrants are permitted to follow a similar accounting policy in measuring redeemable equity securities that are not currently redeemable but whose redemption is probable (see ASC 480-10-S99). Alternatively, they can elect to follow an accounting policy of accreting changes in redemption value over the period from the date of issuance to the earliest redemption date. If an instrument is currently redeemable, it is adjusted to its maximum redemption amount. If it is not probable that an instrument will become redeemable, no adjustment is necessary.

The boards have tentatively agreed that the liability or asset component of a separated instrument would be remeasured on the basis of the requirements of IFRSs or U.S. GAAP that would apply if it were a freestanding instrument. This measurement will depend on the decisions the boards make in their joint project on accounting for financial instruments.

Measurement of Freestanding Liabilities and Assets

Except for an obligation to repurchase an entity's own shares (which will be recorded as a gross liability for the amount of the obligation to be paid), the boards have agreed that freestanding liabilities and assets would be measured under other IFRSs or GAAP, as applicable, including the principles developed in the joint project on accounting for financial instruments.

Accounting for Conversion or Settlement of Convertible Debt and Exercises of Options

Options

Equity instruments issued upon conversion of debt would be reported at their fair values on the issuance date.

Equity instruments issued upon exercise of a written call option would be reported at their fair values on the issuance date (e.g., the current trading price if available). Further, the entity would provide the following information about any dilution to shareholders' interests measured on the basis of the fair value of the issued instrument:

- *Equity-classified option* — The difference between the fair value of the shares issued and the carrying value of the option plus the cash received would be reported in the statement of changes in equity as a transfer of wealth between the holders of options and equity shares (rather than as an adjustment to retained earnings or a separate equity account).
- *Liability-classified option* — The difference between the fair value of the shares issued and the carrying value of the option plus the cash received would be reported as a gain or loss in net income.

Convertible Debt

Equity instruments issued upon conversion of debt would be reported at their fair values on the issuance date (e.g., the current trading price if available). Upon conversion, a gain or loss would be recognized for a convertible debt instrument that is separated into liability and equity components. This gain or loss would be equal to the difference between the carrying value and fair value of the liability component (which equals the fair value of a comparable freestanding instrument without an equity component). An entity would report the difference between the total fair value of the shares and the fair value of the liability component in equity.

Economic Compulsion

The boards have agreed that economic compulsion is not relevant to determining the classification of financial instruments as liabilities or equity. For example, increasing-rate preferred stock would not be classified as a liability solely because the issuer might be economically compelled to redeem if no contractual redemption obligation exists.

Editor's Note: Similarly, under existing U.S. GAAP, ASC 480-10 does not include the concept of economic compulsion in distinguishing between liabilities and equity.

Fair Value Option

The boards have agreed that an entity cannot avoid separation of an instrument with a liability and equity component by electing the fair value option for the instrument in its entirety. That is, the fair value option is not available for the combined instrument.

Editor's Note: Similarly, under existing U.S. GAAP, an entity may not elect the fair value option for a financial instrument that is, in whole or in part, classified as a component of shareholders' equity (see ASC 825-10-15(f)).

Disclosures

The boards have decided to propose that, in addition to the disclosures currently required by U.S. GAAP and IFRSs, entities provide the following disclosures (as included in the boards' meeting handout) about the nature and terms of the instruments, including information about settlement alternatives (assets or equity instruments):

1. The identity of the entity that controls the settlement alternatives
2. The amount that would be paid, or the number of shares that would be issued and their fair value, determined under the conditions specified in the contract if the settlement were to occur at the reporting date
3. How changes in the fair value of the issuer's equity shares would affect those settlement amounts (for example, "the issuer is obligated to issue an additional X shares or pay an additional Y dollars in cash for each $1 decrease in the fair value of one share")
4. The maximum amount that the issuer could be required to pay to redeem the instrument by physical settlement, if applicable
5. The maximum number of shares that could be required to be issued, if applicable
6. That a contract does not limit the amount that the issuer could be required to pay or the number of shares that the issuer could be required to issue, if applicable
7. For a forward contract or an option indexed to the issuer's equity shares, all of the following:
    a. The forward price or option strike price
    b. The number of issuer's shares to which the contract is indexed
    c. The settlement date or dates of the contract, as applicable.

The boards have agreed to propose a limited retrospective application of the new approach under which an entity would apply the new requirements to all instruments outstanding at the beginning of the first period presented in the financial statements for the period of adoption.

Statement of Capitalization at Fair Value

The boards have agreed that public companies should present a statement of capitalization at fair value. This statement would show the following amounts related to the fair values of equity instruments and long-term debt instruments:

- Beginning balance, plus
- Issuances, minus
- Repurchases or expirations, plus or minus
- Changes in fair values, equals
- Ending balance.

Transition Requirements

The boards have not yet decided what the effective date of the new approach would be. The boards have agreed to propose a **limited retrospective** application of the new approach under which an entity would apply the new requirements to all instruments outstanding at the beginning of the first period presented in the financial statements for the period of adoption. Under this approach, net income would be restated for all periods presented. If an instrument is reclassified from a liability to equity, any measurement change would result in an adjustment to beginning retained earnings. If an instrument is reclassified from equity to a liability, any measurement change would result in an adjustment directly to equity.

Appendix

The table below contains examples of certain instruments and compares the classification of these instruments under (1) existing U.S. GAAP, (2) the current requirements in IAS 32, and (3) the proposed new classification model tentatively agreed on by the boards.

Instrument	Current U.S. GAAP	Current IAS 32	Proposed New Classification Model Based on Boards' Tentative Decisions
Common share	Equity	Equity	Equity
Perpetual preferred share	Equity	Equity	Equity
Share issued by a subsidiary that is a limited-life entity	Equity	Liability[5]	Equity
General partnership interest when (1) the general partner takes an active role in the management of the partnership and (2) the instrument must be redeemed if the general partner retires	Equity	Liability[6]	Equity
Ownership instrument that is redeemable at the option of the holder (puttable shares), other than upon retirement or death	Equity (mezzanine equity for public companies)	Liability[7]	Liability (fair value of put option) and equity (remainder)
Options, rights issues, and warrants settled by delivering a specified number (fixed number under IAS 32) of shares for a specified price (fixed price under IAS 32)	Liability or equity (depending on whether the criteria in ASC 815-40-15 (formerly EITF Issues 07-5[8] and 00-19[9]) are met)	Equity	Equity
Perpetual preferred share convertible into a specified number (fixed number under IAS 32) of ordinary shares	Equity	Equity	Equity
Debt convertible into a specified number (fixed number under IAS 32) of shares	Typically liability	Liability and equity	Liability (fair value of debt) and equity (remainder)
Debt that is convertible, but not into a specified number (fixed number under IAS 32) of shares	Typically liability (depending on whether the criteria in ASC 815-40-15 are met)	Liability	Liability (in its entirety)

[5] Under IAS 32, instruments that must be redeemed and that are redeemable at the option of the holder are classified as liabilities, unless they have particular features and meet particular conditions.
[6] See footnote 5.
[7] See footnote 5.
[8] EITF Issue No. 07-5, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock."
[9] EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock."

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