



In This Issue

- [Issue 19-C, “Warrant Modifications: Issuers’ Accounting for Modifications of Equity Classified Freestanding Call Options That Are Not Within the Scope of Topic 718, Compensation — Stock Compensation, or Topic 815, Derivatives and Hedging”](#)
- [Administrative Matters](#)

Summary of the September Meeting of the Emerging Issues Task Force

by *Jana Allen, Amy Park, and Jeff Nickell, Deloitte & Touche LLP*

This *EITF Snapshot* summarizes the September 3, 2020, meeting of the Emerging Issues Task Force (EITF or “Task Force”). Initial Task Force consensus (“consensus-for-exposure”) are exposed for public comment upon ratification by the Financial Accounting Standards Board (FASB). After the comment period, the Task Force considers comments received and redeliberates the issues at a scheduled meeting to reach a final consensus. Those final consensus are then provided to the FASB for final ratification and, ultimately, issuance as an Accounting Standards Update (ASU).

After each meeting, the official EITF minutes, including the results of the FASB’s ratification process, will be posted to the [Deloitte Accounting Research Tool](#) (DART) and to the [FASB’s Web site](#) (note that the official EITF minutes may contain details that differ from those in this publication). EITF Issue Summaries (released before the meeting and used to frame the discussion) are also available on those sites.

Issue 19-C, “Warrant Modifications: Issuers’ Accounting for Modifications of Equity Classified Freestanding Call Options That Are Not Within the Scope of Topic 718, Compensation — Stock Compensation, or Topic 815, Derivatives and Hedging”

Status: Initial deliberations.

Affects: Entities that issue freestanding equity-classified warrants or written call options that are similar to warrants in economic substance when the warrants are modified and classified in equity after modification.¹

Background: A warrant is a written call option under which the holder has the right, but not the obligation, to purchase a specified quantity or amount of common stock from the issuing entity at a specified price. An issuer may consider modifying outstanding warrants for various reasons, including, but not limited to, raising cash and capital, inducing additional financing, compensating for goods or services, or making a distribution of value to a warrant holder similar to a dividend.

Stakeholders have raised concerns that U.S. GAAP guidance does not address the accounting for warrant modifications from the issuer’s perspective. Such stakeholders have indicated that diversity in practice exists because entities analogize to other Codification topics and SEC guidance to reflect the economics of the warrant modification and therefore achieve different accounting outcomes for economically similar transactions. Accordingly, stakeholders have asked the Board to provide guidance on whether the effect of a warrant modification should be (1) recognized through earnings immediately, (2) amortized into earnings as a debt issuance cost, or (3) recognized as a deemed dividend or other equity transaction.

At its September 18, 2019, meeting, the FASB decided to add a project on warrant modifications to the EITF’s technical agenda. The scope of the project, when it was added to the technical agenda, was limited to modifications of equity-classified warrants that remain equity-classified after modification.

Summary: At its September 3, 2020, meeting, the Task Force discussed the accounting for modifications and reached a consensus-for-exposure on this Issue as follows:

- The proposed guidance will be a principles-based framework for determining the issuer’s accounting for modifications on the basis of the economic substance of the transaction in the same manner as if the issuer had paid cash.
 - If the nature of the modification is a financing transaction to raise equity, an entity should account for the additional value as an equity issuance cost in accordance with ASC 340.²
 - If the nature of the modification is a financing transaction to raise debt, an entity should account for the additional value as a debt discount or debt issuance cost in accordance with ASC 835.
 - If the nature of the modification is a financing transaction to modify debt, an entity should account for the additional value in accordance with ASC 470-50.
 - If the nature of the modification is compensation for goods or services, an entity should account for the additional value as compensation cost in accordance with ASC 718.
- If, after an entity evaluates the substance of the transaction, the modification is not related to financing transactions or compensation for goods or services as described

¹ As mentioned in the Summary, the Task Force decided to modify the scope of the Issue to include all freestanding equity-classified derivative instruments.

² For titles of FASB Accounting Standards Codification (ASC) references, see Deloitte’s “[Titles of Topics and Subtopics in the FASB Accounting Standards Codification.](#)”

above, the entity should account for the effect of the modification as a deemed dividend.

- There are no new modification-related disclosure and presentation requirements apart from those currently in ASC 260, ASC 505-10, ASC 815-40, and ASC 850.

In addition, the Task Force discussed whether the scope of the proposed guidance should be limited to equity-classified warrants and tentatively decided to expand the Issue's scope to include all freestanding equity-classified derivative instruments.

Effective Date and Transition: The Task Force tentatively decided that an entity would have the option of applying either a retrospective or prospective transition method when adopting the final guidance and tentatively decided not to provide any additional transition disclosure requirements apart from the disclosure requirements in ASC 250. The Task Force will discuss the effective date at a future meeting after considering stakeholder feedback on the proposed amendments.

Next Steps: The FASB staff will draft a proposed ASU and will issue this proposal for public comment provided that it is ratified by the Board.

Administrative Matters

The next EITF decision-making meeting is tentatively scheduled for November 5, 2020.

Dbriefs for Financial Executives

We invite you to participate in *Dbriefs*, Deloitte’s webcast series that delivers practical strategies you need to stay on top of important issues. Gain access to valuable ideas and critical information from webcasts in the “Financial Executives” series on the following topics:

- Business strategy and tax.
- Financial reporting.
- Tax accounting and provisions.
- Controllership perspectives.
- Governance, risk, and compliance.
- Transactions and business events.
- Driving enterprise value.
- Innovation in risk and controls.

Dbriefs also provides a convenient and flexible way to earn CPE credit — right at your desk.

Subscriptions

To subscribe to *Dbriefs*, or to receive accounting publications issued by Deloitte’s Accounting Services Department, please register at [My.Deloitte.com](https://my.deloitte.com).

The Deloitte Accounting Research Tool

Put a wealth of information at your fingertips. The Deloitte Accounting Research Tool (DART) is a comprehensive online library of accounting and financial disclosure literature. It contains material from the FASB, EITF, AICPA, PCAOB, and SEC, in addition to Deloitte’s own accounting manuals and other interpretive guidance and publications.

Updated every business day, DART has an intuitive design and navigation system that, together with its powerful search and personalization features, enable users to quickly locate information anytime, from any device and any browser. While much of the content on DART is available at no cost, subscribers have access to premium content, such as Deloitte’s *FASB Accounting Standards Codification Manual*. DART subscribers and others can also [subscribe](#) to *Weekly Accounting Roundup*, which provides links to recent news articles, publications, and other additions to DART. For more information, or to sign up for a free 30-day trial of premium DART content, visit dart.deloitte.com.

The purpose of this publication is to briefly describe matters discussed at the most recent meeting of the Emerging Issues Task Force. This summary was prepared by Deloitte’s National Office. Although this summary of the discussions and conclusions reached is believed to be accurate, no representation can be made that it is complete or without error. Official meeting minutes are prepared by the Financial Accounting Standards Board staff and are available approximately three weeks after each meeting. The official meeting minutes sometimes contain additional information and comments; therefore, this meeting summary is not a substitute for reading the official minutes. In addition, tentative conclusions may be changed or modified at future meetings.

Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

The services described herein are illustrative in nature and are intended to demonstrate our experience and capabilities in these areas; however, due to independence restrictions that may apply to audit clients (including affiliates) of Deloitte & Touche LLP, we may be unable to provide certain services based on individual facts and circumstances.

As used in this document, “Deloitte” means Deloitte & Touche LLP, a subsidiary of Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of our legal structure.

Copyright © 2020 Deloitte Development LLC. All rights reserved.
Member of Deloitte Touche Tohmatsu Limited.