MINUTES

FINANCIAL ACCOUNTING STANDARDS BOARD

MEMORANDUM

To:	Board Members		
From:	Indexation—Debt and Equity Team		
Subject:	Minutes of the June 3, 2026, Indexation—Debt and Equity Board Meeting	**Date:**	June 5, 2026
cc:	Tosches		

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue an Accounting Standards Update or a Statement of Financial Accounting Concepts.

Topic: Indexation—Debt and Equity

Basis for Discussion: FASB Memo No. 2, "Acceptable Variables and Illustrative Examples, Down Round Features, Consequential Amendments, Disclosures, Transition, Benefits and Costs, Permission to Ballot, and Comment Period;" FASB Memo No. 2A, "Supplement to Memo 2—Additional Information on Acceptable Variables and Disclosures."

Length of Discussion: 9:00 a.m. to 10:23 a.m. EDT

Attendance:

Board members present:	Jones, Salo, Botosan, Cannon, Hunt, Joseph, Cosper, and Shakespeare (observing)
Board members absent:	None
Staff in charge of topic:	Garcia
Other staff at Board table:	Day, Sangiuolo, Debbeler, Smith, Friend, Pople, Saul, and Kardzhala
Outside participants:	None

Type of Document and Timing Based on the Technical Plan:

The Board met to discuss issues relating to the development of a proposed Accounting Standards Update addressing the operability of the indexation guidance in Subtopic 815-40, Derivatives and Hedging—Contracts in Entity's Own Equity.

The Board's technical plan calls for that document to be issued in the fourth quarter of 2026.

Tentative Board Decisions:

Acceptable Variables and Illustrative Examples

The Board decided to clarify what is intended by the entity's own operations or activities variable, as follows:

1. Market prices or indexes would not be considered an entity's own operations or activities.
2. An entity would not need to evaluate whether settlement adjustments are in its control.
3. Adjustments based on the operations or activities of the counterparty would not be permissible.

[Vote 7-0]

The Board decided to clarify that settlement adjustments that are related to (or derived from) an entity's expected or historical stock price volatility during the term of an instrument would not preclude an instrument from being considered indexed to the entity's own stock, including a floor or cap on the entity's stock price volatility. Additionally, the Board decided to clarify that settlement adjustments that are based on approximations of the entity's own stock price volatility are permitted (for example, a private company that estimates its own stock price volatility based on a peer company volatility because it does not have observable stock price volatility). **[Vote 7-0]**

The Board decided to clarify that the acceptable variables expected dividends or other dilutive activities and stock borrow cost should be related to the entity. **[Vote 7-0]**

The Board decided that all of the other acceptable variables require no further description. **[Vote 7-0]** Additionally, to minimize confusion, the Board decided that the ability to maintain a standard hedge position in the underlying shares should not be separately included as an acceptable variable. **[Vote 7-0]**

Additionally, the Board provided suggestions and observations about the staff's recommended drafting approach to revising and updating the illustrative examples in Section 815-40-55.

Down Round Features

The Board decided to remove the down round feature scope exception in Subtopic 815-40, including any down round feature specific guidance in Topic 260, Earnings Per Share, and Topic 505, Equity. **[Vote 7-0]**

Consequential Amendments

The Board considered various consequential amendments and decided not to:

1. Clarify the scope of the guidance in Subtopic 815-40, specifically the guidance in paragraph 815-40-15-6 on when instruments are considered issued for purposes of applying Subtopic 815-40. **[Vote 7-0]**
2. Modify or remove the guidance in paragraph 815-40-15-5C for freestanding financial instruments (and embedded features) for which the payoff to the counterparty is based, in whole or in part, on the stock of a consolidated subsidiary. **[Vote 7-0]**

Disclosures

The Board decided to add a clarifying disclosure requirement for equity-classified contracts in annual reporting periods that would require that an entity disclose the following information about variables (or contingent events) that could affect the settlement amount:

1. Variables (or contingent events) that could have a significant effect on the settlement amount, such as adjustments related to the entity's stock price volatility assumption or the entity's own operations or activities
2. Actual changes to variables that had a significant effect on the settlement amount, including a description of those changes and what trigger caused them to occur (for example, the strike price of the entity's warrants was reduced because a down round feature was triggered or a change in control that caused a change to the stock price volatility assumption).

[Vote 7-0]

Transition

The Board decided that entities should apply a modified prospective transition approach. This transition approach would require that an entity apply the amendments prospectively to existing contracts as of the date of adoption and to new contracts that are entered into on or after the date of adoption. An entity would use the basis of any existing instruments (or embedded features) at the date of adoption. **[Vote 7-0]**

The Board decided to require that, upon adoption, entities should disclose (1) the nature of and reason for the change in accounting principle and (2) any amount(s) reclassified from liability to equity. **[Vote 7-0]**

Benefits and Costs

The Board concluded that it has received sufficient information and analysis to make an informed decision on the expected benefits and expected costs of the amendments and that the expected benefits of those amendments would justify the expected costs. **[Vote 7-0]**

Next Steps

The Board directed the staff to draft a proposed Accounting Standards Update for vote by written ballot **[Vote 7-0]** and decided that the proposed Update should have a 60-day comment period. **[Vote 6-1]**

General Announcements: None.