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FASB simplifies accounting for convertible instruments

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The FASB recently issued [ASU 2020-06], to simplify how entities account for certain financial instruments with characteristics of liabilities and equity.

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The amendments in ASU 2020-06:

- Remove the guidance in ASC 470-20 that requires entities to account for beneficial conversion features and cash conversion features in equity, separately from the host convertible debt or preferred stock.
- Revise the derivative scope exception guidance in ASC 815-40 by removing certain criteria required for equity classification, a change that is expected to result in more freestanding financial instruments qualifying for equity classification and fewer embedded derivatives requiring separate accounting from the host contract.
- Require entities to use the if-converted rather than the treasury stock method for calculating diluted earnings per share (EPS) for convertible instruments. Entities must also presume share settlement for purposes of calculating diluted EPS when an instrument may be settled in cash or shares.

The amendments in ASU 2020-06 are effective for public entities that meet the definition of a SEC filer, excluding smaller reporting companies as defined by the SEC, for fiscal years beginning after Dec. 15, 2021. For all other entities, the amendments are effective for fiscal years beginning after Dec. 15, 2023. Early adoption is permitted, but no earlier than fiscal years beginning after Dec. 15, 2020. Entities should adopt the guidance as of the beginning of the fiscal year of adoption and cannot adopt the guidance in an interim reporting period.

Source:
Grant Thornton, NDS 2020-10 August 25, 2020

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