

FINANCIAL ACCOUNTING SERIES



ACCOUNTING STANDARDS UPDATE

No. 2009-15
October 2009

Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing

a consensus of the FASB Emerging Issues Task Force

An Amendment of the *FASB Accounting Standards Codification*[™]

Financial Accounting Standards Board
of the Financial Accounting Foundation

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Amendments to the *FASB Accounting Standards Codification*TM

Note: The amendments in this Update to the Accounting Standards Codification are the result of the consensus of the FASB Emerging Issues Task Force on EITF Issue No. 09-1, “Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing.” The EITF reached this consensus at its June 18, 2009 Task Force meeting, and the Board ratified that consensus on July 1, 2009.

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–15. In some cases, not only are the amended paragraphs shown, but also the preceding and following paragraphs are shown to put the change in context. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to the Subtopic 470-20

2. Amend paragraph 470-20-05-1, with a link to transition paragraph 470-20-65-3, as follows:

470-20-05-1 This Subtopic provides accounting and reporting guidance for **debt** (and certain preferred stock) with specific conversion features and other options as follows:

- a. Debt instruments with detachable warrants
- b. Convertible securities—general
- c. Beneficial conversion features
- d. Interest forfeiture
- e. Induced conversions
- f. Conversion upon issuer’s exercise of call option
- g. Convertible instruments issued to nonemployees for goods and services
- h. Own-share lending arrangements issued in contemplation of convertible debt issuance.

3. Add paragraphs 470-20-05-12A through 05-12C and their related heading, with a link to transition paragraph 470-20-65-3, as follows:

> Own-Share Lending Arrangements Issued in Contemplation of Convertible Debt Issuance or Other Financing

470-20-05-12A An entity for which the cost to an investment banking firm (investment bank) or third-party investors (investors) of borrowing its shares is prohibitive (for example, due to a lack of liquidity or extensive open short positions in the shares) may enter into share-lending arrangements that are executed separately but in connection with a convertible debt offering. Although the convertible debt instrument is ultimately sold to investors, the share-lending arrangement is an agreement between the entity (share lender) and an investment bank (share borrower) and is intended to facilitate the ability of the investors to hedge the conversion option in the entity's convertible debt.

470-20-05-12B The terms of a share-lending arrangement require the entity to issue shares (loaned shares) to the investment bank in exchange for a nominal loan processing fee. Although the loaned shares are legally outstanding, the nominal loan processing fee is typically equal to the par value of the common stock, which is significantly less than the fair value of the loaned shares or the share-lending arrangement. Generally, upon maturity or conversion of the convertible debt, the investment bank is required to return the loaned shares to the entity for no additional consideration.

470-20-05-12C Other terms of a share-lending arrangement typically require the investment bank to reimburse the entity for any dividends paid on the loaned shares. Typically, the arrangement precludes the investment bank from voting on any matters submitted to a vote of the entity's shareholders to the extent the investment bank is the owner of the shares.

4. Amend paragraph 470-20-15-2, with a link to transition paragraph 470-20-65-3, as follows:

Editor's Note: The content of 470-20-15-2 will change upon transition while remaining under the heading noted below.

> Instruments

470-20-15-2 The guidance in this Subtopic applies to all **debt** instruments. The guidance on **beneficial conversion features** and conversion features that reset applies also to convertible preferred stock. The guidance in the General Subsections does not apply to those instruments within the scope of the Cash Conversion Subsections. The guidance on own-share lending arrangements applies to an equity-classified share-lending arrangement on an entity's own shares when executed in contemplation of a convertible debt offering or other financing.

5. Add the following Master Glossary term in Section 470-20-20, with a link to transition paragraph 470-20-65-3, as follows:

Probable

The future event or events are likely to occur.

6. Amend paragraph 470-20-25-1, with a link to transition paragraph 470-20-65-3, as follows:

> Overall

470-20-25-1 The guidance in this Section shall be considered after consideration of the guidance in the Fair Value Options Subsections of Subtopic 825-10 and the guidance in Subtopic 815-15 on bifurcation of embedded derivatives, as applicable. The guidance in this Section is organized as follows:

- a. Debt instruments with detachable warrants
- b. Beneficial conversion features
- c. Conversion features that reset
- d. Conversion features that are not beneficial
- e. Convertible instruments issued to nonemployees for goods and services
~~services.~~
- f. Own-share lending arrangements issued in contemplation of convertible debt issuance.

7. Add paragraph 470-20-25-20A and its related heading, with a link to transition paragraph 470-20-65-3, as follows:

> Own-Share Lending Arrangements Issued in Contemplation of Convertible Debt Issuance

470-20-25-20A At the date of issuance, a share-lending arrangement entered into on an entity's own shares in contemplation of a convertible debt offering or other financing shall be measured at fair value (in accordance with Topic 820) and recognized as an issuance cost, with an offset to additional paid-in capital in the financial statements of the entity.

8. Add paragraph 470-20-30-26A and its related heading, with a link to transition paragraph 470-20-65-3, as follows:

> Own-Share Lending Arrangements Issued in Contemplation of Convertible Debt Issuance

470-20-30-26A At the date of issuance, a share-lending arrangement entered into on an entity's own shares in contemplation of a convertible debt offering or other financing shall be measured at fair value in accordance with Topic 820.

9. Add paragraph 470-20-35-11A and its related heading, with a link to transition paragraph 470-20-65-3, as follows:

> Own-Share Lending Arrangements Issued in Contemplation of Convertible Debt Issuance

470-20-35-11A If it becomes **probable** that the counterparty to a share-lending arrangement will default, the issuer of the share-lending arrangement shall recognize an expense equal to the then fair value of the unreturned shares, net of the fair value of probable recoveries, with an offset to additional paid-in capital. The issuer of the share-lending arrangement shall remeasure the fair value of the unreturned shares each reporting period through earnings until the arrangement consideration payable by the counterparty becomes fixed. Subsequent changes in the amount of the probable recoveries should also be recognized in earnings.

10. Add paragraph 470-20-45-2A and its related heading, with a link to transition paragraph 470-20-65-3, as follows:

> Own-Share Lending Arrangements Issued in Contemplation of Convertible Debt Issuance

470-20-45-2A Loaned shares are excluded from basic and diluted earnings per share unless default of the share-lending arrangement occurs, at which time the loaned shares would be included in the basic and diluted earnings-per-share calculation. If dividends on the loaned shares are not reimbursed to the entity, any amounts, including contractual (accumulated) dividends and participation rights in undistributed earnings, attributable to the loaned shares shall be deducted in computing income available to common shareholders, in a manner consistent with the two-class method in paragraph 260-10-45-60B.

11. Add paragraphs 470-20-50-2A through 50-2C and their related heading, with a link to transition paragraph 470-20-65-3, as follows:

> Own-Share Lending Arrangements Issued in Contemplation of Convertible Debt Issuance

470-20-50-2A An entity that enters into a share-lending arrangement on its own shares in contemplation of a convertible debt offering or other financing shall disclose all of the following. The disclosures must be made on an annual and interim basis in any period in which a share-lending arrangement is outstanding.

- a. A description of any outstanding share-lending arrangements on the entity's own stock
- b. All significant terms of the share-lending arrangement including all of the following:
 - 1. The number of shares
 - 2. The term
 - 3. The circumstances under which cash settlement would be required
 - 4. Any requirements for the counterparty to provide collateral.
- c. The entity's reason for entering into the share-lending arrangement
- d. The fair value of the outstanding loaned shares as of the balance sheet date
- e. The treatment of the share-lending arrangement for the purposes of calculating earnings per share
- f. The unamortized amount of the issuance costs associated with the share-lending arrangement at the balance sheet date
- g. The classification of the issuance costs associated with the share-lending arrangement at the balance sheet date
- h. The amount of interest cost recognized relating to the amortization of the issuance cost associated with the share-lending arrangement for the reporting period
- i. Any amounts of dividends paid related to the loaned shares that will not be reimbursed.

470-20-50-2B An entity that enters into a share-lending arrangement on its own shares in contemplation of a convertible debt offering or other financing shall also make the disclosures required by Topic 505.

470-20-50-2C In the period in which an entity concludes that it is **probable** that the counterparty to its share-lending arrangement will default, the entity shall disclose the amount of expense reported in the statement of earnings related to the default. The entity shall disclose in any subsequent period any material changes in the amount of expense as a result of changes in the fair value of the entity's shares or the probable recoveries. If default is probable but has not yet occurred, the entity shall disclose the number of shares related to the share-lending arrangement that will be reflected in basic and diluted earnings per share when the counterparty defaults.

12. Add paragraph 470-20-65-3 and its related heading, as follows:

**> Transition Related to Accounting Standards Update No. 2009-15,
Accounting for Own-Share Lending Arrangements in Contemplation of
Convertible Debt Issuance or Other Financing**

470-20-65-3 The following represents the transition and effective date information related to Accounting Standards Update No. 2009-15, *Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing*:

- a. The pending content that links to this paragraph shall be effective for fiscal years beginning on or after December 15, 2009, and interim periods within those fiscal years for arrangements outstanding as of the beginning of those fiscal years. Share-lending arrangements that have been terminated as a result of counterparty default prior to the effective date of the pending content that links to this paragraph but for which the entity has not reached a final settlement as of the effective date are within the scope of the pending content that links to this paragraph.
- b. The pending content that links to this paragraph shall be applied retrospectively for all arrangements outstanding as of the beginning of fiscal years beginning on or after December 15, 2009.
- c. The pending content that links to this paragraph shall be effective for arrangements entered into on or after the beginning of the first reporting period that begins on or after June 15, 2009.
- d. The transition disclosures required in paragraphs 250-10-50-1 through 50-3 shall be provided.
- e. Early adoption of the pending content that links to this paragraph is not permitted.

13. Amend paragraph 470-20-00-1 as follows:

Paragraph Number	Action	Accounting Standards Update	Date
Probable	Added	2009-15	10/13/2009
470-20-05-1	Amended	2009-15	10/13/2009
470-20-05-12A through 05-12C	Added	2009-15	10/13/2009
470-20-15-2	Amended	2009-15	10/13/2009
470-20-25-1	Amended	2009-15	10/13/2009
470-20-25-20A	Added	2009-15	10/13/2009
470-20-30-26A	Added	2009-15	10/13/2009

Paragraph Number	Action	Accounting Standards Update	Date
470-20-35-11A	Added	2009-15	10/13/2009
470-20-45-2A	Added	2009-15	10/13/2009
470-20-50-2A through 50-2C	Added	2009-15	10/13/2009
470-20-65-3	Added	2009-15	10/13/2009

Amendment to Subtopic 260-10

14. Add paragraph 260-10-45-70B and its related heading, with a link to transition paragraph 470-20-65-3 as follows:

> Own-Share Lending Arrangements Issued in Contemplation of Convertible Debt Issuance or Other Financing

260-10-45-70B Paragraph 470-20-45-2A provides guidance on calculating basic and diluted earnings per share if an entity has entered into own-share lending arrangements issued in contemplation of convertible debt issuance or other financing.

15. Amend paragraph 260-10-00-1 as follows:

Paragraph Number	Action	Accounting Standards Update	Date
260-10-45-70B	Added	2009-15	10/13/2009

The amendments in this Update were adopted by the unanimous vote of the five members of the Financial Accounting Standards Board:

Robert H. Herz, *Chairman*
Thomas J. Linsmeier
Leslie F. Seidman
Marc A. Siegel
Lawrence W. Smith

Amendments to the XBRL Taxonomy

The following elements are proposed additions to the XBRL taxonomy as a result of the amendments in this Update.

Standard Label *	Definition	Codification Reference
Adjustments to Additional Paid-in-Capital Stock Issued Own-Share Lending Arrangement Issuance Costs	The amount of issuance costs recognized at the date of issuance of a share-lending arrangement entered into by the entity, in contemplation of a convertible debt offering or other financing.	470-20-25-20A
Deferred Finance Costs Own-Share Lending Arrangement Issuance Costs Gross	The amount of issuance costs recognized at the date of issuance of a share-lending arrangement entered into by the entity, in contemplation of a convertible debt offering or other financing, before deduction of accumulated amortization or the effects of subsequent adjustments, if any.	470-20-25-20A
Deferred Finance Costs Own-Share Lending Arrangement Issuance Costs Amortization Expense	The periodic charge to earnings for amortization of deferred issuance costs associated with an own-share lending arrangement during the term of the arrangement.	470-20-50-2A(h)
Deferred Finance Costs Own-Share Lending Arrangement Issuance Costs Net	The amount of issuance costs recognized at the date of issuance of a share-lending arrangement entered into by the entity, in contemplation of a convertible debt offering or other	470-20-50-2A(f)

* The Standard Label and the Element Name are the same (except that the Element Name does not include spaces). If they are different, the Element Name is shown in *italics* after the Standard Label.

Standard Label *	Definition	Codification Reference
	financing, net of accumulated amortization and the effects of subsequent adjustments, if any.	
Own-Share Lending Arrangement, Description	A description of any outstanding share-lending arrangement on the entity's own stock including all significant terms such as the number of shares lent, the term of the arrangement, the circumstances under which cash settlement would be required, and any requirements for the counterparty (share borrower) to provide collateral.	470-20-50-2A(a) and 50-2A (b1 thru b4)
Own-Share Lending Arrangement, Shares Issued	The number of shares issued in connection with an own-share lending arrangement entered into by the entity, in contemplation of a convertible debt offering or other financing.	470-20-50-2A(b1)
Own-Share Lending Arrangement, Reasons	Describes the entity's reasons for entering into an own-share lending arrangement, in contemplation of a convertible debt offering or other financing.	470-20-50-2A(c)
Own-Share Lending Arrangement Shares, Outstanding Value	The fair value as of the date of the statement of financial position of shares outstanding in connection with an own-share lending arrangement, in contemplation of a convertible debt offering or other financing.	470-20-50-2A(d)
Own-Share Lending Arrangement Earnings per Share Treatment	Describes the entity's treatment of shares outstanding, in an own-share lending arrangement in contemplation of a convertible debt offering or other financing, for purposes of calculating earnings per share.	470-20-50-2A(e)
Deferred Finance Costs	If not separately presented,	470-20-50-

Standard Label *	Definition	Codification Reference
Own-Share Lending Arrangement Issuance Costs Net Classification	identifies the caption on the statement of financial position in which the unamortized balance of recognized deferred issuance costs related to an own-share lending arrangement entered into by the entity, in contemplation of a convertible debt offering or other financing, is included.	2A(g)
Own-Share Lending Arrangement Dividends Not Reimbursed	The amount of dividends paid to holders of record of shares of the entity's stock associated with an own-share lending arrangement in contemplation of a convertible debt offering or other financing, which will not be reimbursed.	470-20-50-2A(i)
Own-Share Ending Arrangement Counterparty Default Period of Default Expense	The amount of default related expense recognized in earnings in the period in which the entity concludes it is probable that the counterparty (share borrower) to a share-lending arrangement will default.	470-20-50-2C
Own-Share Lending Arrangement Counterparty Default Changes in Value Shares	This item represents, in periods subsequent to the period in which the entity concludes it is probable that the counterparty (share borrower) to a share-lending arrangement will default, the amount of change in the fair value of the entity's shares, associated with an own-share lending arrangement, recognized in earnings for the period.	470-20-50-2C

Standard Label *	Definition	Codification Reference
Own-Share Lending Arrangement Counterparty Default Changes in Value Recoveries	This item represents, in periods subsequent to the period in which the entity concludes it is probable that the counterparty (share borrower) to a share-lending arrangement will default, the change in the amount of probable recoveries which the entity has recognized in earnings for the period.	470-20-50-2C
Own-Share Lending Arrangement Counterparty Default Earnings per Share Shares	In periods in which default, by a counterparty (share borrower) to a share-lending arrangement, is probable, but has not yet occurred, this item represents the number of the entity's shares related to the share-lending arrangement that will be reflected in basic and diluted earnings per share when the counterparty (share borrower) defaults.	470-20-50-2C