

**Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A**

Issue: ASU 2024-04, Induced Conversions of Convertible Debt Instruments

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue: *ASU 2024-04, Debt—Debt with Conversion and Other Options (Subtopic 470-20), Induced Conversions of Convertible Debt Instruments* intends to improve the relevance and consistency in application of the induced conversion guidance in Subtopic 470-20 for entities that settle convertible debt instruments for which the conversion privileges were changed to induce conversion. Specifically, the ASU clarifies how to determine whether a settlement of convertible debt (particularly, cash convertible instruments) at terms that differ from the original conversion terms should be accounted for under the induced conversion or extinguishment guidance. Under the ASU, to account for a settlement of a convertible debt instrument as an induced conversion, an inducement offer is required to provide the debt holder with, at a minimum, the consideration (in form and amount) issuable under the conversion privileges provided in the terms of the instrument. Note that under U.S. GAAP a conversion is considered induced when a convertible debt instrument is converted pursuant to terms that reflect changes made by the issuer to the conversion privileges provided in the terms of the debt at issuance (including changes that involve the payment of consideration) for the purpose of inducing conversion.

ASU 2024-04 is focused on the accounting provisions for the issuer of debt and is not addressing holders of the debt instruments that receive consideration for induced conversions. Current guidance in SSAP No. 15—Debt requires recognition of an expense for the fair value of the additional consideration issued to induce conversion, which is consistent with the measurement guidance of current U.S. GAAP. NAIC staff noted that the majority of the guidance adopted by the ASU relates to paragraphs which had been previously rejected for statutory accounting purposes, however some of the language which pertains to the recognition of accepted inducement offers and the types of property which can be received from a convertible debt instruments have been recommended for adoption. Additionally, this agenda item revises statutory guidance to clarify that the additional consideration provided by the inducement offer shall be recognized when the offer is accepted by the debt holder. Although this may slightly defer the recognition of the expense from what was in SSAP No. 15 (from when the inducement was issued to when the inducement was accepted), NAIC staff does not believe there is a regulatory reason to differ from U.S. GAAP on this guidance. These debt issuances are not expected to be prevalent within the insurance industry, and the timing of recognition is not expected to vary significantly.

Existing Authoritative Literature:

1. Distinguishing Liabilities from Equity / Derivatives and Hedging:

SSAP No. 5—Liabilities, Contingencies and Impairments of Assets defines a liability with characteristics of both a liabilities and equity:

Financial Instruments with Characteristics of both Liabilities and Equity

28. Issued, free-standing financial instruments with characteristics of both liability and equity shall be reported as a liability to the extent the instruments embodies an unconditional obligation of the issuer. (Pursuant to SSAP No. 86, embedded features in derivative contracts shall not be separated from the host contract for separate recognition.) Free-standing financial instruments that meet any of the criteria below meet the definition of a liability:

- a. A mandatorily redeemable financial instrument shall be classified as a liability unless the redemption is required to occur only upon the liquidation or termination of the issuing reporting entity.
- b. A financial instrument, other than an outstanding share, that at inception both 1) embodies an obligation to repurchase the issuer's equity shares or is indexed to such an obligation and 2) requires or may require the issuer to settle the obligation by transferring assets.
- c. Obligations that permit the holder to require the issuer to transfer assets.
- d. A financial instrument is a liability if the issuer must settle the obligation by issuing a variable number of its equity shares and the obligation's monetary value is based solely or predominantly on: 1) a fixed monetary amount, 2) variation in something other than the fair value of the issuer's equity shares, or 3) variations inversely related to changes in the fair value of the issuer's equity shares.
- e. Instruments in which the counterparty (holder) is not exposed to the risks and benefits that are similar to those of a holder of an outstanding share of the entity's equity shall be classified as a liability.

29. If a free-standing financial instrument will be redeemed only upon the occurrence of a conditional event, redemption of that instrument is conditional and, therefore, the instrument does not meet the definition of mandatorily redeemable financial instrument. However, that financial instrument shall be assessed each reporting period to determine whether circumstances have changed such that the instrument meets the definition of a mandatorily redeemable instrument (that is, the event is no longer conditional). If the event has occurred, the condition is resolved, or the event has become certain to occur, the financial instrument shall be reclassified as a liability.

30. The classification of a free-standing financial instrument as a liability or equity shall only apply to the instrument issuer. Holders or purchasers of such instruments shall refer to the appropriate investment statement for valuation and reporting.

SSAP No. 15—Debt and Holding Company Obligations provides guidance on convertible debt with an induced conversion:

Debt

8. Convertible debt securities that are convertible into common stock of the issuer or an affiliated company at a specified price at the option of the holder and which are sold at a price not significantly in excess of the face amount shall be accounted for solely as debt at the time of issuance. An expense shall be recognized, equal to the fair value of additional securities granted or other consideration issued to induce conversion subsequent to the issuance of convertible debt securities. This guidance applies regardless of who initiates the offer, the debt holder or the debtor, and whether the offer applies to all debt holders.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):

In March of 2020, the Working Group addressed a similar issue with agenda item 2019-43, which rejected *ASU 2017-11, Earning Per Share, Distinguishing Liabilities from Equity, Derivatives & Hedging* and adopted guidance into SSAP No. 5 and SSAP No. 72 for when certain freestanding instruments shall be recognized as liabilities and not as equity.

In March of 2021, the Working Group adopted agenda item 2020-41 which rejected *ASU 2020-06, Accounting for Convertible Instruments and Contracts in an Entity's Own Equity* as the update primarily addressed various convertible debt valuation models, the concept of which is not employed by statutory accounting, as well as require bifurcating embedded derivative components, a concept specifically not permitted under statutory accounting.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): N/A

Staff Recommendation:

NAIC staff recommends the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to SSAP No. 15 to adopt with modification *ASU 2024-04, Debt—Debt with Conversion and Other Options (Subtopic 470-20), Induced Conversions of Convertible Debt Instruments* for statutory accounting as this update provides clarifications on induced conversions and when the inducement shall be recognized as expense by the issuer.

Staff Review Completed by:

William Oden, NAIC Staff – February 2025

Revisions Proposed to SSAP No. 15—Debt and Holding Company Obligations:

8. Convertible debt ~~securities-instruments~~ that are convertible into cash, other assets, or common stock (or a combination thereof) of the issuer or an affiliated company at a specified price at the option of the debt holder, and which are sold at a price not significantly in excess of the face amount, shall be accounted for solely as debt at the time of issuance. ~~An expense shall be recognized. For convertible debt instruments subject to an inducement offer, the issuer shall measure and recognize an expense on the date the offer is accepted by the debt holder, equal to the fair value of the additional securities granted or other consideration issued pursuant to the conversion privileges provided in the terms of the existing debt instrument to induce conversion subsequent to the issuance of convertible debt securities.~~ This guidance applies regardless of who initiates the inducement offer, the debt holder or the ~~debtor~~issuer, and whether the offer applies to all debt holders.

Relevant Literature

34. This statement adopts, with modification, ASU 2024-04, Debt—Debt with Conversion and Other Options (Subtopic 470-20), Induced Conversions of Convertible Debt Instruments. The ASU was modified to only adopt revisions applicable to statutory guidance which had been originally incorporated from FAS 84.

Status:

On March 24, 2025, the Statutory Accounting Principles (E) Working Group exposed revisions to *SSAP No. 15—Debt and Holding Company Obligations* to adopt with modification *ASU 2024-04, Debt—Debt with Conversion and Other Options (Subtopic 470-20), Induced Conversions of Convertible Debt Instruments* for statutory accounting as this update provides clarifications on induced conversions and when the inducement shall be recognized as expense by the issuer.

On August 11, 2025, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to *SSAP No. 15—Debt and Holding Company Obligations* to adopt with modification *ASU 2024-04, Debt—Debt with Conversion and Other Options (Subtopic 470-20), Induced Conversions of Convertible Debt Instruments* for statutory accounting as illustrated above. These revisions provide clarifications on induced conversions and when the inducement shall be recognized as expense by the issuer.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2025/08-11-25SummerNationalMeeting/Adoptions/25-02-ASU2024-04,InducedConversionsOfConvertibleDebtInstruments.docx>