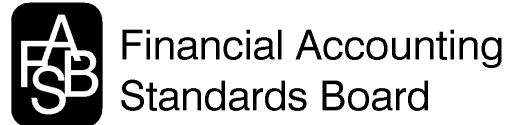


MINUTES



To: Board Members
From: Project Team (Mathys x446)
Subject: Minutes of the December 10, 2008
Conceptual Framework (Phase A & Phase D) Board Meeting **Date:** December 10, 2008
cc: Leisenring, Bielstein, Golden, Proestakes, Stoklosa, Allen, Posta, Glotzer, Klimek, Lott, Gabriele, Sutay, Project Team, FASB Intranet, Upton, Lian, Hague, Villmann, Willis, GASB: Reese

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 a final Statement or Interpretation.

Topic: Phase A: Objective and Qualitative Characteristics

Phase D: Reporting Entity

Basis for Discussion: Memorandum Nos. 76A, 76B, and 78A

Length of Discussion: 8:00 a.m. to 9:35 a.m.

Attendance:

FASB members present: Herz, Linsmeier, Seidman, Siegel, and Smith

IASB members present: Leisenring

Staff in charge of topic: Lian, Mathys, and Kawanishi

Other staff participating: Lott, T. Johnson, Bossio, Mathys, Prince

Summary of Decisions Reached:

Objective and qualitative characteristics

The staff presented a summary of comments received on the May 2008 Exposure Draft, *Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information*, and explained the plans for redeliberations. No decisions were made.

Reporting entity

The staff presented a summary of comments received on the May 2008 Preliminary Views, *Conceptual Framework for Financial Reporting: The Reporting Entity*, and explained the plans for redeliberations. No decisions were made.

Issues from the Preface

The staff also presented a summary of comments that arose from the Preface to each exposed document. No decisions were made.

Objective of Meeting:

The objective of the meeting was to present a summary of comments received on 1) the May 2008 Exposure Draft, *Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information*; 2) the May 2008 Preliminary Views, *Conceptual Framework for Financial Reporting: The Reporting Entity*; and 3) issues that arose from the Preface to each exposed document. The objective was met.

Matters Discussed and Decisions Reached:

ISSUE 1: OBJECTIVE AND QUALITATIVE CHARACTERISTICS

Introduction

1. The staff presented to the Board a summary of comments received on the May 2008 Exposure Draft, *Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information* (ED).
2. Ms. Lian stated that as of November 12, the Boards received 139 comment letters for the ED. Since that time, the Boards received an additional comment letter, for a total of 140 comment letters on the ED. Issues raised in the final comment letter were already captured in the memo, so no new comments will be discussed. Ms. Lian also stated that the staff will not be presenting any recommendations, because this meeting is to provide a summary of comments received.
3. Ms. Lian introduced Chapter 1 of the ED, which discusses the objective of financial reporting, who the primary users of financial reporting are, and that financial reports should be presented from the perspective of the entity.

Chapter 1: The Objective of Financial Reporting

The Entity Perspective

4. Ms. Lian stated that most respondents agreed with the Board that financial reports should be presented from the entity perspective, but some disagreed because they felt that the Board misinterpreted what is meant by the entity perspective. Some respondents also preferred that the Board further explore the proprietary perspective, and thought that the Boards should clarify what it means by the entity perspective, the parent-company approach, and the proprietary perspective.
5. Ms. Lian continued that some respondents were uncomfortable with the Boards' choice of the entity perspective without explanation of its full implications in financial reporting.

Board Comments

6. Mr. Linsmeier asked whether constituents are uncomfortable the Boards did not adequately explain the entity perspective, or whether they are worried that the Boards are foreshadowing certain implications such as liability and equity implications as well as what it could mean to the reporting entity phase.
7. Ms. Lian believed that respondents are most likely concerned with the implications of the entity perspective rather than its description.
8. Ms. Seidman suggested that the chapters should be ultimately issued and finalized together because there should be a relationship between the objectives, the reporting entity, and liabilities and equity. The Boards have provided much more analysis of the difference between various alternatives in previous exposure drafts on related topics, and that such analysis should be included in the overall framework (most likely in the entity perspective phase); however, it is not the purpose of this chapter.
9. Mr. Leisenring agreed with Ms. Seidman regarding additional explanation. He stated that the challenge is that because the entity perspective is used at the Standards level, respondents are essentially asking the Boards to change their minds in the Framework and then go back and amend existing literature. He stated that the perspectives are adequately described in the ED.
10. Mr. Siegel asked why it is that all the chapters are not to be finalized together. Mr. Leisenring stated that if the Boards wait to finalize the chapters as a whole, it would take years to finalize the framework. Mr. Linsmeier stated that he believes it is a good idea to wait to finalize the chapters until the end and issue tentative conclusions in the meantime.
11. Mr. Smith referred to the revenue recognition project's attempt to use the working definitions of "assets" and "liabilities" rather than the existing definitions. The revenue project ultimately reverted to the existing definitions because the working definitions had not gone through adequate due process to be used in standard-setting.
12. Mr. Leisenring noted that several respondents who would like the Boards to wait to finalize the entire Framework also asked that the Boards discontinue

standard-setting in the interim. He also expressed his support for making the Framework a higher priority, because he feels that the reason the Boards have not made progress in certain areas of their agendas is due to its current low-priority status.

13. Mr. Smith expressed concern that each chapter may have to be redeliberated if the Boards wait until the end to finalize all the chapters. Mr. Leisenring stated that is the exact reason why the Boards voted two times to adopt chapter-by-chapter. Mr. Linsmeier clarified that the Boards voted to adopt the framework on a chapter-by-chapter basis as each chapter is completed because it would be difficult to ignore the revised thinking in that chapter when making current standard setting decisions. However, as the Boards move forward, if consequential revisions to previous chapters become apparent during deliberations on subsequent chapters, then the Boards will have to go back and revise previous chapters, which does not mitigate Mr. Smith's concern regarding redeliberations.

Primary User Group

14. Ms. Lian stated that most respondents agreed with the Boards' decision to name present and potential capital providers as the primary user group. However, there were some respondents who disagreed because they felt:
- a. The primary user group should only be investors, because they have the highest risk,
 - b. Management, governments, and employees should also be stated as primary users, and
 - c. By having a primary user group, the Boards may ignore the information needs of non-primary groups, and therefore, there should be *no* primary user group.
15. Ms. Lian noted that a group of respondents said that the IASB is ignoring its mandate of considering the needs of certain developing nations because they use general purpose financial statements to monitor how developing nations transfer resources to their citizens. Some respondents also asked that the Boards provide some guidance in case there are conflicting information needs within the same user group.

Board Comments

16. Mr. Herz inquired whether governments or other institutions require special-purpose financial reports rather than general purpose financial reports, and whether they have a unique need different from other users. Mr. Linsmeier clarified that governments may be different because they may not be long-term capital-providers and therefore they may have an accountability or stewardship dimension that may be somewhat different in terms of their involvement.
17. Mr. Lott suggested the staff gather more information on this topic and provide it to the Board at a future meeting.
18. Mr. Leisenring stated that the respondents who noted that the IASB is not meeting its mandate with respect to developing countries do not have anything to do with the general objectives of financial reporting. Rather, they want to deal with bribery, which is an objective that is inconsistent with general purpose financial reporting.
19. Mr. Linsmeier agreed with Mr. Leisenring, but stated that if the Boards are going to do a fulsome evaluation of governmental roles and the role of general purpose financial reporting, the Boards ought not to limit the follow-up analysis to developed countries, but also developing countries. In this way, the Boards may come up with distinctions for which it is appropriate to state that they are not within the realm of general purpose financial reports.

The Objective and Boundaries of Financial Reporting

20. Ms. Lian stated that the objective proposed should be broad enough to encompass all of the decisions of the primary user, including resource allocation decisions and decisions made to protect and enhance investments (stewardship decisions). Most respondents agreed with the Boards' proposed objective and believed it was a vast improvement to the preliminary views document.
21. However, some respondents, while they agreed with the objective, noted that stewardship is also about judging how management performs in light of the

risks taken. Some not-for-profit entities also noted that stewardship entails the provision of information on how the entity meets its non-financial objectives.

22. Ms. Lian also stated that some respondents found it hard to assess the Boards' proposals on financial reporting because the Boards have not adequately explained the differences between general purpose financial reporting, financial statements, and special-purpose financial reporting. One respondent disagreed with the objective for financial reporting because he thought incorporating management's explanations is not within the mandate of the FASB.

Chapter 2: Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information

Introduction

23. Ms. Mathys stated that the ED proposed that the qualitative characteristics that make information useful are *relevance, faithful representation, comparability, verifiability, timeliness, and understandability*. The ED also proposed that the pervasive constraints on financial reporting are *materiality* and *cost*. The qualitative characteristics were distinguished as either fundamental or enhancing depending on how they affect the usefulness of information. Most respondents agreed with the Boards' proposals, but many noted areas that would benefit from additional clarification.

Classification of the Qualitative Characteristics as Fundamental and Enhancing

24. Ms. Mathys noted that the majority of respondents supported the Boards' decision to classify the qualitative characteristics as either fundamental or enhancing. There were, however, some respondents who disagreed because, in their view:

- a. The distinction is arbitrary or of little or no use
- b. The Boards did not adequately justify the change
- c. Preparers may view the enhancing qualitative characteristics as optional
- d. Which qualitative characteristics are most important depends on the facts and circumstances being conveyed.

Comments Regarding the Fundamental and Enhancing Qualitative Characteristics

Fundamental qualitative characteristics

25. Ms. Mathys stated that nearly every respondent agreed that relevance is a fundamental qualitative characteristic. However, some respondents expressed concern that relevance seems to have higher priority than faithful representation. Some also requested that a notion of probability be included in the definition of relevance because “capable of making a difference” is too broad and these respondents suggested the definition be altered to read “reasonably expected.” Other respondents have concerns with ‘predictive value’ because it infers a more forward-looking mentality, when they think that general purpose financial reporting should focus on giving the best representation of the past.

26. Ms. Mathys also noted that the majority of respondents agreed that *faithful representation* is a fundamental qualitative characteristic. Those who disagree do so because, in their view, the Boards have not adequately justified replacing the term *reliability* with the term *faithful representation*, and although there may be no intent to make a substantive change, there seems to be a difference in meanings between faithful representation, as proposed, and reliability. Some respondents also requested additional guidance for achieving the components. Specifically, many respondents would like substance over form to be explicitly identified as either a separate component of faithful representation or as separate fundamental qualitative characteristic, and some expressed concerns over the operability of the term *neutrality*. Finally, some respondents think *verifiability* should be a component of faithful representation rather than freedom from material error.

Enhancing qualitative characteristics

27. Ms. Mathys stated that the majority of respondents agreed that comparability, verifiability, timeliness, and understandability are enhancing qualitative characteristics. A minority of respondents who disagreed proposed that “substance over form” and “prudence” should be separate enhancing qualitative characteristics. Also, many constituents suggested that understandability and verifiability be elevated to the status of fundamental qualitative characteristics.
28. Some respondents thought verifiability was not adequately explained in the ED, and they did not understand why verifiability was omitted from faithful representation. Some respondents also suggested the Boards reclassify timeliness as a pervasive constraint because providing information too quickly to users could result in a loss of faithful representation, while information not presented in a timely manner loses its capacity to be relevant and to influence the decision-making process. Many respondents expressed concern that understandability is not adequately explained in the ED.
29. Ms. Mathys reported that other respondents expressed concern that the ED appears to place the entire burden of comprehension on the user, so those respondents suggested the Boards provide a practical benchmark for what constitutes “reasonable knowledge.”

Board Comments

30. Ms. Seidman stated that it is important that people understand and take away the right information from this chapter. The Boards discussed many of the comments that came in before the document was issued for exposure. For example, she believed that substance over form is implicit in the document. However, to the extent that respondents do not believe it is obvious, she is not opposed to stating it explicitly in the document. She expressed similar views regarding “neutrality,” which she said is one of the most important issues today, given the current crisis. She stated that it is not well understood what the Boards mean by “neutrality,” and she would be open to a different

word than “neutrality.” The Boards should not dismiss these comments if respondents are not clear on what the objectives are.

31. Mr. Linsmeier expressed concern that some constituents did not understand why “verifiability” is an enhancing characteristic, and that some constituents asserted that financial reporting is all about a “look-back.” He stated that the entire system, not just fair value, requires accounting based on some future consideration. The fact that some constituents do not understand this point, and believe that verifiability can be a fundamental characteristic that always exists, shows that there is still some progress to be made in communicating some of the key issues that we are dealing with. He also agreed with Ms. Seidman that “neutrality” may not be the best word and something like “unbiased” would be better.
32. Mr. Leisenring agreed with Mr. Linsmeier and Ms. Seidman, and noted that there is a difference between those constituents who do not understand, and those who simply do not agree. He also stated that perhaps, in the interest of conciseness, the Board removed too much of the explanations from the previous FASB Framework. He suggested that adding back some of those explanations would be helpful in clarifying some of the issues raised regarding explanation of concepts.
33. Mr. Leisenring also stated that some constituents do not accept that “neutrality” does not mean “without consequence.” Financial reporting has consequence. Reporting income vs. loss has a consequence; therefore, that is not what the Boards mean by neutrality. He also stated that “prudence” is a damaging characteristic rather than enhancing because it is purposefully non-neutral.
34. Mr. Bossio also pointed out that certain constituents also expressed appreciation that the ED was more concise than the PV document.
35. Mr. Siegel stated that, as someone who was not a part of previous deliberations, he was somewhat surprised to not see “substance over form” as a component of faithful representation.

36. Mr. Herz stated that he sympathizes somewhat with the comments regarding relevance, the ambiguity of phrases like “capable of making a difference,” and the confusion regarding “understandability.” He stated that it is important that not only the person reading the report needs to listen carefully and be capable of understanding the messages, but also the people sending the messages should focus on crafting the messages in an understandable manner.
37. Mr. Linsmeier stated that he would be open to discussing whether understandability is a fundamental characteristic rather than enhancing because having it as an enhancing characteristic seems to off-load some responsibility of the Boards to be sure that they are thinking about making standards as understandable as possible. It is a fundamental issue of doing good standard setting.
38. Mr. Leisenring disagreed with Mr. Linsmeier and stated that understandability is an enhancing characteristic because some transactions may not be understandable to all people. He noted that several respondents wrote that, due to understandability, they should not have to account for complicated transactions, some of which are purposefully complicated.
39. Mr. Leisenring also noted that, as standard setters, he believes the enhancing characteristics are just as valuable, if not more so, and that it is the standard setters’ responsibility to make sure the enhancing characteristics are followed because that is the way the standard and disclosure requirements are made.
40. Mr. Smith stated that this discussion shows why it is important to explain what the classes of characteristics mean to the Boards and why the classes are equally important, because some people are interpreting the enhancing characteristics to mean that they are “secondary.” Mr. Siegel agreed that this should be explicitly stated in the document.

Pervasive Constraints

41. Ms. Mathys stated that the majority of respondents agreed with the identification of cost and materiality as pervasive constraints of financial reporting. Those who disagreed noted that:

- a. Timeliness should be a pervasive constraint rather than a qualitative characteristic
- b. Materiality should be an enhancing qualitative characteristic rather than a pervasive constraint
- c. The cost constraint cannot always be kept
- d. The need to strive for balance among qualitative characteristics should be a pervasive constraint
- e. The Boards should consider additional constraints, such as conciseness and efficiency.

Board Comments

42. Mr. Leisenring stated that there are some comment letters that confuse “neutrality” with “cost” because they believe that cost includes things with consequence.

43. Mr. Linsmeier agreed with Mr. Leisenring and stated that the Board has put in a lot of effort into understanding fundamental and enhancing qualitative characteristics, but have not thought deeply enough about how they interact with the constraints. There is an interaction between cost and neutrality that needs to be clear, and also between relevance and materiality. It is hard to understand how they are unique concepts because there are many of the same words in both of those areas.

Staff’s Plan Going Forward

44. Ms. Lian stated that the staff plans to commence redeliberations in the next month, with an aim to finalize the first two chapters of the Framework in June 2009. The staff also recommended not having roundtable discussions on this ED because the comments received were clear and understandable. The Board agreed with the staff’s plan for going forward.

45. Mr. Leisenring asked how the FASB and IASB are going to deal with the not-for-profit (NFP) section of the Framework. Mr. Herz stated that there is a separate phase of the Framework project for not-for-profits or non-business entities. Mr. Leisenring asked how the IASB will deal with those entities in the interim, considering that the FASB has some guidance on the subject.

46. Mr. Linsmeier stated two options are to (a) ignore NFP letters and deal with them in the separate phase, or (b) take the NFP letters and ask whether they raised issues that are also present in for-profits that the Boards have not considered. If there are issues raised that impact both for-profit and NFP entities, then the wording in the Framework can be tweaked, and those comments that do not relate to for-profits can be noted and discussed in another phase of the project.
47. Mr. Bossio asked whether it makes sense to take each chapter as it's finished and apply it to NFPs rather than waiting until the end and trying to apply the whole Framework to NFPs.
48. Mr. Linsmeier stated that because NFPs have been encouraged to comment on the process, the Boards should take their comments into consideration.

ISSUE 2: THE REPORTING ENTITY

49. The staff presented to the Board a summary of concepts received on the May 2008 Preliminary Views, *Conceptual Framework for Financial Reporting: The Reporting Entity (PV)*.
50. Mr. Kawanishi stated that as of November 4, the Boards received 78 comment letters for the PV. He also stated that the staff will not be presenting any recommendations, because this meeting is to provide a summary of the comments received.
51. As for general comments on the PV, Mr. Kawanishi stated that there were three major comments:
- a. Neither the conceptual framework nor any accounting standard should specify who should prepare financial statements or what type of financial statements should be prepared
 - b. The PV is too detailed to be part of the conceptual framework
 - c. The distinction between general purpose financial statements and special purpose financial statements is not clear.
52. Regarding Section 1 (Reporting Entity Concept) of the PV, Mr. Kawanishi stated that:
- a. Most respondents agreed with the Board that what constitutes a reporting entity should not be limited to business activities that are

structured as legal entities. However, several respondents suggested that the Boards clarify that a legal entity would always meet the definition of a reporting entity.

- b. Many respondents agreed with the Board that a reporting entity is a circumscribed area of business activity of interest to present and potential equity investors, lenders, and other capital providers. However, many respondents asked the Boards to clarify whether the term *business* has the same meaning as that in Statement 141(R).
- c. While a majority of respondents supported that the description of a reporting entity should be tied into the objective of financial reporting, nearly a third of these respondents disagreed with the way the Board referred to users because they believed that it implied that financial statements should be presented from an entity perspective, which they did not support. Yet nearly half of the respondents agreed with the way the Board referred to users.

53. Regarding the Group Reporting Entity, Mr. Kawanishi stated that:

- a. Most respondents agreed with the Board that the risks and rewards model, as a standalone model, does not provide a conceptually robust basis for determining the composition of a group reporting entity. Moreover, most respondents noted that the risks and rewards model should be used to complement the controlling entity model.
- b. Most respondents agreed with the Board that control should be defined at the conceptual level and that control should refer to both power and benefits. Several respondents suggested that the definition of control also refer to risks.
- c. Several respondents noted that the PV did not make a clear distinction between present control and present ability to control.
- d. Most respondents noted that the composition of a group reporting entity should be based on control, when control is complemented by the risks and rewards notion. However, several respondents disagreed and noted that the conceptual framework should not specify which model is primary and which model is secondary, adding that there might be other models that provide useful information.

54. Regarding Parent Entity Financial Reporting, Mr. Kawanishi stated that:

- a. A majority of respondents agreed with the Board that consolidated financial statements should be presented from the perspective of the group reporting entity.
- b. Several respondents noted that they agree with the entity perspective in the sense that the entity is separate from its owners, but did not believe that financial reports are of equal importance to all users. These respondents noted that the perspective of the parent company's shareholders was of primary importance.
- c. Most respondents agreed with the Board that consolidated financial statements provide useful information but added that consolidated financial statements are not the only type of financial statements that provide useful information.
- d. A majority of respondents agreed with the Board that the conceptual framework should not preclude the presentation of parent-only financial statements, provided that they are included in the same financial reports as consolidated financial statements.
- e. Several respondents disagreed with the Board and stated that consolidated financial statements should not be required when parent-only financial statements are presented in a financial report. Several other respondents suggested that the Boards require both consolidated financial statements and parent-only financial statements at all times.

55. Regarding control issues, Mr. Kawanishi stated that:

- a. Almost all respondents agreed with the Board that the determination of control should involve the assessment of all the existing facts and circumstances. A majority of respondents noted that this should be clarified at the conceptual level.
- b. Most respondents agreed that control could be temporary and that control should not be based only on voting rights but should include economically similar circumstances. Respondents were equally split as to whether these issues should be addressed at the conceptual level or at the standards level.
- c. A majority of respondents agreed with the Board that holding options over voting rights that, if and when exercised, would place it in control over another entity is insufficient, in itself, to establish that the entity currently controls that other entity. Several respondents noted that this situation should be considered in the context of considering all the facts and circumstances. Several other respondents noted that the answer depends on whether the Board adopts the 'present control' notion of the 'present ability to control' notion. A majority of respondents supported discussing the issue at the standards level.
- d. Most respondents agreed that, in order to satisfy the power element of control, power must be held by one entity only and that having significant influence over another entity's financing and operating policy is not sufficient to establish the existence of control of that other entity. Respondents were split as to whether this issue should be addressed at the conceptual level or the standards level.

56. Additional issues raised by respondents include:

- a. Joint control and shared control
- b. Significant influence
- c. Proportionate consolidation
- d. Accounting for investments in subsidiaries in parent-only financial statements
- e. Issues in New Zealand's FRS 37 that were not addressed in the PV
- f. Not-for-profit considerations.

57. Mr. Kawanishi explained that the staff expects to redeliberate the issues in three meetings:

- a. At the first meeting, the staff expects to discuss the reporting entity concept and consolidated and parent-only financial statements
- b. At the second meeting, the staff expects to discuss the definition of control, the group reporting entity, and other control issues. The staff will consider the Board and the IASB's recent developments in their respective projects that relate to consolidation
- c. At the third meeting, the staff expects to discuss the entity perspective. This meeting will be conducted jointly with the phase on Objectives.

58. Mr. Kawanishi stated that the staff does not think it is necessary to schedule a roundtable or other formal public information-gathering meeting. He also stated that the target to issue an Exposure Draft in the second half of 2009 continues to be appropriate.

Board Comments

59. Mr. Linsmeier expressed his support for the staff's plan to consider the interrelationship between the Boards' ongoing consolidation projects and the work being done in this phase of the conceptual framework project. He noted that there had been some tentative decisions made on the standards-level projects that might challenge some aspects of this phase of the framework project. He noted that making the concepts in the consolidation standards and the conceptual framework consistent will be the staff's greatest challenge going forward.

60. Ms. Seidman agreed with those respondents who commented that a lot of the discussion paper was too detailed and would be more appropriately included in a standard. Regarding respondents who suggested that there might be other models for determining the composition of a reporting entity that would provide useful information, Ms. Seidman questioned what those models would be based on.

61. Ms. Seidman also observed that including more than one model in the framework results in a framework that lacks a clear concept; she raised the question as to whether including more than one model (for example, both the controlling entity model and the common control model) in the Phase D final

chapter should be deliberated again by the Boards. Ms. Seidman stated that she does not think the common control model represents a concept nor does it relate to general purpose financial statements. She commented that the Boards need to decide on one concept, rather than presenting two or more alternative concepts.

62. Mr. Leisenring agreed with Ms. Seidman's comment that the discussion paper is not founded on a single concept. Mr. Leisenring commented on the interaction between the definition of general purpose financial statements and the composition of a reporting entity. Mr. Leisenring also observed that the Boards' conclusion that parent-only financial statements are general purpose financial statements, but that they cannot be presented separate from consolidated financial statements, is nonsensical.
63. Ms. Seidman expressed concern about the staff's plan not to hold a roundtable for this phase of the project. She noted that the Boards have not yet held a roundtable for this phase and that the content of this phase is controversial. She suggested that there be discussion about whether the Board should host a roundtable. Other Board members suggested holding a roundtable for this phase of the framework project in conjunction with the IASB's roundtable on its soon-to-be-released Exposure Draft on consolidation. Mr. Smith observed that holding only one roundtable for the two projects may result in one of the projects not receiving as much attention as the other at the roundtable.
64. Mr. Linsmeier observed that the question the Board is trying to answer in this phase is "what is the composition of the entity that should be reporting to accurately represent the business activities of that entity to qualify as general purpose financial statements?"
65. Mr. Linsmeier commented that the Boards need to decide—and clearly communicate—whether there is a difference between having direct control over individual assets and liabilities and having control over an entity (as a whole). He observed that there is a difference between the two concepts—

specifically, that control over an entity is more of an indirect notion of control through the governance of an entity.

66. Mr. Leisenring observed that the Boards seem to have set up two different concepts of control—one for special-purpose entities (the ability to control) and another for other types of entities. Mr. Smith agreed.

ISSUE 3:

67. Mr. Kawanishi presented to the Board a summary of comments received on the Preface to the May 2008 Exposure Draft, *Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information* and the Preface to the May 2008 Preliminary Views, *Conceptual Framework for Financial Reporting: The Reporting Entity*.

68. The main comments raised were:

- a. Many respondents welcomed the proposals that respondents should assume that the framework's authoritative status will be elevated in the U.S. GAAP hierarchy comparable to IFRSs. They recommended that the Boards accelerate the phase on the authoritative status.
- b. Will the framework be mandatory for standard setters or will it merely serve as a guide for them?
- c. A number of respondents from the not-for-profit sector and jurisdictions which apply sector neutral standards expressed disappointment that the Boards continued to consider framework project initially to business entities in the private sector and only later consider other entities like the not-for-profit entities and other business entities in the public sector (GBEs).

Follow-up Items

None

General Announcements

None