

MINUTES



To: Board Members
From: Project Team (Beckendorff x 229)
Subject: Minutes of the April 11, 2007
Conceptual Framework Board Meeting **Date:** April 17, 2007
cc: Leisenring, Bielstein, Smith, MacDonald, Allen, Polley, Glotzer, Carney,
Lott, Gabriele, Sutay, Project Team, FASB Intranet, Upton, Hickey,
Crook, Lian, Hague, Villmann, Willis, GASB: Reese, Patton

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 B—Elements: Distinguishing Liability from Equity (3A) Claims Approach (continued)

Basis for Discussion: Memorandum No. 48A

Length of Discussion: 9:00 a.m. to 9:30 a.m.

Attendance:

Board members present: Batavick, Crooch, Herz, Linsmeier, Seidman, Trott, and Young

Board members absent: None

IASB members present: None

Staff in charge of topic: Bossio

Other staff at Board table: L.T. Johnson, Bielstein, Beckendorff, Benson, Carrick, Lott

Other staff by phone: Hague, Lian

Summary of Decisions Reached:

The Board discussed whether the conceptual framework staff should continue to explore and develop an approach (*claims approach*) that would replace the liability and equity elements with a single element. The Board decided not to devote its limited staff resources to developing the claims approach, but rather leverage off the forthcoming Preliminary Views that they expect to issue through their standards-setting project on liabilities and equity and the comments of constituents on that forthcoming document.

Objective of Meeting:

The objective of the meeting was for the Board to decide whether the conceptual framework staff should pursue the claims approach at this time. The objective of the meeting was met.

Matters Discussed and Decisions Reached:

1. Ron Bossio began the discussion by giving background on the issue. He stated that, in November 2006, the Boards asked the conceptual framework staff to explore the claims approach. He stated that the staff discussed the claims approach with the Boards in February 2007 and received mixed views as to whether the approach should continue to be pursued.
2. Mr. Bossio noted that the claims approach would have significant implications and stated that, given our available staff resources, the staff is suggesting that the claims approach, along with the other liabilities and equity cross-cutting issues, no longer be viewed as a near-term priority for the conceptual framework team. Instead, he noted that the staff suggests the Boards leverage off the forthcoming Preliminary Views expected to be issued through the standards-setting project on liabilities and equity and the comments of constituents on that forthcoming document.
3. Mr. Batavick asked whether or not the forthcoming Preliminary Views document would directly solicit comments relating to the claims approach.

Ms. Carnick replied that the liabilities and equity team had not gotten that far in drafting. She stated that the liabilities and equity team was open to Board suggestions regarding how to draft the Preliminary Views so that the conceptual framework team could best leverage off of it.

4. Mr. Batavick stated that there is an attraction to having assets on the left and claims on the right. He noted, however, that the “devil is in the details” and there would be significant implications associated with the approach. Mr. Batavick agreed with the staff recommendation not to use resources specifically on the claims approach right now, and that the conceptual framework team should leverage off of the Preliminary Views document to be issued by the liabilities and equity team. He stated that he would like the Preliminary Views document to be drafted in a way that would encourage constituents to provide comments on a claims-like approach.
5. Mr. Trott stated that the forthcoming Preliminary Views document should not articulate the claims approach; rather, it should solicit constituent feedback regarding a solution that effectively deals with the liabilities and equity cross-cutting issues.
6. Ms. Bielstien stated that Preliminary Views documents normally solicit comments on alternative solutions from constituents who do not agree with any of the solutions provided in the document. She stated that because constituents are aware of the claims approach, we can expect to receive comments on it.
7. Mr. Herz asked if the Board agreed with the staff recommendation not to devote resources to developing the claims approach, but rather leverage off the forthcoming Preliminary Views expected to be issued through the liabilities and equity team. Four Board members agreed; three did not (BH, TL, DY).
8. Ms. Seidman clarified that her decision is to **postpone** further consideration of the claims approach **pending** the exposure of a Preliminary Views document (that has not yet been voted on). She stated that it was her hope and expectation to receive good feedback from the user community. Mr.

Crooch agreed with Ms. Seidman and also clarified that his vote was not a vote to abandon the claims approach.

9. Mr. Herz clarified that this was a resource allocation decision at this time (not a decision to abandon the claims approach) and that this decision was subject to how the liabilities and equity team would draft the Preliminary Views document.
10. Board members that preferred to continue allocating resources to the development of a claims approach expressed their views. Mr. Herz stated that he believed there was potential in the claims approach. He noted that it was important to separate an entity's operations from how it is financed. He stated that financing is interchangeable and a line between liability and equity is very difficult to draw.
11. Mr. Linsmeier stated that he wanted to know the implications of these decisions on proceeding with work on the right hand side of the balance sheet by the conceptual framework team. He stated that he would be concerned about proceeding ahead with a liability definition that has a negative asset and contractual claims basis without having first contemplated where to draw the line between the right and left side of the balance sheet. He stated that time working on a liability definition would not be time well spent if it did not lead to an overall picture of the right side of the balance sheet. Mr. Linsmeier stated that within the elements phase, it might be a more productive use of resources to pursue recognition, derecognition, and unit of account from an asset perspective rather than continue working on the right hand side of the balance sheet (which could change subject to the information received from the liabilities and equity Preliminary Views document).
12. Mr. Hague clarified that the conceptual framework team could define a liability without having to first define a claim. He stated that issues as to what a liability is are equally issues as to what a claim is or what goes on the right side of the balance sheet, but drawing the line between the left and right hand side of the balance sheet can be addressed independently from drawing the line between liabilities and equity. Mr. Hague stated that the staff could move

forward with cross-cutting issues regarding the liability definition regardless of the liability and equity split.

13. Mr. Young stated that the claims approach should be further explored before drawing the line between liabilities and equity. He stated that choosing not to proceed with the claims approach would be choosing to ignore the interests of investors (our primary user group), who have expressed a number of times that a claims-type approach would be more relevant to them. Mr. Young noted that there was incongruity between the amount of effort the Board has spent trying to draw a line between liabilities and equity and the value that users get from that line. He added that a line between liabilities and equity created structuring opportunities, complexity, and lack of transparency.

Follow-up Items:

The liability and equity team will determine how to draft the Preliminary Views document so that the conceptual framework team and the Boards can best leverage off of it.

General Announcements:

None.