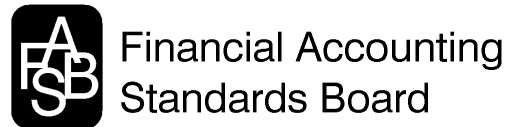


MINUTES



To: Board Members
From: Project Team (Prince x229)
Subject: Minutes of the October 20, 2008
Conceptual Framework (Phase B) Board Meeting **Date:** October 22, 2008
cc: Leisenring, Bielstein, Golden, Proestakes, Stoklosa, Allen, Polley,
Glotzer, Klimek, Lott, Gabriele, Sutay, Project Team, FASB Intranet,
Upton, Hickey, 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 and Recognition

Basis for Discussion: Memorandum No. 75

Length of Discussion: 11:00 a.m. to 12:00 p.m.

Attendance:

FASB members present: Herz, Linsmeier, Seidman, Siegel, and L. Smith
IASB members present: Tweedie, Jones, Barth, Cooper, Danjou, Engström, Garnett, Gélard, Leisenring, McGregor, J. Smith, Zhang, and Yamada
Staff in charge of topic: Rebecca Villmann and Ian Hague
Other staff participating: Lott, Clark, Mathys, Prince, and Johnson

Summary of Decisions Reached:

The Boards tentatively adopted the following working definitions of an asset and of a liability for Phase B (elements and recognition) of their joint project on the conceptual framework:

Definition of an Asset

An *asset* of an entity is a present economic resource to which the entity has a right or other access that others do not have.

- *Present* means that on the date of the financial statements both the economic resource exists and the entity has the right or other access that others do not have.
- An *economic resource* is something that is scarce and capable of producing cash inflows or reducing cash outflows, directly or indirectly, alone or together with other economic resources. Economic resources that arise from contracts and other binding arrangements are unconditional promises and other abilities to require provision of economic resources, including through risk protection.
- A *right or other access that others do not have* enables the entity to use the economic resource and its use by others can be precluded or limited. A right or other access that others do not have needs to be enforceable by legal or equivalent means.

Definition of a Liability

A *liability* of an entity is a present economic obligation for which the entity is the obligor.

- *Present* means that on the date of the financial statements both the economic obligation exists and the entity is the obligor.
- An *economic obligation* is an unconditional promise or other requirement to provide or forgo economic resources, including through risk protection.

- An entity is the *obligor* if the entity is required to bear the economic obligation and its requirement to bear the economic obligation is enforceable by legal or equivalent means.

Next Step

The Boards will consider at future meetings how the working definition of a liability interacts with the Boards' joint project on financial instruments with characteristics of equity.

Objective of Meeting:

The objective of the meeting was (a) to obtain agreement on whether the proposed changes would more clearly communicate the intended meaning of the asset and liability definitions and (b) to decide which, if any, of those changes should be incorporated into the definitions.

Matters Discussed and Decisions Reached:

ISSUE 1: IMPROVEMENTS TO THE ASSET AND LIABILITY DEFINITIONS

1. The staff informed the Boards that while drafting portions of the Phase B Discussion Paper, the staff identified several weaknesses with the working definition of an asset and of a liability. For example, the definitions do not follow a parallel structure and do not use similar terms, where possible. Furthermore, the link between the entity and the economic resource in the asset definition is not consistently described in the single-sentence definition and the supporting text.

Staff Recommendation

2. In order for the definitions to be more effective tools and to clearly communicate their intended meaning, the staff recommended to the Boards the following asset and liability definitions (and supporting text):

PROPOSED ASSET AND LIABILITY DEFINITIONS

<p>An <i>asset</i> of an entity is a present economic resource to which the entity has either a right or other access that others do not have.</p>	<p>A <i>liability</i> of an entity is a present economic obligation for which the entity is the obligor.</p>
<p>(a) <i>Present</i> means that on the date of the financial statements both the economic resource and the right or other access that others do not have exist.</p> <p>(b) An <i>economic resource</i> is something that is scarce and capable of producing cash inflows or reducing cash outflows, directly or indirectly, alone or together with other economic resources. Economic resources that arise from contracts and other binding arrangements are unconditional promises and other abilities to require provision of economic resources, including risk protection, that are enforceable by legal or equivalent means.</p> <p>(c) A <i>right or other access that others do not have</i> enables the entity to use the economic resource and its use by others can be precluded or limited. A right or other access that others do not have is enforceable by legal or equivalent means.</p>	<p>(a) <i>Present</i> means that on the date of the financial statements both the economic obligation exists and the entity is the obligor.</p> <p>(b) An <i>economic obligation</i> is an unconditional promise or other requirement to provide or forgo economic resources, including risk protection, that is enforceable by legal or equivalent means.</p> <p>(c) An entity is the <i>obligor</i> if the entity is required to bear the economic obligation and its requirement to bear the economic obligation is enforceable by legal or equivalent means.</p>

Board Vote

3. Nine members of the IASB (Cooper, Zhang, Engstrom, and Leisenring against) and four members of the FASB (Siegel abstaining) voted in favor of the staff recommendation.

Board Comments

4. Mr. McGregor stated that the economic phenomenon associated with a liability would be better described as an economic burden. The term *burden* provides a better basis for comparison with the economic phenomenon associated with an asset—an economic resource. He also noted that he does not like using the term *obligor* to describe the link between the entity and the economic phenomenon. He observed that the link describes the fact that the entity is obligated in respect to the economic burden that exists. He stated

that the link could be more simply described in the supporting text by using the following words: “An entity is obligated if it is required by legal or other enforceable means to bear the economic burden.” Mr. McGregor observed that the liability definition is confusing and does not clearly express: (a) the economic phenomenon and (b) the entity’s present link to that phenomenon.

5. Mr. Linsmeier stated that he is concerned with the lack of parallelism in part (b) of the accompanying text of the asset and liability definitions. He observed that he would not refer to the economic resource as “scarce” because the concept of scarcity is subsumed in the notion that an entity can limit access or the right to an economic resource from others. He stated that it is not important whether the resource is scarce; rather, it is the ability of the entity to limit the use of an economic resource by others that makes an economic resource the asset of an entity. Mr. Yamada noted that he would like to retain the notion of scarcity, specifically to address certain types of emission-rights schemes.
6. Mr. J. Smith questioned whether eliminating scarcity from the asset definition would raise problems for the liability definition. He observed that by eliminating scarcity from the description of economic resource, there may be an effect on the meaning of economic resource as used in part (b) of the liability definition.
7. Mr. Leisenring observed that the proposed definition of a liability appears to have all of the shortcomings that the Boards have been struggling with in FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, and the IASB’s amendment to International Accounting Standard (IAS) 32, *Financial Instruments: Presentation*, for puttable shares. He further observed that the proposed liability definition seems to preclude obligations settled in shares from being classified as a liability, which conflicts with the proposals in the Boards’ joint project, *Financial Instruments with Characteristics of Equity*. Mr. Leisenring stated that he thought the economic resource in part (b) of the liability definition was meant to refer to an economic resource that was capable of

being an asset to someone (not necessarily to the entity providing or forgoing the resource). Mr. Leisenring finished by observing that he thinks the Boards have made marginal progress on the asset and liability definitions. Mr. McGregor stated that making the distinction between the economic phenomenon and the link is useful in addressing option and forward-type contracts, for example, by drawing a distinction between an underlying and an option contract.

8. Mr. Linsmeier questioned whether it is necessary to refer to “legal or equivalent means” in part (b) of both definitions.
9. Mr. Yamada stated that he views rights as being legally enforceable rather than enforceable by “equivalent means”; on the other hand, the “equivalent means” notion may be applicable to *other access that others do not have*. As a result, he noted that *rights* should be separated from *other access* in the second sentence of part (c) of the asset definition. Mr. Yamada also questioned whether “by legal or equivalent means” described in part (c) of the liability definition would capture constructive obligations. Mr. Hague observed that “legal or equivalent means” is meant to include constructive obligations that are enforceable. Mr. Yamada noted the term *obligor* seems very strong and that different interpretations of *obligor* could arise across jurisdictions. Mr. Gerard stated that he agreed with using the term *obligor* because it has legal meaning.
10. Ms. Barth stated that what is important is that the Boards make clear what they mean. She noted that the Boards need to be comfortable with the definition of economic resource in the asset definition and how it fits in to part (b) of the liability definition. She noted that the definition of *economic resource* needs to be complete—including the notion of scarcity—so as to be understandable in part (b) of the liability definition. She also noted that she thinks the second sentence in part (b) of the asset definition is meant to make clear that an unconditional promise (not the “thing” that is promised) is an economic resource.

11. Mr. Cooper asked to what extent economic compulsion is included in the liability definition. He observed that the way he reads it, the concept of economic compulsion is not covered by the definition. Mr. Hague noted that economic compulsion is not meant to be included in the definition. Mr. Cooper questioned whether that decision rules out considering economic compulsion in the context of the Boards' project on financial instruments with characteristics of equity.
12. Mr. McGregor noted that part (b) of both definitions should not include the idea of being enforceable by legal or equivalent means. This confuses the economic resource with the link to that resource. He also observed that the proposed liability definition provides for a narrower view of what constitutes a liability than the current definition in the IASB Framework.
13. Mr. Danjou stated that he supports the staff's goal to establish parallelism between the two definitions. He also noted that the mention of "legal or equivalent means" does not need to be included in both parts (b) and (c) of the asset and liability definitions; it should be limited to part (c) because it is not part of the economic resource or obligation.
14. Mr. Clark noted that the exercise of distinguishing between the economic phenomenon and the entity's link to that phenomenon seems extremely complicated for contractual-type assets and liabilities. He observed that he does not understand what the benefit is from making that distinction. Mr. Lott agreed and noted that he does not understand how a promise can exist without there being parties to that promise. Ms. Villmann observed that there is a challenge in labeling a contract as merely an asset or a liability because a contract can have many components; the staff has tried to draft the definitions in such a way that they provide a tool to help constituents identify each different component (promises) of a contract.
15. Mr. Leisenring noted that the use of the phrase "access that others do not have" is awkward. He asked whether the Boards could achieve the same meaning by defining an asset as "a present economic resource to which the entity has a right or the ability to limit access by others." He noted that his

wording avoids the use of the control concept and still captures the reason why a resource is an asset—because a third party’s access can be limited. He further noted that others could have access to an entity’s economic resource as long as they provide consideration to access it. Ms. Barth noted that the phrase “access that others do not have” does work—the entity has access that others do not have because the entity does not have to pay anyone to access the resource.

16. Mr. Hague noted that Mr. Leisenring’s proposed words may not work because access can be limited by someone other than the entity.
17. Mr. Tweedie stated that the definitions should try to sum up the main concepts that the Boards are trying to convey. He noted his distaste of the liability definition. He questioned how something would be an obligation if the entity was not the obligor. Mr. Tweedie noted that he would like to move part of the supporting text into the definition to make the definition explicit. Mr. Leisenring noted that the Boards had considered using longer definitions but did not support such an approach.
18. Mr. Herz questioned whether it would be better if the liability definition simply stated that a liability is a present economic obligation of the entity. Ms. Barth suggested that another alternative would be to remove the reference to the entity so that a liability would be defined as a present economic obligation and an asset would be defined as a present economic resource. She observed that entities would then simply recognize their own assets and liabilities.
19. Mr. Tweedie observed that he would like the concept of economic resource to reside in the liability definition because a liability involves either forgoing or paying out economic resources.
20. Mr. Herz noted that he thinks an improved process should be put into place to address drafting concerns about the asset and liability definitions so that the drafting process does not involve the staff having to return to previous versions of the proposed definitions. He noted that, subject to some minor wording changes, he agrees with the staff’s recommended definitions. Ms. Barth and Mr. McGregor agreed.

21. Mr. Linsmeier pointed out that the definitions cannot be finalized until the distinction between liabilities and equity is addressed. He suggested that the staff stop drafting the asset and liability definitions and focus on the distinction between liabilities and equity. Mr. Hague noted that the staff's objective is to have the Boards agree on the proposed definitions as working drafts for future aspects of the Conceptual Framework project.
22. Mr. Yamada noted that he agrees with the asset definition, but does not agree with the liability definition.
23. Mr. Herz asked which Board members are in favor of using the staff's proposed definitions as working drafts, subject to minor wording changes.

Follow-up Items

None

General Announcements

None