



**Board Meeting Handout  
Conceptual Framework**

**April 11, 2007**

At today's meeting, the Board will consider whether, as part of the joint conceptual framework project, to explore replacing the liabilities and equity element with a single element, and the planning implications for other issues of the Liabilities and Equity milestone of the elements and recognition phase of the project.

**BACKGROUND**

The claims approach was discussed at the FASB February 13 education session and the IASB February meeting. During these discussions, it was learned that Board members are divided on whether the staff should pursue the claims approach. Some are opposed to devoting resources toward developing that approach, others support developing the approach, and still others have mixed views.

**ANALYSIS**

In reflecting further on the input received from Board members, the staff considered the limited staff resources available for the four active phases of the project. The staff also considered the opportunity to leverage off the forthcoming Preliminary Views (PV) document on liabilities and equity and the responses to it by constituents. The staff notes that, by not pursuing the claims approach, the following cross-cutting issues of the Liabilities and Equity milestone (Milestone V) will not be near-term priorities for the team:

- EL.25 Should there be a distinction between liabilities and equity?
- EL.26 Should there be only two elements? Why not three—debt, equity and dequity?
- EL.27 How should liabilities and equity be distinguished (for example, shares puttable at fair value)?

- EL.28 Should all elements be defined (if so, will anything fall through the cracks between the definitions) or should one be a residual (if so, which one)?
- EL.29 Should equity (once determined) be divided into various sub-classes (for example, reporting of parent and non-controlling interests—from the investor’s perspective as well as the issuer’s)? If so, is that division for presentation purposes only, or does it have broader implications?
- EL.30 Should minority interests be part of equity?
- EL.31 If settlement is in an entity’s own shares (or an other equity instrument), can an entity have gains or losses from transacting in its own equity instruments?

However, the staff also notes that certain Milestone V issues (for example, EL.27 and EL.30) will be considered in the context of the working definition of a liability; that is, as part of the work on Milestone IV—definition of a liability.

### **STAFF RECOMMENDATION**

The staff thinks it is best to leverage off of the forthcoming PV on liabilities and equity and utilize the input that the Boards will receive from constituents on the PV. The staff may learn that one of the three alternative approaches being exposed in the PV overcomes the need to consider another alternative, such as the claims approach. Thus, the staff does not plan to explore the claims approach further, but rather plans to focus on the other cross-cutting issues in the project.

### **QUESTIONS FOR THE BOARD**

1. Do FASB Board members agree with the staff’s plan not to pursue the claims approach, but rather to leverage off of the forthcoming Liabilities and Equity PV and the comments received on it?
2. Do FASB members also agree that the remaining cross-cutting issues of Milestone V are no longer priority issues and, thus, do not require staff resources at this time?