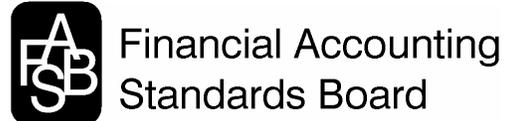


MINUTES



**To:** Board Members  
**From:** Project Team (Cowan x233)  
**Subject:** Minutes of the November 15, 2006,  
Conceptual Framework Board Meeting **Date:** November 21, 2006  
**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: Alternatives to Distinguishing between Liabilities and Equity

Basis for Discussion: Memorandum No. 43, dated October 31, 2006

Length of Discussion: 9:00 a.m. to 9:20 a.m.

Attendance:

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

Board members absent: None

Staff in charge of topic: T. Johnson

Other staff at Board table: Bossio, McBeth, Bielstein, and Cowan

Outside participants: Hague, Villmann, and Lian (via telephone)

Summary of Decisions Reached:

The Board discussed whether the conceptual framework team should further explore two possible alternative approaches to reconsider the existing definitions of liabilities and equity in FASB Concepts Statement No. 6, *Elements of Financial Statements*, and to attempt to sharpen the distinction between them. Those two alternatives are (1) defining only a single element, such as claims, or (2) defining more than two elements. The Board directed the staff to undertake such explorations, with an emphasis on developing the single element approach more fully and determining what the implications of adopting that approach might be.

Objective of Meeting:

The objective of the meeting was for the Board to provide direction to the staff on whether to explore alternatives to the existing definitions of liabilities and equity. The objective was met.

Matters Discussed and Decisions Reached:

1. Mr. T. Johnson started the meeting by explaining that the conceptual framework team has been working on developing a replacement for the existing definition of an asset in FASB Concepts Statement No. 6, *Elements of Financial Statements*. He stated that the purpose of the meeting was to discuss how the Board would like the conceptual framework team to approach its work in developing the definition of a liability. Mr. T. Johnson explained that the definition of a liability in Concepts Statement 6 parallels the existing definition of an asset. In previous meetings, Board members have indicated that the liability definition should continue to parallel the asset definition because for one party to have a liability, another party usually has a corresponding asset.
2. Additionally, Mr. T. Johnson explained that the liability definition is further complicated by determining what the distinction between liabilities and equity should be. He explained that the Board's current project on liabilities and equity has, for some time, tried to draw a distinction between liabilities and equity, but has not reached a solution upon which a majority of Board

members have agreed. For that reason, the staff of the conceptual framework team is suggesting the consideration of a different approach to the one being pursued in the liabilities and equity project. He stated that the conceptual framework team is proposing a different approach because it questions whether a hard and fast bright line (a) can be drawn between liabilities and equity that results in faithful representations of the items that fall on both sides of that line and (b) must be drawn between liabilities and equity.

3. Mr. T. Johnson stated that the Board, in its original project plan, had asked the conceptual framework team to address two cross-cutting issues: whether there should be (a) a distinction between liabilities and equity and (b) more than two elements on the right-hand side of the statement of financial position (that is, liabilities, equity, and one or more other elements). Because of these reasons, Mr. T. Johnson stated that the staff recommends the Board pursue a different approach by exploring whether the right-hand side of the statement of financial position should have (a) a single element or (b) three or more elements.
4. Mr. Young expressed concern over a potential claims approach having a predisposition to include operating and investing activities as part of the claims. He explained that he would make a distinction between returns from value creation activities and resources provided by capital suppliers, which is a more important question than the distinction between liabilities and equity. Mr. Young stated that he thought investors would generally look at capital supplying and value creation activities separately and that because of this, drawing a distinction between operating liabilities and claims from capital suppliers may be more helpful than distinguishing between liabilities and equity.
5. Mr. Linsmeier stated that it would be useful for the conceptual framework team to work on other alternatives given the difficulty that the Board has encountered in the liabilities and equity project. He stated that it may be necessary to have more than liabilities and equity. Mr. Crooch said that he expects that it will be hard to make the alternative approaches operational

and to get constituents to accept the broad change, but he supports the staff exploring the alternatives further.

6. Mr. Linsmeier later stated that he preferred the single element approach. However, he questioned whether claims with the same level of subordination could be dealt with through presentation. Mr. Linsmeier explained that he thinks it is worthwhile to consider whether presentation of claims of a similar level of subordination have sufficient homogeneity to define an item at the element level. He also explained that he still thinks that most of these issues can be resolved through display, which is his preference, since that is more consistent with a single element approach.
7. Mr. Trott stated that he thought the Board had made good progress in its liabilities and equity project and that the approach used to distinguish or not distinguish between elements on the right-hand side of the statement of financial position will still require the difficult task of separating the residual claims. Mr. Trott stated that he did not like developing an element in addition to liabilities and equity because it would not be useful. He stated that he would not object to looking at a single element approach for two to three months, but he did not expect anything new to come from the staff's additional work.
8. Mr. Young expressed strong support for the staff's recommendation to explore alternative approaches to defining liabilities and equity. He stated that exploring the approaches may also necessitate coordination with the financial statement presentation team for issues being considered in that project. Mr. Young stated that even if the staff's efforts did not result in a new approach, it should at least help the Board and the staff to better understand the differences between the accounting model and corporate finance, which Mr. Young thinks is a worthwhile endeavor.
9. Ms. Seidman stated that she also supports the staff doing further work on alternative approaches to the current liabilities and equity approach. She explained that she expects that the staff's work could provide helpful insights for the Board's decisions on the liabilities and equity project. Ms. Seidman stated that the alternative approaches may still require the Board to draw

distinctions, but that the work may provide the Board with an increased ability to articulate its reasoning for drawing distinctions between liabilities and equity. That is, it may give the Board a stronger rationale for choosing an approach in the liabilities and equity project. Ms. Seidman also stated that the timing of the staff's work would be important, since it should be completed before votes on the financial statement presentation and liabilities and equity projects are finalized. She reiterated that the staff's exploration of alternative approaches to define liabilities and equity could inform the Board's decision on its other projects and should therefore be completed as expeditiously as possible. Ms. Seidman noted that the single element approach followed more closely with the financial statement presentation project's tentative approach of presenting business and financing activities.

10. Mr. Batavick stated that he also supports the staff's recommendation to do exploratory work on alternative approaches to defining liabilities and equity. He stated that it is an important conceptual issue and one that should be investigated by the conceptual framework team. Mr. Batavick agreed with Ms. Seidman in that exploring alternative approaches to liability and equity classification is a good way to understand the conceptual basis for decisions in the liabilities and equity project. He also stated that the Board and staff need to be careful on the timing of the staff's work so that the work could be useful in making decisions in the Board's other projects without delaying them. Mr. Batavick expressed concern that the details of developing alternative approaches would prove to be difficult, especially in determining comprehensive income and presentation issues on the statement of financial position. Mr. Batavick explained that despite the potential difficulty, he agreed with Mr. Young that the project was a good research exercise for the staff and could provide useful information to the Board.

11. Mr. Herz stated that he supports the staff exploring alternative approaches as well. He explained that he agreed with Mr. Trott that the approach of developing more than two elements was not worth exploring since it would not resolve anything. Mr. Herz suggested that the staff focus on a single element approach. He explained that such an approach would help users of

the information understand risk and reward tradeoffs, cash flows, and other relevant information. Mr. Herz also stated that he agreed with Ms. Seidman and Mr. Batavick that the work should be completed in a timely manner to provide the Board with information to use in making decisions on the financial statement presentation and liabilities and equity projects. Based on the unanimous support of the Board, Mr. Herz instructed the staff to do further work on alternative approaches to defining liabilities and equity with an emphasis on the single element approach.

Follow-up Items:

12. The IASB reached the same decision at its meeting the following day.

General Announcements:

None