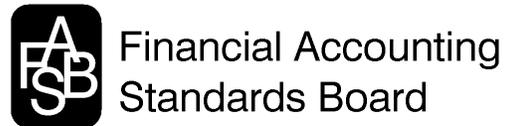


MINUTES



To: Board Members
From: Project Team (Prince x229)
Subject: Minutes of the November 5, 2008
Conceptual Framework (Phase C) Board Meeting **Date:** November 7, 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 C: Measurement

Basis for Discussion: Memorandum No. 77

Length of Discussion: 10:00 a.m. to 10:35 a.m.

Attendance:

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

Staff in charge of topic: McBeth

Other staff participating: Lott, Prince

Summary of Decisions Reached:

The Board discussed the beginnings of an approach to making standards-level decisions about measurement of assets and liabilities.

The approach under consideration would address both the theoretical merits and practical limitations of different types of measurements but would not lead automatically to a decision about measurement. It would describe the circumstances and factors that the Board should consider when making future standards-level decisions about measurement methods. More information about the approach discussed is available on the [project website](#).

The Board did not make decisions about the individual aspects of the approach discussed, but Board members supported the general ideas and directed the staff to continue to develop the approach at a high level.

Objective of Meeting:

The objective of the meeting was to discuss a possible way forward for Phase C (Measurement) of the conceptual framework project. The objective was met.

Matters Discussed and Decisions Reached:

ISSUE 1: PROPOSED WAY FORWARD

1. The staff presented to the Board a possible approach as a way forward for Phase C of the conceptual framework project. This approach would address both the theoretical merits and practical limitations of different types of measurements but would not lead automatically to a decision about measurement. It would describe the circumstances and factors that the Board should consider when making future standards-level decisions about measurement methods.

Staff Recommendation

2. The staff asked the Board if the proposed approach is something that it could support and, if so, how the staff should proceed going forward.

Board Vote

3. The Board did not make decisions about the individual aspects of the approach discussed, but all Board members supported the general ideas and directed the staff to continue to develop the approach at a high level.

Board Comments

4. Mr. Siegel asked the staff whether the proposed approach was meant to create a hierarchy of measurement bases. The staff noted that that was not the intent of the approach. Rather, the approach is meant to provide factors that the Boards would consider when selecting an appropriate measurement basis.
5. Ms. Seidman expressed support for the new approach. She thinks the approach would result in a Framework chapter that would help Board members think through measurement issues that are encountered in the standard-setting process. She also noted that the five factors provided by the approach are good groupings of the types of issues that Board members tend to think about when approaching measurement questions.
6. Ms. Seidman noted that the “Value/flow Weighting and Separation” factor is a valid factor for consideration. She also pointed out that more analysis is needed as to why, for loan assets and leased assets, both the value and the flows are important. She noted that she agrees with the assertion, but would like to understand what characteristics the staff thought about that led to the assertion.
7. Ms. Seidman noted that the approach and the conceptual framework should explicitly address when a profit margin should be considered in the valuation of a liability.
8. Mr. Herz stated that the thinking behind the proposed approach is very good. He then asked why the staff thinks a current value measurement basis would be better than an anticipated value measurement basis at predicting the amount, timing, and uncertainty of cash flows (see par. 9 of the Board Handout).

9. Mr. Herz observed that a more direct way to help users understand and forecast the amount, timing, and uncertainty of cash flows would be to provide forecasts of cash flows and ranges of cash flows; he noted, however, that the conceptual framework suggests that the best way to do that is to provide information about economic resources and obligations.
10. Mr. Herz stated that he is uncertain what is meant by a current value measurement basis versus an anticipated value measurement basis. The staff observed that it is not necessarily saying that a current value measurement of an asset on the balance sheet is a better indicator of the asset's future cash flows than information provided by a forecast, the cash flow statement, or the statement of comprehensive income.
11. Mr. Linsmeier noted that the staff's proposed approach is intriguing. However, he noted that the approach seems to be too focused on individual assets and liabilities and is not focused on how measurement facilitates investment and stewardship decisions. He stated that he does not agree with the focus of the approach on the six optimal conditions for using a current value measurement basis because it implies that if there is an observable, tradable price that a current value would be the appropriate measurement basis. He observed that the purpose of measurement is to value the entity as a whole or to help make stewardship decisions for the entity as a whole.
12. Mr. Linsmeier pointed out that the sum of the individual current values does not equal the value of the entity as a whole because measurement of individual assets and liabilities would not reflect existing synergies or, as noted by Mr. Herz, unrecognized items.
13. Mr. Linsmeier noted that when the Boards make measurement decisions, they need to consider how useful the chosen measurement basis will be at predicting the future value of the entity as a whole. He observed that, at times, the current value of individual assets may not be particularly useful if those assets are going to be used to create synergies or other assets that are not recognized. He noted that he is encouraged that the proposed approach considers circumstances where there are synergies between groups of assets

and liabilities. He also noted that using current values in the operating section of the financial statements might not be as useful in predicting future operating income if it introduced multiple measurement bases into the operating section of the financial statements. He noted that the focus needs to be on key subtotals and not on individual assets and liabilities if financial reports are to be useful, which may lead to a bias for using one measurement basis in each section (operating, investing, and financing) of the financial statements.

14. Mr. Lott stated that the approach under consideration does not contradict Mr. Linsmeier's comments. Rather, and perhaps it is not as clear as it could be, the approach does suggest considering assets as a group and not measuring assets within a group differently.
15. Mr. Linsmeier noted that the proposed approach should not ignore the notion of stewardship, even if it has been suggested that the stewardship objective might be satisfied by the same accounting that is used for investment decisions.
16. Mr. Smith stated that he agrees with the direction of the approach. He asked the staff how the activity in which an item is being used would influence the consideration of the five factors proposed by the approach. Mr. McBeth noted that the approach does not yet include considering the activity of an item. Mr. Lott observed that the staff had considered including that notion in two of the five factors.
17. Mr. Lott noted that two possible alternatives for moving forward with development of the approach are (a) to create a high-level outline of the whole approach and (b) to fine tune the parts of the approach that already have been developed before moving on to another aspect of the approach.
18. Mr. Linsmeier stated that he would prefer that the staff prepare a high-level outline of the whole approach. He stated that he thinks the five factors identified by the staff are likely the right factors for consideration. However, to make the five factors workable, a framework on how to apply and make tradeoffs between the factors needs to be developed. He noted that he does

not think addressing each issue separately will be successful. All of the other Board members agreed with Mr. Linsmeier's comment.

19. Mr. Herz observed that one of the factors to consider when selecting a measurement basis is the extent to which a basis would make it difficult to distinguish between flows and other aspects of changes in stocks (assets and liabilities), which factor appears to be implicit in the staff's proposed approach. He noted that his concern with using a historical cost measurement basis is that any associated amortizations pollute the flows unless completely segregated. He noted that one of the problems with a current value measurement basis is that if you don't distinguish the flows from the rest of the change in the value of an item, you lose a lot of information about the flows associated with the item.

20. Mr. Lott noted that the approach is meant to provide a set of decision rules for the Board and that he would prefer that the rules not necessarily push the Boards to a certain measurement basis in every single case.

21. Mr. Herz noted that grouping assets that produce cash flows together provides very useful information, although it could be argued that that is part of financial statement analysis. Mr. Linsmeier noted that the goal of the Board should be to facilitate financial statement analysis by their choices of measurement bases.

Follow-up Items

None

General Announcements

None