

## MINUTES



**To:** Board Members  
**From:** Gibbons (ext. 446)  
**Subject:** Minutes of the October 25, 2005 joint FASB/IASB Board Meeting: Conceptual Framework  
**Date:** November 2, 2005  
**cc:** Leisenring, Bielstein, Smith, Petrone, Mahoney, Polley, Lott, Gabriele, Carney, Sutay, Project Team, FASB Intranet, IASB Board members, IASB: Upton, Hickey, GASB: Reese, Patton, Attmore, Bean

*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.*

Topics: Process for Assessing Qualitative Characteristics; Objectives and Qualitative Characteristics—Do They Need to Differ for Particular Types of Entities?; Objectives for Financial Reporting—Staff Draft; Project Status, Plans, and Due Process

Basis for Discussion: IASB Agenda Papers 6, 6A, 6B, and 6C

Length of Discussion: 10:30 a.m. to 12:00 p.m. and 1:00 to 1:55 p.m.

Attendance:

Board members present: FASB: Herz, Schipper, Batavick, Crooch, Seidman, Young, and Trott  
IASB: Tweedie, Jones, Barth, Cope, Engström, Garnett, Leisenring, McGregor, O'Malley, Smith, and Whittington

Board members absent: Bruns, Gélard, and Yamada

Staff in charge of topics: Bullen, Villmann, Willis, and Bossio

Staff at Board table: Bielstein, Johnson, Bullen, Bossio, McBeth,  
Hague, Villmann, Willis, Hickey, Upton,  
Abbate, and Gibbons

Other participants: None

Summary of Decisions Reached:

The Boards continued their deliberations on developing a common conceptual framework. They discussed four matters and made the following decisions:

1. *The process for using qualitative characteristics of accounting information in developing standards for decision-useful financial reports.* The Boards discussed how to best illustrate the process for resolving issues raised by relationships between qualitative characteristics and directed the staff to proceed to drafting qualitative characteristics concepts.
2. *Whether the objectives and qualitative characteristics need to differ for particular types of entities.* The Boards concluded that there is no need to modify the objectives of financial reporting or qualitative characteristics of decision-useful financial reporting for any types of private sector entities. Cost-benefit constraints will be considered in November 2005. The Boards acknowledged that there might be differences in how certain qualitative characteristics are applied.
3. *Objectives for Financial Reporting staff draft.* The Boards gave the staff drafting directions, including the following:
  - a. The staff should not expend efforts to develop an appendix about the environmental context of financial reporting and the characteristics and limitations of financial reporting.
  - b. In the objectives portion, the key concepts will not be highlighted using the black letter/gray letter format used in the IASB's standards. The staff should consider other techniques (for example, side-headings and summaries) and how this might affect other phases.
  - c. The objectives will be described as those of financial reporting rather than of financial statements.
4. *Project status and plans, including due process.* The Boards decided that the first due process document for the objectives of financial reporting and

qualitative characteristics of accounting information will be an Exposure Draft.

Objective of Meeting:

The objectives of the meeting were to reach decisions on the following four matters:

- a. The process for using the qualitative characteristics of financial information in developing standards for decision-useful financial reports (other than cost-benefit considerations)
- b. Whether the objectives and qualitative characteristics should differ for different types of entities in the private sector
- c. The initial staff draft on the objectives of financial reporting
- d. The project status and plans, including due process.

The objectives of the meeting were met.

Matters Discussed and Decisions Reached:

**Qualitative Characteristics of Financial Information**

1. Mr. Bullen began the discussion on the qualitative characteristics of financial information. He stated that the Boards have already agreed on the following matters:
  - a. The qualitative characteristics of financial information, which have been defined and explained
  - b. Consideration of the qualitative characteristics is a process, not a hierarchy
  - c. The main sequence of the process
  - d. Cost-benefit is not a characteristic of decision-useful information, but rather a constraint, which will be considered further in November

- e. Materiality is something to be considered in the context of each financial report
- f. It is okay to look ahead in the process; for example, if it is clear a particular depiction will not be adequately comparable or understandable, one would immediately choose a new depiction instead of progressing through the process until the comparable or understandable steps are reached.

The issue for discussion is how best to communicate and depict the process. The paper for the meeting discusses a detailed chart as one possibility, but the main difficulty with that chart is that it is complicated and the Boards may want to consider a simplified process. The detailed and simplified charts are attached as Appendices 1 and 2. The process is for standard setters, but the staff can develop a similar process for preparers that would be helpful particularly in the international context.

- 2. Mr. Smith agreed that this is a tool for standard setters, but since both Boards are focused on creating principles-based standards, that notion should be incorporated into the chart. Less comparability is a result of more rules that treat like transactions differently.
- 3. Mr. Bullen stated that comparability is one of many qualitative characteristics to consider. Determining how to resolve issues sometimes leads to alternatives which may advance accounting. In certain cases, this may not be accomplished without a less comparable standard. The notion of principles-based standards does not appear directly in the diagram. Mr. Smith stated that when the “most relevant” depiction is not obvious, perhaps the focus would shift to comparability. The user of the process can consider whether there is a way to apply the qualitative characteristics to arrive at principles-based standards. If the most relevant depiction is chosen, and it is not comparable, that is an indication that there is a need for change. Mr. Trott stated that the chart is focused on the information produced from a standard—not the standard itself. Mr. Bossio stated that if the most relevant depiction is chosen and no

alternatives are allowed, that should result in comparability for that particular standard but perhaps not with standards for similar transactions. (For example, currently alternative accounting methods exist for measuring investments in equity securities. If the Boards decided to require a single, most relevant depiction for equities, that would improve comparability for those securities but it might not improve comparability with other investment securities outside the scope of that decision.)

4. Mr. Whittington stated that the first step of the chart is where principles come into play—the principles are used in selecting the phenomenon and in determining the most relevant depiction.
5. Ms. O'Malley agreed with Mr. Trott's statement that the focus of the chart is on the characteristics of the information produced by an accounting standard. The key issue for standard setters is to write a standard that produces information with these characteristics. The chart captures the general notions that are important. The chart is a communication device, but a more detailed version is appropriate for the Boards' use and a simplified version is helpful for external consumption. Mr. Trott disagreed and said that the simplified chart is a hierarchy. The feedback loops in the detailed process are important for viewing the process. He also stated that additional work on illustrating the process will not reap benefits.
6. Mr. Leisenring stated his view that the detailed chart also is a hierarchy. Mr. Whittington stated that the detailed chart has become too complicated and rigid and that he prefers the simplified chart. The simplified chart should be modified to show that the process is iterative. He sees elements of hierarchy and bargaining in the charts.
7. Mr. Herz stated that he is concerned about the decision to remove the cost-benefit box in the simplified chart in light of criticisms that the Boards are not making proper cost-benefit considerations in the standard-setting process. He expressed concern that it appears the Board subordinated cost-benefit considerations, and this is not the intention—the cost-benefit

- box should be included in the simplified chart. Mr. Hague noted that cost-benefits will be considered further in November.
8. Mr. Tweedie asked whether the staff will consider the process from the perspective of preparers in the future. Mr. Bullen said that the staff can prepare a chart for preparers that will guide them through the process of applying qualitative characteristics in developing accounting solutions based on the concepts in the absence of standards for a particular issue, but the Boards should decide whether to direct the staff to draft a chart for preparers. Mr. Leisenring stated that the process is not useful for preparers if they do not know the definition of the elements. Ms. Seidman stated that the narrative of the conceptual framework Statement should include discussion of elements and recognition. Ms. O'Malley said that the chart is a consideration of the qualitative characteristics, and once the Boards have considered the elements, that should be linked to the chart.
  9. Ms. Schipper asked why a chart is needed. A well-written narrative would resolve the concerns that have been raised in the discussion. Ms. O'Malley stated that it is useful to have a chart because it provides a concise way of looking at the qualitative characteristics. Even if some information from the text is lost in the chart, it is a good communication tool. Mr. Leisenring replied that the chart is not needed as a communications tool because we would have to spend time explaining it if it is distributed outside the organizations. The chart does not capture the richness of the process; it should be for internal use. Mr. Bullen stated that the intent is not to explain the individual qualitative characteristics, but to represent how the characteristics interact.
  10. Mr. Whittington stated that there are many variables and that the chart is helpful in explaining those variables—it is helpful for individuals who think well with visual aids. It is an illustration of how we think rather than a tool that tells us how to think. Mr. McGregor stated that the chart is useful in understanding relationships and that the Boards should use either the simplified or detailed versions. It helps the Board choose the conceptual

answer and demonstrates that judgment is part of the process. He asked whether the United States plans to consider including the conceptual framework in the GAAP hierarchy. Mr. Bullen stated that the GAAP hierarchy is currently being considered and the plan is to include the hierarchy in the FASB's literature. In the future, the Board may consider including the framework in the hierarchy, but there is some concern that this will lead to abuses by creative accountants. Mr. McGregor asked when that consideration will be made. Mr. Bossio stated that it's scheduled for a later phase of the project in which the staff needs to consider the status and implications of the inclusion of the framework in the hierarchy. Mr. Bossio also stressed the importance of communicating with constituents regarding our expectations for the role of the framework and forthcoming due process documents.

11. Mr. Herz stated that there is an abundance of accounting literature in the United States and that the work being conducted on the codification project may help facilitate a decision about the role of the framework. The users should first consult the standards for the appropriate accounting. A concern is that there are a lot of standards that are inconsistent with the framework. Mr. Tweedie stated that the chart is helpful and useful if read in conjunction with the text that describes the characteristics.
12. Ms. Willis asked whether the Boards preferred the detailed or simplified charts so that she can consider that in the drafting of the text. She suggested that the Boards wait until the staff drafts the text section of the qualitative characteristics before making a final decision on whether to include a chart, and if so, which chart to include.
13. Ms. Schipper stated that the staff should proceed to a draft of the qualitative characteristics. She stated that the chart is not a helpful, cost-effective device in the sense of creating more insights than the cost to create it. She stated that the chart should not be included in the conceptual framework Statement.

14. Ms. Barth agreed with proceeding to a staff draft. She stated that she agreed with including the chart, but that a combination of the detailed and simplified chart may be helpful. The detailed chart is too complicated, but the simplified chart does not capture the feedback loops and the process. She suggested a simplified chart that also contains some feedback loops.
15. Mr. Crooch suggested using the detailed chart as a drafting aid, and later determining whether to include the chart in the conceptual framework Statement. Mr. Bossio encouraged the Boards to provide some direction, but to leave some discretion to the staff in drafting. While four Board members (Ms. Schipper, Mr. Leisenring, Ms. Barth, and Mr. Engström) voted against inclusion of the chart in the conceptual framework Statement, the Boards decided to leave the inclusion of a chart as a decision to be made in drafting.

**Objectives and Qualitative Characteristics—Do They Need to Differ for Particular Types of Entities?**

16. Ms. Villmann began the discussion of whether objectives and qualitative characteristics need to differ for particular entities. The scope of this topic is limited to Phase A of the Conceptual Framework project and considers only business entities that operate in the private sector. This is the first time of many that conceptual framework proposals will be reviewed to assess whether they should be tailored for different entities. The staff's recommendation is independent of cost-benefit analysis that will be discussed in November 2005. The recommendations could change in the future as the project progresses. In researching this topic, the staff consulted the frameworks of other standard setters and found that the frameworks were pertinent to all entities and that no standard setter had tailored or modified the objectives and qualitative characteristics. Certain standard setters have adapted accounting standards for particular types of entities. This paper does not consider whether the qualitative characteristics could be applied differently to different entities and it does not rule out the possibility that different standards could be developed for

different types of entities. Ms. Villmann asked the Boards whether they agreed with the staff's assessment that there is no need to modify the objectives of financial reporting and the qualitative characteristics of decision-useful financial reporting for any particular type of entity.

17. Mr. Leisenring agreed with the staff's conclusions. Mr. Trott agreed with the staff's conclusions, but expressed concern with the discussion of understandability, which indicated that it varies depending on whether one believes the users to be sophisticated or unsophisticated. This seems to indicate that there are different user characteristics for different entities and conflicts with the definition of understandability. Ms. Villmann stated that the view in the paper is that understandability requires users to have a reasonable level of business, economic, and accounting knowledge and beyond that level of knowledge there may be a wide range of users with differing levels of knowledge. All users are expected to put forth effort to understand the information.
18. Mr. Whittington agreed with the staff's conclusions, but stated that the emphasis given to the different qualitative characteristics may differ for different types of entities, even though the characteristics themselves are the same. Mr. Bossio cautioned that the term *wide range of users* could be misunderstood to imply users besides those who are focused on economic and resource allocation decisions and, thus, is not sufficiently precise for purposes of this discussion. Mr. Batavick supported the staff's conclusions and commented that the staff set a good foundation to conceptually support that the objectives and qualitative characteristics are applicable to all types of private entities. He also acknowledged that the qualitative characteristics may be applied differently, but that the qualitative characteristics themselves will be the same. For example, cost-benefit may be assessed differently for different entities.
19. Mr. Jones stated that the table on page 4 of Agenda Paper 6A (that classifies users of smaller/non-publicly accountable entities' financial reporting based on their ability to require additional information) is too

black and white and may be misleading. Ms. Villmann stated that the table represents the general findings from the research. The staff acknowledged that is a wide range of situations and agreed that users could be classified in either column based on particular facts and circumstances.

20. Mr. Herz stated that he is concerned about focusing only on users who cannot compel information from management. He noted that information useful to those users often is useful to others, as well; thus, we should also be concerned with providing information to people who can compel information from management. Mr. Hague stated that this concern will be addressed in drafting.

### **Objectives for Financial Reporting Staff Draft**

21. Ms. Willis began the discussion by noting that the Board members had received a staff draft of the section of the conceptual framework. She also noted that the converged conceptual framework would be a different kind of document than any either Board had issued in the past. The staff thus sought the Boards' views on whether the staff draft reflects what the Boards want, as well as on a few issues that arose in drafting.

22. Ms. Willis asked the Boards to comment on several general matters concerning the draft, including its organization and length, and whether the split between the material included in the concepts section and that included in the basis for conclusions is appropriate. She also asked whether the "key concepts" should be highlighted in a manner similar to the black letter/gray letter format used in IASB standards. The staff draft reflected a first pass at highlighting the key concepts in that manner so that the Board members could evaluate how it might work.

23. Mr. McGregor stated that he liked the layout of the draft and thought its length was good. He also stated that he thinks the black letter/grey letter format is not helpful for a conceptual framework Statement. Mr. Leisenring agreed and added that if the black paragraphs are the key points, and

- there is only one primary objective of financial reporting, then why would four paragraphs be in black letter in the draft.
24. Mr. Jones stated that, in general (that is, not necessarily in relation to a conceptual framework document), non-English speakers had strongly supported the black/grey format because it helps them better understand International Financial Reporting Standards.
25. Mr. Whittington stated that the overall length of the draft is all right, if a bit long, but that the framework part of the draft (the part that presents the concepts themselves) is too long. If the basis for conclusions explains the reasoning underlying the concepts, then the framework part can be more concise. He supported using the black/grey format in the conceptual framework Statement.
26. Ms. Barth stated that this may not be the time to decide whether to use the black/grey format because this draft is the beginning of a longer document. It may be appropriate to have only one black letter paragraph in this first section to highlight the objective of financial reporting. Because there is currently only one section, it may look odd to have only the one black paragraph, but at the conclusion of the project (when this section will be the beginning of a longer document) it may be appropriate to have only one black letter paragraph. She asked for confirmation that the conceptual framework would be a single document when completed. Ms. Willis responded that the plan was to issue the conceptual framework, when completed, as a single document.
27. Ms. O'Malley stated that the draft was very readable and that she agreed with Ms. Barth that it may be too early to make a decision on whether to use the black letter/gray letter format.
28. Ms. Seidman stated that the length of the draft was appropriate and that she liked its organization. She did not see a need to use bold (black) lettering as long as the organization of the document remained the same as in the staff draft.

29. Mr. McGregor thinks that it would not be worth the effort to identify and eventually agree on the paragraphs that should be highlighted with black lettering. Ms. Willis stated that the staff had differing views on the usefulness of the black letter/gray letter format and thus did not provide a recommendation. However, she said that personally she thinks the black/grey format is not especially helpful and that a well-done summary could achieve the same objective. The Boards might reconsider the issue later in the project, when more parts of the framework have been drafted.
30. Mr. Tweedie stated that he prefers the black/grey format because it helps to highlight the key points. For example, he liked using black letter to highlight that the objectives reflect the perspective of the entity rather than the perspective of existing common shareholders or any other single group of users.
31. The Boards agreed to move forward on the staff draft without the black/grey format and to reconsider its use as appropriate later in the project.
32. Ms. Willis stated that in preparing a draft of the objectives of financial reporting that presents only the concepts themselves, with supporting rationale in a basis for conclusions, quite a bit of material was dropped from FASB Concepts Statement No. 1, *Objectives of Financial Reporting by Business Enterprises*. She referred the Board members to paragraphs 9–23 of Concepts Statement 1, which discuss the environmental context of financial reporting and the characteristics and limitations of financial reporting information. She asked whether the staff should develop an appendix to the conceptual framework Statement to cover that material.
33. Mr. Trott stated that the staff should not work on developing an appendix to cover the material at this time. He stated that some of the material may be included in other sections of the converged framework, but if it is not and at a later date the Boards think the material is needed—the staff can work on it then. Mr. Batavick stated that the material would need to be updated and that he did not think it would be worth the staff’s time to work on it now.

34. The Boards agreed that the staff should not at this time develop an appendix to the conceptual framework to discuss the environmental context of financial reporting and the characteristics of financial reporting information.
35. Ms. Willis noted that earlier discussions of the converged conceptual framework had implicitly assumed that the objectives should be described as those of financial reporting (as in the current draft) or only of financial statements (as in the existing IASB *Framework for the Preparation and Presentation of Financial Statements*).
36. The Boards affirmed that the objectives should be described as those of financial reporting.
37. Ms. Willis noted that a convergence issue was deferred to be dealt with in drafting. Paragraph 43 of Concepts Statement 1 says that “the primary focus of financial reporting is information about an enterprise’s performance provided by measures of earnings [comprehensive income] and its components.” The IASB *Framework* contains no such statement identifying one financial statement, or item of information, as more important than any other. She said that the draft reflects the staff’s recommendation not to carry forward the designation of information about earnings or comprehensive income as the primary focus of financial reporting. The reason that statement was originally included in Concepts Statement 1 involved differences among the views of Board members at that time—it may have been an attempt to “paper over” certain differences. That reason no longer applies. Moreover, the statement about the primacy of information about comprehensive income and its components has no apparent implications for future phases of the project.
38. Mr. Leisenring was concerned about dropping the discussion of performance information in paragraph 43 of Concepts Statement 1 because some constituents would think that the Boards do not care about the income statement and only care about the balance sheet. He stated that the framework should state that performance information is key and that comprehensive income and its components are important to users.

- The only robust, conceptual anchor for measuring comprehensive income is to base the measure on changes in assets and liabilities and that excludes changes in items that are not assets or liabilities.
39. Ms. Schipper liked how the draft avoided the use of words like income, revenue, and expense except in the context of examples. By focusing on resources, claims to resources, and changes in resources and claims, the objective of financial reporting does not depend on the definition of the elements of financial statement or on the notion that there is a construct of income. She stated that she approved of the removal of the language from Concepts Statement 1 because of its reference to items that have not yet been defined.
40. Ms. O'Malley stated that it may be helpful to acknowledge that a focus of accounting is future net cash inflow, and that income measured by accrual accounting is the best long-term indicator of future net cash inflows. She said that the draft might include language stating that a focus on performance is useful because it is a way of understanding what an entity's future net cash inflows may be.
41. Ms. Barth did not want to identify performance measures as primary. She stated that at the previous day's meeting, users said that they did not prefer a single number as an indicator of performance and that as long as the components were present, a total may not be necessary. She stated that she would not identify any single item of information as primary.
42. Ms. Willis stated that as she now understood Mr. Leisenring's concern, she thought the draft could deal with the concern without pointing to one number or type of information as primary.
43. Ms. Schipper questioned whether Mr. Leisenring would accept in the basis for conclusions the reasoning behind paragraph OB20 of the draft, which discusses performance information without referring to specific measures, along the following lines:

For some entities, the change that is referred to in paragraph OB20 goes by a variety of names, such as earnings or

income. The Boards contemplated using those terms in the document, but concluded that they do not communicate the idea that entities start with a list of their resources and claims and then calculate changes in them. Displays of those changes have equal prominence with the displays of the original list of resources and claims, which makes the information useful.

44. Mr. Leisenring stated that such language would help and that he did not want to focus on one number, such as comprehensive income. He stated that he simply wanted to make it clear that there is no alternative way of measuring income other than by measuring the changes in the entity's resources and the claims to them.
45. Ms. Schipper stated that she believes her proposed basis for conclusions reasoning does that. She stated that changes in resources and claims cannot be calculated without first listing them. Ms. Barth stated that she did not believe that everyone understood or accepted that calculating changes in resources and claims is what accountants should do in developing information about an entity's performance.
46. Ms. Willis then referred to the introductory paragraphs of the staff draft, which describe the expected users of the framework, beginning with "standard-setting bodies such as the IASB and the FASB." She noted that the IASB *Framework* (paragraph 1(c)) indicates that one of its purposes is to "assist national standard-setting bodies in developing national standards." She asked whether the introduction should also refer to "national standard-setting bodies" in discussing the expected users of the conceptual framework.
47. After a brief discussion, the Boards supported a reference to "standard-setting bodies" without specifying either the IASB or the FASB or other national stand-setting bodies. The Boards also decided that no reference should be made to implementation bodies, such as the FASB's Emerging Issues Task Force or the IASB's International Financial Reporting Interpretations Committee.

48. Mr. Leisenring stated that another user of the conceptual framework may be the preparer when there is no specific accounting standard covering a particular transaction. Ms. Willis stated that the U. S. hierarchy of authoritative guidance differed from the international hierarchy on that point. Mr. Leisenring responded that the FASB should decide whether it was going to converge to the IASB's position on preparers' use of the conceptual framework.

### **Project Status, Plans, and Due Process**

49. Mr. McGregor made reference to a letter submitted on behalf of the chairs and senior staff of the national standard-setters of Australia, Canada, New Zealand and the United Kingdom (the group) requesting that the Boards discuss the conceptual framework plan for addressing its applicability and relation to not-for-profit and public sector entities. The letter encourages the Boards to consider all entities at each stage of the project, rather than waiting for a much later phase to consider not-for-profit entities. Mr. Bossio noted that all Board members received a copy of that letter and stated that the staff appreciates the merit of that group's view and have found the comments of the group's monitoring helpful. He added, however, that considering not-for-profit entities within each of the phases may distract the Boards and staff from the priority to cross-cutting issues.

50. Ms. Bielstein suggested delegating work to the national standard-setters so that the staff can conserve resources while conducting more work on not-for-profit entities concurrently.

51. Mr. Leisenring stated that he is troubled by the fact that the letter asks the Boards to agree with the conclusions the national standard-setters have made when the Boards have not yet reached those conclusions. In the past the FASB reached the conclusion that the not-for-profit sector is not significantly different from the private sector, and that conclusion has not been reached about the governmental sector. Definitions, for example of elements, may differ for governmental and non-governmental entities. Mr. Bossio stated that in the United States the Governmental Accounting

Standards Board (GASB) currently has a conceptual framework project in which they are considering elements.

52. Mr. McGregor expressed concern about efficiency. He stated that if the implications for not-for-profit organizations can be considered concurrently without slowing down work in other areas, the suggestion of the four chairs and staff may be worth pursuing.
53. Mr. Upton stated that “sub-contracting” the work may be inefficient with the team approach that is pivotal to the staff’s work. A substantial amount of time may have to be spent managing the sub-contractor. Mr. Bullen agreed with Mr. Upton’s viewpoint on sub-contracting; it would divert the staff’s focus and the sub-contractor may progress in an unfavorable direction.
54. Ms. Barth stated that the order as originally planned is correct and that the national standard-setters’ proposal would slow down our work considerably. Mr. Herz commented that the letter asserts that the Boards would have a richer discussion on business enterprises and create a better framework if not-for-profit entities are considered concurrently. Mr. Herz indicated that based on the staff’s comments, the staff believes that simultaneous consideration is not necessary for reaching sound decisions on business enterprises. Mr. Bossio stated that considering this issue concurrently will be more difficult in future phases and require additional staff and Board time. Mr. Whittington stated that it is important to encourage groups such as national standard-setters to provide us feedback on our decisions—if we are making decisions that are inconsistent with other sectors, they will inform us of that.
55. Mr. McGregor stated that it is important for the Boards to be responsive; there is likely concern that by leaving consideration of not-for-profit entities for a later phase, the Boards will be perceived as not serious about their consideration of such entities.

56. Mr. Tweedie stated that he is concerned about slowing down the project. The Boards have debated this issue previously and decided to progress in the current manner. The second issue is that there are jurisdictional concerns for the FASB and because of recent changes to the IASB Constitution, which specifically to do not encourage focusing on the not-for-profit and public sector entities at this time.<sup>1</sup> He also stated that financial statement presentation and contributions are two characteristics that distinguish not-for-profits from business entities.
57. Mr. Bossio also noted that the FASB has addressed the objectives of financial reporting by not-for-profit organizations (FASB Concepts Statement No. 4, *Objectives of Financial Reporting by Nonbusiness Organizations*) and acknowledged the usefulness of providing information about an organization's service efforts and accomplishments but noted that unlike the status of the IASB *Framework*, the FASB's concepts statements do not require a change in existing GAAP or justify changing existing GAAP. Thus, the inclusion of that objective does not require not-for-profit organizations to provide information about service efforts and accomplishments as part of their general purpose financial statements. Introducing such broader objectives as part of Phase A might be desirable under the group's view, but he cautioned that further consideration of the status of the framework also would be required sooner than planned.
58. Mr. McGregor stated that we should encourage the group of four chairs and senior staff to continue monitoring and providing feedback. He added that the Boards should be upfront about their plans if they are not going to consider the public sector dimension at any time. Mr. Tweedie stated that we will consider the public sector in the future, even though it's not our

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<sup>1</sup> Paragraph C8 of the July 2005 Changes in the IASC Foundation Constitution, *Report of the IASC Foundation Trustees*, says "...the Trustees considered whether the organisation's objectives should include developing accounting standards for not-for-profit and public sector entities. While the Constitution would not prohibit the preparation of standards for not-for-profit and public sector entities, the Trustees believe that, because of other priorities and resource constraints, focusing on the public sector and not-for-profit entities is impractical at present. The Trustees plan to revisit the question of not-for-profit and public sector accounting in a few years' time."

- focus at the moment. Ms. O'Malley stated that we will be monitored with or without our encouragement. She suggested that in drafting we should be very careful in choosing our words, avoiding words that may be problematic for other sectors in the future.
59. Mr. Jones agreed with Mr. McGregor and stated that it would be difficult to walk away from considering the application of the framework to not-for-profit entities entirely at this time. He suggested the Boards and staff maintain their contact with national standard setters.
60. Mr. Bossio continued the discussion of the staff plans for the next six months, which is outlined in the Agenda Paper 6C. He noted that in November the staff will present a paper on cost-benefits—the last component of Phase A. Ms. Willis will begin drafting the qualitative characteristics portion of Phase A and tentatively expects to present her first draft for other staff review in mid-November. (That draft is likely to reach the Boards by mid-December.) In December, we will begin discussions on the reporting entity, led by Ms. Crook, and the definition of assets, led by Mr. Hague. Mr. Bossio asked if there were any questions about the immediate plans. There were none.
61. The staff asked that the Boards discuss the staff's preliminary thinking about due process documents. The staff noted that it believes that it is not necessary to have two rounds of exposure and comments on a Phase A document since the changes are not that significant. This, however, is not intended to set a precedent for future phases.
62. Ms. Schipper asked for clarification that the document will be an Exposure Draft, and whether alternative views will be included in the document. Mr. Bossio stated that if the Boards agree that seeking comments once is appropriate, it would be an Exposure Draft and alternative views will be presented. Ms. Schipper stated that she intends to present an alternative view if the document is released before her departure from the Board.

63. Mr. Tweedie agreed with the staff's recommendation and suggested that it would be helpful to explain in the Exposure Draft that the changes are not considered substantial. Ms. Seidman agreed that the changes are not fundamental, but that cross-cutting issues to be considered in subsequent phases may create the need for future change. Ms. Seidman asked whether it might be better to hold this document and expose it together with future documents when those future phases are complete. She expressed concern about potential inefficiencies from exposing the Phase A document in the near future, when decisions made on cross-cutting issues such as the reporting entity and prospective information may necessitate change in the future.

64. Mr. Bossio stated that some of the staff have considered the implications of Ms. Seidman's alternative but noted that other inefficiencies may arise if there are significant changes in the composition of the Boards that deliberated the issues and the members that are asked to ballot on the document to be exposed. Mr. Leisenring stated that if there are significant changes made to any exposure document, under the Boards' present policies the document would need to be re-exposed, and added that it is better to present the decisions to constituents in steps. He added that the document should be an Exposure Draft with an indication that the changes may not be finalized as written.

65. The Board decided that the initial due process document for Phase A will be an Exposure Draft, with Ms. Seidman being the only member disagreeing. Mr. Batavick asked whether the phases of the project will be communicated in the Exposure Draft. Mr. Bossio indicated that such communication would be desirable in the Exposure Draft and through articles and other communications.

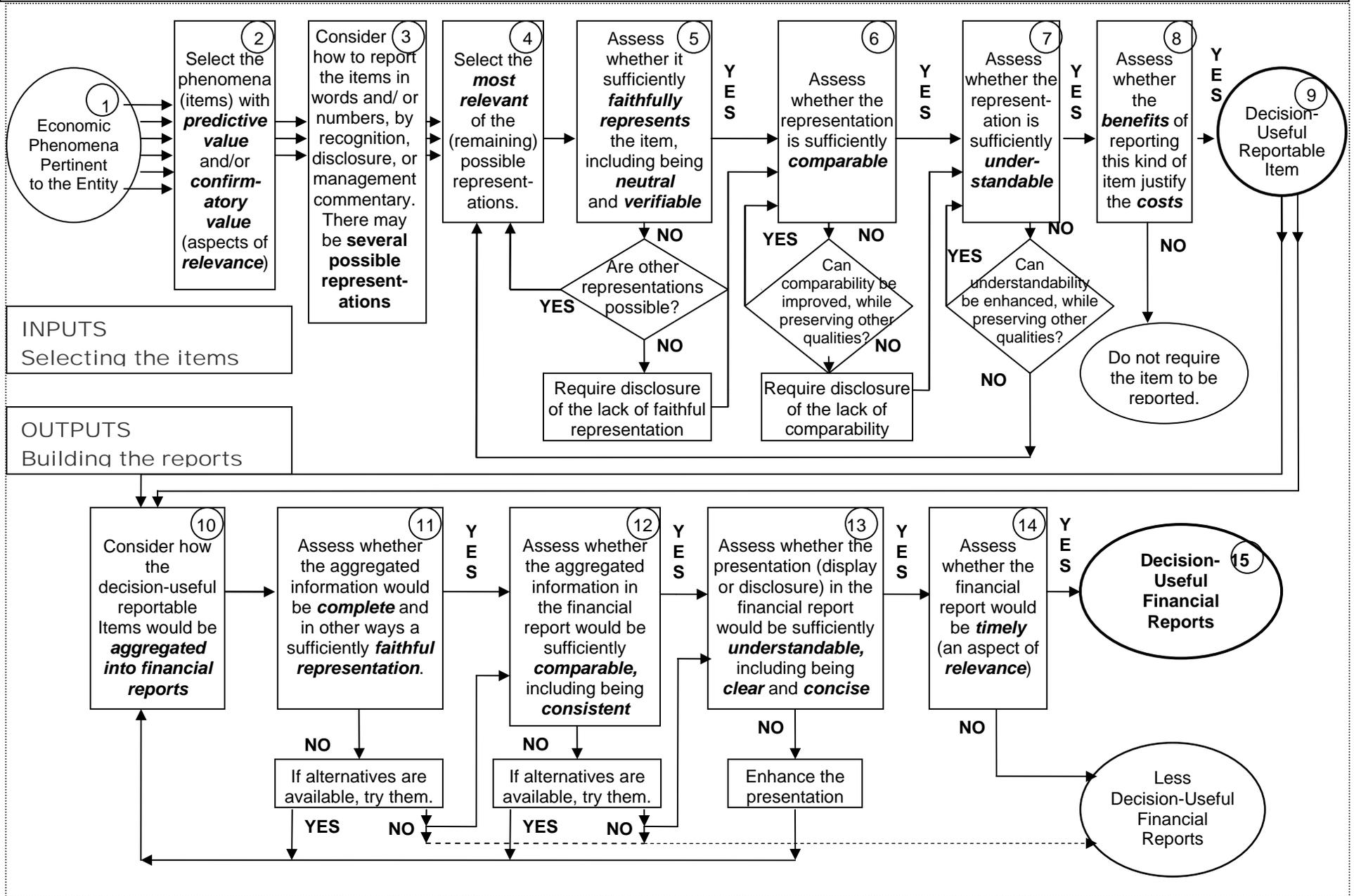
Follow-up Items:

None.

General Announcements:

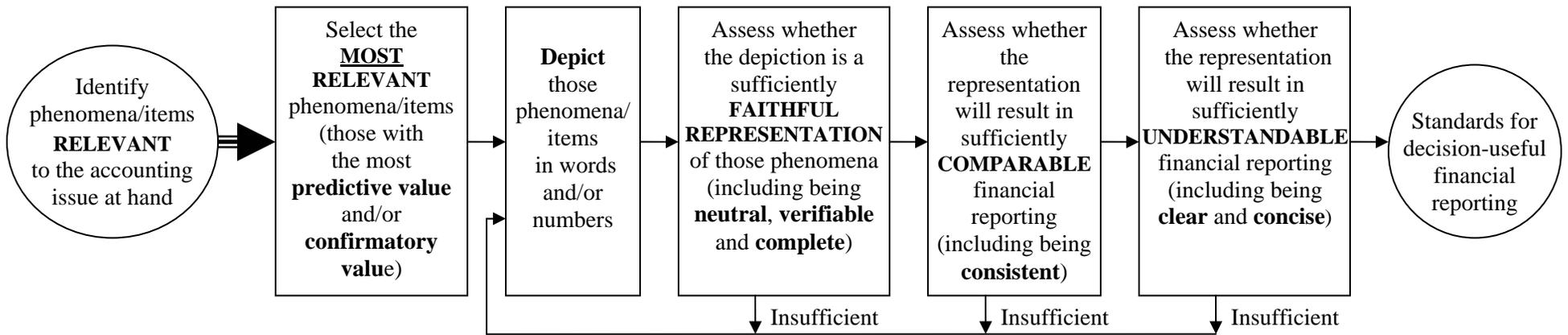
None.

# Appendix 1: Using the Qualitative Characteristics for Setting Standards for Decision-Useful Financial Reports



Simplified chart, revised in light of Board discussion.

**A SIMPLIFIED VIEW OF THE PROCESS  
 FOR CONSIDERING QUALITATIVE CHARACTERISTICS OF DECISION-USEFUL  
 FINANCIAL INFORMATION IN DEVELOPING FINANCIAL REPORTING STANDARDS**



The process involves **JUDGMENT** (including considering whether benefits justify costs, and considering alternative depictions if faithfulness of representation, comparability, or understandability are judged to be insufficient)