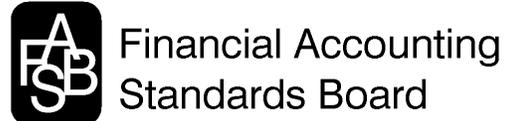


MINUTES



**To:** Board Members  
**From:** Project Team (Chesney x 447)  
**Subject:** Minutes of the September 19, 2007  
Conceptual Framework Board Meeting **Date:** September 20, 2007  
**cc:** Leisenring, Bielstein, Golden, MacDonald, Allen, Polley, Glotzer,  
Klimek, 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: Phase D: Reporting Entity

Basis for Discussion: Memorandum No. 64

Length of Discussion: 10:15 a.m. to 11:30 a.m.

Attendance:

Board members present: Herz, Batavick, Crooch, Linsmeier, Seidman,  
and Smith

Board members by phone: Young

Staff in charge of topic: Kimberley Crook

Other staff at Board table: L.T. Johnson, Bossio, Bielstein, and Chesney

Summary of Decisions Reached:

At the September 19, 2007 meeting, the Board discussed a revised draft of the preliminary views document on the reporting entity. Specifically, the Board discussed how the staff incorporated Board member comments and other comments on the draft and whether any further issues needed consideration before proceeding with publication of the preliminary views document.

The Board agreed that the revised draft responded appropriately to the comments received, subject to some minor clarifications. The Board also confirmed that there were no further sweep issues to be discussed before proceeding to publication.

Objective of Meeting:

The objective of the meeting was to (1) discuss comments received regarding Section 1 of the pre-ballot draft; (2) discuss comments received regarding Section 3 of the pre-ballot draft, specifically parent-only and consolidated reporting; and (3) discuss whether further issues should be discussed before preparing the ballot draft for publication. The objective of the meeting was met.

Matters Discussed and Decisions Reached:

**Issue 1: Comments Received Regarding Section 1**

1. Kimberley Crook stated that the substantive issues from comments received addressed the purpose of Section 1 of the preliminary views document and inconsistency between Section 1 and Section 2. She noted that the IASB suggested further clarifications of Section 1, specifically regarding reporting entities that are part of a larger entity and what constitutes the “circumscribed area of business activity”. Additionally, the IASB pointed the staff to current guidance that might help further develop Section 1 and discussed how these issues also might be addressed at the standards level.
2. Tom Linsmeier questioned whether the IASB’s discussion was helping distinguish between a top-down and a bottom-up entity consolidation. Ms.

Crook noted that Section 1 is from the perspective of an individual entity, including something that is a component of a larger entity (bottom-up) and Section 2 is from the perspective of a group entity (top-down consolidation); this difference can cause confusion as to whether a reporting entity has successfully drawn its boundaries. Ms. Crook also noted that the IASB discussed the qualitative characteristics and standards-level requirements, such as note disclosures, that may help address this issue. Mr. Linsmeier noted that Section 1 should explain why it is possible for individual subsidiaries to be considered providing general purpose external financial reports for the same reasons given for branches and sole proprietorships.

3. Mr. Linsmeier noted inconsistencies within the document regarding general purpose external financial reports and special purpose reports and who can prescribe the information they need. Specifically, those who decide whether and how entities report may be able to require information without addressing the differences between general purpose external financial reporting and special purpose reports. Bob Herz noted that those who decide whether and how entities report might be informed by the discussion in the reporting entity section of the conceptual framework, if the section is worded more clearly. Ms. Crook agreed that the staff would further develop the discussion in the document to clarify these issues.
4. George Batavick questioned whether the wording changes in the objectives and qualitative characteristics section of the framework will be incorporated into the reporting entity section. Ron Bossio noted that the objectives and qualitative characteristics section is a moving target, and the links between the sections will be achieved through further drafting.
5. Larry Smith noted that some of the concepts have changed from an economic focus to a business focus. Sue Bielstein stated that the staff is currently focusing on the activities of business enterprises and will focus on any changes to the framework regarding not-for-profit activities in a later phase of the project. Mr. Bossio mentioned that the project team is conscious of not-for-profit issues, but decided to keep the framework focused on business entities at this point. Leslie Seidman questioned whether it is

necessary to narrow the focus from economic activities to business activities. Mr. Linsmeier explained that the objective of this narrower focus is to separate business and personal assets of the owner; further, “business” does not necessarily distinguish for-profits from not-for-profits.

## **Issue 2: Comments Received Regarding Section 3**

6. Ms. Crook noted the Board’s previous decision to allow aggregated information of parent entities under limited circumstances. Ms. Crook noted that this decision is part of the important discussion point of the decision-usefulness of parent-only information, which considers whether (1) both consolidated and parent-only accounts always should be provided, (2) consolidated accounts always should be provided and parent-only accounts sometimes should be provided, or (3) parent-only accounts never should be provided, but parent-only information may be presented in the notes to the consolidated financial statements.
7. Ms. Crook clarified that the issue is whether presenting aggregated information about a particular subsidiary in consolidated financial statements is inconsistent with the controlling entity model.  
Ms. Crook questioned whether the Board’s decision regarding the controlling entity model was because (1) there may be some exceptions to the overall theory provided by the model or (2) aggregated information may be the most decision-useful way to display the information under certain limited circumstances.
8. Mr. Linsmeier stated that he thinks the second explanation conflicts with the purpose of the reporting entity concept and added that aggregated information may not clearly articulate the boundaries of the entity. Mr. Linsmeier noted that it is always possible at the standards level to override the concepts; the framework should not be overly prescriptive. Although he agreed with the first explanation, Mr. Linsmeier suggested the entire paragraph be removed from this concepts document and addressed at the standards level.

9. Mr. Herz and Mr. Smith agreed with the second explanation regarding display. Ms. Seidman also agreed it is a display issue, but she also noted that the first explanation may also be true.
10. Ms. Bielstein noted that aggregation is not just a display issue, but also a measurement issue. Mr. Bossio stated that aggregation may also depend on what is defined as the circumscribed area of business activity.
11. Mr. Herz and Mr. Bossio agreed with Mr. Linsmeier that this issue might be better addressed at the standards level. Ms. Seidman questioned whether the same argument for leaving aggregation to the standards level could also be applied to the common control model. Mr. Linsmeier explained that there is a difference between a theory that could be supportive of standards (the common control model) and a decision as to how things are presented in standards.
12. Mr. Herz stated that this is not a consolidation/parent entity issue, but rather an issue regarding the objective of financial reporting; this section of the framework should determine which entities are to report their financial information in order to achieve the objective and related qualitative characteristics of financial reporting. Mr. Herz noted that presuming that consolidated information is the most decision-useful may preclude other useful information from being included in financial reports. Mr. Linsmeier added that this view implies that another chapter of the framework, the objective, is more governing; therefore, the reporting entity chapter may not need to address this issue.
13. Ms. Seidman noted that the conceptual framework is important because it places boundaries around future standards and what exceptions will be allowed. If this aggregation issue is not included in the reporting entity section, it should be addressed in another section. Mr. Herz noted that this issue also is related to measurement, unit of account, and other issues; the framework needs to address what information is the most relevant in meeting the objective. Mr. Herz stated that he does not see how a general presumption that consolidated accounts are more decision-useful helps achieve the objective of the financial reporting.

14. Mr. Linsmeier questioned whether these dimensions (display, unit of account, measurement, etc.) should be addressed now or if they should be dealt with at a later time, perhaps in another section of the framework. Mr. Linsmeier stated that he does not think that the framework will be sufficiently robust to guide the standards-setting process if it can be overridden at the standards level. Mr. Linsmeier noted that there may be other concepts besides reporting entity that would cause different thinking on some of these issues.
15. Mr. Herz and Ms. Seidman both agreed that the analysis of what constitutes decision-useful information will differ depending on the context of the business activities. Mr. Herz noted that control is the governing factor that determines what should be included in financial reports; however, it does not necessarily dictate how controlled items are included. Ms. Bielstein noted that current standards allow exceptions for controlled subsidiaries based on what information is decision-useful.
16. Mr. Bossio noted that the purpose of this meeting is to discuss what the staff needs to proceed with the publication of a preliminary views document.
17. Mr. Smith noted that, if the staff and Board try to address too many narrow issues, progress on the framework will be delayed. Mr. Smith noted that the framework should be a high-level document that guides standard-setting, which means it may be subject to future Boards' philosophies. Mr. Linsmeier stated that the framework should provide the theory upon which choices about different alternatives can be made. Ms. Seidman noted that the reporting entity chapter of the framework should clarify whether the inclusion in financial reports of an item that is part of a reporting entity necessarily leads to any conclusions about how that item is part of the reporting entity.
18. Mr. Bielstein noted that it is submissive to infer that the issue is just an issue of display; it is also an issue of determining the item to be reported, the unit of account of the item, determining the most relevant measurement of the item, and other related issues. The identification of the item leads to what are the most decision-useful items to report about that item.
19. Ms. Crook noted that the IASB generally also believes that on a conceptual level the parent entity includes the subsidiary and, therefore, is the reporting

entity. Additionally, the IASB contends that determining how items will be reported for a reporting entity are matters of other chapters of the framework. Ms. Crook suggested that the document give examples of alternative presentation currently permitted and specify that other chapters of the framework may determine how an item should be reported.

20. Mr. Bossio stated that the staff does have some difficulty defining not just the lines between the different phase, but also the line between concepts and standards. Mr. Bossio noted that, although there may be different views about where to draw these lines, a good preliminary views document will help get the discussion of these issues going.

21. The Board agreed with Ms. Crook's suggested modifications to the document. Mr. Herz also noted that, because there are no general presumptions, the alternatives should be presented as alternatives, not as exceptions. The Board agreed the staff should proceed with a ballot draft of the preliminary views document.

Follow-up Items:

None

General Announcements:

None