

MINUTES



To: Board Members
From: Benson (ext. 446)
Subject: Minutes of the October 18, 2006,
Conceptual Framework Board Meeting
Date: October 24,
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

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Topics: Elements: What Is an Element? What Is Its Significance to Us?

Basis for Discussion: FASB Memorandum 34

Length of Discussion: 10:10 to 10:25 a.m.

Attendance:

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

Board members by phone: Crooch

Staff in charge of topics: Lian (by phone)

Staff at Board table: Bossio, T. Johnson, Bielstein, McBeth, and Benson

Other participants: By phone: Hague, Villmann, Willis

Summary of Decisions Reached:

At today's meeting, the Board discussed the meaning and significance of an *element* as part of its deliberations concerning Phase B: *Elements and Recognition*.

The Board agreed that elements should:

- a) Continue to focus on and define the economic things (resources and claims) and changes in them that pertain to a particular entity. Those "things" and "changes" in them are also called "stocks" and "flows".
- b) Focus on the most basic of the real-world economic phenomena that pertain to an entity. Distinctions that are made for purposes of financial statement display or presentation go beyond the notion of basic elements.

The IASB reached the same conclusions at its Board meeting on October 18, 2006.

Objective of Meeting:

The Board discussed the meaning and significance of an *element* as part of its deliberations concerning Phase B, *Elements and Recognition*. The Board addressed whether (1) the *elements* should be the basic stocks and flows of economic things of an entity, and (2) distinctions that are made for purposes of financial statement display or presentation go beyond the notion of basic elements. The objectives of the meeting were met.

Matters Discussed and Decisions Reached:

1. Ms. Lian led the discussion concerning the definition and significance of an element. She stated that the IASB and the FASB have similar, but not identical, descriptions of what an element is. In addition, the Boards' current conceptual frameworks include different numbers of elements. She highlighted two points regarding the issue of what an element is:
 - (a) Both the IASB and FASB existing frameworks do not define what an element is. Rather, both use the term *elements of financial*

statements. Drawing on the definitions in the dictionary, the notion of an item being basic or fundamental seems helpful and is generally consistent with how elements are viewed.

- (b) The definition of an element and the definitions of the specific elements should follow logically from the objective of general purpose external financial reporting. The staff thinks that the Board should focus on providing relevant information to users about real-world economic phenomena of an entity that is useful to their decision-making needs.

She stated that the staff's recommendations are that:

- (a) Elements should focus on the:
 - (1) Economic things that exist in the real-world
 - (2) Changes in those economic things.
 - (b) Elements should focus on the most basic of the real-world economic phenomena that pertain to an entity. Distinctions that are made for the purposes of financial statement display or presentation go beyond the notion of basic elements.
2. Mr. Linsmeier stated that he supports the need to identify elements. However, agreeing that such a need exists is different from concluding that such a discussion should be within the conceptual framework. Until the definitions of elements are developed within the conceptual framework project and those definitions are placed into practice, the Board is not in a position to determine what an element is versus what it is not. Thus, the guidance regarding what is an element should not necessarily be within the conceptual framework. In addition, Mr. Linsmeier stated that it is unclear whether the staff's recommendation gives sufficiently definitive guidance regarding what an element is versus what it is not.
 3. Ms. Seidman asked Mr. Linsmeier for an example of an undesirable consequence to the Board addressing the definition of an element within the conceptual framework. Mr. Linsmeier responded that he thinks placing language regarding the definition of an element within the conceptual framework would result in diversity of interpretation among

constituents. He added that a systematic approach for the convergence of the IASB's five elements and the FASB's ten elements is needed. However, he is unsure whether the staff's current recommendation is definitive enough to meet the Boards' convergence objective.

4. Mr. Trott stated that he does not think there is a negative consequence to placing language within the conceptual framework regarding the definition of an element. Mr. Bossio stated that the Board does not need to decide whether to place such language within the conceptual framework at this meeting. Rather, the Board must give the staff an indication of whether it agrees with the staff's thought process regarding the development of a list of core elements, so that the staff may develop a plan for convergence.
5. Ms. Lian informed the Board of the IASB's decisions regarding the issues. She stated that the IASB agreed with the staff's recommendations. Mr. Trott asked whether the IASB's affirmation included agreement with having five basic elements. Ms. Lian responded that the staff did not ask the IASB for its opinion regarding the number of core elements. Rather, the staff asked the IASB whether it agrees with the staff's thought process for proceeding with the development of element definitions.
6. Mr. Bossio stated that the staff will return to the Board with recommendations regarding liabilities and equity in November. The Board agreed with the staff's recommendations that elements definitions should focus on (a) the economic things that exist in the real-world and changes in those economic things and (b) the most basic of the real-world economic phenomena that pertain to an entity. Distinctions that are made for the purposes of financial statement display or presentation go beyond the notion of basic elements.

Follow-up Items: None.

General Announcements: None.