



**Board Meeting Handout
Conceptual Framework**

August 29, 2007

At today's meeting, the Board will discuss redeliberations related to Chapter 1 of the Discussion Paper (DP), *Preliminary Views on an Improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information*. Specifically, the Board will address concerns raised by respondents regarding the role of stewardship in the objective of financial reporting.

ISSUES FOR BOARD CONSIDERATION

Issue A: Revising the Objective of Financial Reporting to Broaden Its Scope

1. The objective contained in the DP was limited to providing information useful for making investment, credit, and similar resource allocation decisions. The staff thinks that the objective of financial reporting should encompass providing financial information about the reporting entity useful for the decisions made by the primary user group in their capacity as providers of capital, which include decisions related to protecting and enhancing a claim to the entity's resources in addition to resource allocation decisions.

Staff Recommendation

2. The staff recommends the following objective:

The objective of general purpose external financial reporting is to provide financial information about the reporting entity that is useful to present and potential investors and creditors in making the decisions that they make in their capacity as capital providers to the reporting entity.

Question for the Board

Does the Board agree in principle with the staff's recommended objective? Does the Board agree with the staff that the revised objective addresses constituent concerns about the role of stewardship in financial reporting?

Issue B: Restructuring the Logical Flow of Chapter 1 of the DP

3. During redeliberations, both Boards affirmed that the basic underlying perspective for financial reporting is the perspective of the entity that is reporting on its resources and the claims to those resources. The staff thinks that the chapter should flow logically from that perspective.

Staff Recommendation

4. The staff recommends restructuring Chapter 1 to illustrate the following logical flow:
 - (a) The basic perspective underlying financial reporting is the perspective of the entity that is reporting.
 - (b) That perspective involves reporting on the entity's resources (assets), the claims on the entity's resources (liabilities and equity), and the changes in them.
 - (c) The primary user group is made up of those who have a claim (or potentially may have a claim) on the entity's resources—its present and potential equity investors and creditors (capital providers).
 - (d) That primary user group is interested in financial information because that information is useful in making decisions that investors and creditors make in their capacity as capital providers.
 - (e) The decisions made by investors and creditors include resource allocation decisions as well as decisions relating to protecting or enhancing their claim on the resources of an entity.
 - (f) Other potential users groups may benefit from financial reporting information, but they are not the focus of the objective.

Questions for the Board

1. Does the Board agree in principle with the staff's recommendation for restructuring Chapter 1 to enhance its logical flow?
2. Does the Board believe that the revised draft of Chapter 1 of the DP faithfully reflects each of the staff's recommendations on a substantive level?



Board Meeting Handout

POSTRETIREMENT BENEFIT OBLIGATIONS INCLUDING PENSIONS

August 29, 2007

PURPOSE

At today's meeting, the Board will discuss how it will conduct the second phase of its postretirement benefit project.

BACKGROUND

The key areas of the present accounting that some investors and others have criticized include:

- a. Smoothing of earnings (that is, use of an expected return on plan assets and delayed recognition of gains/losses)
- b. Recognition of an aggregate net cost instead of each separate component of cost (that is, service, interest, amortization, and gains and losses)
- c. How benefit obligations are measured
- d. Note disclosures, some constituents believing there are too many and others believing there are additional disclosures that would be worthwhile
- e. Unrecognized and undisclosed obligations associated with an employer's participation in a multiemployer plan.

FASB Project

The FASB added postretirement benefits to its technical agenda in November 2005. The objectives of that project are to improve and ultimately converge employers' accounting for pensions and other postretirement benefits. The Board decided to conduct the project in phases to resolve issues in a timely manner. The first phase of the project culminated with the issuance of FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, in September 2006, and FASB Staff Position FAS 158-1, "Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88, and No. 106 and to the Related Staff Implementation Guides." Statement 158 requires plan sponsors to report the net funded status of postretirement benefit plans in the balance sheet.

IASB Project

The IASB added a project to its agenda in 2006 and also decided to conduct that project in phases. The first phase addresses the presentation of an employer's costs of providing postretirement benefits in the income statement (issues b and c, above), within the context of the existing presentation framework in IAS 1, *Presentation of Financial Statements*. The scope of the IASB's first phase also includes measurement of obligations for certain plans that contain defined return promises (including plans sometimes referred to as cash balance plans). The project does not address measurement issues for defined benefit or defined contribution plans. A discussion paper addressing those topics is expected by the end of 2007, and the IASB hopes to complete this phase by 2010.

At an IASB-FASB meeting in April 2007, the Boards directed the staff to consider how the Boards might align their current efforts to achieve the shared goal of improving and converging standards in this area. At today's meeting, the FASB will discuss the staff's recommended approach.

Staff Recommendation

The staff recommends an approach that will leverage their respective resources. Under that approach, the Boards will initially work separately, focusing on different yet important aspects of accounting for postretirement benefits. That is:

1. The IASB will focus on the measurement and recognition of defined return promises. When it completes that work, the FASB will consider whether adopting similar requirements would improve reporting in the United States.
2. The FASB will initially focus on three areas:
 - a. Presentation of the components of periodic benefit cost in conjunction with the financial statement reporting framework being developed by the joint financial statement presentation project. Issues of net presentation and smoothing arise regardless of how plan obligations are measured and investors view improvements in this area to be a high priority.
 - b. Reporting an employer's obligations associated with multiemployer plans. An employer's costs associated with multiemployer plans currently are reported on a contribution basis, resulting in obligations that are not reported in the financial statements and not disclosed in the notes. Initial efforts will focus on enhancing disclosures as a first step toward improving reporting of an employer's obligations.
 - c. Disclosures about risks in plan assets, for example, use of derivatives.

Once the FASB concludes its work, the IASB will consider whether it should adopt similar requirements internationally.

After those initial efforts conclude, the Boards will consider how to work together to further improve and converge other aspects of their standards, including the measurement of plan obligations more generally.

Do Board members agree with the staff's recommendation for the next phase as detailed above?