

MINUTES



**To:** Board Members

**From:** Project Team (Prince x229 and Chesney x447)

**Subject:** Minutes of the April 21, 2008  
Conceptual Framework Joint Board Meeting      **Date:** May 8, 2008

**cc:** Leisenring, Bielstein, Golden, MacDonald, Allen, Posta, Glotzer, Klimek, Lott, Gabriele, Sutay, Project Team, FASB Intranet, Upton, Hickey, Clark, 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 A: Objective and Qualitative Characteristics  
Phase D: Reporting Entity

Basis for Discussion: Memorandum Nos. 72-73

Length of Discussion: 11:00 p.m. to 1:00 p.m. (EST)

Attendance:

FASB members present: Herz, Batavick, Crooch, Linsmeier, Seidman, L. Smith, and Young

IASB members present: Tweedie, Jones, Barth, Cooper, Danjou, Engström, Garnett, Gélard, Leisenring, McGregor, J. Smith, Zhang, and Yamada

Staff in charge of topic: Jeff Johnson and Kimberley Crook

Other staff participating: Bielstein, Bossio, Bunting, Chesney, L.T. Johnson, Hague, Hickey, Lian, Prince, Upton, and Villmann

Summary of Decisions Reached:

The Boards continued to discuss the implications of adopting the entity perspective. This issue arose during the drafting of due process documents for the objective of financial reporting phase (Phase A) and the reporting entity phase (Phase D) of the framework project. The Boards affirmed their decision to adopt the entity perspective, in which the entity's perspective is used in providing financial information about the entity's business to its capital providers. This is in contrast to the proprietary perspective, in which the proprietor's perspective is used in providing information about the proprietor's business to the proprietor.

The Boards noted that they have not completed their initial deliberations in other phases of the framework project, such as defining the elements of financial statements (in Phase B of the project). Therefore, fuller implications of the decision to adopt the entity perspective on other phases will be analyzed in those phases, in due course, and communicated to constituents at that time. These implications need not be addressed before finalizing and publishing the exposure draft for Phase A for public comment. An explanation of the decisions reached and the implications not yet deliberated will be included in the bases for conclusions in both the exposure draft for Phase A and the discussion paper for Phase D.

In addition, the Boards discussed a sweep issue arising from comments on a draft Discussion Paper on the reporting entity phase relating to parent-only financial statements. The Boards tentatively agreed that, in concept:

- (a) A parent entity should always present consolidated financial statements
- (b) The presentation of parent-only financial statements should not be precluded at the conceptual level, provided that they are included in the same financial report as the consolidated financial statements.

The Boards also noted that some presentation issues, for example, how to present information about particular subsidiaries, such as discontinued operations, will be dealt with at the standards level.

Objective of Meeting:

The objective of the meeting was to discuss the implications of choosing the entity perspective in Phase A and Board member comments received on the Discussion Paper/Preliminary Views for the Phase D. The objective of the meeting was met.

Matters Discussed and Decisions Reached:

**ISSUE 1: ENTITY PERSPECTIVE**

1. Mr. Johnson said that during the ballot process of Phase A Exposure Draft certain Board members raised concerns about the adequacy of the discussion of the perspectives of financial reporting. These Board members expressed concern that the discussion of the entity perspective in the Exposure Draft does not adequately address the implications of adopting the entity perspective on other phases of the conceptual framework and other projects and would not give constituents the opportunity to provide comments on the implications of adopting the entity perspective.
2. Mr. Johnson stated that, as the staff researched and discussed the perspectives of financial reporting, it became evident that no consensus exists on the implications of adopting the entity view. Some staff members believe that adopting the entity perspective profoundly affects the decisions made in the framework, while other staff members believe that it only affects the objective of financial reporting. Clearly, more work needs to be done in current and future phases to identify and address all of the potential implications of adopting the entity perspective.

**Staff Recommendation**

3. To address Board members' concerns, the staff recommended that the Phase A Exposure Draft clearly describe the entity and proprietary perspectives, indicate the Boards' decisions, explain the basis for those decisions, address the implications of choosing the entity perspective on the objective of financial reporting, and explain that other implications are being deliberated or will be deliberated in other phases of the conceptual framework. The staff also recommended that the Boards ensure that their decisions for Phase D align with the decisions made in Phase A and that the

Preliminary Views on the reporting entity relate those decisions back to the basis for conclusions described in the Phase A Exposure Draft.

4. In future phases of the conceptual framework, the staff recommended that the Boards make decisions that align with the objective of financial reporting and the entity perspective as described in Phase A. If the Boards conclude that certain decisions conflict with the entity perspective, it may be necessary to revisit the decisions made in Phase A.

#### **Board Vote**

5. The Boards generally agreed with the staff's recommendation.

#### **Board Comments**

6. Mr. Linsmeier stated his belief that the proposed description of the entity perspective for the Exposure Draft suggests that assets equal claims, while liabilities and equity are not distinguished. As a result, the distinguishing of liabilities and equity could not be based on the entity perspective. Mr. Leisenring stated that he did not agree that the entity perspective means that assets equal claims. Mr. Leisenring added that the proprietary perspective generally is unrealistic because it commingles the assets and liabilities of the entity with those of the owner, not because it draws a distinction between liabilities and equity.
7. Ms. Barth, Mr. J. Smith, Mr. McGregor, and Ms. Seidman observed that the discussion revealed the main problem, which is that the two perspectives are not consistently understood. Ms. Barth noted that the Board members must realize that they are never going to completely agree, but they can consistently understand the perspectives and move on.
8. Mr. Herz suggested that the Exposure Draft state that adopting the entity perspective does not predetermine the liability and equity distinction or preclude the inclusion of additional information to a particular set of capital providers.
9. Mr. Cooper asked if interest expense related to debt would still be recorded as an expense under the entity perspective and whether adopting the entity perspective is necessary for providing useful information to all capital providers. Mr. Johnson stated that he could not definitively state that the entity perspective would mean that interest expense would always be recorded as an expense and that dividends would

always not be accounted for as an expense. Answering these questions would be peeking ahead into later phases of the framework. Mr. Johnson said that in his view, the entity perspective binds an entity to assets and claims on those assets. While there are different kinds of claims, those different kinds are not as fundamental as under the proprietary perspective.

10. Mr. Yamada stated that constituents would like to know how the parent company approach works and whether some aspects of the parent company view are important. He said it would seem that this discussion is important. Mr. Zhang agreed and added that this discussion belongs in Phase D as well as Phase A.
11. Messrs. Leisenring and McGregor stated that the wording in paragraph 118 of the staff draft for the Phase D Preliminary Views might not be consistent with the Boards' decisions on minority interests. Ms. Crook clarified that, until liabilities and equity are distinguished in the elements phase, the classification of minority interests is unknown. Mr. Linsmeier stated that the entity perspective is not consistent with the parent company approach. Board members proposed and agreed to delete paragraph 118 from the staff draft of the Preliminary Views document.
12. Mr. Tweedie stated that the purpose of the discussion was to address constituents concerns that they were not given an opportunity to debate the perspective of the objective. Many constituents thought the objective should be based from the perspective of the parent entity's shareholders. He stated that the issue is not about the claims approach, but some constituents' beliefs about accounting for minority interests.

## **ISSUE 2: COMMENTS ON PHASE D PRELIMINARY VIEWS – PARENT-ONLY FINANCIAL STATEMENTS**

13. Ms. Crook stated that the next issue for the Boards to consider is the usefulness of consolidated financial statements and parent-only financial statements. Ms. Crook observed that there is no common preliminary view between the Boards at this time on this matter.
14. Ms. Crook stated that the staff has provided the Boards three views to consider regarding the usefulness of parent-only financial statements and consolidated financial statements. All views would require consolidated financial statements; however, the views differ in how they address parent-only financial statements. View

A would be to always provide parent-only financial statements with consolidated statements. View B would be to sometimes, but not always, provide parent-only financial statements. View C would be to not provide parent-only financial statements; however, some parent-only information could be provided as supplementary information to the consolidated financial statements in View C.

### **Staff Recommendation**

15. To help the Boards reach a common preliminary view, the staff recommended the following: (a) a parent entity should always present consolidated financial statements; (b) the presentation of parent-only financial statements should not be precluded at the conceptual level, provided they are included in the same financial report as the consolidated financial statements; (c) it would be a standards-level issue to determine whether parent-only financial statements should be required (either always or in particular circumstances) or merely permitted, or whether similar types of information should be presented in another format; and, (d) it would be a standards-level issue to determine the manner in which information should be presented in the consolidated financial statements.

### **Board Vote**

16. A majority of both Boards agreed with the staff recommendation. The Boards agreed that the points in items (a) and (b) of the staff recommendation should be included in the conceptual framework. They also noted that, while they agreed with the points in items (c) and (d), those points generally should not be mentioned in the framework's discussion of the reporting entity concept.

### **Board Comments**

17. Ms. Barth stated that if the Boards reach a common preliminary view, she would like the discussion of the different views (Views A through C) in the Preliminary Views document to be a lot simpler, more straightforward, and less contentious. The document could lay out the different views and then state which view the Boards have agreed on.

18. Mr. Leisenring raised several questions regarding the draft Preliminary Views document. First, do those who agree with View A believe that parent-only financial statements must always be provided? Second, when and in what circumstances would parent-only financial statements be provided under View B? Third, when wouldn't a parent entity have to present consolidated financial statements? Mr. Leisenring observed that if the document was meant to capture the Boards' views, he was surprised by how those views were currently laid out in the document.
19. Ms. Barth stated that if the Boards do agree with the staff recommendation, a lot of Mr. Leisenring's questions would be answered in the redrafting of the discussion of the alternative views in the Preliminary Views document.
20. Mr. McGregor noted that it will be important to set out a clear rationale in the Preliminary Views document for why parent-only financial statements should not be precluded from being provided.
21. Mr. Herz mentioned that there might be different presentations that potentially could be useful for different classes of capital providers, such as parent-only financial statements. However, he believed that the base presentation is consolidated financial statements and he stated that he was under the impression all Board members agreed with that conclusion.
22. Mr. Linsmeier stated that he would like the preliminary views of the Boards to be that consolidated financial statements are the only general purpose financial statements. Furthermore, parent-only information could be provided to a subset of capital providers, not as general purpose financial statements, but as supplemental information in the form of parent-only financial statements. Mr. McGregor stated that he agreed with Mr. Linsmeier's view.
23. Mr. Danjou stated that he agrees consolidated financial statements are the main financial statements. However, he disagreed with those who believe that standalone parent-only financial statements are not general purpose financial statements. Mr. Gélard agreed with Mr. Danjou and stated that parent-only and consolidated financial statements provide two images of the same reporting entity and that they both are general purpose financial statements because they serve all capital providers.
24. Mr. Herz stated that he believes that the FASB agrees consolidated financial statements are the only general purpose financial statements, but that decision would

not preclude parent-only financial statements from being provided within the financial reporting package.

25. Mr. Leisenring asked whether the IASB has voted on whether parent-only financial statements are general purpose financial statements. Mr. McGregor stated that he does not believe they have. Mr. Leisenring proposed that the IASB vote on the issue.
26. Mr. Tweedie noted that parent-only financial statements are useful for determining dividends, are useful to a parent company's creditors, and are also useful at times in seeing the value of a parent entity's underlying investments. Mr. Tweedie stated that he does believe parent-only financial statements are general purpose financial statements. Mr. Gélard noted that parent entities are not obliged to pay the debts of its subsidiaries in any case, including bankruptcies.
27. Mr. Leisenring stated that what he finds most objectionable to giving parent-only financial statements the same status as consolidated financial statements is that the accounting for parent-only financial statements is not that strong in certain areas. He agrees, however, that in some circumstances parent-only financial statements can provide useful information.
28. Mr. McGregor asked whether those who disagree with the staff's recommendation would explain why they disagree. Mr. Young noted that he disagrees because consolidated financial statements, in certain circumstances, would be misleading, for example, for private equity firms. Mr. Linsmeier stated that the staff recommendation is inconsistent with the decision reached in chapter 1 of the framework, which states that financial statements will not privilege any subset of capital providers over another. He believes the staff's recommendation places parent-only financial statements, which do privilege a subset of capital providers, on the same level as consolidated financial statements.
29. Mr. Leisenring said he would not disagree with the staff recommendation as long as it is modified to state that a parent entity should always present consolidated financial statements as their general purpose financial statements. He has no objection to presenting parent-only information, but he would not consider parent-only financial statements to be general purpose financial statements.
30. Mr. Yamada stated that he believes both consolidated and parent-only financial statements could meet the definition of general purpose financial statements

depending on whether law requires parent-only financial statements to be provided and capital providers widely use those statements to make economic decisions.

31. Mr. L. Smith stated that he believes the staff recommendation simply allows entities to provide information in addition to consolidated financial statements. He stated that he does not understand why the conceptual framework should be dictating when an entity would be precluded from providing information in addition to consolidated financial statements.
32. Mr. Zhang stated that he generally agrees with the staff recommendation. He agrees that consolidated financial statements should be the center part of general purpose financial statements. He believes the focus of standards and the two Boards should be on consolidated financial statements; however, he would not agree to exclude anything else.
33. Ms. Barth stated that she believes Messrs. Leisenring and Linsmeier do agree with the staff recommendation; however, she believes that Messrs. Leisenring and Linsmeier would like to vote on, in addition to the staff recommendation, whether parent-only financial statements should be considered general purpose financial statements.
34. Mr. Herz stated that the FASB had previously voted on that additional issue and that the FASB had concluded consolidated financial statements are the only general purpose financial statements; however, that would not preclude parent-only information from being provided.
35. Mr. Johnson noted that the term *general purpose financial statements* is not used or defined in the framework; the framework defines *general purpose financial reporting*. If the Boards interpret the staff's recommendation as requiring that entities not provide parent-only financial statements unless they are included in a financial report with consolidated financial statements, then by default the Boards have made parent-only financial statements part of general purpose financial reporting and, therefore, there is no need to distinguish which statement is a general purpose financial statement because that is not how the issue is framed in Chapter 1 of the conceptual framework.
36. Mr. Young stated that the staff recommendation could be modified to state that a parent entity must present consolidated financial statements and remain silent on the issue of parent-only financial statements.

37. Various Board members wanted the staff to explain what was meant by the part of the staff recommendation that stated it would be a standards-level issue to determine the manner in which information should be presented in the consolidated financial statements. Mr. Herz observed that he thought it meant, for example, how information for venture capital entities would be presented in their consolidated financial statements (for example, line-item presentation of investment in subsidiaries versus displaying assets and liabilities separately).
38. Mr. Leisenring stated that some Board members are reading the staff recommendation to always require consolidated financial statements, but not always in the usual way of presenting consolidated financial statements (for example, showing line-item presentation of subsidiaries versus displaying their assets and liabilities separately).
39. Mr. McGregor stated that they could not leave that part of the recommendation as is because if the Boards don't agree on what is meant by that part of the recommendation, then the Boards cannot expect constituents to understand it.
40. Mr. Herz called for a vote to see which Board members agreed with the staff recommendation. A clear majority agreed with the recommendation. The Boards then voted individually. 9 members of the IASB agreed with the staff recommendation and 3 members of the FASB agreed with the recommendation.
41. Mr. L. Smith stated that he voted against the staff recommendation because he thinks the staff recommendation states that consolidated financial statements should be required and then mentions later on that that recommendation may not always be true, as pointed out by Mr. Leisenring earlier. Mr. L. Smith continued by saying he did not understand what the concept was behind the staff's recommendation.
42. Ms. Barth questioned whether part (d) of the staff recommendation was going to be included in the conceptual framework.
43. Mr. Tweedie stated that he believed the conceptual framework would require a parent entity to always present consolidated financial statements. The framework would not preclude parent-only financial statements at the conceptual level, provided that they are included in the same financial report as the consolidated financial statements. However, the framework would not include the fact that the presentation of parent-only financial statements and consolidated financial statements would be a standards-

level issue. Various Board members expressed uncertainty as to how the staff recommendation would be included in the conceptual framework.

44. Mr. L. Smith noted that if in their last vote Board members voted according to Mr. Tweedie's last explanation of how the staff recommendation would be documented in the conceptual framework, then the Board members were agreeing that they could violate the conceptual framework in the future. Mr. L. Smith stated that if they were to vote to include parts (a) and (b) in the conceptual framework and leave parts (c) and (d) out, he would vote in favor of that. Mr. McGregor also indicated he would vote in favor of that recommendation.
45. Mr. J. Smith stated that he does not subscribe to providing concepts in the conceptual framework and then stating that, at the standards level, those concepts can be violated.
46. Mr. Gélard stated that parts (c) and (d) of the staff recommendation should be included in the part of the framework that discusses the authority of the framework, not in the reporting entity chapter.
47. Mr. Herz stated that he believed the staff recommendation would require controlling entities to use a broad presentation (for example, assets and liabilities presented separately) for controlling interests. Exceptions to that style of presentation would be handled at the standards level. Mr. Bossio noted that the presentation of discontinued operations has previously been cited as an example of a departure from our typical presentation practices.

Follow-up Items:

None

General Announcements:

None