



MINUTES OF MEETING

Financial Accounting Standards Advisory Council
December 2, 2004

The Advisory Council met at the offices of the Financial Accounting Standards Board in Norwalk, Connecticut.

Members Attending

Richard J. Swift, Chairman
W. Steve Albrecht
Richard H. Booth

Klaus D. Patzak
Janet L. Pegg
Kevin B. Reilly

Raymond J. Bromark
Robert E. Friedman
Charles L. Hall

John F. Richards
David B. Rickard
Joseph L. Scalafani

Joe Joseph
Marc E. Lackritz
Russell V. Meyers

Rita J. Spitz
Mary S. Stone
Michael R. Young

Mark W. Nelson
Edward E. Nusbaum

Members Not Attending

Alan W. Anderson
Kelly Bulloch
Colleen A. Cunningham
Leslie Culbertson

Alan G. Levin
Elizabeth F. Mooney
L. Hal Rogero
James R. Ryan

Gary P. Fayard
Donald D. Humphreys
David M. Jones

Scott M. Waite
David M. Walker
Gregory G. Weaver

Others Attending

Financial Accounting Standards Board:
Robert H. Herz, Chairman
George J. Batavick
Gary S. Schieneman

Katherine Schipper
Leslie F. Seidman

FASB Staff:

Halsey G. Bullen, Senior Project Manager
 James W. Geary, Practice Fellow
 Jennifer S. Moriarty, XBRL Fellow
 Brooke E. Richards, Project Manager
 Lawrence W. Smith, Director of Technical Application & Implementation Activities
 Rachel M. Varian, Postgraduate Technical Assistant

Others:

Robert F. Dacey, Chief Accountant, Governmental Accountability Office
 Teresa S. Polley, Executive Director—FASAC
 Gregory Scates, Associate Chief Auditor, Public Company
 Accounting Oversight Board
 Scott A. Taub, Deputy Chief Accountant, Securities and Exchange Commission

Introduction and Approval of Minutes

Mr. Swift called the meeting to order at 9:00 a.m. and welcomed the meeting participants.

Mr. Swift announced that Council members Steve Albrecht, Kelly Bulloch, David Jones, and John Richards are retiring from the FASAC. He noted that Mr. Albrecht will join the Board of Trustees of the Financial Accounting Foundation (FAF). He also announced that the FAF Trustees appointed the following new members to FASAC as of January 1, 2005: Gregory J. Jonas of Moody's Investors Services, Nellie Liang of the Board of Governors of the Federal Reserve System, and Edgar A. (Andy) Thrower of Contec, Inc. Mr. Swift noted that the search for Mr. Albrecht's replacement would soon begin.

Council members approved the minutes of the September 23, 2004 Council meeting.

Report of the FASB Chairman

Mr. Herz reported on the following strategic and technical matters:

- The efforts made by the Board to be responsive to the demands on people's time and resources because of the implementation of Section 404. This includes delaying the effective dates on the final Statement on share-based payment and other final Statements relating to the short-term convergence project. The Board also has extended the comment periods on certain proposals to allow entities more time to respond.
- The final Statement on share-based payment, which the FASB expects to issue by the end of the year. One change made from the Exposure Draft

during redeliberations was to delay the effective date for public companies other than small business issuers by six months and for small business issuers and private companies by a full year. The Board changed other aspects relating to stock purchase plans, graded vesting plans, and accounting for income taxes.

- The redeliberations of the fair value measurement Exposure Draft. The objective of this project is to provide guidance on how to measure items at fair value. The FASB expects to issue the final Statement during the first half of 2005.
- The recent issuance of FASB Statement No. 151, *Inventory Costs*.
- The plans to issue a final Statement on exchanges of nonmonetary assets, which is expected by the end of the year. The major change that will be made by this standard will be the replacement of the exception given to similar productive assets with a notion of commercial substance.
- The plans to issue the purchase method procedures common Exposure Draft with the IASB, which is expected early in 2005.
- The joint Board meeting with the IASB held in October. The FASB and IASB added a joint project on the conceptual framework to their agendas, and the Boards and staff are currently in the process of identifying the issues to be addressed. The Boards also discussed their joint project to address differences between FASB Statement No. 109, *Accounting for Income Taxes*, and IAS 12, *Income Taxes*. The Boards decided that the exception in Statement 109 relating to providing for taxes on unremitted foreign earnings would remain and that the IASB would amend IAS 12 to add that exception.
- EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The effective date of this consensus was temporarily suspended, and a proposed FASB Staff Position was issued to clarify the guidance. Many comments letters were received, and the Board intends to take a broader look at this issue. This issue also may be affected by SAB 59, "Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities."
- The SEC report on off-balance-sheet transactions, which may have some standard-setting implications.

A Council member asked about the timing for guidance on EITF 03-1.

Mr. Herz stated that as a next step, the FASB staff is expected to bring an analysis of comments to the Board in January. The timing of final guidance will depend on how the Board decides to proceed.

Mr. Taub stated that the SEC staff believes that SAB 59 applies to all impaired securities, regardless of the cause of the impairment. He noted that the SEC staff expects the guidance in SAB 59 to be followed. He added that the

SEC staff will provide further comments on this topic at the upcoming AICPA conference on SEC developments and that those comments will be available on the SEC website.

A Council member asked about the status of the joint project with the IASB on financial performance reporting.

Mr. Herz stated that the FASB and the IASB decided to undertake this project jointly in April. The first decision made was to establish a global advisory group for the project. The first meeting of that group will be held in January in London.

Report of the SEC

Mr. Taub reported on the following matters:

- The extension of the internal control reporting deadline by 45 days for accelerated filers that have a public float of less than \$700 million.
- The appointment of Julie Erhardt as the third deputy chief accountant. She will be working on international issues and interacting with regulators, the IASB, and the IAASB.
- The search for a valuation specialist to help with the application of fair value.
- The study on off-balance-sheet transactions, which is required under Sarbanes-Oxley. The SEC staff expects the study to be issued early in 2005 and it will have a broad scope including pensions, leases, and other transactions. The study likely will include recommendations for standard setters.
- The SEC staff's work on additional guidance on materiality. A document is expected to be issued early next year.

A Council member applauded the effort to address materiality, and he encouraged that the document be issued sooner rather than later.

Report of the PCAOB

Mr. Scates reported on the following matters:

- The PCAOB's adoption of a temporary rule in response to the SEC's exemptive order. This temporary rule relieves some auditors from two provisions of PCAOB Auditing Standard No. 2, *An Audit of Internal Control over Financial Reporting Performed in Conjunction with an Audit of Financial Statements*. Auditing Standard 2 provides that the auditor's report on the financial statements and the report on internal control over financial reporting have the same date. The temporary rule would permit auditors to date their reports on internal control over financial reporting later than the date of their reports on the financial statements of companies relying on the SEC's order.

Auditing Standard 2 also provides that the auditor's separate report on the financial statements should include a paragraph that refers to a separate report on internal control over financial reporting. The temporary rule also waives this provision for auditors in connection with their audits of companies relying on the SEC's order. The temporary rule is expected to be approved by the SEC.

- The approval of the budget for fiscal year 2005. The PCAOB expects to begin 2005 with 300 employees and increase to about 450 employees by year-end. The PCAOB currently has offices in Atlanta, Dallas, New York, San Mateo, and Washington and expects to open offices in Denver, Chicago, and Costa Mesa during 2005.
- The issuance of a third Q&A on the implementation of Auditing Standard No. 2.
- The Standing Advisory Group meeting held in November. The members noted that the PCAOB staff Q&As were helpful in implementing Auditing Standard 2.
- The Small Business Forum established for registered accounting firms and public companies in the small business environment to learn about the PCAOB, specifically the inspection process and the impact of new auditing standards. The first forum was held in Costa Mesa. The PCAOB plans to hold nine other such forums in 2005. Auditors from registered accounting firms with fewer than 20 issuer clients and members of audit committees of small public companies will be invited to attend one of these forums.

Council members asked whether the PCAOB is interacting with the SEC on the materiality study and also whether the PCAOB will have a post-mortem review of Section 404.

Mr. Scates said that the PCAOB is interacting with the SEC on this project, among others. He noted that the PCAOB will review Section 404. The PCAOB is planning to have a service provider that will provide online delivery of the reports. In addition, there are two working groups on Section 404 implementation, and he stated that he anticipates this to continue. During the 2005 inspections, the PCAOB will look at the reports as well as the auditors' work pertaining to those reports.

Current Financial Reporting Issues

Mr. Swift summarized some of the issues that entities and audit firms are facing with Section 404. He noted that costs are much higher than originally anticipated, the issues are very complex, and there are concerns about whether audit firms have adequate resources to complete the audits and internal control reviews.

Council members generally agreed and noted the following concerns:

- Compliance has been more difficult and time consuming than anticipated for both entities and audit firms.
- Hiring additional resources has been challenging.
- The workload associated with Section 404 is causing entities to engage in certain business activities later than they would have otherwise.

One Council member stated that some firms may receive adverse opinions and asked what others believe the effects of an adverse opinion would be.

Mr. Herz stated that he believes that compliance with Section 404 will be an ongoing process of continuous improvement. He stated that he understands that the market may react to adverse opinions; however, he believes those effects will be minimized if entities identify the issues and demonstrate that they have a remedial plan.

Other Council members expressed the following views:

- An adverse opinion on internal control alone may not lead to litigation, but an adverse opinion combined with another negative event could be detrimental for an entity.
- From a user perspective, a market reaction to an adverse opinion may depend on whether that opinion is a complete surprise. For example, an adverse opinion on a large entity will be a bigger surprise than an adverse opinion on a small entity. The reaction from the market will depend on management's leadership in addressing an adverse opinion.
- Possibly the worst thing that could happen is that an entity receives an unqualified report but then a deficiency is discovered later. The best course of action is for entities to provide candid, robust, and honest disclosures.

Council member Marc Lackritz raised several issues regarding FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and suggested that the FASB initiate a project to revise Statement 133. He described several recent developments, such as the Office of Federal Housing Enterprise Oversight (OFHEO) report on Fannie Mae, Freddie Mac's avoidance of hedge accounting, a Fitch survey of major firms concluding that there is potential for restatement risk because of difficulties with hedge accounting, and the European Union's recent approval of a weakened IAS 39, *Financial Instruments: Recognition and Measurement*, that he believes provide evidence of a growing consensus within the securities industry that Statement 133 should be amended to simplify it and to better reflect underlying economics. He stated that the purpose of accounting standards is to provide clear, straightforward, and understandable information to investors and that Statement 133 does not do that.

Ms. Schipper asked Mr. Lackritz how the FASB should address the complexity of Statement 133. She noted that she can identify three possible sources of complexity in Statement 133, including embedded derivatives, exceptions, and testing for effectiveness. On the issue of embedded derivatives, she stated that the FASB currently is considering treatment alternatives, one of which would permit entities to choose to mark their servicing rights to fair value. She also stated that the FASB is considering a more expansive fair value option similar to IAS 39. She added that the problem with treatment alternatives is that they result in noncomparability.

Mr. Lackritz stated that providing a fair value option would be an improvement. He added that permitting "macro hedging" instead of "micro hedging" would be an improvement toward capturing the economics of hedging.

Ms. Schipper asked whether he believes the FASB should eliminate the scope exceptions and the option of hedge accounting and simply require that these instruments be marked to fair value.

Mr. Lackritz stated that he believes that would be an improvement to the current guidance.

Mr. Herz stated that not all are in favor of full fair value. For financial institutions, full fair value accounting may be an improvement, but for commercial enterprises, current hedge accounting rules generally work well.

Ms. Seidman stated that the Board has discussed this issue with other groups, including the User Advisory Council. She noted that many companies have made an effort to comply with Statement 133. She added that current disclosures focus on what went wrong with a hedging strategy and suggested that perhaps other disclosures are needed.

Mr. Herz stated that the market risk disclosures required by the SEC are an important component in understanding a company's hedging strategies.

Mr. Patzak stated that his company is able to work with the approach in Statement 133 but that given the differences between Statement 133 and IAS 39 and the imminent requirement for his company to comply with IFRS, his company will have to change the way it hedges.

Mr. Taub raised an issue included in the meeting materials about companies entering into "creative" transactions to achieve favorable accounting treatment. He stated that the FASB and the SEC spend a lot of time and resources trying to figure out new, complex transactions. He suggested that companies discuss new transactions with the SEC staff when those transactions are initiated.

Conceptual Framework

Mr. Bullen stated that at the October 2004 joint IASB-FASB meeting, the Boards agreed to add to their respective agendas a joint project to develop a common conceptual framework that both converges and improves upon the existing frameworks. He stated that the project will be done in phases with the first phase addressing objectives, qualitative characteristics, elements, recognition, and measurement. He stated that one of the objectives of the joint project is to identify and give priority to conceptual issues arising in several standards-level projects, that is, cross-cutting issues.

Mr. Bullen discussed the following areas from the staff's initial analysis of the frameworks:

- Purpose—the purpose of both frameworks is to assist standard setters in developing and revising accounting standards; however, the IASB framework has a broader purpose of also assisting preparers, auditors, and users.
- Status—the IASB framework resides at a higher level in its GAAP hierarchy than does the FASB framework in the U.S. GAAP hierarchy. The responsibility of establishing the U.S. GAAP hierarchy is under consideration. Changes to the status of the conceptual framework in that hierarchy will be considered in the future.
- Sectors—including the notion of a reporting entity, which would be useful in the consolidations and business combinations projects. Consideration of this area will take place after phase one is complete.
- Objectives—both frameworks start with a broad focus on decision usefulness. That area will be the first area the Boards consider, even if only to reaffirm the objective.
- Underlying Assumptions—the IASB framework prominently features the accruals basis and the going-concern basis; the FASB framework mentions both, but not to the same extent.
- Qualitative Characteristics—including consideration of relevance, reliability, and neutrality.
- Elements—definitions are troublesome, especially the definition of a liability. This area also includes consideration of contingencies and contractual rights and obligations. This area is expected to require the most attention initially.
- Recognition—both frameworks have the recognition criteria that an item must meet the definition of an element and that the item has a measurement attribute that can be reliably measured; however, those criteria have not been sufficient to resolve some issues in certain projects. Neither framework discusses derecognition.
- Measurement—including the unit of account issue. Both frameworks discuss measurement, but neither gives much guidance.

- Display—including disclosures—will be discussed after the first phase.

Mr. Bullen stated that an initial communications document explaining the project to constituents is expected to be issued in the first quarter of 2005. He stated that completion of a converged framework likely will take several years. Mr. Bullen asked whether the areas mentioned merit priority and whether there are other cross-cutting issues that the Board should address.

Council members and others had the following comments:

- The Board should sequence the issues carefully.
- The objectives of financial reporting should be addressed before anything else.
- The most important issue is measurement, especially the issue of when to use a particular measurement attribute.
- The Board should consider materiality and cost-benefit analysis as potential areas to address in the framework.
- From a user perspective, the framework does not reflect the way financial information is used. If the objective is that investors should be able to use financial reporting information to predict future cash flows, then the standards are not accomplishing the objective. For example, not enough information is disclosed about derivatives.
- Disclosures should be discussed sooner rather than later. There is no conceptual basis for disclosure guidance, and disclosure requirements are inconsistent across standards and SEC regulations.
- Useful disclosures will differ across entities so it may difficult to form a framework for disclosures.
- The communication gap between standard setters and CEOs, CFOs, and portfolio managers should not be underestimated. The Boards could use this project as an opportunity to raise the credibility and relevance of financial reporting.

A Council member asked whether the conceptual framework would be elevated in the GAAP hierarchy.

Mr. Smith stated that the Board expects to issue an Exposure Draft that will propose moving the GAAP hierarchy from the audit literature to the accounting literature; however, no changes to the hierarchy will be proposed in that document. He stated that after the codification project is completed, the four levels of GAAP may be changed to two—authoritative and nonauthoritative. He stated that it is undecided at this time where the framework will fit into the hierarchy. He noted that a practical issue with including the framework in the authoritative literature is that there will still be standards that are not consistent with the framework.

Some Council members stated that the differing status of the two frameworks is a very important issue.

FASB Statement 109 and the American Jobs Creation Act of 2004

Mr. Geary described the tax deduction provided to U.S.-based domestic manufacturers by the American Jobs Creation Act. The Act provides a tax deduction up to 9 percent of the lesser of (1) "qualified production activities income," as defined in the Act, or (2) taxable income (after the deduction for the utilization of any net operating loss carryforwards).

Mr. Geary stated that another provision of the Act provides a period of about 14 months for a U.S.-based enterprise to apply an 85 percent dividends received deduction on the repatriation of qualified earnings of controlled foreign companies (CFC). He then described some of the required provisions to qualify for the special one-time benefit.

Mr. Geary stated that the proposed FSP 109-a provides guidance on how to account for the domestic manufacturing deduction. He stated that the FASB believes that the domestic manufacturing deduction's characteristics are similar to special deductions illustrated in paragraph 231 of Statement 109 because the domestic manufacturing deduction is based on the future performance of specific activities, including the level of wages. Accordingly, the deduction provided for under the Act should be accounted for as a special deduction in accordance with Statement 109 and not as a tax rate reduction. He also stated that the proposed FSP also provides examples of how to apply the special deduction for determining the effect on graduated income tax rates used in measuring deferred tax assets or liabilities and deferred tax asset valuation allowances.

The comment period for this proposed FSP ended on December 1. Mr. Geary stated that respondents had no substantial disagreements about the accounting treatment for the deduction. However, he stated that mixed comments were received on how useful the examples were given the limited nature of the situation used for the examples. Mr. Geary asked Council members whether they agree with the conclusions reached in the proposed FSP and whether they believe that the examples are helpful.

Many Council members expressed agreement with the conclusions reached on the proposed FSP.

A Council member recommended that the proposed FSP require that the net operating loss carryforward come before the manufacturing deduction to be consistent with the treatment of this deduction on the tax return. Mr. Geary stated that this is one specific issue that will be considered.

A Council member asked why the FASB needed to deal with this issue.

Ms. Schipper stated that in applying Statement 109, arguments could be made for characterizing this particular deduction as a change in tax rates. She stated that arguments also could be made for characterizing it as special deduction, which the Board concluded should be the treatment. She noted that the two alternatives result in very different accounting. Therefore, the Board decided to address the issue to avoid diversity in practice.

Mr. Geary stated that proposed FSP 109-b provides guidance on the accounting and disclosure for the foreign earnings repatriation provision. He stated that the FASB believes that an enterprise should be allowed time beyond the financial reporting period of enactment to evaluate the effect of the Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying Statement 109. The lack of clarification of certain provisions within the Act and the timing of the enactment necessitate that additional time be provided if an enterprise is unable to make a determination of the Act's effect on its plan for reinvestment or repatriation of foreign earnings.

Mr. Geary stated that the proposed FSP contains guidance that relates to the status of an enterprise's evaluation of the effect of the Act on its plan for reinvestment or repatriation in FSP 109-b. He described that guidance as well as the proposed disclosures. Mr. Geary asked Council members whether they agree with the conclusions reached and the disclosure requirements of this proposed FSP. He also asked whether any members believe that additional guidance is necessary.

Many Council members agreed with the proposed FSP. A member asked whether one would account for the effect of the Act in the prior period if the determination was made after the balance sheet date but before the financial statements are issued. He also asked how the decision to repatriate because of the Act would affect the indefinite reversal criteria.

Mr. Geary stated that even if an entity determines the effects of the Act after the date of the financial statements but before the financial statements are issued, the entity would not adjust those financial statements. However, the entity would include pro forma financial data giving effect to the Act.

Mr. Herz stated that one of the reasons that the Board decided to address this issue was because some had read the existing accounting and auditing literature to mean that if entities repatriated foreign earnings under the Act, in the future they could not assert that they do not intend to repatriate foreign earnings. However, the Act is considered a one-time event that does not affect the indefinite reversal criteria.

A Council member from the user constituency stated that, given the robust disclosures, she was comfortable with the notion of companies having more time to determine the full effect of the repatriation provision.

XBRL

Ms. Moriarty reported the following general information about XBRL:

- XBRL is an XML-based standard that allows businesses to prepare, exchange, and analyze financial statements and the information they contain. XBRL simplifies disclosure and allows companies flexibility in reporting. XBRL reports financial information in accordance with GAAP and can be used for other types of business reporting, such as tax filings and regulatory reporting.
- A taxonomy is a dictionary of data definitions. Those definitions (or elements) include references to authoritative literature, multiple language labels, the relationships between data items and validation rules that need to be applied to the data. Users can create their own definitions or add their own requirements onto foundation terms published by other groups (these are called extension taxonomies).
- XBRL-US developed taxonomies adhere to robust due process to ensure quality and wide supply-chain agreement. This due process includes a 30-day internal review period during which taxonomies are open to comment by XBRL members, and a 60-day public review period during which the taxonomies are publicly available for comment. The feedback from both review periods is assessed by XBRL-US for inclusion in the taxonomies.
- In September 2004, the XBRL Consortium issued three industry taxonomies soliciting public comment.

Ms. Moriarty reported the following regarding the FASB's involvement in the XBRL initiative:

- The FASB presently is not involved in the review process until a taxonomy is released for public comment. The FASB staff has formed a small team of individuals with specific industry expertise to review and comment on the taxonomies.
- The FASB team is reviewing the taxonomies for completeness, accuracy and consistency of elements descriptions, and authoritative references.
- The FASB taxonomy review team will submit comments to XBRL-US in early December.

A Council member stated that the people who are enthusiastic about XBRL are those who want to manipulate data quickly. He stated that if XBRL does not include the MD&A and the footnotes, the information could be misleading.

Ms. Moriarty stated that XBRL does include the MD&A and the footnotes.

Mr. Herz stated that he supports the development of XBRL. He stated that the tags are based on how a company describes something right now. He

stated that the implications for the FASB could be large because the people using XBRL will want standardization of titles. For example, what is contained in revenue varies across firms, but titles may become more standardized. He stated that the FASB will have to closely monitor XBRL development.

A Council member asked whether the XBRL consortium has been receptive to the involvement of the FASB and its comments on the taxonomies.

Ms. Moriarty stated that the consortium has been very receptive to comments from the FASB.

Mr. Taub stated that the SEC staff also has been working with the consortium. He added that the SEC also has a full-time XBRL staff person. He stated that the SEC has issued a proposed rule for voluntary XBRL filing and that one reason for that proposal is for the SEC to learn more about XBRL.

A Council member stated that he is supportive of continuing to move forward to see what XBRL will yield but that he has concerns. For example, some tagged data may be subject to audit opinion qualifications, which may not be evident in the XBRL format. He encouraged the FASB to continue to work with constituents in the reporting process.

A Council member stated that XBRL could become the de facto external reporting mechanism for many entities. He suggested that the conceptual framework project consider the role of technology in the financial reporting process.

A Council member stated that financial reporting information is used by some to predict values of entities. He stated that if, because of XBRL, definitions start changing and data items are moved, this will be a big problem for the investment community that is trying to price those entities. He encouraged that the definitions be mandated by the FASB or the SEC to ensure consistency.

Liabilities and Equity

Ms. Schipper stated that the first phase of this project led to FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, which provides guidance for three types of freestanding financial instruments with characteristics of both liabilities and equity. She stated that in the second phase, the Board has two objectives:

- To improve the accounting by issuers for instruments that contain characteristics of equity and either or both liabilities and assets
- To amend and improve the definitions and discussions of liabilities and equity, and perhaps assets, in FASB Concepts Statement No. 6, *Elements of Financial Statements*.

In achieving both objectives the Board will identify opportunities for convergence with the IASB, although this is not a joint project.

Ms. Schipper stated that the meeting materials contain three tentative definitions and four classification decisions based on those definitions. The materials also contain several ways of illustrating the application of those classification decisions. Ms. Schipper then described in detail those definitions, the Board's tentative decisions on classification, and the reasoning supporting the Board's tentative decisions.

A Council member stated that this project has improved the guidance in Statement 150 significantly; however he suggested that the Board develop a clearer definition of single versus multiple component instruments.

Ms. Schipper stated that the Board has not yet considered the definitions of single component instruments versus multiple component instruments; that consideration will be part of the second phase of the project.

A Council member asked whether the Board will consider the linkage of this project to earnings-per-share calculations with regard to the issue of the form of settlement that should be assumed if there are multiple settlement alternatives.

Ms. Schipper stated that the Board is aware of the need to consider the classification on the balance sheet versus the decision of what to include in the denominator of the diluted earnings-per-share calculation. She noted that the purpose of balance sheet classifications is not the same as the purpose of calculating diluted earnings per share.

A Council member asked whether any instruments that are considered equity under Statement 150 would be considered liabilities under the ownership-settlement approach.

Ms. Schipper stated that she is not aware of any such instruments; however, she stated that some instruments that are considered liabilities under Statement 150 may be considered equity under the ownership-settlement approach.

Mr. Schieneman stated that he favors a narrow view of equity in which only fully paid and issued shares would be equity and that many members of the User Advisory Council also favor that view.

Mr. Herz stated that he also favors exploring a narrow view of equity. He stated that while the narrow view would be a radical departure from the current view, in his opinion it might provide better information and also would simplify the earnings-per-share calculation.

A Council member asked why certain characteristics, such as voting, dividend rights, and liquidation rights were not included in the proposed definitions under the ownership-settlement approach.

Ms. Schipper stated that both liquidation rights and dividend rights are encompassed in the ownership-settlement approach because a direct ownership instrument must be the most subordinated in a hypothetical liquidation and must have a residual claim on net assets. She stated that the Board decided that voting rights are not an essential element of ownership; rather, the Board decided that the payoff structure of the instrument determines whether it establishes an ownership relationship.

Adjournment

Mr. Swift thanked John Richards and Steve Albrecht for their service and invited them to make parting comments.

Mr. Richards encouraged the Board to view the conceptual framework project not only as a benefit to standard setters, but also to other constituents including users of financial statements. He also expressed some concerns about international convergence and stated that he hopes that convergence does not compromise the development of good accounting standards in the United States.

Mr. Albrecht expressed appreciation for the opportunity to serve on FASAC and commended the Board for the preparation and thoughtfulness that goes into the FASAC process.

Mr. Swift thanked the Board members for attending the meeting and closed the meeting at 1:45 p.m. Council members held an executive session to discuss administrative matters. Mr. Swift adjourned that session at 2:15 p.m.