

MINUTES



To: Board Members
From: Project Team (Beckendorff x 229)
Subject: Minutes of the May 2, 2007
Conceptual Framework Board Meeting **Date:** May 15, 2007
cc: Leisenring, Bielstein, Smith, MacDonald, Allen, Polley, Glotzer, 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 A—Objectives and Qualitative Characteristics (QC's): Redeliberations

Basis for Discussion: Memorandum Nos. 52 and 53

Length of Discussion: 9:00 a.m. to 11:00 a.m.

Attendance:

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

Board members by phone: Trott

IASB members present: Leisenring

Staff in charge of topic: Benson, J. Johnson

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

Other staff by phone: Lian

Summary of Decisions Reached:

The Board continued redeliberations of the July 2006 Preliminary Views, *Conceptual Framework for Financial Reporting: Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information*. The specific issues discussed related to (1) the qualitative characteristics of decision-useful financial reporting information and (2) general comments relating to the conceptual framework project taken as a whole. The Board made the following decisions:

1. Faithful representation should be retained as a qualitative characteristic.
2. Verifiability should be separated from faithful representation and identified as a separate qualitative characteristic.
3. The description of faithful representation should be clarified to make clear that faithful representation is attained when the substance of an economic phenomenon is depicted completely and neutrally.
4. The discussion of understandability in the Preliminary Views should be expanded to more clearly link it to the primary user group and to clarify the role that advisors play in aiding the primary user group.
5. Timeliness should be separated from relevance and identified as a separate qualitative characteristic.
6. Relevance and faithful representation should be distinguished as necessary qualitative characteristics. The Board will address the distinctions between necessary and enhancing qualitative characteristics and constraints on financial reporting at a later date.
7. Conservatism/prudence is not a qualitative characteristic of accounting information.
8. Consideration of issues relating to not-for-profit entities will be deferred to a separate phase of the project to be conducted later. Where feasible when drafting future conceptual framework documents, the Board should utilize terms that are compatible with the broad range of entities that makes up its constituency.
9. The authoritative status of the framework should be considered once the framework is closer to being substantially complete. Future due

process documents should include a notice that the Board will consider the authoritative status of the framework in the future, and that respondents should assume that the framework's authoritative status will be elevated in the U.S. GAAP hierarchy to be comparable to the status of the framework in International Financial Reporting Standards.

Objective of Meeting:

The objective of the meeting was for the Board to make decisions related to (1) the qualitative characteristics of decision-useful financial reporting information and (2) general comments received during the exposure period 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*. The objective of the meeting was met.

Matters Discussed and Decisions Reached:

1. Ann Benson led the discussion. She stated that, in February, the staff presented an analysis of comments received by constituents related to the Discussion Paper on Chapters 1 and 2 of the conceptual framework. She stated that at this meeting, the Board will commence redeliberations related to the qualitative characteristics. Ms. Benson noted that based on the comments received from constituents, the staff has identified issues that it thinks warrant Board consideration. Those issues are identified in Memo 52, and relate to faithful representation, understandability, timeliness, and conservatism. She stated that the most significant issues identified by the staff relate to faithful representation. She stated that, in addition to redeliberations related to the qualitative characteristics, the Board will address two issues identified by respondents that relate to the conceptual framework project in general.

Faithful Representation and Substance

2. Ms. Benson stated that, concerning faithful representation, the staff has identified three issues for the Board's consideration. First, it was clear from

comment letters received that reliability is not a well-understood term, as respondents used varying definitions of reliability when they wrote that reliability should be retained as a qualitative characteristic. Second, constituents had a misunderstanding that the components of faithful representation (completeness, neutrality, and verifiability) added up to the full meaning of faithful representation. She stated that respondents argued that substance over form should be included as a component of faithful representation, and the staff thinks that this argument stems from the misunderstanding that the components of faithful representation add up to the full meaning of the qualitative characteristic.

3. Ms. Benson stated that, to address the misunderstanding, the staff recommends the Board affirm its decision to replace reliability as a qualitative characteristic with faithful representation, as doing so gives the qualitative characteristic the best chance of being understood as the Boards intend it. She stated that, in addition, the staff recommends that the Board clarify that substance and faithful representation are synonyms, and that faithful representation is attained when the substance of an economic phenomenon is depicted completely and neutrally.
4. Ms. Benson noted that, at its April meeting, the IASB agreed with the staff's recommendations to retain faithful representation and clarify that faithful representation is attained when the substance of an economic phenomenon is depicted completely and neutrally. She asked if the Board agreed with the staff recommendation.
5. Mr. Linsmeier asked whether adding substance as a subcomponent of faithful representation would allow the subcomponents of faithful representation to add up to faithful representation. Mr. Johnson stated that if some of the description that currently applies to faithful representation was credited to substance, the subcomponents completeness, neutrality, and substance would be sufficient for faithful representation. Mr. Linsmeier stated that he raised this question because he believes that relevance and faithful representation were written up differently in Chapter 2 of the conceptual framework discussion paper. He stated that relevance has an overarching

description and is broken down into subcomponents that capture the entire essence of relevance. Faithful representation also has an overarching description, however, it is written up so that its subcomponents don't necessarily capture its essence. Mr. Linsmeier stated that, although he did not have a preference for either approach over the other, it would be useful if both qualitative characteristics were written up in the same manner. Mr. Linsmeier stated that he did not disagree with the staff recommendation to clarify the relationship between substance and faithful representation, but noted that the manner in which the staff drafts this will have implications with the usability and understandability of relevance and faithful representation.

6. Mr. Herz stated that he thinks of faithful representation as a reasonably accurate picture of what something is supposed to represent. That picture must not only be complete and capture the substance of what it represents, but it must also be clear and accurate. He stated that he wasn't sure if accuracy was captured by substance or completeness, but that it was important. He stated that he would support simply providing an overarching description of faithful representation, but if we are breaking it down into subcomponents, there seems to be something missing (accuracy).
7. Mr. Trott stated that he agreed with the staff recommendation and added that there should be a fundamental difference in how relevance and faithful representation are written up. He stated that only one of the subcomponents of relevance was necessary for something to be relevant, however, all of the subcomponents of faithful representation were necessary for something to be considered a faithful representation. He stated that he would keep substance as a synonym of faithful representation rather than as a subcomponent of it because he believed neutrality and completeness did capture faithful representation. Mr. Trott also stated that he did not believe this was the place to include "accuracy/clarity" as a subcomponent since they seemed to be "enhancing QC's."
8. Mr. Johnson stated that the Board seemed to agree on what faithful representation is and that clarifying the relationship between substance and

faithful representation was a drafting issue. He stated that the key is to first correctly define faithful representation and then identify its components.

9. The Board agreed with the staff recommendation to retain faithful representation as a QC. The Board also agreed with the staff recommendation to clarify that faithful representation is attained when the substance of an economic phenomenon is depicted completely and neutrally.

Verifiability

10. Ms. Benson stated that the third issue related to faithful representation concerns verifiability. She stated that respondents commented that verifiability does not contribute to faithful representation. Rather, they are distinct characteristics which contribute to decision usefulness in different ways. She stated that something can be faithfully represented without being verifiable, and vice versa. Ms. Benson stated that the disconnect between faithful representation and verifiability is apparent in the DP's discussion of indirect verification, which states that indirect verification requires only that the method has been applied correctly, not that the method itself is appropriate.
11. Ms. Benson stated that the staff thinks verifiability should be removed as a component of faithful representation and included as an enhancing qualitative characteristic. She stated that while neutrality and completeness contribute to faithful representation, verifiability does not. Faithful representation results when the appropriate method is chosen to present information, while verification concerns whether that method can be verified. She stated that if verifiability is made a separate enhancing qualitative characteristic, it would resolve the current conflict between indirect verification and faithful representation.
12. Ms. Benson noted that, at its April meeting, the IASB agreed with the staff recommendation to make verifiability a stand-alone enhancing qualitative characteristic. She asked if the Board agreed with the staff recommendation.
13. Mr. Trott stated that there are actually three issues here that the Board needs to address. Mr. Linsmeier and Ms. Bielstein noted that the second and third issues were so intertwined that they should be addressed together.

1. Does the Board agree that verifiability should be separated from faithful representation and identified as a separate qualitative characteristic?
2. Does the Board wish to distinguish between qualitative characteristics that are necessary or enhancing?
3. If the Board decides to distinguish between necessary and enhancing qualitative characteristics, which qualitative characteristics are necessary, and which are enhancing?

Issue 1: Does the Board agree that verifiability should be separated from faithful representation and identified as a separate qualitative characteristic?

14. Mr. Trott stated that he believed this was one of the more powerful changes recommended. He stated that he was concerned whether the move out of faithful representation would make verifiability more or less important because he believed it was an enhancing QC. Mr. Trott stated that he hoped the staff would spend some time with the PCAOB, the ASB, and other international auditing groups because financial reporting and auditing directly intersect on this issue, and there was potential for productive discussions on the link between auditability and verifiability.

15. The Board agreed to separate verifiability from faithful representation and identify it as a separate QC.

Issue 2&3: Does the Board wish to distinguish between qualitative characteristics that are necessary or enhancing, and, if so, which QC's are necessary and which are enhancing?

16. Ms. Benson stated that one way to look at this issue is that for necessary QC's, there is no gradation. Information is either relevant or not relevant, and something is either a faithful representation or it isn't a faithful representation. With enhancing QC's, there is a continuum.

17. Mr. Johnson added that another way to think of the distinction between necessary and enhancing QC's is that necessary QC's are not sacrificed (traded-off) to maximize enhancing QC's. In other words, enhancing QC's should be maximized only to the extent that they do not compromise a necessary QC. For example, Mr. Johnson stated that one would be willing to

sacrifice a degree of understandability, comparability, or verifiability to achieve a faithful representation of a relevant economic phenomenon. He stated that there is a minimum level of the enhancing QC's that is subsumed into the necessary QC's. For example, if information wasn't understandable to anyone, it would not be relevant.

18. Mr. Johnson stated that, while discussing this issue, it was important to keep in mind that the Conceptual Framework should be a useful tool in guiding Board decisions as they set standards. He stated that there are trade-offs between the QC's, and how to make those trade-offs is important to the Board's decision making. He stated that some level of hierarchy is important.
19. Mr. Bossio stated that this was not a new concept. He noted that Concepts Statement 2 of the current conceptual framework states that relevance and reliability are essential. Mr. Bossio stated that Concepts Statement 2 allowed trade-offs between relevance and reliability but neither could be sacrificed for other QC's. Mr. Johnson stated that faithful representation has replaced reliability and since faithful representation does not include verifiability, there is no longer any trade-off between relevance and faithful representation.
20. Mr. Johnson stated that the IASB supported the distinction between necessary and enhancing and asked the staff to clarify the distinction made in the Preliminary Views. He stated that the IASB recognized that there are two necessary QC's (relevance and faithful representation) which could not be traded-off, and the rest of the QC's could be traded-off to a degree in order to achieve the two necessary QC's.
21. Mr. Batavick stated that he was concerned that classifying the QC's into "buckets" would require explanations that may not be understandable universally. He stated that he believed all of the QC's had to be considered in some way, so he did not want to be rigid in defining the buckets. Mr. Batavick stated that he was on the fence; and, since he did not want to spend a lot of time on this particular issue, he supported what the IASB agreed on and what the staff recommended.
22. Mr. Trott stated that he would like to have the distinction between necessary and enhancing because he believed it would help in decision making. He

stated that there was some sort of hierarchy within the QC's and that relevance and faithful representation were unique.

23. Ms. Seidman stated that she agreed with the staff recommendation to distinguish between QC's that are necessary and enhancing because the distinction reflected how the Board made decisions. Ms. Seidman added that it should be made clear in the drafting that enhancing QC's should be maximized to the extent possible and that there could be multiple faithful representations for an economic phenomenon.
24. Mr. Herz stated that he was against distinguishing between necessary and enhancing QC's. He stated that there are trade-offs between all of the QC's, including the proposed necessary ones (for example, relevant to whom). He stated that standards setters must do their best to maximize all of the QC's and that classifying the QC's as enhancing or necessary would over-simplify the complicated decision process that standard setters go through. He also stated that classifying some QC's as enhancing rather than necessary would send a bad message. For example, if understandability was an enhancing QC, it would imply that the FASB was prepared to issue guidance that was not understandable.
25. Mr. Linsmeier stated that he had concerns about distinguishing between necessary and enhancing QC's. He stated that he agreed with the staff that verifiability was an enhancing QC, but he was not sure about where other QC's, especially comparability and understandability, fit into the structure. Mr. Linsmeier stated that his hesitancy stemmed from the link to Concepts Statement 1 where a user group is specified and the goals of financial reporting are laid out. He stated that in order to meet the goals of financial reporting, it is *necessary* that information be understandable to our primary user group. He also stated that to serve the goal of financial reporting (helping users assess the amount, timing, and uncertainty of future cash flows to make investment decisions), it is **necessary** that information be comparable. Mr. Linsmeier said that he was less concerned about consistency because he realized that standard setters would violate consistency as they change accounting standards to improve financial

reporting. However, Mr. Linsmeier stated, it is **necessary** for standard setters to seek to achieve consistency in the resulting reported information when writing new standards. Mr. Linsmeier stated that, based on his analysis, there might be only one enhancing QC. Therefore, the distinction would not be very useful.

26. Ms. Siedman stated that she would be hesitant to elevate comparability to the “necessary” bucket because it would imply that standards setters should be providing prescriptive guidance. Mr. Linsmeier stated that comparability is not achieved exclusively by accounting for things identically. Comparability is achieved by accounting for the economics of similar things similarly (not identically), and different things differently. He stated that if we got to a principles-based world, it would be very possible that the judgment involved would not result in identical accounting measurements and classifications. However, the accounting would still capture the differences in economics.
27. Mr. Johnson noted that the primary user group included current shareholders, some of whom can be very unsophisticated. He stated that it would not be possible to make the financial statements understandable to the whole primary user group; therefore, it would not make sense for understandability to the entire primary user group to be a necessary QC.
28. Mr. Herz asked if the Board supported distinguishing relevance and faithful representation as necessary QC’s. Four Board Members agreed, three did not (BH, TL, DY). Mr. Herz clarified that this was only a decision to classify relevance and faithful representation as necessary QC’s. He stated that further distinctions between enhancing QC’s and constraints on financial reporting could be discussed at a later date.

Understandability

29. Ms. Benson stated that the staff has identified a misalignment between the primary user group described in the chapter on the Objective of Financial Reporting and the discussion on understandability. She stated that understandability as a qualitative characteristic is useless in application unless the Boards have a clear idea of who should be able to understand the information. She stated that the discussion on understandability focuses on

the knowledge that the Boards expect a user to possess, but there is no discussion of the primary user group or whether that primary user group can be expected to possess that requisite level of knowledge within the discussion of understandability.

30. Ms. Benson stated that the staff thinks there needs to be a clearer link between the primary user group and the group for which financial reporting should be understandable. She stated that the Boards should aim to make financial reporting understandable to whatever groups it decides are the primary users of financial reporting. That group may include investors and creditors only, or include the advisors of investors and creditors as well, but no matter what group is determined to be the primary user in Chapter 1, it needs to fit with the group for which financial reports are supposed to be understandable.
31. Ms. Benson stated that since this issue relates to Chapter 1 redeliberations concerning the primary user group, the staff plans to readdress this issue with the Boards when redeliberations on Chapter 1 commence.
32. Ms. Benson noted that, at its April meeting, the IASB agreed with the staff recommendation to more clearly align the discussion on understandability with the primary user group. She asked if the Board agreed with the staff recommendation.
33. The Board agreed with the staff recommendation to more clearly align the discussion on understandability with the primary user group. Messrs. Herz and Young added that it should be clear that financial reporting will not be understandable to everyone in the primary user group. Mr. Young also stated that he believed advisors should not be included in the primary user group

Timeliness

34. Ms. Benson stated that some constituents commented that materiality and timeliness affect many of the qualitative characteristics in the same manner, and as such, they should either both be constraints, or both be components of relevance. She stated that the staff thinks that timeliness differs from the other components of relevance, predictive value and confirmatory value. Whereas something that has predictive value, or confirmatory value is

consequently more relevant, information can be reported in a timely manner and have no relevance at all, or information can be delayed in reporting and remain relevant. She stated that both timeliness and relevance are important features of decision-useful information, but the two concepts are distinct.

35. Ms. Benson stated that, in the memo given to IASB and FASB members, the staff recommended that timeliness be separated from relevance and identified as a pervasive constraint, along with materiality and cost/benefit considerations. The staff reasoned that both materiality and timeliness affect several of the qualitative characteristics, and thus they belong as constraints rather than components of a single qualitative characteristic. She stated that an item which would otherwise be a relevant piece of information becomes less relevant as it becomes less material, and, similarly, an item may become less comparable as the reporting of a piece of information becomes less timely.

36. Ms. Benson stated that at the April IASB meeting, some members suggested that timeliness be made an enhancing qualitative characteristic rather than a constraint. An IASB member stated that constraints limit what is included within the financial statements, and timeliness does not constrain what is included like cost/benefit considerations and materiality do. If something is less timely, it is not necessarily excluded from the financials, but something that is immaterial or is too costly is excluded from the financial statements. As such, the IASB suggested the staff consider making timeliness an enhancing qualitative characteristic, as timeliness **enhances** the decision-usefulness of something which is relevant and faithfully represented.

37. Ms. Benson stated that the staff still thinks that timeliness should not be a component of relevance. However, the staff is open to making timeliness a constraint or an enhancing qualitative characteristic. She stated that, on one hand, timeliness could be a constraint because it affects qualitative characteristics in different ways. For example, timeliness and faithful representation are inversely related, as a tax accrual in a 10-K is timely information, but that information is less likely to be a faithful representation of the tax provision due in September. However, she stated, it can be argued

that timeliness should be an enhancing qualitative characteristic, as timeliness does not constrain the qualitative characteristics in the same way as materiality and cost/benefit considerations.

38. Ms. Benson asked if Board members agreed that timeliness should not be a component of relevance, and, if so, whether Board members thought that timeliness should be a constraint, or an enhancing qualitative characteristic.
39. Mr. Johnson clarified that timeliness, used in this issue, means reporting information at the right time (not necessarily quickly). Mr. Johnson added that defining timeliness as “the right time” no longer allows it to affect the QC’s in different ways. He stated that in analyzing this issue, it was important to remember what a QC is in the first place—a characteristic of information that makes it decision useful. He stated that all other things being equal, reporting information at the right time improves its decision usefulness, so it is a QC. Since degrees of timeliness would be traded off to achieve relevance or faithful representation, it should be an enhancing QC.
40. Messrs. Herz, Trott, Batavick, and Crooch supported separating timeliness from relevance and classifying it as an enhancing QC.
41. Mr. Linsmeier stated that he did not believe timeliness was a constraint. He stated that it could be separated from relevance, but he didn’t know if separating and classifying it as an enhancing QC would provide any benefit. He stated that the dimensions of timeliness are embedded into other QC’s. Mr. Linsmeier stated that he did not object to separating timeliness as an enhancing QC, but he was concerned about identifying too many QC’s and creating unnecessary complexity.
42. Ms. Seidman stated that the staff’s definition of timeliness was confusing. She stated that if one refers to timeliness as “the right time,” how is it different from satisfying the definition of an element? She stated that since the element definitions already have a time notion embedded in them (the word “present”), maybe timeliness was an unnecessary QC. Ms. Seidman stated that timeliness, in its traditional sense, seemed to be an enhancing QC.
43. Mr. Johnson stated that QC’s can be embedded in other aspects of the framework; however, it is still useful to describe them separately. He stated

that if there is any doubt about whether a QC is subsumed in something else, it should be explicitly addressed for clarification.

44. The Board agreed to separate timeliness from relevance and classify it as an enhancing QC.

Conservatism/Prudence

45. Ms. Benson stated that the Boards received some comments from respondents that prudence or conservatism should be made a component of faithful representation. However, she stated that the staff does not think that respondents raised any points related to conservatism that were not addressed adequately by the Boards during deliberations. Thus, the staff recommends the Board reaffirm its decision that conservatism is incompatible with neutrality and thus should not be included as a qualitative characteristic or component.

46. Ms. Benson noted that, at its April meeting, the IASB agreed with the staff that conservatism should not be included as a component of faithful representation, as it is incompatible with neutrality. She asked if the Board agreed with the staff recommendation.

47. Mr. Herz stated that this was another area where there was an opportunity to link verifiability to auditability. He stated that there is academic research and argumentation that says, on behavioral grounds, "if you want someone to go 70 miles per hour, set the speed limit at 60." Mr. Herz stated that that line of thinking has been inappropriately analogized to the business world. He stated that it needs to be clear that there should not be a bias adjustment in accounting standards.

48. The Board affirmed its decision that that conservatism/prudence should not be included as a component of faithful representation, as it is incompatible with neutrality.

Not-for-profit (NFP) entities

49. Ms. Benson stated that the last two issues for Board consideration are in Memo 53 and relate to general comments received that aren't specific to Chapters 1 and 2 of the framework. She stated that the first issue concerns the Boards' decision in October 2004 to address not-for-profit entities

subsequent to developing a framework applicable to for-profit businesses. Respondents suggested that addressing not-for-profit organizations subsequently will not be as effective as addressing them alongside for-profit businesses. However, she stated that the staff does not think these respondents raised issues that the Boards did not adequately consider at the time the initial decision was made. As such, the staff recommends the Board affirm its original decision to address not-for-profit entities subsequent to working on the first four phases of the framework. However, Ms. Benson stated that the staff thinks that care can be taken in drafting due process documents related to these phases so that terms used are compatible with the broad range of entities that make up the Boards' constituencies. She stated that the staff thinks that such an approach will minimize the need for revising documents at later stages in the project.

50. Ms. Benson noted that, at its April meeting, the IASB agreed with the staff recommendation to address not-for-profit entities after substantially completing the first four phases of the framework project. In addition, the IASB agreed that care should be taken in drafting due process documents so that, where possible, terms used are compatible with a broad range of entities. Ms. Benson asked if the Board agreed with the staff recommendation.
51. Mr. Batavick stated that it would be helpful to explain the mechanisms that the staff was utilizing to incorporate NFP entities throughout the process.
52. Mr. Linsmeier stated that the staff should be careful in framing this issue. He stated that the issue is currently framed to imply that NFP entities are being ignored completely and will be addressed only in a separate phase. He stated that it should be made clear that NFP entities will be considered as viable entities throughout the process and will be separately addressed later to make sure all of their unique issues have been addressed before we move to a final framework.
53. Ms. Seidman asked why the current work being done on the Conceptual Framework could not apply to NFP entities.

54. Ms. Benson answered that, as noted in the October 2004 memo, there are so many issues pertaining to for-profit entities that it was necessary focus on those issues first. Mr. Bossio added that there are some serious issues unique to NFP entities, such as how to apply the asset definition, that will require substantial time and resources that are not currently available. He stated that staff utilizes NFP expertise to stay aware of the NFP issues and accommodate them when possible, but it is important that progress is not held up to address issues unique to NFP entities. Mr. Johnson added that the conceptual framework team has members with NFP expertise who review and comment on every memo and due process document that is written. He stated that the distinguishing factor is that the team does not stop progress on the project to investigate issues that are unique to NFP entities. Those issues are collected for investigation at a later phase.

55. Mr. Leisenring stated that many of the comments that criticized the current state of affairs with respect to this issue were biased because they came from NFP standard setters.

56. The Board affirmed its original decision to address not-for-profit entities at a later phase, and draft due process documents for the first four phases so that when possible, terms used are compatible with not-for-profit entities.

Authoritative status of the Conceptual Framework

57. Ms. Benson stated that the last issue for Board consideration deals with the authoritative status of the framework. She stated that a number of respondents expressed concerns about the Boards' decision to deliberate the authoritative status of the framework at a later phase of the project. Some respondents stated that it is difficult to comment constructively on the chapters without an understanding of the purpose and authoritative status of the framework. She stated that few U.S. preparers commented on the DP, which could be an indication that they do not think the conceptual framework affects them.

58. Ms. Benson stated that the staff thinks it would be premature for the FASB to decide whether it will elevate the status of the conceptual framework until the framework is substantially complete. Thus, she stated that the staff

recommends the Board defer consideration of the authoritative status of the framework until the framework is substantially complete. In addition, she stated that the staff recommends that the FASB include a disclaimer in future conceptual framework due process documents that informs constituents of the possibility that the framework will be elevated within the GAAP hierarchy.

59. Ms. Benson noted that, at its April meeting, the IASB did not make a decision regarding the authoritative status of the framework within the U.S. GAAP hierarchy, as this issue is pertinent to the FASB only. However, IASB members commented that a disclaimer to FASB constituents in future due process documents seems reasonable. She asked if the Board agreed with the staff recommendation.

60. Mr. Herz stated that he agreed with the staff recommendation to defer consideration of the authoritative status, but he wasn't sure the proposed disclaimer would be explicit enough. He stated that he would like to have constituents comment under the assumption that the Conceptual Framework will be a part of the GAAP hierarchy.

61. The Board agreed to affirm its decision to defer consideration of the authoritative status of the framework until the framework is substantially complete. The Board also agreed that future due process documents should include a notice that the Board will consider the authoritative status of the framework in the future, and that respondents should assume that the framework's authoritative status will be elevated in the U.S. GAAP hierarchy to be comparable to the status of the framework in International Financial Reporting Standards.

Follow-up Items:

The conceptual framework team will address the distinctions between necessary and enhancing qualitative characteristics and constraints on financial reporting at a later date.

General Announcements:

None.