

MINUTES



**To:** Board Members  
**From:** Project Team (Beckendorff x 229)  
**Subject:** Minutes of the June 27, 2007  
Conceptual Framework Board Meeting **Date:** July 3, 2007  
**cc:** Leisenring, Bielstein, Golden, MacDonald, Allen, Polley, Glotzer,  
Carney, 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: The Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information

Basis for Discussion: Memorandum No. 57

Length of Discussion: 9:00 a.m. to 10:00 a.m.

Attendance:

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

Board members absent: Herz

IASB members present: Leisenring

Staff in charge of topic: J. Johnson

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

Summary of Decisions Reached:

At the June 27, 2007 meeting, the Board redeliberated issues related to 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*.

With regard to the proposed chapter on the objective of financial reporting, the Board made the following decisions:

1. The Board affirmed its earlier decision that the objective in the proposed Framework should pertain to financial reporting as a whole, not just financial statements.
2. The Board decided that the proposed Framework should generally describe what is meant by financial reporting but that specific decisions on the scope of financial reporting should be dealt with in the phase on presentation and disclosure, including financial reporting boundaries (Phase E) of the conceptual framework project.
3. The Board affirmed its decision to adopt the entity perspective as proposed in the Preliminary Views. The Board agreed that adopting the entity perspective is intended to convey that an entity, not its owners and others having an interest in it, is the object of general purpose external financial reporting. The Board noted that it did not intend to prejudge the potential applicability of the proprietary theory or the entity theory of the reporting entity. That issue will be decided in the reporting entity phase (Phase D) of the project.
4. The Board affirmed its earlier decision to distinguish a primary user group in the proposed Statement. The Board decided that the primary user group should include both current and potential investors and creditors (capital providers).
5. The Board also affirmed its earlier decision that government and regulatory bodies are potential users of financial reporting.

Objective of Meeting:

The objective of the meeting was for the Board to make decisions on issues related to Chapter 1 of the Discussion Paper (DP), *Preliminary Views on an Improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision Useful Financial Reporting Information*. The objective of the meeting was met.

Matters Discussed and Decisions Reached:

1. Jeff Johnson led the discussion. He stated that the discussion would focus on Chapter One 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*. He stated that today's meeting would cover five of the remaining Chapter One issues, and that the final issue, whether stewardship should be included in the objective of financial reporting, would be discussed at a later meeting.

**ISSUE A: At this stage in the project, should the objective focus on financial reporting rather than only financial statements?**

2. Mr. Johnson noted that the DP proposed an objective of financial reporting, not just financial statements, and it contains some discussion as to why the Board decided to do that. He stated that respondents had the following views:
  - (a) Most respondents agreed with the DP's rationale that financial reporting was within the Board's authority.
  - (b) Some respondents believed the Board's authority was limited to financial statements and that the objective should be limited to financial statements.
  - (c) Some respondents believed the objective should be financial reporting but stated that the DP was not faithful to that objective because it concentrated almost entirely on financial statements.
3. Mr. Johnson stated that the staff believed financial reporting is the mandate of the FASB and the IASB. He noted that some aspects of financial reporting are addressed by other organizations and do not currently receive much attention from the Boards, but are still within the Boards' span of authority. Mr. Johnson added that it would be difficult to establish an objective of financial statements without knowing what the objective of financial reporting was, so it would be necessary to start with financial reporting anyway. He

added that the staff believed it was reasonable to establish an objective of financial reporting and concentrate on financial statements in the short-term for cost benefit reasons. Mr. Johnson stated that the staff recommends the Board affirm its decision for the objective to focus on financial reporting.

4. The Board affirmed its decision that the objective should focus on financial reporting and not just financial statements. Messrs. Young and Batavick stated that it would be difficult to draw a line between financial statements and financial reporting. Mr. Batavick added that there are past examples (such as oil and gas disclosures), where the Board has clearly gone beyond financial statements, so he was comfortable with financial reporting being the objective.
5. Mr. Linsmeier stated that it might be helpful to clearly communicate to constituents that, as the framework is developed at this point, it is going to be concentrated on financial statements and that a financial reporting focus will be applied to the entire framework later on. Mr. Bossio noted that the preface to the conceptual framework speaks to this issue when describing the project as a multi-phase project.

**ISSUE B: Should the staff deal with what constitutes financial reporting now?**

6. Mr. Johnson stated that the staff's current plan is to focus on other phases of the conceptual framework first and develop those phases using the staff's understanding of financial reporting. He stated that the staff plans to establish what constitutes financial reporting later in Phase E while addressing presentation and disclosure type issues.
7. Mr. Johnson stated that some respondents believe the Board should determine what constitutes financial reporting before developing the rest of the framework because the framework cannot be written unless its objective is defined. He said that many respondents stated that the QC's developed in Phase A might not apply as well to financial reporting as they do to financial statements.
8. Mr. Johnson stated that the staff believes it is not necessary to define what constitutes financial reporting at this point. He stated that the staff and Board

have a shared general understanding of what is meant by financial reporting to continue developing other phases. Mr. Johnson stated that the staff believes it is using its limited resources correctly. He added that presentation issues should come last in the sequence of developing the framework and that establishing the boundaries of financial reporting would fit well in that phase (Phase E).

9. Mr. Young stated that he would agree with the staff recommendation to defer consideration of the boundaries of financial reporting, but was concerned about creating an iterative process because the QC's might have to be re-evaluated.
10. Mr. Trott stated that he believes the QC's developed in Phase A would be applicable to financial statement and financial reporting issues. He stated that QC's such as verifiability would still be applicable to financial reporting information, but they might have a different weighting depending on whether the information was within the financial statements.
11. Mr. Johnson stated that financial reporting was considered when deliberating the QC's, which was why there are fundamental and enhancing QC's to be used while trying to maximize decision usefulness. Mr. Johnson stated that when applying the QC's to financial statements and other aspects of financial reporting, it is easier to maximize the QC's for information that is typically found in the financial statements (which is why many users find financial statement information more useful than other types of financial reporting).
12. Mr. Linsmeier stated that, upon defining what constitutes financial reporting in Phase E, he did not believe the QC's would vary significantly between recognized items, disclosed and audited items, and disclosed and un-audited items. He added, however, that the context about how we discuss those QC's, how they might apply, and the dimensions of them might change. He stated that he believes the framework would be more complete to talk about how the QC's apply to recognized items, versus disclosed and audited items, versus disclosed and un-audited items. Mr. Leisenring noted that standard setters do not decide what information is audited.

13. There were no objections to the staff's recommendation that the Board defer consideration of the boundaries of financial reporting until phase E of the project.

**ISSUE C: Discussion of the entity perspective vs. proprietary perspective in the DP**

14. Mr. Johnson stated that the DP establishes that financial reporting reflects the perspective of the entity rather than only the perspective of the entity's owners. He stated that some respondents believe the Board prejudged the entity versus proprietary theories of reporting without sufficient debate and believe that debate should take place in the reporting entity phase (Phase D). Those respondents believe there should not be any discussion of the entity view in Chapter 1 of the DP.

15. Mr. Johnson stated that the staff believes this issue stems in part from confusion of terms. He noted that the words "entity perspective" are used in several different contexts in financial reporting. He stated that the staff believes entity perspective, as used in the DP, means that the entity has substance in and of itself and that financial reporting should report on that entity's assets, liabilities, revenue etc., as opposed to reporting on the assets, liabilities, and revenue of the owners of the entity. Mr. Johnson stated that the staff recommends clarifying what is meant by "entity perspective" and making it clear that the Board is not prejudging any issues that will be decided in the reporting entity phase.

16. The Board agreed with the staff recommendation to clearly indicate their intent of adopting an entity perspective in the Exposure Draft of Chapter 1 to resolve constituent confusion.

17. Messrs. Trott and Batavick stated that it was clear to them that the focus of the Boards was on general purpose external financial reporting (GPEFR) and that the entity view was the subject of that.

**ISSUE D: The primary user group**

18. Mr. Johnson noted that the DP distinguishes current and potential investors and creditors as the primary user group. He stated that, with respect to a primary user group, respondents had the following views:
- (a) Most respondents supported distinguishing a primary user group.
  - (b) Many respondents supported the view contained in the DP that the primary user group is composed of current and potential investors and creditors.
  - (c) Some respondents stated that the primary user group should only include current shareholders because serving their needs would also serve all other user needs, and broadening the group beyond current shareholders risks losing focus on the most important needs of users.
19. Mr. Johnson stated that the staff believes that the objective should be to meet the needs of the capital providers, or claimants. He stated that this would tie in with the entity view because it is the entity's assets and claims to those assets that should be reported on. He noted that there is a fine distinction between liabilities and equity and investors and creditors. Mr. Johnson stated that all capital providers, investors and creditors, are claimants and should be part of the primary user group.
20. Mr. Johnson added that investor's and creditor's needs largely overlap and that there was minimum risk of losing focus by including all capital providers rather than just investors. He added that other users' needs might also be met, but the objective is to meet the primary user group's needs.

**Should a primary user group be distinguished?**

21. Mr. Young stated that he strongly supported distinguishing a primary user group.
22. Mr. Linsmeier stated that, in making this decision, it would be helpful to be able to differentiate the primary user group from other user groups that should not be given primacy when developing GPEFR for the entity. He stated that it would be useful to understand what information the primary user group might need compared to other groups. He added that it would also be necessary to

understand any significant differences between users within the primary user group if more than one user group is included in the primary user group (for example, investors and creditors). Mr. Linsmeier stated that for decision and communication purposes, it was important to be able to explain: (a) why certain users were included in the primary user group, (b) what the distinction is, (c) why it is better to serve one group over another, and (d) why the staff doesn't think there are significant differences within the primary group.

23. Ms. Bielstein stated that she found the discussion in the DP to be very vague as to what "general purpose" meant. She stated that it was unclear what the distinctions were between (a) primary versus other users and (b) non-primary users versus other beneficiaries who financial reporting is not trying to serve at all. She stated that a primary user group might not even be needed, and instead stated that financial reporting should help users (who cannot command the information they need) make capital resource allocation decisions. Mr. Bossio stated that he had the same concerns and added that directly addressing the purpose of GPEFR might eliminate the need for the labeling of a primary user group. Mr. Batavick indicated that he did not necessarily support defining a primary user group because an explanation of the purpose of GPEFR would be sufficient.

24. In response to Ms. Bielstein's comment, Mr. Johnson stated that the DP describes the "other beneficiaries who financial reporting is not trying to serve" as other potential users. He agreed that the distinction could be better communicated. For clarification, he stated that:

- a. The DP adopts an entity perspective of financial reporting
- b. In keeping with that perspective, the entity has assets and there are external parties who have claims on those assets
- c. Those claimants (investors and creditors) make up the primary user group
- d. The primary user group makes decisions based in part on financial reporting
- e. The objective of financial reporting should be to provide the information that is useful to the primary user group in making those decisions. Many other users could possibly benefit from financial reporting information, however,

the financial reporting should be designed to assist investors and creditors in making decisions they make in their capacity as capital providers.

**Should both current and potential users be included in the primary user group?**

25. The Board decided both current and potential users should be included in a primary user group. Mr. Trott stated that it is necessary to include that (potential) perspective for GPEFR. He stated that, especially for public companies, the entity cannot control who has access to the information; it is designed that way so the information can be used by the existing and potential capital providers/investors and creditors.

**Investors and Creditors versus Capital Providers**

26. The Board agreed to distinguish a primary user group, but there were differing preferences as to how to label the primary group, and the Board agreed to leave it up to drafting.

27. Mr. Johnson noted that the IASB decided to use the labels “investors and creditors” rather than “capital providers” and do a better job describing that label in the ED. He stated that using either label would create confusion, so he would be comfortable changing the staff recommendation to conform to the IASB decision.

28. Mr. Trott stated that he did not believe it would make a difference whether the staff labeled users in the primary group “investors and creditors” or “capital providers.” He added that he was comfortable not specifically defining what an investor, creditor, or capital supplier was.

29. Mr. Linsmeier stated that he did not support labeling “investors and creditors” as a primary group because it would create incongruities within chapter one. He stated that he would be concerned about issuing GPEFR from an entity view to a primary group consisting of a subset of capital providers. He stated that GPEFR already distinguishes a class to whom the entity will be reporting to (users who cannot demand private information), and he would be comfortable labeling users as capital providers. He explained that a primary

user group includes only those who will use the GPEFR to make capital allocation decisions; and the entity view says that there are various capital providers to the whole entity. He stated that the Board would have to explain very carefully why a subclass of those capital providers making capital allocation decisions might need different information from the other set of general capital providers to the entity.

30. Mr. Batavick stated that, if there was to be a primary user group, he would support using the “capital provider” term as long as it was defined using the words “investors and creditors.”
31. Ms. Seidman suggested that Chapter 1 state that the entity is reporting on its financial position and performance and that it is reporting to current and potential investors and creditors, that is, capital providers. She stated that she did not see any reason not to use both terms.

**ISSUE E: Are governments and regulatory bodies potential users?**

32. Mr. Johnson stated that the DP lists other potential users in addition to the primary user group. He added that the DP also points out that potential users should be external users who can't command their own information.
33. Mr. Johnson stated that some respondents did not believe governments and regulators should be on the list of potential users because they are entities that can command the information that they need.
34. Mr. Johnson stated that the staff found that, although they can sometimes command the information they need, governments and regulators also act in capacities for which they can't command the financial reporting information that they need. He stated that the ED should clarify why governments and regulators can be potential users.
35. Mr. Trott stated that since governments and regulators can use the financial statements, they have to be potential users.
36. Mr. Linsmeier stated that this issue be drafted carefully in the ED so as not to suggest that the information that governments and regulators do demand is GPEFR, especially with respect to parent company only financial statements.

**OTHER ISSUES:**

37. Mr. Bossio asked Board members if any other issues (besides stewardship, which will be discussed at a later date) concerning Chapter 1 of Phase A warranted further consideration.

38. Mr. Leisenring stated that he was concerned that the Boards were lessening the importance of comparability.

Follow-up Items:

The staff will draft a document containing all Board decisions to date in context with minor issues that the Board may not have reconsidered to get feedback as to whether there are any other matters the Board thinks should be analyzed further.

General Announcements:

None.