



**International
Accounting Standards
Board**

**30 Cannon Street, London EC4M 6XH, United Kingdom
Phone: +44 (0)20 7246 6410, Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org Website: <http://www.iasb.org>**

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: 25 April 2006, London

Project: Liabilities and Equity – The Ownership-Settlement Approach and Upcoming Steps (Agenda Paper 3) [Education Session]

PURPOSE OF THE MEETING

1. The FASB staff will update IASB Board members on the current status of the liabilities and equity project by presenting a possible accounting approach for financial instruments with characteristics of liabilities and equity. The staff calls that approach the ownership-settlement approach. The update will include explanation of the upcoming steps in the project. Those steps involve further development of two alternative approaches that the FASB Board and staff will compare to this approach.

2. The purpose of this meeting is informational and is not meant to compare the ownership-settlement approach to any alternative approach, as the FASB Board and staff are not yet ready to do so. However at this time, the FASB staff would appreciate the IASB Board's questions and input.

THE OWNERSHIP-SETTLEMENT APPROACH

3. Attached are materials explaining the ownership-settlement approach. Those materials include:

- a. A chart of principles
- b. A summary of the objective and principles including certain application criteria
- c. Examples illustrating application of the principles.

4. At the March 2005 IASB meeting, the FASB staff presented the ownership-settlement approach as it applies to single-component instruments. That approach was further developed and now applies to all financial instruments including both single- and multiple-component instruments.
5. For the IASB Board's information and input, the FASB staff will present this approach at the education session.

UPCOMING STEPS

6. Two alternative approaches will be further developed so that the FASB Board may compare the three approaches. The expectation is that the FASB Board will choose its preferred approach based on that comparison. The Preliminary Views would describe that preferred approach as well as the other approaches that were considered.
7. The two alternative approaches, while not yet fully developed or known, are briefly and tentatively described as follows:
 - a. **The Dilution Approach**—A narrower view of equity that bases its classification scheme on whether an instrument will or might dilute net assets belonging to existing shareholders.
 - b. **Reassessed Expected Outcomes (REO) Approach**—This approach was presented to the IASB at its June 2004 meeting. REO is a probabilistic-based approach that applies contingent claims modeling techniques to determine classification based on the current economic conditions.
8. As previously noted, those two approaches are not yet fully developed and may change. Over the upcoming months, those approaches will be further developed and explained in the same format as the attached materials for the FASB Board's comparison purposes.
9. After choosing an approach, there are a few remaining issues that the FASB Board will deliberate. Those issues are common to any approach the FASB Board chooses and include earnings per share and determining whether an entity is obligated (for example, if there are past practices of redeeming instruments).
10. All things considered, the FASB Board's timeline for issuing a Preliminary Views is in the second quarter of 2007.