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**International
Accounting Standards
Board**

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: 11 December 2007, London

Project: Liabilities and Equity

Subject: Discussion of Project Strategy (Agenda paper 4)

Background

1. The Liabilities and Equity project is included in the Memorandum of Understanding (MOU) between the IASB and FASB. Specifically, the boards agreed to issue at least one due process document by 2008.
2. The boards also agreed that the project would be conducted under a modified joint approach. Under that approach, it was envisaged that:
 - a. the FASB would lead the project and deliberate various approaches for distinguishing between liabilities and equity. Based on those deliberations, the FASB would issue a preliminary view document (PV) for public comment.
 - b. concurrent with the FASB's issuance, the IASB would publish that PV as a discussion paper to solicit comments from its constituents.
 - c. both boards would use the input received as the basis for a joint project to develop a common standard. The IASB would move the Liabilities and Equity project from its research agenda to its active agenda.

3. On 30 November 2007, the FASB will issue a PV document, *Financial Instruments with Characteristics of Equity*. That document will have a six month comment period; comments are requested by 30 May 2008.

Format of the FASB PV Document

4. The FASB PV document describes three approaches for distinguishing between liabilities and equity:
 - a. basic ownership
 - b. ownership-settlement, and
 - c. reassessed expected outcomes (REO).
5. The FASB reached a preliminary view that the basic ownership approach is the preferred approach. As a result, the PV document presents that approach in the main body of the document and supports it with a basis for conclusions. The other two models are mentioned briefly in the main body of the document and discussed further in the appendices.
6. That structure is appropriate for the FASB because that board has spent several years developing and deliberating the models. As a result, the FASB has a strong preliminary view. Additionally, FASB constituents have been engaged in the discussions and have an understanding of the models.

How the IASB Should Proceed

7. The IASB has no preliminary view. The IASB has not participated in the development of the PV and has not deliberated any of the conclusions reached therein. The PV represents the views of the FASB only and describes issues in the context of U.S. generally accepted accounting principles (GAAP), unless explicitly stated otherwise. Moreover, most IASB constituents have not been involved in discussions or debates on the topic.
8. The IASB has to meet its MOU commitment on a timely basis. However, the staff thinks it is necessary that board members have a sufficient level of

understanding of the FASB PV document to be able to ask appropriate additional questions, if necessary.

9. Therefore, the staff has asked some FASB representatives to lead a further educational session for the IASB board at the December 2007 board meeting. The purpose of the educational session is to allow board members the opportunity to ask questions about the approaches discussed in the FASB PV and about the preliminary view reached by the FASB.
10. The IASB staff will prepare a comprehensive analysis of the differences between existing IFRS requirements and the three approaches discussed in the PV (especially the ownership and ownership-settlement approaches). This analysis will be presented to the board in January or February 2008, along with a draft IASB Invitation to Comment.
11. The draft Invitation to Comment will include background information relevant to IFRSs, the main differences from IFRS requirements, and additional questions, to the extent they are necessary.
12. The staff's aim is to be able to publish the discussion paper (containing the IASB Invitation to Comment and the FASB PV document) in March 2008.

Question for the Board

Do board members agree with the proposed approach? If not, what do board members propose?