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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: 24 January 2007, London
Project: Liability and Equity
Subject: Project proposals (Agenda paper 12A)

OVERVIEW OF PAPERS

1. This paper contains:
 - a. An overview of the Liability and equity (L/E) project, and its interaction with other projects.
 - b. The program proposed by the staff to enable the Board to issue the FASB's preliminary views paper as an IASB discussion paper.
2. Agenda paper 12b, the second paper for this session:
 - a. Summarises the current L/E classification requirements under IAS 32 *Financial Instruments: Presentation* and highlights a number of the application issues that have arisen.
 - b. Illustrates the diversity of views among constituents and others with regard to what 'equity' is.

3. The aim of paper 12b is to provide some background for the sessions proposed by the staff and to illustrate the wide range of (often conflicting) views regarding what is 'equity'. L/E projects have always been both contentious and difficult; the staff expect this one to be no different.

PROJECT INTRODUCTION

Overview

4. The FASB's objective is to *develop a comprehensive standard of accounting and reporting for financial instruments with characteristics of equity, liabilities or both, and assets*. This is a modified joint project, with the FASB having taken the lead to date.
5. The FASB intends to issue a preliminary views document in May 2007.
6. The Board has agreed to publish the FASB document as an IASB discussion document. The IASB staff expects the IASB Board will want to publish at around the same time or slightly after the FASB issues their document. The staff does not expect that the discussion paper will include any preliminary views of the IASB, consistent with the agreed approach on modified-joint projects. However, the staff understands that the Board may wish to include supplemental commentary and questions tailored to IASB constituents.

PROPOSED SESSIONS

7. The staff proposes to hold three sessions on the FASB's work in the coming months.

Session One

8. Session One (February 2007) will provide a high-level introduction to the three FASB models, followed by a more detailed comparison of the models. This comparison will:
 - a. highlight and compare the principles of each model
 - b. consider the models' interaction with the conceptual framework

9. The comparison will be illustrated by a series of worked examples comparing outcomes under each model.
10. We expect session one, as described, to take around three hours.

Session Two

11. Session two (March 2007) will follow-up any issues raised in session one and seek to reinforce the Board's understanding of the three FASB models.
12. In session two the staff also intends to discuss what, if any, supplementary commentary and/or questions to IASB constituents the Board members believe will be required for the discussion paper.
13. We expect that this session will take approximately two hours.

Session Three

14. Session three (May 2007) will include a presentation of the FASB's preliminary views document.
15. The IASB staff will also present a draft of any supplementary commentary and/or questions that the Board wish to include in the IASB discussion paper.

Possible other sessions.

16. There is a task force formed by the European Community that is developing its own model and discussion paper. That task force has asked to present their views to the board, and such a session could be incorporated into the current discussion.
17. Furthermore, the staff intends to hold a meeting of the Financial Instruments Working Group in Q2 of 2007. It is intended that such a meeting would include a discussion of the L/E project.
18. **We invite suggestions from the Board on the proposed approach.**

INTERACTION OF THIS PROJECT WITH OTHER IASB PROJECTS

19. There are a number of projects that may affect the L/E project. These include:
 - a. Conceptual Framework project
 - b. Business Combinations project
 - c. Financial Statement Presentation project
 - d. Insurance project
20. The project that could have the most significant implications for the L/E project is the Conceptual Framework project.

INTERACTION WITH THE CONCEPTUAL FRAMEWORK PROJECT

21. The IASB and FASB Boards have already decided that the Conceptual Framework project should further explore two possible approaches to reconsidering the existing definitions of liability and equity. Namely (1) defining only a single element, such as claims, and (2) defining more than two elements.
22. Ideally we would proceed with the L/E project once the new framework is in place. However, there is a pressing need both under US GAAP and IFRS for a new and comprehensive L/E standard.
23. The staff believes it is vital that our constituents understand how the two projects interact with each other, and that we communicate that interaction to them clearly so that they are able to contribute constructively to one or both projects.
24. The staff on both projects are aware of decisions made in each project that could impact the direction and progression of their own project. The staff are aware that the publication of a standard and a conceptual framework that are inconsistent with each other within close proximity of each other would not be acceptable to the board. To the extent possible, decisions made within the Conceptual Framework project will inform the direction of the L/E project.

25. However there is likely to be a timing mismatch between the L/E project and the conceptual framework project. At some point a decision may need to be made as to whether the L/E project progresses ahead of the conceptual framework project, with the risk of inconsistency with the final decisions of the conceptual framework.
26. **The staff asks for comments from the board on the interaction of the two projects.**