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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: 22 July 2008, London

Project: Liabilities and Equity

Subject: Loss Absorption Approach (Agenda Paper 3)

BACKGROUND

1. To complete the liabilities and equity project by 2011, the project plan discussed by the IASB and FASB in June requires a decision by the end of 2008 as to which approach they want to pursue.
2. Consistent with the liabilities and equity project plan, the staff has scheduled several meetings to help IASB Board members develop their views and be in a position to make such a decision:
 - (a) The ownership-settlement approach was discussed at small group meetings in June
 - (b) The basic ownership approach will be discussed at small group meetings in July
 - (c) The loss absorption approach will be discussed at an education session in July

THE LOSS ABSORPTION APPROACH

3. The loss absorption approach is described in the discussion paper *Distinguishing Between Liabilities and Equity*, which was published in January 2008 by the European Financial Reporting Advisory Group (EFRAG). The development of the loss absorption approach was led by the Accounting Standards Committee of Germany as part of the Pro-active Accounting Activities in Europe (PAAinE) initiative.
4. The education session will be led by some of the authors of the EFRAG discussion paper. A previous education session was held during the joint IASB/FASB Board meeting in April 2007. Additionally, an education session was held at the Financial Instruments Working Group (FIWG) meeting in April 2007.
5. The staff anticipates that this will be the last discussion about the loss absorption approach before the staff asks the boards which approach they want to pursue. Therefore, IASB Board members should ensure that they ask any questions that they believe are necessary in order to develop a sufficient level of understanding of the approach.

MATERIALS FOR THIS EDUCATION SESSION

6. The materials for the education session are:
 - **Agenda Paper 3A**—A copy of the EFRAG discussion paper, *Distinguishing Between Liabilities and Equity* [The discussion paper is not included in the observer notes but can be downloaded from the following website:
<http://www.efrag.org/projects/detail.asp?id=66>]
 - **Agenda Paper 3B**—PowerPoint presentation that will be the basis for the education session