

REPORT OF THE CHAIRMAN OF THE FASB
TO THE FINANCIAL ACCOUNTING FOUNDATION
February 1, 2006 through April 30, 2006

ITEM 1: TECHNICAL ACTIVITIES

BOARD AND STAFF ACTIVITIES

- a. The following documents were issued and posted to the website:
1. FASB Statement No. 155, *Accounting for Certain Hybrid Financial Instruments* (February 2006).
 2. FASB Statement No. 156, *Accounting for Servicing of Financial Assets* (March 2006).
 3. FASB Exposure Draft, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (March 31, 2006). The deadline for comments is May 31, 2006.
- b. The following FSPs were posted to the FASB website:
1. FSP FAS 123(R)-4—"Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event" (Posted: February 3, 2006)
 2. FSP FTB 85-4-1—"Accounting for Life Settlement Contracts by Third-Party Investors" (Posted: March 27, 2006)
 3. FSP FIN 46(R)-6—"Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)" (Posted: April 13, 2006)
- c. At its February 1, 2006 meeting, the Board decided not to add to its agenda a project to address the current accounting for refundable entrance fees in the continuing care retirement community industry, specifically whether refundable entrance fees should be considered *callable* and subject to FASB Statement No. 78, *Classification of Obligations That Are Callable by the Creditor*, and classified as a current liability.
- d. At its February 15, 2006 meeting, the Board added a project to its agenda to address four current practice issues related to the implementation of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

- e. At its March 8, 2006 meeting, the Board added a project to its agenda to eliminate the accrue-in-advance method of accounting for planned major maintenance activities. The Board decided that the guidance would be in the form of an FSP.
- f. All seven Board members participated in the March 16, 2006 EITF meeting.
- g. At the March 28, 2006 Board meeting, the Board ratified the tentative conclusions reached at the March 16, 2006 EITF meeting on the following Issues and approved the exposure of a draft abstract for each Issue for a 30-day public comment period ending May 4, 2006:
 - 1. 05-1, "Accounting for the Conversion of an Instrument That Became Convertible upon the Issuer's Exercise of a Call Option"
 - 2. 06-2, "Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43"
 - 3. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)."
- h. At the March 28, 2006 Board meeting, the Board also ratified a modification agreed to at the March 16, 2006 EITF meeting on the existing consensus on Issue No. 05-7, "Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues."
- i. The EITF Agenda Committee decided that the June 15, 2006 EITF meeting would be a one-day meeting.
- j. The TA&I director met with Big 4 EITF members (head of accounting policy groups) to discuss their observations on FASB processes.
- k. Six Board members participated in the March meeting of the Financial Accounting Standards Advisory Council.
- l. Seven Board members participated in the April meeting of the FASB's User Advisory Council.
- m. Various staff attended one AcSEC meeting.
- n. Three Board members, the MP&T director, the TA&I director, the PD&S director, and staff met with members of the International Valuation Standards Committee, representatives of The Appraisal Foundation, and the Toronto Valuation Accord to discuss the use of fair value in financial reporting and the need for a single set of valuation standards with particular emphasis on who should develop valuation standards and provide related implementation guidance.

- o. Two Board members, the TA&I director, and staff met with the Statement 140 Servicer Discretion Resource Group to discuss issues related to the Board's project to address the permitted activities of a qualifying special-purpose entity in the context of servicer discretion.
- p. Two Board members, the TA&I director, and staff met with the International Swaps and Derivatives Association to discuss shortcut method on Statement 133.
- q. Two Board members, the TA&I director, and staff met with representatives of the American Securitization Forum and The Bond Market Association to discuss issues regarding the simultaneous sale and repurchase of a financial asset.
- r. One Board member and staff met with representatives of the Connecticut Society of CPA's Accounting Standards Committee to discuss how to engage smaller entities into the standard-setting process.
- s. One Board member and staff participated in a roundtable discussion at NYU on pensions accounting.
- t. One Board member, the TA&I director, and staff met with representatives of the American Academy of Actuaries to discuss our risk transfer project.
- u. One Board member and staff met with an insurance consultant to discuss some aspects of certain Corporate Owned Life Insurance contracts.
- v. Two staff members participated in a teleconference with the SEC staff to discuss an accounting issue related to health insurance contracts.
- w. Four staff members met with representatives of the user community to discuss the representatives' concerns about issues raised in the Board's financial guarantee project.
- x. Two staff members participated in a conference call with Interfirm FV Committee (ad hoc group of national valuation representatives of the Big 4 public accounting firms). The group discussed the definition of fair value and its application for purposes of initial recognition and measurement of an asset.
- y. Two staff members participated in a conference call as observers of the Reporting Simplification Task Force (of the AICPA's Enhance Business Reporting Consortium).

INTERNATIONAL ACTIVITIES

- a. The Board, senior staff, FASB staff monitoring IASB projects, and the IASB liaison Board member met after each IASB meeting to discuss IASB agenda and research

projects with a focus on recent decisions by the IASB and areas of potential divergence.

- b. The Board and staff continue to work closely with the IASB and staff on their joint projects on purchase method procedures, revenue recognition, performance reporting, conceptual framework, short-term convergence, and liabilities and equity (modified joint). FASB staff members participated in several IASB Board meetings related to the joint revenue recognition, performance reporting, and conceptual framework projects. For joint projects, the FASB staff generally participates in IASB meetings by video conference or telephone. The IASB staff participates in FASB meetings by phone.
- c. The IASB and FASB held a joint meeting in London and discussed the following:
 - 1. Issues in active agenda projects including revenue recognition, financial instruments, business combinations, and the conceptual framework.
 - 2. The approach to a possible project to reconsider the existing accounting for leases. The Boards directed the staff to develop a project plan and other material that would be the basis for an agenda decision in July 2006.
- d. Three Board members and staff met with representatives of the European Association of Cooperative Banks to discuss the classification of certain cooperative shares issued in Europe under the liabilities and equity milestone draft.
- e. The chairman and a Board member participated in the Financial Stability Forum/International Federation of Accountants/International Accounting Standards Board Roundtable by video conference to discuss international convergence and fair value accounting.
- f. A Board member, the MP&T director, and the TA&I director attended the National Standards Setters meeting in Canada.
- g. Staff briefed three visitors from the Japanese Financial Services Agency on five of the Board's joint or short-term convergence projects with the IASB.
- h. The chairman, a Board member, and the MP&T director participated in a conference call with the Accounting Standards Board of Japan to discuss the agenda for the May meeting in Japan.
- i. The new President of the German Accounting Standards Board visited the FASB to discuss standard setting with the chairman and senior staff members.
- j. A staff member attended the IASB's Standards Advisory Council meeting held in London.

- k. The chairman and a Board member participated in the IASC Foundation Conference on International Financial Reporting Standards—Implications of Convergence held in Frankfurt.
- l. A Board member and the MP&T director participated in an IASB liaison meeting with representatives of the Investment Management Association.
- m. The project manager on the measurement phase of the conceptual framework project attended the following meetings related to IASB Discussion Paper, *Measurement Bases for Financial Accounting – Measurement on Initial Recognition*:
 - 1. The April 24, 2006 roundtable discussion of that IASB Discussion Paper, hosted by the UK Accounting Standards Board.
 - 2. A March 2006 meeting hosted by the Corporate Disclosure Policy Council of the CFA Centre for Financial Market Integrity of the CFA Institute. Other attendees included representatives of the UK ASB, EFRAG, and the IASB.

OTHER ACTIVITIES

- a. The following professional development sessions were presented to the Board and staff:
 - 1. FASB Chairman Bob Herz moderated a video presentation of a recent C-SPAN presentation of SEC chairmen (current and former) discussing financial reporting and standard setting.
 - 2. Mr. Vince Vaccaro and Ms. Evelyn Capassakis from PricewaterhouseCoopers LLP explained recent changes in the personal income tax code and provided tips for personal estate planning.
 - 3. Steve Gerard, former FASB Senior Technical Advisor, and Marianna Todorova, FASB Industry Fellow, presented fundamental appraisal concepts about fair market value. They also discussed similarities and differences of fair value for GAAP and highlighted a few of the many current issues facing the appraisal industry.
 - 4. Members of the Conceptual Framework team (David Abbate, FASB Project Research Associate; Todd Johnson, FASB Senior Technical Advisor; and Ron Bossio, FASB Senior Project Manager) led a session to clarify the meaning of the term *principle* and to clarify what reasoning from first-principles is and why it is important in standard setting.
 - 5. Robert Wilkins, FASB Senior Project Manager, and Pat Donoghue, FASB Project Manager, gave an overview of recently issued FASB documents. During that session, Mr. Wilkins and Ms. Donoghue summarized the basics of

- (a) Statement 155, (b) Statement 156, and (c) FASB Exposure Draft, *The Fair Value Option for Financial Assets and Financial Liabilities*.
6. FASB Practice Fellows James Geary, Reginald Oakley, Susan Cosper, Paul Beswick, Stuart Moss, and Jason Jacobs provided an update on the activities of the EITF, including recent consensuses and issues that were discussed at the March 16, 2006 EITF meeting: Issue 05-1, Issue 06-1, Issue 06-2, Issue 06-3, Issue 06-4, and a consensus modification to Issue 05-7.
 7. Steve Belcher, FASB Practice Fellow, provided an overview of the provisions of Interpretation 46(R), as well as an overview of the latest FASB Staff Positions: (a) FSP FIN 46(R)-5 on implicit variable interests and (b) FSP FIN 46(R)-6 on determining the variability to consider in applying Interpretation 46(R).

ITEM 2: ADMINISTRATIVE AND STRATEGIC ACTIVITIES

- a. In advance of updating the Technical Plan table as of April 1, the Board, directors, and a staff member participated in an administrative meeting to discuss planned activities and due process documents for each agenda project as well as the Board's priorities for the second and third quarters of 2006.
- b. The chairman, the FAF president, and members of the FASB staff had several discussions with representatives of the SEC staff, the AICPA, and others regarding XBRL.

ITEM 3: WASHINGTON ACTIVITIES

- a. The chairman and a staff member met in separate meetings with various Members of Congress, Staff of Congressional Committees, and representatives of a Washington, DC-based trade association to discuss the role of the FASB, the project on postretirement benefit obligations including pensions, and other matters of mutual interest.
- b. The chairman, a Board member, and a staff member met in separate meetings with the Secretary of the Treasury and the Secretary of Labor to discuss the role of the FASB, the project on postretirement benefit obligations including pensions, and other matters of mutual interest.
- c. The chairman testified before the Capital Markets, Insurance and Government Sponsored Enterprises Subcommittee of the Committee on Financial Services at a hearing entitled "Fostering Accuracy and Transparency in Financial Reporting."
- d. The chairman, a Board member, the TA&I director, and a staff member held their quarterly meeting with the SEC and the PCAOB to discuss current FASB activities and other matters of mutual interest.

- e. A staff member met with representatives of a number of associations, staff to Members of Congress, Congressional committees, government agencies, and other entities and organizations to discuss the role of the FASB, current FASB activities, and other matters of mutual interest.

ITEM 4: SPEECHES DELIVERED

Principal platforms addressed by the Board and staff members during the February 2006 through April 2006 period include:

- - American Accounting Association
- - American Petroleum Institute
- - Center for Accounting Research and Education
- - Financial Executives International
- - Institutional Investor
- - International Accounting Standards Board
- - International Accounting Standards Committee
- - Institute of Management Accountants
- - National Association of College and University Business Officers
- - Securities and Exchange Commission
- - St. Joseph's University
- - Strategic Research Institute Conference
- - Tax Council Policy Institute
- - University of Tulsa
- - University of Virginia
- - Wake Forest University

ITEM 5: ADDITIONAL COMMUNICATIONS ACTIVITIES

- a. The FASB, through the Communications Department, issued three press releases this period for the following: the FASB response to the SEC Study on off-balance sheet arrangements, the reappointment of Leslie Seidman to the Board, and an Exposure Draft to improve accounting for postretirement benefit plans, including pensions.
- b. Media inquiries and outreach focused on all of those subjects with our pensions and other postemployment benefits project drawing significant interest. Other issues covered extensively by the media during the period were complexity, fair value, and international convergence.
- c. In anticipation of reporter demands as well as in line with our strategy to be proactive on the media relations front, the FASB and the communications team continued to speak with reporters from the Wall Street Journal, The New York Times, Associated Press, Bloomberg News, Washington Post, Reuters, and others.
- d. As part of our commitment to inform and educate reporters and constituents about our mission and role in the capital markets, the FASB and the communications team

hosted two Knight-Bagehot Fellows from Columbia University's Journalism and Business Schools, who observed a Board meeting and had lunch with Ed Trott as part of a research project.

- e. Three issues of *The FASB Report*, the FASB's monthly newsletter, were produced and distributed. Topics included the reappointment of Leslie Seidman to the Board, financial instruments, complexity, the FASB and IASB's memorandum of understanding, the FASB response to the SEC study on off-balance sheet arrangements, and the technical plan.
- f. In conjunction with the Communications Department, a visit was conducted for a group from Nyack College, who observed a Board meeting and education session and were given a tour of the FASB facilities.

ITEM 6: GASB LIAISON ACTIVITIES

- a. FASB meeting minutes were sent to the GASB RTA director and certain GASB staff.
- b. GASB meeting minutes were sent to the FASB chairman and two staff directors.
- c. The GASB RTA director and the FASB PD&S director held monthly meetings and met quarterly with the FASB and GASB chairmen.
- d. The FASB staff distributed the following drafts to the GASB for review:
 - Exposure Draft, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*
 - Exposure Draft, *Conceptual Framework for Financial Reporting*
- e. The FASB staff received the GASB draft of the Preliminary Views on derivatives for review.