

REPORT OF THE CHAIRMAN OF THE FASB  
TO THE FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL  
For the quarter ended December 31, 2003

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**ITEM 1: TECHNICAL ACTIVITIES**

**A. BOARD ACTIVITIES**

1. The Board issued the following documents:
  - FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*—a final Statement resulting from redeliberation of the September 12, 2003 FASB Exposure Draft, *Employers' Disclosures about Pensions and Other Postretirement Benefits*
  - FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*—a final Interpretation resulting from redeliberation of the October 31, 2003 FASB proposed Interpretation, *Consolidation of Variable Interest Entities* (a modification of FASB Interpretation No. 46)
  - The following four Exposure Drafts related to international convergence with the IASB:
    - FASB Exposure Draft, *Accounting Changes and Error Corrections* (December 2003)
    - FASB Exposure Draft, *Exchanges of Productive Assets* (December 2003)
    - FASB Exposure Draft, *Earnings per Share* (December 2003)
    - FASB Exposure Draft, *Inventory Costs* (December 2003).
2. The Board added the following projects to its agenda:
  - *Loan Commitments*. On October 1, 2003, the Board added this project to its agenda that would clarify FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (as amended).
3. The Board held 42 separate sessions on 14 dates to deliberate technical issues for 16 agenda projects or possible agenda projects.
4. The Board and staff conducted 17 field visits with separate public and non-public enterprises to assess potential costs and benefits of the proposed changes to the accounting for equity-based compensation.

5. A majority of Board members participated in the November meeting of the Emerging Issues Task Force (EITF).
6. The Board met with representatives of the following organizations and discussed matters of mutual interest:
  - - National Investor Relations Institute
  - - AICPA Private Companies Practice Section Technical Issues Committee
  - - American Gas Association
  - - American Academy of Actuaries
  - - American Insurance Association.

## B. INTERNATIONAL ACTIVITIES

1. The FASB, IASB, and Canadian Accounting Standards Board (AcSB) held a tripartite meeting in Toronto and discussed the following topics: disclosure framework, measurement, revenue recognition, and equity-based compensation.
2. The FASB and IASB held an open joint meeting in Toronto and discussed reporting financial performance/comprehensive income, short-term convergence, business combinations: purchase methods procedures, and future agenda planning.
3. The chairman, MP&T director, and an FASB staff member participated in a convergence working party meeting with representatives from the IASB via video conference.
4. The chairman, another Board member, the MP&T director, and an FASB staff member participated in a meeting with representatives of the IASB to discuss the process the two Boards will use to develop a coordinated long-term agenda.
5. The PD&S director met with a delegation from the Chinese Institute of CPAs to discuss the standard-setting process and principles-based standards.
6. 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.
7. The Board and staff continued to work closely with the IASB and staff on their joint projects on purchase method procedures, revenue recognition, and short-term convergence. 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.
8. The Board and staff continued to work closely with the IASB and staff on their similar projects on performance reporting and equity-based compensation.

## C. OTHER ACTIVITIES

1. The staff posted the following FASB Staff Positions (FSPs) to the FASB website:
  - - One final FSP related to implementation of FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*
  - - Four final FSPs related to FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*
  - - One final FSP related to FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*
  - - Two final FSPs related to implementation of FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*
  - - Two proposed FSPs related to FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*
  - - One proposed FSP related to the accounting and disclosure requirements related to the *Medicare Prescription Drug, Improvement and Modernization Act of 2003* under FASB Statement No. 106.
2. Three Board members and staff met with FEI CCR's special FASB liaison group to discuss current quarter developments on several of the projects on the Board's agenda.
3. Two Board members, the MP&T director, and various staff participated in a meeting with representatives of cooperative organizations to discuss Statement 150.
4. Two Board members, the MP&T director, and various staff participated in a meeting with representatives of the American Association of General Contractors to discuss the Statement 150 deferral.
5. Three Board members, the TA&I director, and various staff participated in two meetings with representatives of the largest seven accounting firms, SEC, FEI, and IMA to discuss Interpretation 46 implementation issues and proposed modification to Interpretation 46.
6. Various staff met with the Equity-Based Compensation Resource Group to identify potential issues related to the implementation of the proposed Statement on equity-based compensation.
7. The MP&T director and various staff met with representatives of the Reinsurance Association of America to discuss matters of mutual interest.

8. The MP&T director, the TA&I director, and various staff met with the AICPA Experts Panel on insurance to discuss matters of mutual interest.
9. The TA&I director and various staff attended three AcSEC meetings in New York and Florida.
10. The TA&I director and three staff members met with various representatives from the actuarial community to identify issues relating to the Board's project on cash balance pension plans.
11. A staff member participated in a panel discussion at the Conference of Consulting Actuaries in Arizona.
12. The TA&I director and various staff members participated in closed meetings of EITF working groups.
13. Various staff participated in a video conference with the National Credit Union Administration, the regulators for federal credit unions, to discuss matters on Combinations between Mutual Enterprises
14. Various staff participated in a teleconference with the American Community Bank to discuss matters on Combinations between Mutual Enterprises.
15. FASB staff attended a presentation in New York of the Casualty Actuarial Society's preliminary results of a study on the financial impact of reporting property and casualty loss liabilities at fair value.
16. A staff member participated in a Round Table Discussion on Low Cost Improvements in Financial Reporting at New York University.
17. Staff members have been participating with the Public Company Task Force – Special Committee on Enhanced Business Reporting, and presented the model being developed as part of the Financial Performance Reporting project to this group.
18. A staff member attended the 8<sup>th</sup> XBRL international conference in Seattle, WA.
19. A staff member attended an XBRL Forum hosted by the American Banker's Association in Washington DC.
20. The following professional development sessions were presented to the Board and staff:
  - - George J. Batavick, FASB Board member, on financial reporting and standard setting.
  - - Julia Turner and Rich Bittenbender, Moody's Investors Service, discussed Moody's approach to rating a company, the role of financial statements in this

- process, adjustments made, and an evaluation of what is important and what is not important to them in published financial statements.
- - Johnathan Mun, vice president of Analytical Services at Decisioneering, Inc., helped the Board understand how software can value equity-based compensation arrangements using a lattice approach.
  - - Sidney Kess, CPA, JD, LLM, discussed the new 2003 tax legislation and provided guidance on the new law, including planning opportunities and pitfalls to beware of.
  - - Wayne Upton, director of research, IASB, presented an update on the status of the IASB's insurance project.

## **ITEM 2: ADMINISTRATIVE AND STRATEGIC ACTIVITIES**

- a. The Board and the PD&S director attended an FAF Trustees meeting.
- b. The PD&S director attended a meeting of FAF's Finance Committee in New York.
- c. The Board, MP&T director, TA&I director, and selected staff attended the 2003 AAA/FASB Financial Accounting Reporting Issues Conference, sponsored by the Big 4 accounting firms and the FASB. The thirteenth annual conference focused on two topics: reliability of numbers reported in financial statements and notes and defining the unit of account. The conference brings together standard setters, auditors, regulators, and financial statement users and preparers to discuss initiatives to improve financial reporting.
- d. The Board and staff directors met to continue their discussion of the SEC Report submitted to Congress in July 2003: *Study Pursuant to Section 108(d) of the Sarbanes-Oxley Act of 2002 on the Adoption by the United States Financial Reporting System of a Principles-Based Accounting System.*
- e. Board members, staff directors, and certain project teams met to discuss the project plans for four agenda projects.
- f. The Board and staff directors held a strategic agenda review meeting to discuss potential projects for the Board's longer term (3-5 years) agenda.
- g. The Process Effectiveness Steering Committee met to discuss recommendations related to the process effectiveness "deliberations" initiative; some of those recommendations were discussed with the rest of the Board members at an administrative meeting.
- h. The chairman met with our process effectiveness consultant to discuss future strategic planning ideas.

- i. Several staff members participated in two separate full-day off-site Microsoft Project 2002 training courses.
- j. New staff members participated in four training sessions covering the following topics: processes and procedures, effective writing, current agenda projects, project planning and communications, and staffing/personnel issues.
- k. Three staff members attended the FEI Current Financial Reporting Conference in New York City.
- l. Three staff members attended the AICPA/SEC Conference in Washington DC.
- m. Three staff members attended a full-day seminar on business speaking skills.
- n. A number of staff members attended a half-day in-house seminar on Microsoft Office XP.
- o. A number of staff members attended a half-day in-house seminar on conducting employee performance evaluations.

### **ITEM 3: WASHINGTON ACTIVITIES**

- a. The chairman and a staff member met with the Secretary of the Treasury and the Assistant Secretary of Economic Policy to discuss current FASB activities.
- b. The chairman and a staff member met with the Chairman of the Federal Reserve System and staff to discuss current FASB activities.
- c. The chairman and a staff member met with a Member of Congress and staff and several constituents representing small businesses to discuss the accounting for mandatorily redeemable instruments.
- d. A Board member and a staff member met with members of the American Business Conference to discuss current FASB activities.
- e. The chairman testified at a hearing of the Subcommittee on Securities and Investment of the Committee on Banking, Housing, and Urban Affairs, titled "The Financial Accounting Standards Board and Small Business Growth."
- f. A staff member met with representatives of a number of associations, Members of Congress, Congressional Committees, government agencies, and other entities and organizations to discuss current FASB activities and other issues.
- g. The chairman, a Board member, and the MP&T and the TA&I directors met with Don Nicolaisen, Carol Stacey, and various staff of the Office of the Chief Accountant and Corporation Finance to discuss current issues.

- h. The chairman, a Board member, and the TA&I director met with the chief accountants and staff of the Banking Regulatory Agencies to discuss current issues.
- i. The chairman, a Board member, and the TA&I director met with representatives of AcSEC, the SEC, and the directors and chief accountants of the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Administration, and a governor of the Federal Reserve Board to discuss AcSEC's project on the Allowance for Loan Losses.

**ITEM 4: SPEECHES DELIVERED**

Principal platforms addressed by the Board and staff members during the October to December period included:

- - Accounting Standards Board, International Summit on Financial Reporting
- - Advanced Business Valuation Conference
- - AICPA Banks & Savings
- - AICPA National Conference on Credit Unions
- - AICPA SEC Conference
- - AICPA Stockbrokerage Conference
- - American Assembly
- - American Council of Life Insurers
- - Asian Pacific Conference
- - Association for Financial Professionals
- - Bank Administration Institute Roundtable for CFOs
- - Bear Stearns
- - Center for Business Intelligence
- - CFO Summit
- - Committee on Bank Accounting & Reporting (COBAR)
- - Duke University
- - Edison Electric Institute
- - Ernst & Young Financial Services Forum
- - Financial Executives International
- - Florida Institute of CPAs
- - Georgetown University Law Center
- - Georgia State University
- - Illinois Society of CPAs
- - Information Management Network Super Bowl of Indexing
- - KPMG, London
- - KPMG – IASB Conference, Brussels
- - Massachusetts Institute of Technology (MIT) CFO Summit
- - Merrill Lynch
- - National Association of Real Estate Investment Trusts
- - Oklahoma State University
- - SEC Office of Economic Analysis

- - Temple University
- - Tennessee Society of CPAs
- - Texas A&M University
- - University of California at Berkeley, Center for Financial Reporting and Management
- - University of South Florida
- - University of Virginia
- - University of Wisconsin
- - Virginia Tech
- - Washington Society of CPAs

## **ITEM 5: ADDITIONAL PUBLIC RELATIONS ACTIVITIES**

### **Media Contact**

- a. Media inquiries focused on three key areas during the fourth quarter: stock options expensing, pension accounting, and variable interest entities.
- b. During the latest period, Public Relations talked with members of the major business press, including *The Wall Street Journal*, *BusinessWeek*, *Financial Times*, *San Francisco Chronicle*, *San Jose Mercury News*, and *CFO*. By far the topic of greatest interest is stock options accounting, and the press is gearing up for more debate as discussion is expected to heat up after the Senate returns from recess in early 2004.
- c. Public Relations recently visited with the Washington D.C.-based press and met with key reporters from *The Washington Post*, *BusinessWeek*, *The Wall Street Journal*, *Dow Jones*, *Reuters*, and *American Banker*. During that visit, two new relationships were established at *The Washington Post*, and *Reuters*. The trip provided an opportunity to update reporters on the FASB's activities and reinforce the FASB's position on stock options accounting and the importance of independence.

### **Media Coaching**

- a. To enhance Board and staff members' media and presentation skills, Public Relations interviewed media coaching firms and recently hired Franchetti Communications, based in New York, to begin working with the FASB. Franchetti has worked with senior officers at the AICPA, PricewaterhouseCooper, and Morgan Stanley. The initial phase of coaching commence in December.

## **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 the 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 distributed the following drafts to the GASB for review:
  - - Proposed and final Interpretation, *Consolidation of Variable Interest Entities*
  - - Proposed Exposure Drafts, (1) *Inventory Costs*, (2) *Earnings per Share*, (3) *Exchanges of Productive Assets*, and (4) *Accounting Changes and Error Corrections*
  - - FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*.
- e. The FASB received a draft of the following GASB documents for review:
  - - GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*
  - - Proposed Technical Bulletin, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*
  - - Proposed Statement, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.