

REPORT OF THE CHAIRMAN OF THE FASB  
TO THE FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL  
For the quarter ended September 30, 2003

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**ITEM 1: TECHNICAL ACTIVITIES**

**A. BOARD ACTIVITIES**

1. The Board issued the following document:
  - FASB Exposure Draft, *Employers' Disclosures about Pensions and Other Postretirement Benefits*
2. The Board added the following projects to its agenda:
  - A limited-scope project to modify FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*
  - A limited-scope project to interpret FASB Statement No. 87, *Employers' Accounting for Pensions*, with respect to the measurement of obligations under so-called cash balance pension plans.
3. The Board held a public roundtable meeting with respondents to the FASB Exposure Draft, *Qualifying Special-Purpose Entities and Isolation of Transferred Assets*.
4. The Board held 24 separate sessions on 11 dates to deliberate technical issues for 12 agenda projects or possible agenda projects.
5. The Board met with the Option Valuation Group to discuss issues related to the valuation of employee stock options.
6. The Board met with a group of financial statement users to discuss the following matters related to its project on business combinations: (a) disclosure requirements and (b) proposed changes to practice for the accounting and reporting of noncontrolling interests.
7. The Board met with representatives of Eli Lilly and Company to discuss research and development in the pharmaceutical industry and the impact of the Board's tentative decision on in-process research and development assets acquired in a business combination.
8. The Board met with representatives of the National Venture Capital Association to discuss equity-based compensation.

9. A majority of Board members participated in the July meeting of the Emerging Issues Task Force (EITF).
10. The Board met with representatives of the following organizations and discussed matters of mutual interest:
  - Edison Electric Institute
  - Risk Management Association
  - New York Society of Security Analysts
  - Institute of Management Accountants
  - American Council of Life Insurers
  - Financial Institutions Accounting Committee.

B. INTERNATIONAL ACTIVITIES

1. The chairman and a Board member attended the National Standard Setters meeting in London.
2. The chairman attended an International Federation of Accountants Board meeting in Quebec.
3. The chairman, a Board member, and the MP&T director met with representatives of the IASB (both Board members and staff) to plan the upcoming meetings of the FASB, IASB, and Canadian Accounting Standards (AcSB) Board scheduled for October 22 and 23.
4. The MP&T director met with the Technical Director of the AcSB to discuss the upcoming meetings in Toronto (item 3 above) and opportunities for staff collaboration on technical projects.
5. At the request of the AcSB, two staff members participated with AcSB members and staff in a roundtable discussion on the applicability of option pricing models for measuring the fair value of equity instruments issued by small to mid-size thinly traded companies, and for nonpublic enterprises.
6. An FASB staff member attended a meeting in Rome of the Joint Forum Working Group on Enhanced Disclosure that addresses the Fisher II recommendations and suggestions for further development of risk assessment concepts and methods.
7. A delegation of partners from PwC Japan (ChuoAoyama Audit Corp) observed a Board meeting and met with two FASB staff members for an FASB update.
8. 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.

9. 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 phone. The IASB staff participates similarly in FASB meetings.
10. 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:
  - - Five final FSPs related to implementation of FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*.
  - - One final FSP related to implementation of FASB Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (which was also posted as a proposed FSP during the quarter).
  - - One proposed FSP related to FASB Statement No. 143, *Accounting for Asset Retirement Obligations*.
  - - One proposed FSP related to FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.
  - - Two proposed FSPs related to FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*.
  - - Five proposed FSPs related to FIN 46.
2. The chairman and two Board members met with representatives from Cisco Systems, Inc. and the International Stock Options Coalition to discuss equity-based compensation.
3. The chairman and a Board member met with representatives from Intel to discuss equity-based compensation.
4. Three Board members and the MP&T director met with representatives of Qualcomm to discuss equity-based compensation.
5. The chairman and the TA&I director attended a meeting of the Steering Committee of the Group of Thirty to discuss a report it is preparing on threshold issues in financial reporting.

6. The chairman, a Board member, and the TA&I director met with the head professional practice partners of the Big 4 accounting firms to discuss various issues.
7. The chairman, a Board member, and staff met with a group of insurance industry executives.
8. A Board member, the MP&T director, and staff met with representatives of JPMorgan Chase to discuss their valuation methods for those financial instruments that do not have readily available market prices, the internal controls surrounding those valuation methods, and the effects of the Board's preliminary decisions under the Statement 107 and Fair Value Measurement projects. The MP&T director and staff met with representatives of Citigroup to discuss the same issues.
9. Three Board members met with representatives from Goldman Sachs to discuss Statement 150 issues.
10. The TA&I director and a staff member attended a meeting of the Committee on Corporate Reporting of the FEI.
11. The TA&I director and several staff attended a meeting of representatives of the mining industry to discuss a number of accounting issues.
12. Three Board members and the director of TA&I met with representatives from PricewaterhouseCoopers to discuss a FIN 46 Analytic Paper.
13. Various staff members participated in closed meetings of EITF working groups.
14. The TA&I director and various staff attended two AcSEC meetings in San Francisco and New York.
15. Two staff members participated in a meeting at the SEC offices with members of the SEC staff and a variety of constituents regarding pension accounting and disclosure issues.
16. A staff member attended a meeting of the AICPA's Special Committee on Enhanced Business Reporting (SCEBR) to listen to the Committee's views on a comprehensive reporting model for all domestic and foreign companies.
17. Several staff participated in a teleconference with several members of the National Society of Accountants for Cooperatives.
18. The Board and staff participated in a 30<sup>th</sup> anniversary forum that was attended by former Board members, fellows, and staff. Keynote speakers included Chairmen Donaldson and McDonough.

19. The following professional development sessions were presented to the Board and staff:

- - John M. Foster, former FASB Board member, provided an overview of the FASB Conceptual Framework.
- - A video from the Financial Management Network Series, *Catching the Crooks Who Cook the Books*.
- - Andy Bishop, SEC Institute, discussed basic SEC training for mastering Forms 10-K, 10-Q, and 8-K, writing MD&A, preparing a proxy statement, and learning the latest requirements resulting from Sarbanes-Oxley.
- - Halsey Bullen, FASB Senior Project Manager, discussed FASB Concepts Statement No. 6, *Elements of Financial Statements*, and FASB Concepts No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*.
- - David Mosso, chairman of the Federal Accounting Standards Advisory Board (FASAB) and former vice-chairman of the FASB, discussed current projects of the FASAB, including their impact on the federal government and conceptual difficulties encountered.

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

- a. The Board, staff directors, and certain project teams met to discuss the project plans for five agenda projects.
- b. In advance of the July Technical Plan meeting, the Board and staff directors participated in two administrative meetings to discuss project plans and priorities for the second half of 2003.
- c. The Board and staff directors met to discuss 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*.
- d. The Board, the MP&T director, the PD&S director, and several staff members met with a small group of FASAC members to discuss process issues related to future convergence efforts.
- e. The Process Effectiveness Steering Committee met several times to discuss the status of the staff's overall process effectiveness initiative. The staff met in August to discuss the results of the process effectiveness "issue identification" initiative; several Board members participated in that meeting. A small group of staff met to discuss recommendations related to the process effectiveness "deliberations" initiative.
- f. The chairman and the PD&S director met with our process effectiveness consultant to discuss future strategic planning ideas.

- g. The staff directors participated in the orientation session for new FASB and GASB employees.
- h. The chairman and staff directors participated in a meeting with FAF & GASB representatives to discuss the results of the Employees Satisfaction Survey break-out sessions held in June and possible action plans.
- i. Several staff members participated in two separate full-day off-site Microsoft Project 2002 training courses. Three project teams received additional training in Project 2002 and are piloting use of the Enterprise aspects of the software.

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

- a. A Board member testified at a hearing of the Subcommittee on Commerce, Trade, and Consumer Protection of the Committee on Energy and Commerce, titled "FASB Derivative Accounting Standards."
- b. Two staff members met with the staff of the Committee on Banking, Housing, and Urban Affairs to discuss the accounting for derivatives and hedging activities.
- c. 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.

### **ITEM 4: SPEECHES DELIVERED**

Principal platforms addressed by the Board and staff members during this period included:

- - Accounting Continuing Professional Education Network (a program for 25 individual State CPA Societies)
- - AICPA Controllers Workshop
- - AICPA National Accounting & Auditing
- - American Accounting Association
- - American Gas Association
- - American Petroleum Institute Accounting Committee
- - Appraisal Institute Summit
- - Canadian Institute of Chartered Accountants
- - Council on Foreign Relations
- - Directors Consortium
- - Equipment Leasing Association
- - Fairfield University
- - Financial Executives International
- - Florida Institute of CPAs
- - Institutional Investor
- - International Federation of Accountants (IFAC) Board Meeting

- - National Rural Electric Cooperative
- - National Society of Accountants for Cooperatives
- - New York State Society of CPAs
- - Practising Law Institute
- - Technical Symposium
- - Texas A&M University
- - Texas Society of CPAs
- - Virginia Tech.

**ITEM 5: ADDITIONAL PUBLIC RELATIONS ACTIVITIES**

- a. The FASB issued two press releases during the latest quarter (including the Foundation's news announcement on George Batavick).
- b. A staff member participated in a fair value webcast sponsored by Ernst & Young and FEI.
- c. The media continued to watch the FASB's moves on equity-based compensation as well as pension accounting. While Congress took its summer recess, political interest in the stock options story has waned, but it may resume in the fall. The July 2003 Options Valuation Group meeting attracted the attention of the press as reporters are now focused on how the FASB resolves the critical component of that project: how to value options. While the QSPE Roundtable, held in late August, drew considerable numbers of constituents, the press had limited interest in the event.
- d. Public Relations had extensive contact with the media, including major business publications such as *The Wall Street Journal*, *The Washington Post*, *Financial Times*, *BusinessWeek*, *Economist*, *San Jose Mercury News*, *Los Angeles Times* and *San Francisco Chronicle*, *Bloomberg*, *Dow Jones*, and *Reuters*.
- e. In connection with the upcoming October joint meeting in Toronto of the FASB and IASB, along with a Tripartite meeting with the IASB and the AcSB, Public Relations is working with the standard setters to coordinate press activities.

**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 preliminary draft to the GASB for review:

- - Exposure Draft, *Employers' Disclosures about Pensions and Other Postretirement Benefits*.
- e. The FASB received a draft of the following GASB document for review:
- - Exposure Draft, *Economic Condition Reporting: The Statistical Section*
  - - Preballot Draft of Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.