

REPORT OF THE CHAIRMAN OF THE FASB
TO THE FINANCIAL ACCOUNTING FOUNDATION
February 1 through April 30, 2005

ITEM 1: TECHNICAL ACTIVITIES

BOARD AND STAFF ACTIVITIES

- a. The following documents were posted to the website:
 1. FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (March 2005)
 2. FASB Exposure Draft, *The Hierarchy of Generally Accepted Accounting Principles* (April 28, 2004).
- b. On February 6, the Board considered a number of possible agenda projects related to property, plant, and equipment. The Board decided not to add projects to its agenda to address (1) the accounting for rental costs that are incurred during construction of a real estate project, (2) liquidated damages received during the acquiring of property, plant, and equipment, and (3) the threshold for beginning to capitalize property, plant, and equipment. The Board directed the staff to further research the accounting for planned major maintenance activities of property, plant, and equipment with the objective of refining the scope of the potential project. Based on that research, the Board will consider whether to add a project on planned major maintenance activities to its agenda at a future meeting.
- c. On March 9, the Board decided to add a project to its technical agenda to reconsider the disclosure requirements of FASB Statement No. 133, *Accounting for Derivatives and Hedging Activities*. Various constituents have expressed criticism that Statement 133 lacks transparent disclosures that allow a user of financial statements to assess the overall risk of derivatives on a reporting entity from both a quantitative and a qualitative perspective. This project will consider enhanced disclosures, which will include a reconsideration of the usefulness of the existing disclosure requirements. The Board instructed the staff to consider whether the scope of the project should be expanded to include financial instruments that are not within the scope of Statement 133.
- d. Also on March 9, the Board decided not to add a project to its agenda that would reconsider the accounting and reporting for contingent environmental liabilities. The Board specifically considered whether contingent environmental liabilities that meet the recognition criteria in paragraph 8 of FASB Statement No. 5, *Accounting for Contingencies*, should be recognized at expected value. In declining this request the Board indicated that it did not intend to reconsider Statement 5 and FASB Interpretation No. 14, *Estimation of the Amount of a Loss*, solely in the context of environmental liabilities. The request also raised a

question as to whether contingent environmental liabilities of a similar nature should be aggregated for purposes of assessing materiality. The Board indicated that it believes the current accounting literature addresses this question.

- e. On March 30, the Board decided to defer work on the second phase of its project on share-based payment until such time as it completes (or makes substantial progress toward completing) its project on accounting for financial instruments with characteristics of both liabilities and equity.
- f. On April 6, the Board decided to add a project to its agenda to consider risk transfer in insurance and reinsurance contracts. The project will include developing a definition of insurance contracts and exploring simplified approaches to bifurcating insurance contracts.
- g. The following proposed Statement 133 Implementation Issues were posted to the website:
 - 1. No. B38, “Evaluation of Net Settlement with Respect to the Settlement of a Debt Instrument through Exercise of an Embedded Put Option or Call Option” (April 2005)
 - 2. No. B39, “Application of Paragraph 13(b) to Call Options That Are Exercisable Only by the Debtor” (April 2005).
- h. The Board held approximately 44 separate sessions on 12 dates to deliberate technical issues for 30 agenda or possible agenda projects.
- i. The following FSPs were posted to the FASB website:
 - 1. FSP FAS 19-1— *Accounting for Suspended Well Costs* (Posted: April 4, 2005)
 - 2. FSP EITF 85-24-1— *Application of EITF Issue No. 85-24, Distribution Fees by Distributors of Mutual Funds That Do Not Have a Front-End Sales Charge, When Cash for the Right to Future Distribution Fees for Shares Previously Sold Is Received from Third Parties* (Posted: March 11, 2005)
 - 3. FSP FIN 46(R)-5— *Implicit Variable Interests under FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities* (This FSP is applicable to both nonpublic and public reporting enterprises. This issue commonly arises in leasing arrangements among related parties, and in other types of arrangements involving related parties and previously unrelated parties.) (Posted: March 3, 2005)
 - 4. Proposed FSP FAS 150-e— *Issuer’s Accounting under Statement 150 for Freestanding Warrants and Other Similar Instruments on Shares That Are Redeemable* (Posted: April 18, 2005) (Comment Deadline: June 2, 2005)

5. Proposed FSP EITF 00-19-a—*Application of EITF Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock, to Freestanding Financial Instruments Originally Issued as Employee Compensation* (Posted: March 11, 2005) (Comment Deadline: April 15, 2005)
 6. Proposed FSP APB 18-a—*Accounting by an Investor for Its Proportionate Share of Other Comprehensive Income of an Investee Accounted for under the Equity Method in Accordance with APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock, upon a Loss of Significant Influence* (Posted: March 11, 2005) (Comment Deadline: April 25, 2005)
 7. Proposed FSP FAS 143-a—*Accounting for Electronic Equipment Waste Obligations* (Posted: March 7, 2005) (Comment Deadline: April 21, 2005)
 8. Proposed FSP FAS 131-a—*Determining Whether Operating Segments Have Similar Economic Characteristics under Paragraph 17 of FASB Statement No. 131, Disclosures about Segments of an Enterprise and Related Information* (Posted: March 3, 2005) (Comment Deadline: April 18, 2005).
- j. At the March 30, 2005 Board meeting, the Board ratified the consensus reached at the March 17, 2005 EITF meeting on Issue No. 04-6, “Accounting for Stripping Costs Incurred during Production in the Mining Industry.”
 - k. At the March 30, 2005 Board meeting, at the request of the EITF, the Board agreed to provide guidance on the variability that should be considered when determining whether an interest is a variable interest in a potential variable interest entity. The Task Force's request arose from its discussion of Issue No. 04-7, "Determining Whether an Interest Is a Variable Interest in a Potential Variable Interest Entity," at the March 17, 2005 EITF meeting. The guidance will be presented in the form of an FSP.
 - l. Six Board members participated in the March meeting of the EITF.
 - m. The chairman and the executive director of FASAC attended the SEC Roundtable on Implementation of Sarbanes-Oxley Internal Control Reporting Provisions.
 - n. Three Board members and staff met with representatives of the Design Professionals Coalition to discuss the liabilities and equity milestone draft.
 - o. Three Board members met with representatives of FEI/CCR to give them a quarterly update on various projects.
 - p. Six Board members attended a dinner meeting with representatives of FEI.
 - q. The TA&I director and various staff participated in closed meetings of EITF working groups.

- r. Three Board members, the TA&I director, and staff met with representatives from the Bond Market Association to discuss the balance sheet classification of auction rate securities.
- s. Various staff attended one AcSEC meeting.
- t. Several staff members met with the president and other representatives of the Stable Value Investment Association (SVIA) to assist the staff with the finalization of a proposed FSP regarding the accounting for fully benefit-responsive investments held by bank collective trusts.
- u. A staff member met with AITF and inter firm Fair Value Measurement Committee to discuss matters relating to the proposed Statement on fair value measurement and other matters of mutual interest.

INTERNATIONAL ACTIVITIES

- a. Two staff members discussed the liabilities and equity project at the March IASB Board meeting in London.
- b. Three Board members and the MP&T director attended the National Standards Setters meeting in London.
- c. The IASB and FASB held a joint meeting in London and discussed the following projects: short-term convergence (income taxes), performance reporting, and conceptual framework. In addition, the Board discussed possible projects related to financial instruments. The Boards also met in a joint administrative session to discuss various issues related to convergence activities and the management of joint projects.
- d. In preparation for the joint administrative meeting, the MP&T and PD&S directors held an administrative meeting with the Board to discuss convergence activities.
- e. Two staff members participated in a Financial Instruments Working Group meeting in London.
- f. A staff member attended an IASB Insurance Working Group meeting in London to continue discussions of accounting issues related to the IASB's Insurance Contracts, Phase II project.
- g. 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.

- h. 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). 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.
- i. One Board member and staff met with Professor Makita from Japan and updated him on the Financial Performance Reporting project.

OTHER ACTIVITIES

- a. The following professional development sessions were presented to the Board and staff:
 - 1. Robert Attmore, incoming GASB Chairman, , discussed his perspective of the goals and challenges of the Governmental Accounting Standards Board.
 - 2. Mike Tovey, Project Manager, FASB, presented to the staff the basic principles of Statement 123(R).
 - 3. Jeffrey Mahoney, Counsel to the FASB Chairman, updated the staff on activities in Washington, D.C. that relate to the FASB.
 - 4. New Horizons provided basic and intermediate training in Microsoft PowerPoint.
 - 5. Jenifer Minke-Girard, SEC Senior Associate Chief Accountant, and Pamela Schlosser, SEC Professional Accounting Fellow, gave an overview of the Office of the Chief Accountant and discussed SEC “hot topics.”
 - 6. FASB Board member Katherine Schipper described the extent to which accounting research uses (or attempts to use) constructs from the FASB’s Conceptual Framework.
- b. One staff member participated in two meetings of the AICPA’s Reporting Simplification Task Force.
- c. Three staff members attended a panel discussion at the Center for Excellence in Accounting and Security and Analysis to hear their approach to classifying equity based compensation.

ITEM 2: ADMINISTRATIVE AND STRATEGIC ACTIVITIES

- a. A staff member participated in the 11th International XBRL Conference in Boston. The theme of the conference was better, faster smarter business reporting using XBRL.
- b. The Board and the TA&I director attended an FAF Trustees meeting.
- c. Various Board members and staff directors met with various staff to discuss the project plans for 11 agenda projects.

- d. In advance of the March 30 Technical plan meeting, the Board and staff directors participated in an administrative meeting to discuss the Board's technical agenda and its priorities for the second and third quarters of 2005.
- e. The Board and staff directors held several informal administrative meetings to have follow-up discussions on issues raised at their retreat in January, relating to various operating and process issues.
- f. A new staff member participated in training sessions covering the following topics: processes and procedures, effective writing, project planning and communications, and staffing/personnel issues.
- g. Two staff members attended a three-day seminar on critical thinking skills.
- h. A staff member attended a two-day training session on Microsoft Project 2003.

ITEM 3: WASHINGTON ACTIVITIES

- a. The chairman testified at a hearing of the Subcommittee on Financial Institutions and Consumer Credit of the Committee on Financial Services on H.R. 1042, the "Net Worth Amendment for Credit Unions Act."
- b. Two Board members, the TA&I director, and staff held their quarterly meeting with the SEC and the PCAOB to discuss current issues.
- c. Two Board members, the TA&I director, and staff held their quarterly meeting with financial institution regulators to discuss current issues.
- d. 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 current FASB activities and other issues.
- e. Six Board members and the staff directors held a full-day meeting with all of the members of the PCAOB and several members of the PCAOB staff at the FASB offices in Norwalk. FASB Board members provided an overview of several technical agenda projects with a focus on the potential audit implications of those projects.
- f. One Board member, the TA&I director, and a staff member met with the director and other representatives of the Financial Analysis and Risk Assessment office of the PCAOB to discuss certain aspects of the FASB's current technical plan and establish protocols for future correspondence between the FASB's TA& I director and members of that particular office of the PCAOB.

ITEM 4: SPEECHES DELIVERED

Principal platforms addressed by the Board and staff members during the February 2005 to April 2005 period included:

- - American Accounting Association
- - American Accounting Association Deloitte Trueblood Seminar
- - American Council of Life Insurers
- - American Law Institute/American Bar Association
- - Canisius College
- - CFO Rising Conference
- - Coastal Fairfield Chapter of the Institute of Management Accountants
- - Colorado State University
- - Duke University Global Capital Markets Center
- - Financial Executives International
- - FTN Financial
- - Group of North American Insurance Enterprises
- - Institute of Chartered Accountants
- - Interagency Accounting Conference
- - Japan Society
- - National Association of College and University Business Officers
- - National Association of Regulatory Utility Commissioners
- - National Association of State Credit Union Supervisors
- - National Association of Stock Plan Professionals
- - National Cooperative Business Association
- - National Investor Relations Institute
- - PricewaterhouseCoopers Tax Conference
- - Raymond James
- - Rutgers Business School
- - Sanford Bernstein Quant Conference
- - St. Joseph's University
- - University of Dayton
- - University of Evansville
- - University of Mississippi
- - University of West Florida
- - World Trade Group
- - XBRL International

ITEM 5: ADDITIONAL PUBLIC RELATIONS ACTIVITIES

- a. The FASB, in conjunction with the Public Relations department, issued one press release this quarter on Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*.

- b. Media inquiries focused on two main areas: stock options expensing and finite risk insurance.
- c. The FASB continued its frequent contact with the major press including the *Wall Street Journal*, *New York Times*, *Financial Times*, and *Washington Post*. In addition, the Public Relations department held separate orientation meetings with two reporters that have recently begun covering the FASB, representing the *Wall Street Journal* and *Dow Jones Newswire*. The meetings included the participation of two FASB directors.
- d. One Board member received media training through the Public Relations department and Franchetti Communications. The half-day program focused on more effectively dealing with the media and message communication.
- e. Members of the FASB staff, with the Public Relations department, held interviews and selected a candidate to write an article on the conceptual framework, primarily targeting CEOs.
- f. Three issues of *The FASB Report*, the FASB's monthly newsletter, were produced and distributed. Topics included the conceptual framework, FASB's efforts toward simplification, and the Joint International Group on Performance Reporting.
- g. The Foundation's 2004 Annual Report was produced by the Public Relations department with copies distributed to members of the financial community, members of the SEC and PCAOB, FASAC members, GASAC members, UAC members, SBAC members, and the media, among others.

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 GASB forwarded the following drafts to the FASB for review:
 - GASB Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*
 - GASB Preliminary Views, *Accounting and Financial Reporting for Pollution Remediation Obligations*.
- e. The FASB staff distributed the following drafts to the GASB for review:
 - FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*

- FASB Exposure Draft, *The Hierarchy of Generally Accepted Accounting Principles*
- FASB Statement No. 15X, *Accounting Changes and Error Corrections*
- FASB Exposure Draft, *Business Combinations*.