

REPORT OF THE CHAIRMAN OF THE FASB
TO THE FINANCIAL ACCOUNTING FOUNDATION
November 1 through January 31, 2005

ITEM 1: TECHNICAL ACTIVITIES

BOARD AND STAFF ACTIVITIES

- a. The following final Statements were posted to the website:
 1. FASB Statement No. 151, *Inventory Costs* (November 2004)
 2. FASB Statement No. 123 (revised 2004), *Share-Based Payment* (December 2004)
 3. FASB Statement No. 152, *Accounting for Real Estate Time-Sharing Transactions* (December 2004)
 4. FASB Statement No. 153, *Exchanges of Nonmonetary Assets* (December 2004).
- b. On November 10, 2004, at the request of the Emerging Issues Task Force (EITF), the Board agreed to provide guidance on how subparagraph 11(d) of FASB Statement No. 142, *Goodwill and Other Intangible Assets*, should be evaluated in determining the useful life of renewable intangible assets.
- c. On November 10, 2004, at the request of the EITF, the Board agreed to amend the guidance for suspended well costs in FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*. The Board plans to amend Statement 19 through a Board-directed FSP.
- d. Consistent with the Board's initiatives aimed at codifying and simplifying the accounting literature, on November 24, 2004, the Board decided to undertake a project to move the generally accepted accounting principles (GAAP) hierarchy from the auditing literature to the accounting literature. Including the hierarchy in FASB literature will make it easier for the Board, as part of its codification project, to integrate literature that has evolved over time. The Board's proposal to move the GAAP hierarchy will be released for public comment in an Exposure Draft of a proposed Statement of Financial Accounting Standards. We do not expect this GAAP hierarchy project to have a practical effect on current practice.
- e. The Board held approximately 11 separate sessions on 20 dates to deliberate technical issues for 29 agenda projects or possible agenda projects.
- f. The following FSPs were posted to the FASB website:
 1. FSP FAS 109-1—Application of FASB Statement No. 109, *Accounting for Income Taxes*, to the Tax Deduction on Qualified Production Activities

Provided by the American Jobs Creation Act of 2004 (December 21, 2004). The proposed FSP was posted to the website on November 15, 2004, and comments were requested by December 1, 2004.

2. FSP FAS 109-2—Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004 (December 21, 2004). The proposed FSP was posted to the website on November 15, 2004, and comments were requested by December 1, 2004.
 3. Proposed FSP SOP 78-9-a—Interaction of AICPA Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures*, and EITF Issue No. 04-5, "Investor's Accounting for an Investment in a Limited Partnership When the Investor Is the Sole General Partner and the Limited Partners Have Certain Rights" (December 22, 2004). (Comment Deadline: February 19, 2005)
 4. Proposed FSP EITF 85-24-a—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 (December 8, 2004). (Comment Deadline: January 7, 2005)
 5. Proposed FSP FIN 46(R)-b—Implicit Variable Interests Resulting from Related Party Relationships under FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities* (December 6, 2004). (Comment Deadline: January 20, 2005)
- g. Five Board members participated in the November meeting of the EITF.
- h. At the November 17-18, 2004 EITF meeting, the Task Force considered Issues 04-11, "Accounting in a Business Combination for Deferred Postcontract Customer Support Revenue of a Software Vendor," and 04-12, "Determining Whether Equity-Based Compensation Awards Are Participating Securities," and decided to remove them from the EITF agenda.
- i. At the November 30, 2004 Board meeting, the Board ratified the consensus reached at the November 17-18, 2004 EITF meeting on Issue 03-13, "Applying the Conditions in Paragraph 42 of FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, in Determining Whether to Report Discontinued Operations." The Board also ratified the Task Force's decision to modify the consensus of Issues 04-8, "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share," and 04-10, "Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds," by changing the related effective dates.
- j. At the November 17-18, 2004 EITF meeting, the Task Force acknowledged that the tentative conclusions reached in Issue 04-5 are inconsistent with certain

- aspects of SOP 78-9, and at its November 30, 2004 meeting, the Board agreed to propose an amendment to certain provisions of that SOP by issuing an FSP.
- k. The TA&I director and various staff participated in closed meetings of EITF working groups.
 - l. Various staff attended two AcSEC meetings.
 - m. The Board met in public meetings with representatives of the following organizations and discussed matters of mutual interest:
 - 1. Institute of Management Accountants
 - 2. National Investor Relations Institute
 - 3. National Association of College and University Business Officers
 - 4. American Bar Association.
 - n. The Board, the MP&T and TA&I directors, and several staff members participated in the annual AAA research conference.
 - o. Three Board members and various staff held a private roundtable with members of various organizations including the FEI and IMA, several accounting firms, the SEC, and the PCAOB. The purpose of the roundtable was to discuss constituent concerns regarding the proposed Interpretation of FASB Statement No. 143, *Asset Retirement Obligations*. The discussion focused on whether the Board should amend Statement 143 such that the timing of liability recognition would be based on the probability of performing the asset retirement activities. Additional discussion focused on when sufficient information exists to reasonably estimate the fair value of an asset retirement obligation.
 - p. A Board member and the MP&T director attended a PCAOB Standing Advisory Group meeting in Washington, DC.
 - q. The MP&T director attended a Technical Issues Committee meeting in Washington, DC.
 - r. One Board member and several staff members met with the president and other representatives of the Stable Value Investment Association (SVIA) primarily for the staff to gain a better understanding of the stable value investment industry in preparation for a potential project to address the accounting for investments held by certain stable value investment companies.
 - s. Two Board members and the TA&I director met with representatives of the Equipment Leasing Association to discuss accounting for LILO transactions.

- t. Several staff members met with representatives of the AICPA Enhanced Business Reporting Simplification Task Force to discuss ideas relating to simplification of nonfinancial disclosures and integration with financial information.

INTERNATIONAL ACTIVITIES

- a. A staff member participated in the 10th International XBRL Conference in Brussels, Belgium. The theme of the conference was Financial Reporting Goes Global: XBRL and IFRS Working Together.
- b. A staff member attended two IASB Insurance Working Group meetings in London to continue discussions of accounting issues related to the IASB's Insurance Contracts, Phase II Project.
- c. The FASB and IASB held their first meeting with the newly formed Joint International Group—Performance Reporting in London.
- d. 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.
- e. 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, 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.

OTHER ACTIVITIES

- a. The following professional development sessions were presented to the Board and staff:
 - 1. Rob Blake, Vice President-Product Management, Rivet Software, and Wayne Harding, Business Development, Rivet Software, provided the FASB staff with an understanding of taxonomy development activities, issues, and considerations relating to XBRL. In particular, the staff learned how to tag the financial statements to be able to analyze financial information within those statements.
 - 2. Wesley A. Galloway, Project Manager, GASB, discussed the GASB's tentatively adopted approach for measuring and reporting pollution remediation liabilities.
 - 3. FASB Practice Fellows Kevin McBride, Randall Sogoloff, Christopher Larson, Paul Laurenzano, Stuart Moss, Lisa Munro, Reginald Oakley, Gerard O'Callaghan, and Landon Westerlund updated the staff on current EITF issues.

- b. A staff member participated in educational roundtable discussions sponsored by the PBGC on defined benefit pension plan issues.
- c. A staff member attended the quarterly meeting of the AITF to discuss fair value measurement, business combinations, and the SEC's ban on use of the residual method for all assets except goodwill. Observers from the SEC and PCAOB were also present. The same staff member also participated in the monthly conference calls of the Ad Hoc Committee of the Big 4 accounting firms during which similar issues were discussed.
- d. Five staff members met with the Office of Thrift and Supervision, National Credit Union Administration, and the Federal Deposit Insurance Corporation to discuss matters of mutual interest.
- e. Four staff members attended the FEI Current Financial Reporting Conference in New York City.
- f. A number of staff members attended the AICPA/SEC Conference in Washington DC.

ITEM 2: ADMINISTRATIVE AND STRATEGIC ACTIVITIES

- a. The Board, the TA&I director, and several staff met to discuss the codification and retrieval project and various TA&I process issues.
- b. The Board and the PD&S director attended an FAF Trustees meeting.
- c. The chairman and the PD&S director attended an FAF Finance Committee meeting.
- d. Various Board members, staff directors, and certain project teams met to discuss the project plans for three agenda projects.
- e. The Board and staff directors met to discuss the Board's technical agenda and its priorities for the first quarter of 2005.
- f. The Board and staff directors participated in a full-day administrative meeting ("Retreat") to discuss and reflect on its activities in the past year and various operating and process issues.
- g. New staff members participated in training sessions covering the following topics: processes and procedures, effective writing, project planning and communications, and staffing/personnel issues.
- h. A staff member attended a full-day seminar on critical thinking skills.
- i. A number of staff members attended a full-day in-house seminar on time management skills.

- j. A staff member attended a two-day training session on Microsoft Project 2002.

ITEM 3: WASHINGTON ACTIVITIES

- a. The chairman and a staff member met with the Secretary of the Treasury and the Assistant Secretary for Economic Policy.
- b. 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.
- c. Two Board members, the TA&I director, the MP&T director, and staff held their quarterly meeting with the SEC and the PCAOB to discuss current issues.
- d. Two Board members and the TA&I director attended a PCAOB-sponsored conference with the academic community.
- e. The chairman, the TA&I director, and two staff members met with partners of Skadden, Arps, Slate, Meagher & Flom to discuss the uncertain tax position project.
- f. The chairman, the TA&I director, and two staff members met with the Commissioner of the Internal Revenue Service and senior members of his staff, and with the Chief Accountant of the SEC and senior members of his staff to discuss issues relating to accounting for income taxes.

ITEM 4: SPEECHES DELIVERED

Principal platforms addressed by the Board and staff members during the November 2004 to January 2005 period included:

- - AICPA/Construction Industry
- - AICPA/Banks and Savings Conference
- - AICPA/PCPS Technical Issues Committee Meeting
- - AICPA/SEC Conference
- - AICPA/Securities Industry Conference
- - American Academy of Actuaries International Financial Reporting for Insurers
- - American Accounting Association Financial Accounting and Reporting Section
- - Asia Pacific Journal of Accounting Economics
- - Asian Pacific Conference
- - Buckingham Research Group
- - DykemaGossett PLLC
- - Ernst & Young Life Insurance Seminar
- - Financial Executives International
- - Florida Institute of CPAs

- Florida State University FICPA Accounting Conference
- Manufacturers Alliance
- MIT CFO Summit
- New Jersey Society of CPAs
- New York University for Law and Business
- PCAOB
- St. Joseph University
- Tax Executive International
- Tennessee State Society of CPAs
- The Associated General Contractors of America
- University of California Financial Reporting and Management
- University of South Florida
- University of Southern California
- University of Utah
- Virginia Tech

ITEM 5: ADDITIONAL PUBLIC RELATIONS ACTIVITIES

- a. The FASB issued five press releases this quarter on Statements 123(R), 151, 152, and 153, and the Share-Based Payment Press Teleconference.
- b. Media inquiries focused on three main areas: stock options expensing, pension accounting, and the conceptual framework.
- c. As expected, the majority of the media interest was the Board's project on share-based payment. Most of the coverage has been focused around the issuance of Statement 123(R). In anticipation of above-average media inquiries on this issue, the Public Relations department held a press teleconference the afternoon of December 16, 2004, immediately preceding the issuance of the final Statement. More than 60 participants listened to the conference and asked questions of Board members Robert Herz and Michael Crooch and project manager Michael Tovey.
- d. The FASB continued its frequent contact with the major press including the *Wall Street Journal*, *New York Times*, *Financial Times*, and *Washington Post*. The Public Relations department set up two major interviews for Robert Herz with *Institutional Investor* and *Financial Times* and several phone interviews including the *Journal of Accountancy*.
- e. In conjunction with the Public Relations department, the following groups visited the FASB's office: (1) a professor of accounting from the University of New Hampshire and 18 students, who observed an EITF meeting, received a post-meeting briefing from EITF chairman Larry Smith, and received a tour of the FASB facilities; and (2) a professor of accounting from Creighton University and 19 students who observed a Board meeting.

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 Exposure Draft, *Accounting for Termination Benefits*
 - GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*
 - GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities*.
- e. The FASB staff distributed the following drafts to the GASB for review:
 - FASB Statement No. 152, *Accounting for Real Estate Time-Sharing*
 - FASB Statement No. 153, *Exchanges of Nonmonetary Assets*
 - FASB Exposure Draft, *Consolidated Financial Statements, including Accounting and Reporting of Noncontrolling Interests in Subsidiaries*
 - FASB Staff Position 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*.