

REPORT OF THE CHAIRMAN OF THE FASB
TO THE FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL
For the quarter ended June 30, 2004

ITEM 1: TECHNICAL ACTIVITIES

BOARD AND STAFF ACTIVITIES

- a. By the end of the second quarter, the Board expects to issue an Exposure Draft of a proposed Statement, *Fair Value Measurements*, and an Exposure Draft of a proposed Interpretation, *Accounting for Conditional Asset Retirement Obligations*.
- b. On April 9, the staff released an *FASB Staff Request for Information* about isolation of transferred assets in conjunction with its project on accounting for transfers and servicing of financial assets and extinguishments of liabilities.
- c. In April, the Board objected to clearance of the AICPA Statement of Position (SOP), *Accounting for Certain Costs and Activities Related to Property, Plant, and Equipment*, which, if cleared by the Board, would have been issued concurrently with an FASB Statement to amend APB Opinions No. 20, *Accounting Changes*, and No. 28, *Interim Financial Reporting*, and FASB Statements No. 51, *Financial Reporting by Cable Television Companies*, and No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*, and rescind FASB Statement No. 73, *Reporting a Change in Accounting for Railroad Track Structures*.
- d. In April, the Board decided on the following scope, direction, and priorities of the liability extinguishment project:
 1. Determine how the liability extinguishment criteria in paragraph 16 of FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, would be applied to performance obligations
 2. Reevaluate existing guidance for derecognition of liabilities and, if necessary, clarify paragraph 16(b) in Statement 140 to address specific practice questions that have been raised by various constituent groups
 3. Identify existing liability derecognition guidance that is not consistent with Statement 140 and consider whether the liability derecognition guidance in Statement 140 should also apply in those circumstances.

- e. In May, the Board added a project to its agenda on fair value option. This project will consider whether entities should be permitted a one-time election, at the initial recognition of a contract, to report financial instruments, and perhaps certain nonfinancial instruments with characteristics similar to financial instruments, at fair value with the changes in fair value included in earnings.
- f. In June, the Board decided not to issue an Exposure Draft of a proposed Statement on balance sheet classification that would have replaced the guidance in ARB No. 43, Chapter 3A, “Working Capital—Current Assets and Current Liabilities.” The Board decided that the changes that would have been proposed in that Statement require further study, in particular, the costs and benefits of the proposed changes to nonpublic enterprises. The Board decided to reconsider those issues in the context of its project on reporting financial performance.
- g. During the second quarter the Board held the following public roundtable meetings relating to projects on its agenda:
 - 1. May 25 and June 17, FASB offices—roundtable on the *FASB Staff Request for Information* about isolation of transferred assets
 - 2. June 24, Palo Alto, California, and June 29, FASB offices—roundtable on the FASB Exposure Draft, *Share-Based Payment*.
- h. The Board held approximately 23 separate sessions on 12 dates to deliberate technical issues for 15 agenda projects or possible agenda projects.
- i. The staff posted the following FASB Staff Positions (FSPs) to the FASB website:
 - 1. FSP FAS 106-2—Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003
 - 2. FSP FAS 129-1—Disclosure Requirements under FASB Statement No. 129, *Disclosure of Information about Capital Structure, Relating to Contingently Convertible Securities*
 - 3. FSP FAS 141-1 and FAS 142-1—Interaction of FASB Statements No. 141, *Business Combinations*, and No. 142, *Goodwill and Other Intangible Assets*, and EITF Issue No. 04-2, “Whether Mineral Rights Are Tangible or Intangible Assets”
 - 4. FSP FIN 46(R)-4—Technical Correction of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, Relating to Its Effects on Question No. 12 of EITF Issue No. 96-21, “Implementation Issues in Accounting for Leasing Transactions involving Special-Purpose Entities”

5. Final FSP FAS 97-a and Final FSP FAS 97-1—Situations in Which Paragraphs 17(b) and 20 of FASB Statement No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*, Permit or Require Accrual of an Unearned Revenue Liability.

- j. The Board, MP&T director, and staff participated in the April meeting of the Users Advisory Council. The topics included fair value measurements and the Board’s future agenda priorities.

- k. All Board members participated in the June meeting of the Emerging Issues Task Force (EITF).

- l. The Board met in a public meeting with representatives of the following organizations and discussed matters of mutual interest:
 1. American Petroleum Institute—Risk Control and Accounting Committee
 2. Equipment Leasing Association—Financial Accounting Committee
 3. American Accounting Association—Financial Accounting Standards Committee
 4. Financial Executives International—Committee on Corporate Reporting
 5. CFA Institute (formerly the Association for Investment Management and Research)—Financial Accounting Policy Committee.

- m. The Board conducted the inaugural meeting of the Small Business Advisory Committee. Topics included the Board’s projects on equity-based compensation and business combinations-purchase method procedures as well as an overview of the Board’s standard-setting process and current agenda.

- n. Three Board members, the MP&T director, and staff met with three executives from American International Group (AIG) to discuss two issues of interest to AIG—specifically the Statement 115 “mismatch” (between assets carried at fair value and liabilities at cost) and a stock compensation issue (regarding shares of AIG stock paid to AIG executives by a corporate investor in AIG).

- o. One Board member and staff met with representatives from IBM. The objective was for IBM to describe its business so that the Board member and staff could consider how the current revenue recognition project would impact certain types of transactions.

- p. The chairman, two Board members, the TA&I director, and staff met with representatives from Standard & Poor’s to discuss the credit evaluation of securitizations and loan participations.

- q. Three Board members and staff met with representatives from GAO to discuss issues relating to the accounting for loan commitments and fair value.
- r. Board members and staff directors met with members of FEI's Committee on Corporate Reporting (CCR) to discuss their views on the FASB's process and suggestions for improvement.
- s. Three Board members and staff met with FEI CCR's special FASB liaison group to discuss current developments on several of the projects on the Board's agenda.
- t. The chairman, two Board members, and staff met with representatives from The Delves Group to discuss equity-based compensation.
- u. The chairman, two Board members, and staff met with representatives from the Design Professionals Coalition to discuss Phase 2 of the liabilities and equity project.
- v. The chairman, two Board members, the MP&T director, and staff held a telephone conference call with representatives from Moody's to discuss Statement 115.
- w. The chairman, two Board members, the MP&T director, and staff met with representatives from IBM and PricewaterhouseCoopers to discuss recent FASB proposals and current projects.
- x. Three Board members, the MP&T director, and staff met with representatives from Silicon Economics to discuss equity based compensation.
- y. The TA&I director and various staff attended two AcSEC meetings in New York.
- z. The TA&I director and various staff participated in closed meetings of EITF working groups.
- aa. The TA&I director and various staff met with representatives of Citigroup to discuss implementation issues of Interpretation 46(R).
- bb. The TA&I director and various staff met with the FIN 46R Advisory Group to discuss implementation issues related to Interpretation 46(R).
- cc. The TA&I director participated by telephone in the meeting with the planning subcommittee of AcSEC.
- dd. The Board and staff directors held briefing sessions with four SEC Commissioners (all but the chairman) and SEC staff at the FASB offices in Norwalk. The briefing sessions were held on two separate days with two SEC commissioners participating in each. The sessions were divided into three parts so that each of the Board members could participate for a portion of each briefing session. The sessions included an overview of the organizational structure and

operations of the FASB, an explanation of the Board's standard-setting process, and updates on a number of technical agenda projects.

- ee. A staff member participated in four meetings (one by telephone) of the AICPA Insurance Expert Panel's SOP 03-1 Subgroup that is working on providing guidance for certain implementation issues related to the AICPA Statement of Position 03-1, *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts*. The Subgroup's goal is to issue an AICPA Technical Practice Bulletin on certain of the issues.

INTERNATIONAL ACTIVITIES

- a. The chairman met with representatives of the Japanese Ministry of Trade to discuss matters of mutual interest.
- b. The FASB and IASB held a joint meeting in London in April and discussed business combinations (purchase method procedures), convergence (income taxes and research and development), performance reporting, and future agenda planning.
- c. The chairman, a Board member, and the MP& director attended the National Standards meeting 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 continued 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. A member of the revenue recognition team participated in the May IASB meeting held in London. Two members of the revenue recognition team participated in the June IASB meeting in Oslo.
- f. Two members of the liability and equity project team made a presentation to the IASB at its June meeting in Oslo on an approach being considered by the FASB for accounting for financial instruments with characteristics of both liabilities and equity.

OTHER ACTIVITIES

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

1. Pat Donoghue, FASB project manager, provided an introduction to the topic of accounting for leases, the impact of deferred taxes on lease accounting, and leverage lease accounting.
 2. Ann McIntosh, FASB practice fellow, provided an update on accounting for Interpretation 46.
 3. Tom Allen, GASB Board member, discussed his years at the GASB and his reflections on the accomplishments and challenges during his term.
 4. Six FASB practice fellows provided an update on the activities of the EITF, including recent consensuses and issues that will be discussed at the June 30-July 1 meeting.
- b. The chairman and a staff member met with members of the SEC staff to discuss XBRL (eXtensible Business Reporting Language).
 - c. A staff member attended the 9th XBRL International Conference in New Zealand. The theme of the conference was “Exchanging Business Information”—exploring the ability to move business information efficiently and effectively between disparate organizations.
 - d. The MP&T director participated in the FASB update portion of an AICPA training video geared toward small business enterprises and their auditors.
 - e. A staff member participated in a workshop held by the IFRS Taxonomy Working Group in London to review and test the IFRS-GP taxonomy and create sample instance documents.
 - f. A staff member participated in an XBRL US Domain Working Group meeting in New York to discuss and review the internal working drafts for the C&I, Banking and Insurance Taxonomies.

ITEM 2: ADMINISTRATIVE AND STRATEGIC ACTIVITIES

- a. The Board and the PD&S director attended an FAF Trustees meeting.
- b. Various Board members, staff directors, and certain project teams met to discuss the project plans for four agenda projects.
- c. The Board and staff directors met to discuss coordinating the Board’s longer-term agenda with the IASB in preparation for the joint meeting with the IASB in April.

ITEM 3: WASHINGTON ACTIVITIES

- a. The chairman testified before the Financial Management, the Budget, and International Security Subcommittee of the Committee on Governmental Affairs at a hearing entitled “Oversight Hearing on Expensing Stock Options: Supporting

and Strengthening the Independence of the Financial Accounting Standards Board.”

- b. The chairman and a Board member testified before the Committee on Small Business and Entrepreneurship at a hearing entitled “The Impact of Stock Option Expensing on Small Businesses.”
- c. The chairman and a Board member testified before the Capital Markets, Insurance and Government Sponsored Enterprises Subcommittee of the Committee on Financial Services at a hearing entitled “The FASB Stock Options Proposal: Its Effect on the U.S. Economy and Jobs.”
- d. The chairman, a Board member, and a staff member met with several Members of Congress and staff and Congressional Committee staff to discuss current FASB activities.
- e. The chairman met with the chairman of the Federal Deposit Insurance Corporation to discuss current FASB activities.
- f. Board members, the TA&I director, and the MP&T director met with the SEC staff to discuss current FASB activities.
- g. The chairman and two Board members met with SEC staff and PCAOB staff to discuss current issues.
- h. The chairman, two Board members, a staff director, and staff met with staff of the Federal Financial Institutions Examination Council agencies to discuss current FASB activities.
- i. The chairman, a Board member, and a staff member met with an individual who provided a presentation on a new financial metric relating to stock options.
- j. The FAF chairman and an FASB staff member met with several Members of Congress and staff to discuss the importance of the FASB’s independence.
- k. The FAF Executive Vice President, the chairman, five Board members, the staff directors, other staff, and the GASB chairman and staff had lunch with Representative Christopher Shays and staff.
- l. 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 the April to June period included:

- - Accountants Global Network
- - AICPA—Practitioners Symposium
- - API Accounting Committee
- - Baruch College
- - Canadian Accounting Association
- - E Trade Financial Corporate Services
- - Edison Electric Institute
- - Financial Executives Institute
- - Florida Institute of CPAs
- - Georgia State University
- - Information Technology Compliance Institute Conference
- - Institute of Management Accountants
- - Massachusetts State Society of CPAs
- - Merrill Lynch
- - National Association of Certified Valuation Analysts
- - National Association of College and University Business Officers
- - National Credit Union Administration
- - National Investor Relation Institute
- - New York Stock Exchange and Columbia Business School
- - New York University Center for Law and Business School
- - ORC Worldwide
- - Oregon State University/Oregon CPA Society
- - Pennsylvania Institute of CPAs
- - Princeton University
- - Temple University
- - Texas A&M University
- - Texas Society of CPAs
- - The American Academy of Actuaries
- - University of Houston
- - University of South Florida
- - University of Southern California Marshall School of Business
- - World Research Group

ITEM 5: ADDITIONAL PUBLIC RELATIONS ACTIVITIES

- a. The FASB issued three press releases during the latest quarter on the Exposure Drafts on *Share-Based Payment*, *Accounting for Conditional Retirement Obligations*, and *Fair Value Measurements*.
- b. The media's interest in FASB activities continued to be strong throughout this latest period. As anticipated, there has been substantial interest in the Board's project on equity-based compensation following the release of the Exposure Draft, *Share-Based Payment*. While most coverage has focused on the Exposure Draft itself, many reporters have also been looking at the efforts in Washington, DC that may impede or threaten the independence of the

standard-setting process, especially toward the end of the quarter, due to the congressional bills on *The Stock Option Reform Act*. Moving ahead, an increase of media attention is expected on this issue.

- c. The FASB has continued to have frequent contact with the major press, including the *Wall Street Journal*, the *New York Times*, *Financial Times*, and others.
- d. Public Relations arranged an editorial board meeting for the FASB chairman to meet with the *Wall Street Journal's* managing editor, Paul Steiger, and nine of the newspaper's editors and reporters. The meeting, which took place May 7, provided an excellent opportunity for the two organizations to become better acquainted and helped establish future press contacts.
- e. Public Relations distributed approximately 1,200 copies of the Foundation's 2003 Annual Report to members of the financial and trade press, as well as to the SEC, FASAC, GASAC, and User Advisory Council members.

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:
 - 1. Exposure Draft of proposed Interpretation, *Accounting for Conditional Asset Retirement Obligations*
 - 2. Exposure Draft of proposed Statement, *Fair Value Measurements*.
- e. The GASB distributed the following drafts to the FASB for review:
 - 1. Statement No. 44, *Economic Condition Reporting: The Statistical Section*
 - 2. Exposure Draft of proposed Concepts Statement, *Communication Methods*
 - 3. Exposure Draft of proposed Statement, *Net Assets Restricted by Enabling Legislation*
 - 4. Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.