

REPORT OF THE CHAIRMAN OF THE FASB
TO THE FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL
For the quarter ended March 31, 2004

ITEM 1: TECHNICAL ACTIVITIES

BOARD AND STAFF ACTIVITIES

- a. By the end of the first quarter, the Board expects to issue an Exposure Draft of a proposed Statement, *Share-Based Payments*, an amendment of FASB Statements No. 123 and FASB Statement No. 95.
- b. In January, the Board added the following projects to its agenda:
 1. *Beneficial Interests in Securitized Financial Assets*—a project to address the beneficial interest issues that led to the “Staff Interim Guidance” in Statement 133 Implementation Issue No. D1, “Application of Statement 133 to Beneficial Interests in Securitized Financial Assets.”
 2. *Mortgage Servicing Rights at Fair Value*—a project to address the accounting for mortgage servicing rights at fair value.
 3. *Interpretation of the Liability Recognition Provisions of Statement 143*—a project to address the application of FASB Statement No. 143, *Accounting for Asset Retirement Obligations*, to legal obligations to perform asset retirement activities that are conditional on a future event.
- c. In January, the Board removed from its agenda the following inactive agenda and research projects:
 1. *Disclosures about Intangible Assets* agenda project.
 2. *Consolidations: Unconsolidated Entities* research project.
 3. *Fresh Start (New Basis) Accounting* research project.
- d. The Board held approximately 39 separate sessions on 12 dates to deliberate technical issues for 17 agenda projects or possible agenda projects.
- e. All Board members participated in the March meeting of the Emerging Issues Task Force (EITF).
- f. The staff posted the following FASB Staff Positions (FSPs) to the FASB website:

1. One final FSP providing an option to defer accounting for the Medicare Prescription Drug, Improvement and Modernization Act of 2003 under FASB Statement No. 106
 2. One proposed FSP related to FASB Statement No. 129, *Disclosure of Information about Capital Structure*
 3. One proposed FSP providing accounting guidance and disclosure requirements for the Medicare Prescription Drug, Improvement and Modernization Act of 2003 under FASB Statement No. 106
 4. One proposed FSP related to FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*.
- g. The TA&I director and various staff attended one AcSEC meeting in New York.
- h. The TA&I director and various staff participated in closed meetings of EITF working groups.
- i. The Board met with representatives of the following organizations and discussed matters of mutual interest:
1. American Bankers Association
- j. The Board met with representatives of organizations of cooperative and mutual enterprises to discuss issues relating to the Board's projects on distinguishing liabilities from equity and on combinations between mutual enterprises.
- k. The chairman, one Board member, and the TA&I director met with the AICPA to discuss FASB/AICPA coordination relating to AICPA Audit & Accounting Guides.
- l. The chairman and a staff member attended a roundtable discussion on pension accounting organized by Morgan Stanley.
- m. The chairman and two Board members met with a representative of Integrated Finance Limited to discuss equity-based compensation.
- n. A Board member, the MP&T director, and four staff members met with representatives of the Internal Revenue Service (IRS) to discuss matters relating to a proposal under consideration by the IRS to possibly provide an elective safe harbor for satisfying the current requirements to value securities and commodities at fair market value (pursuant to section 475 of the IRS Code). Under that proposal, fair values reported in financial statements would also be used on tax returns.

- o. Three Board members and staff met with the Fonterra Cooperative Group to discuss a debt equity issue that was of critical importance to them relating to the accounting treatment for the company's cooperative shares.
- p. 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.
- q. In a series of closed meetings, all Board members met with a constituent to discuss the constituent's suggested approach to accounting for financial instruments with liability and equity characteristics.
- r. One Board member and one staff member met twice with members of the AICPA's Special Committee on Enhanced Business Reporting (SCEBR) to discuss the group's initiatives and to discuss the effect of those initiatives on the FASB and other rule-making bodies.
- s. One Board member, the MP&T director, and various staff met with the Mutual Advisory Council of the American Bankers Association to discuss the Council's views on the application of valuation methods to mutual savings banks.
- t. A staff member attended a meeting of the PCAOB and the National Association of State Board of Accounting.
- u. One Board member (by teleconference), the TA&I director, and one staff member attended a meeting with representatives of the Big 4 plus 2, the SEC's Office of the Chief Accountant, and the Division of Corporation Finance to discuss accounting for tax contingencies.
- v. A staff member observed two 2-day meetings of the AICPA's SCEBR and also attended teleconference meetings of the SCEBR's Public Company Task Force.
- w. A staff member observed a meeting between the SEC Office of the Chief Accountant and members of the Mortgage Bankers Association of America (MBAA) to discuss the MBAA and SEC views on loan commitments.
- x. Three Board members, the TA&I director, and staff met with representatives from Citicorp Inc. and Chatham Financial Corporation to discuss tentative guidance in Statement 133 Implementation Issue No. G25, "Hedging the Variable Interest Payments on a Group of Prime-Rate-Based Interest-Bearing Loans."
- y. Staff met with representatives from the American Bankers Association to discuss tentative guidance in Statement 133 Implementation Issue No. G25, "Hedging the Variable Interest Payments on a Group of Prime-Rate-Based Interest-Bearing Loans."
- z. Staff met with a group of representatives from mutual enterprises and the American Bankers Association to discuss their understanding of the implications

of the Board's tentative decisions regarding Combinations between Mutual Enterprises.

INTERNATIONAL ACTIVITIES

- a. The chairman, a staff member, and an IASB member met with the Federation of British Industries to discuss pension accounting.
- b. The chairman, a Board member, and the MP&T and PD&S directors participated in a meeting with representatives of the IASB and the SEC to discuss various issues related to the convergence of IFRSs and US GAAP.
- c. 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.
- d. 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.
- e. The Board and staff continued to work closely with the IASB and staff on their similar projects on performance reporting and equity-based compensation.

OTHER ACTIVITIES

- a. The following professional development sessions were presented to the Board and staff:
 1. Matt Pinson, FASB practice fellow, discussed the major contents of Concepts Statement 7 with particular focus on the present value methods discussed in the Statement.
 2. Jay Fountain, GASB consultant, and Wilson Campbell, GASB project manager, provided an update on GASB's research project on service efforts and accomplishments focusing on the research underlying and the criteria developed for the recently published special report on suggested criteria for reporting performance information.
 3. Jennifer Moriarty, FASB XBRL fellow, and the following members of the XBRL consortium, Louis Matherne, AICPA, Mike Willis, PwC, Paul Penler, Ernst & Young, John Turner, KPMG, and Yossef Newman, Deloitte, provided an understanding of XBRL, how it works, the current status of market and regulatory adoption, and likely impact on financial reporting.

4. Jack Ciesielski, president of R.G. Associates, Inc., discussed his firm's spreadsheet that helps the firm's analysts focus on what the risks (operating/financial/accounting) that might be present within a company.
 5. Jeff Mahoney, FASB counsel to the chairman, provided an update on the current activities in Washington, DC.
 6. Fred Feldkamp, partner of Foley & Lardner, discussed the history of success (and failure) in creating the U.S. secondary markets for mortgages and other loans.
- b. Staff members participated in two meetings with the Public Company Task Force – Special Committee on Enhanced Business Reporting.

ITEM 2: ADMINISTRATIVE AND STRATEGIC ACTIVITIES

- a. The Board and the PD&S director attended an FAF Trustees meeting.
- b. The chairman, another Board member, and the TA&I and PD&S directors met with members of the SEC staff 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*.
- c. The Board identified the potential members for its Small Business Advisory Committee, which will comprise 24 constituents representing users, preparers, and auditors in the small business community. The Committee will be a standing Board resource to provide an additional and ongoing source of input to the Board regarding relevant and topical issues of small business constituents and on the impact of accounting standard setting on small businesses. The Committee will meet with the Board twice a year at public meetings. The first meeting is tentatively planned for May.
- d. In advance of the January Technical Plan meeting, the Board and staff directors participated in an administrative meeting to discuss project plans and priorities for the first half of 2004.
- e. Various 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 agenda and how its future agenda might be coordinated with the IASB.
- g. The staff met in February to discuss the results of the process effectiveness "deliberations" initiative; several Board members participated in that meeting.

- h. 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.
- i. New staff members participated in five training sessions covering the following topics: conceptual framework, research and analysis, processes and procedures, effective writing, current agenda projects, project planning and communications, and staffing/personnel issues.
- j. Ten staff members completed a workshop on effective writing.
- k. Most Board and staff members attended half-day in-house seminars on team building and on managing conflict.

ITEM 3: WASHINGTON ACTIVITIES

- a. The chairman, a Board member, and a staff member met with a Member of Congress and staff to discuss current FASB activities.
- b. The chairman, a Board member, and a staff member met with staff of the SEC and with the chairman and staff of the PCAOB to discuss current issues.
- c. The chairman and a staff member met with staff of the SEC to discuss current issues.
- d. 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 January to March period included:

- a. Accounting Programs Leadership Group
- b. American Accounting Association
- c. American Accounting Association/Deloitte & Touche Trueblood Seminar
- d. American Council of Life Insurers
- e. American Securitization Forum
- f. Associated General Contractors of America
- g. Association of Chartered Certified Accountants
- h. CFO Roundtable Events
- i. City University of Hong Kong
- j. Corporate Governance and Equity Offerings Conference
- k. Directors Consortium
- l. Duke University/Directors Education Institute
- m. Financial Executives International

- n. Institute of Management Accountants
- o. Institutional Investor Institute
- p. Institutional Shareholder Services
- q. Japan External Trade Organization
- r. Museum of Television and Radio Media Center
- s. National Investor Relations Institute (Fairfield County/Westchester Chapter)
- t. New York Society of Security Analysts
- u. New York State Society of CPAs/SECT Conference
- v. New York University
- w. South Carolina Association of Accounting Educators
- x. University of Manchester
- y. University of Tampa

ITEM 5: ADDITIONAL PUBLIC RELATIONS ACTIVITIES

- a. Public Relations continued to receive numerous inquiries on the FASB's equity-based compensation project and talked with key members of the financial press.
- b. The quarter kicked off with a visit from *The Wall Street Journal's* financial reporting writer, Jonathan Weil, who just published two important articles on stock options accounting and resistance to the Board's proposal. All of the major business writers are eagerly awaiting distribution of the Board's Exposure Draft on equity-based compensation to see how constituents, including those in Washington, react to the proposal. Public Relations has been actively engaged in educating the press corps about the Board's proposal and its benefits to the investing public.
- c. The chairman participated in the Museum of Television and Radio Media Center's dialog series, *Business News in the New Business Climate*, which brought together the nation's leaders in business, economics, accounting, and media to discuss the state of business journalism and the issues impacting current financial reporting. The off-the-record discussion was held at the Museum in New York City. The session, which ran for most of the day, was convened by Arthur Sulzberger, Jr., vice chair of the Museum of Television & Radio, and publisher of *The New York Times*. The dialog series was sponsored by PricewaterhouseCoopers and the McCormick Tribune Foundation. Jeffrey Garten, dean of the Yale School of Management, moderated the spirited discussion, tapping a spectrum of perspectives. The dialog provided a unique forum for sharing broad perspectives on today's business press.
- d. A number of new press contacts were established and are being followed up on for future discussions, including an editorial Board meeting with *The Wall Street Journal*, which has been requested by the FASB.
- e. Public Relations recently concluded media training for Board members and directors and will focus next on technical staff. Public Relations and Franchetti

Communications, which trains professionals at AICPA, PricewaterhouseCoopers and Morgan Stanley, are administering the training.

- f. Public Relations is finishing its work on the Foundation's annual report. The report is expected to be on press in early April.

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 Statement, *Business Combinations*
 - 2. Exposure Draft of proposed Statement, *Share-Based Payment*.