

REPORT OF THE CHAIRMAN OF THE FASB
TO THE FINANCIAL ACCOUNTING FOUNDATION

For the quarter ended December 31, 2002

ITEM 1: TECHNICAL ACTIVITIES

A. BOARD ACTIVITIES

- The Board issued Statement No. 147, *Acquisitions of Certain Financial Institutions*.
- The Board issued Statement No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure*.
- The Board issued Interpretation No. 45, *Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*.
- The Board approved for issuance the following documents:
 - FASB Exposure Draft and a proposed AICPA Statement of Position on *Accounting for Real Estate Time-Sharing Transactions*
- The Board finished deliberations on the following projects (issuance of the final Statements on both these projects is expected shortly):
 - Statement No. 149, *Accounting for Certain Financial Instruments with Characteristics of Liability and Equity*
 - Interpretation No. 46, *Consolidation of Variable Interest Entities*
- The Board held 30 separate sessions on 11 dates to deliberate technical issues for 12 agenda projects or possible agenda projects.
- The Board held a public roundtable meeting with respondents to the FASB proposal, *Principles-Based Approach to U.S. Standard Setting*, to discuss various aspects of the proposal.
- A majority of Board members participated in the October and November meetings of the Emerging Issues Task Force (EITF).
- The Board met with representatives of the following organizations and discussed matters of mutual interest:
 - AICPA Private Companies Practice Section Technical Issues Committee
 - AICPA Audit Issues Task Force
 - National Investor Relations Institute

-- American Academy of Actuaries.

B. INTERNATIONAL ACTIVITIES

- The chairman, a board member, and the MP&T director attended the National Standard Setters meeting in London.
- Mary Keegan, chair of the UK Accounting Standards Board, visited the FASB offices and met with the chairman, several Board members, and staff to discuss topics of mutual interest and future collaborative efforts.
- The TA&I director attended the November IFRIC meeting in London.
- A practice fellow attended the CICA/IETA Symposium-Accounting for Greenhouse Gas Emissions Trading in Canada.
- A Board member attended the 16th World Congress of Accountants in Hong Kong.
- The PD&S director met with Eisenhower Fellow Johan Raslan from Malaysia (PwC partner). The focus of his visit to the United States was corporate transparency and reporting and the importance of corporate governance in attracting global capital. They discussed the FASB's mission and standard-setting process.
- The FASB Board and staff continued to work closely with the IASB and staff on their similar project on performance reporting.
- The FASB Board and staff continued to work closely with the IASB Board 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. However, in December, an FASB staff member participated in the IASB meeting in London related to purchase method procedures.
- A staff member participated via telephone in a Canadian Accounting Standards Board (AcSB) meeting on combinations between mutual enterprises (a joint project with the AcSB and the FASB). In addition, an industry fellow attended and a staff member participated via telephone in an AcSB-sponsored advisory meeting on fair value measurement issues in connection with business combinations between cooperative enterprises (known in the US as combinations between mutual enterprises).

C. OTHER ACTIVITIES

- The following professional development sessions were presented to the Board and staff:
 - Conference call sponsored by *Business Finance* magazine and others. David Blansfield, publisher, *Business Finance*; James S. Gerson, chairman, Audit

Issues Task Force, the Auditing Standards Board of the AICPA, and partner of PricewaterhouseCoopers; Tom Manley, chief financial officer, Cognos; and Delbert Krause, senior manager-product marketing, Cognos, discussed the Sarbanes-Oxley Act.

- - Betsy Graseck, analyst, Morgan Stanley, analyzed a bank annual report to help the Board and staff understand how she, as an analyst with Morgan Stanley, uses the financial statements.
- - A video from the Financial Management Network Series. In a candid conversation, former SEC Chairman Arthur Levitt explained how the abuse of executive stock options may have triggered the collapse of the system for overseeing the US capital markets.
- The chairman, two Board members, and staff participated in a closed meeting with representatives of AcSEC to discuss a Blockage Factor Proposal.
- The chairman, a Board member, and the TA&I director participated in a closed meeting with representatives of the SEC, AcSEC, and the AICPA to discuss the future of AcSEC in relation to setting standards.
- The chairman, a Board member, and staff participated in a closed meeting with Mr. Stewart of Stern Stewart to discuss his proposed new model for accounting.
- The chairman, two Board members, MP&T the director, and staff participated in a closed meeting with representatives of the Analysis Group/Economics to discuss valuation of stock options.
- The chairman and a staff member participated in a meeting with members of America's Community Bankers to discuss combinations between mutual enterprises.
- Two Board members and staff participated in a closed meeting with the Equipment Leasing Association to discuss consolidations and guarantees.
- A Board member and staff participated in a closed meeting with representatives of the American Insurance Association, Financial Management Issues Committee.
- Various staff members participated in closed meetings of EITF working groups.
- The TA&I director and various staff attended two AcSEC meetings in person or via telephone.
- A staff member attended the two-day AcSEC Task Force meeting to discuss the technical practice aid addressing the valuation of privately held equity securities.
- During the fourth quarter, the Board noted that several common issues related to fair value measurements have arisen in several of its technical agenda projects (such as revenue recognition, business combinations, and reporting financial

instruments at fair value). The Board decided to establish a separate project team that would be responsible for coordinating resolution of those common issues. That approach should result in consistent solutions to those common issues.

- The chairman, a Board member, and the TA&I director attended a meeting with representatives of the office of chief accountant and market regulators of the SEC and the Securities Industry Association to discuss issues related to the fair value of derivatives.

ITEM 2: ADMINISTRATIVE AND STRATEGIC ACTIVITIES

- The Board, directors, and most staff members participated in a series of “process efficiency review” working sessions focused on identifying ways in which we can increase the effectiveness of our project management processes without reducing the quality of our product. A consultant participated in or facilitated some of those meetings. The first phase of this initiative was completed in mid-December.
- The Board and senior staff met with seven members of FASAC to discuss the results of the series of administrative meetings held in the third quarter focusing on the challenges and opportunities facing the FASB.
- The Board and senior staff participated in two strategic planning/visioning meetings focused on the future agenda of the FASB.
- Transition to a new project planning and management tool using Microsoft Project 2002 was completed. Sixteen RTA staff members participated in an on-site Microsoft Project 2002 training course.

ITEM 3: WASHINGTON ACTIVITIES

- The chairman and a staff member met individually with a Member of Congress and his staff to discuss current FASB activities and other accounting issues.
- 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 accounting issues.
- The chairman, a Board member, the MP&T director, the TA&I director, and a staff member held quarterly update meetings with the staff of the SEC and the financial institution regulators.
- The chairman participated in the General Accounting Office Comptroller General’s Governance and Accountability Forum.

ITEM 4: SPEECHES DELIVERED

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

- AICPA – Credit Union Conference
- AICPA – Financial Management Division
- AICPA – Healthcare Industry Conference
- AICPA – National Banking Conference
- AICPA – SEC Conference
- America’s Community Bankers
- Asia-Pacific Conference
- Association for Financial Professionals
- Baruch College
- California CPA Education Foundation
- Committee on Bank Accounting and Reporting
- Connecticut Society of CPAs
- Cornell University
- Dartmouth College
- Directors Education Institute
- Edison Electric Institute
- Ernst & Young/Southern Methodist University
- Financial Executives Institute
- Financial Stability Forum
- Fordham University
- International Accounting Standards Board
- KPMG, LLP
- National Investor Relations Institute
- National Science Council Taiwan Accounting Association
- NCR (National Cash Register) CFO Forum
- New York Society of Security Analysts
- Oklahoma State University
- Pennsylvania Institute of CPAs
- Practicing Law Institute
- Southern Gas Association
- Stockholm Institute for Financial Research
- Texas A&M University
- University of California
- University of Chicago
- University of Florida
- University of Houston
- University of Maryland
- University of Nebraska
- University of Pennsylvania
- Virginia Tech
- Washington Society of CPAs
- Western Michigan University
- World Congress of Accountants

ITEM 5: ADDITIONAL PUBLIC RELATIONS ACTIVITIES

Seven press releases were issued by the FASB during this quarter.

While some of the media focus of the past year shifted away from Enron and off-balance sheet accounting, new areas of interest were stock options, international convergence, and pension accounting.

During the fourth quarter, the FASB met with or was covered by the major business press as well as regional newspapers, including *The New York Times*, *The Wall Street Journal*, *Washington Post*, *Financial Times*, *CNN*, *CNBC*, *Barron's*, *BusinessWeek*, *Fortune*, *CFO*, *Investor's Business Daily*, *Dow Jones*, *Reuters*, *Bloomberg*, *AP*, *San Francisco Chronicle*, and *Dallas Morning News*.

Barron's and *CFO* interviewed and photographed the chairman recently for feature stories. The *Barron's* piece, published in the December 30, 2002 issue and written by Jim McTague, centers on valuation, recent changes at the FASB, and a new era for accounting under Sarbanes-Oxley Act. *CFO* is contemplating a cover story about the FASB and its chairman that may run in the January or February issue. The reporter, Tim Reason, focused on fair value accounting.

The Public Relations Manager recently met with Larry Kudlow in New York and is making arrangements for the chairman to appear in a January installment of *CNBC's Kudlow & Cramer* that will focus on the FASB.

ITEM 6: GASB LIAISON ACTIVITIES

- FASB meeting minutes were sent to the GASB RTA director and certain GASB staff.
- GASB meeting minutes were sent to the FASB chairman, the MP&T director, and the PD&S director.
- The FASB distributed the following drafts to the GASB for review:
 - Interpretation, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*
 - Final Statement, *Accounting for Stock-Based Compensation—Transition and Disclosure*
 - Final Statement, *Acquisitions of Certain Financial Institutions*
 - Final Statement, *Accounting for Certain Financial Instruments with Characteristics of Liability and Equity*

- - Exposure Draft, *Accounting for Real Estate Time-Sharing Transactions*
- - Final Interpretation, *Consolidation of Variable Interest Entities*

- The FASB received drafts of the following GASB documents for review:
 - - Exposure Draft, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*
 - - Exposure Draft, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
 - - Exposure Draft, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*
 - - Exposure Draft, *Proposed Statement for Budgetary Comparison Schedules — Perspective Differences*