

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

For the quarter ended September 30, 2002

ITEM 1: TECHNICAL ACTIVITIES

A. BOARD ACTIVITIES

- The Board approved for issuance the following documents:
 - - Exposure Draft, *Statement 123 Accounting for Stock-Based Compensation—Transition and Disclosure*
 - - FASB Statement No. 147, *Acquisitions of Certain Financial Institutions*
- The Board held 32 separate sessions on 12 dates to deliberate technical issues for 14 agenda projects or possible agenda projects.
- Several Board members participated in the September meeting of the Emerging Issues Task Force (EITF).
- The Board met with representatives of the following organizations and discussed matters of mutual interest:
 - - Association for Investment Management and Research
 - - Edison Electric Institute
 - - Financial Managers Society
 - - New York Society of Security Analysts
 - - Institute of Management Accountants
 - - American Council of Life Insurance
 - - American Gas Association.
- The Board held an open Roundtable discussion with approximately 40 participants on its Exposure Draft on special-purpose entities.

B. INTERNATIONAL ACTIVITIES

- The MP&T and PD&S directors met with Ron Salole from the Accounting Standards Board of Canada (AcSB). The purpose of the meeting was to review the work programs of the FASB and AcSB to identify possible areas in which efficiencies and effectiveness could be achieved for both Boards by a closer working arrangement and staff collaboration.
- The chairman attended an International Accounting Standards Board (IASB) Roundtable discussion on stock options in New York on July 11.

- Professor Yoshikuni Hirose, Waseda University, and several colleagues visited with two Board members and staff. Professor Hirose led a task force sponsored by the Japanese Ministry for Economy, Trade, and Industry that recently issued a report on valuation of brands.
- The chairman, a Board member, and a staff member met in London with selected members of the IASB, the UK Accounting Standards Board (ASB), and the German Accounting Standards Board to discuss the consolidations project.
- A Board member gave an FASB update speech and conceptual framework speech to the Accounting Standards Board of Japan and the Japanese Accounting Association in Tokyo.
- A Board member gave a speech in London at a conference on Corporate Governance and Compliance on Financial Reporting post Enron.
- The FASB staff is working closely with the IASB staff on their respective project on financial performance reporting (a joint project between the IASB and the UK ASB). The IASB project manager, Richard Barker, addressed the FASB Board in July, summarizing the direction of the IASB project. Additionally, Mr. Barker participates by telephone in FASB Board meetings to relate discussions held by the IASB on similar topics.
- The FASB Board and staff continue to work closely with the IASB Board and staff on their joint project on purchase method procedures.
- The FASB staff attended the IASB Insurance Advisory Committee meeting in New York. The staff continues to monitor the IASB's insurance accounting project.
- The FASB staff met with the IASB staff to discuss key differences between the Exposure Draft and US accounting standards on share-based compensation and began drafting the Invitation to Comment.
- The staff continues to work closely with the Canadian Institute of Chartered Accountants (CICA) staff on their cooperative project on combinations of mutual enterprises.
- The IASB held their September Board meeting at the FASB's offices. As part of that week-long meeting, the FASB and IASB held a joint Board meeting and discussed the following topics: convergence, business combinations (phase II), performance reporting, and revenue recognition.

- A Board member and staff member attended a meeting with an IASB project manager who met with representatives from Australia, Canada, France, Japan, the UK, and the US to discuss progress on the IASB's performance reporting project.

C. OTHER ACTIVITIES

- The following professional development sessions were presented to the Board and staff:
 - Robert H. Herz discussed his perspectives and goals and what he sees as key areas of focus and priority.
 - Rich Bernstein, chief US strategist and chief quantitative strategist, Merrill Lynch, discussed the way he uses financial information and what attributes he considers essential.
 - Sarah Smith, Gary Cohn, Patrick Mulvihill, Mathew Schroeder, and Ian Bailey, representatives from Goldman Sachs, discussed the current accounting of and for energy contracts.
 - Lisa A. Snyder, director, AICPA Professional Ethics Division, and Catherine Allen, senior manager, AICPA Independence and Special Projects, discussed the AICPA Professional Ethics Divisions operations, new AICPA independence rules, current projects, and their outstanding exposure draft.
 - Ian Mackintosh, chairman, and Paul Sutcliffe, director, IFAC Public Sector Committee, discussed the latest developments in international standards for governments.
 - Paul Pacter, director, Global IAS Office of Deloitte Touche Tohmatsu, discussed differences between IAS and US GAAP.
 - Ray Katz, media and cable analyst, Bear Stearns, discussed how he looks at stocks in his universe and the extent to which published financial information is critical to this process.
- Two Board members and staff participated in a closed meeting with representatives of Boeing Capital Corporation to discuss SPEs.
- Two Board members and staff participated in a closed meeting with representatives of TIAA/CREF to discuss the perceived usefulness of possible disclosures about intangible assets, including fair value, costs, and qualitative information.
- Two Board members and staff participated in a closed meeting with representatives of the Bond Market Association to discuss securitizations.
- A staff member participated in a meeting with the AICPA Task Force on Valuation of Private Equity Securities to discuss its draft Technical Practice Aid on how to determine the fair value of equity securities of privately-held companies.

- Two staff members observed a meeting of the Appraisal Issues Task Force, a newly formed group chaired by Al King of Valuation Research Corporation.
- Various staff members met with the AICPA's Insurance Liaison Task Force to discuss issues of mutual interest.
- Various staff members participated in several closed meetings of EITF working groups.
- Various staff members attended an AcSEC meeting in Toronto and New York. The TA&I director also attended the AcSEC meeting in New York.
- Various staff members and the TA&I director participated in a meeting with representatives of the National Retail Federation to discuss the treatment of vendor allowances in the retail industry.
- Various staff members and the TA&I director participated in several meetings with representatives from the energy trading and broker/dealer industries to discuss methods used to determine the fair value of energy trading contracts.
- The chairman and the TA&I director attended a meeting arranged by the chairman of the Transition Oversight Board of representatives of SECPS, QCIC, Peer Review Committee, AcSEC, ASB, Professional Issues Task Force, Professional Ethics Executive Committee and the SEC Regulations Committee, and the SEC to discuss recent activities of each organization and general matters relating to the accounting profession.

ITEM 2: ADMINISTRATIVE AND STRATEGIC ACTIVITIES

- The MP&T and PD&S directors and several staff members participated in a series of "process mapping" meetings 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 has participated in or facilitated some of those meetings.
- The Board and senior staff have been conducting a series of administrative meetings to discuss various aspects of the FASB's internal operations including agenda setting, project management, improving speed and timeliness, human resources, and constituent relations. In addition, the Board and staff have addressed broader issues relating to the structure of US standard setting, implementing a principle-based approach to setting standards, and international convergence.
- The Board is trying to form a user advisory group. To this end, the chairman sent a letter to the CEOs of major mutual fund groups, investment and commercial

banks, rating agencies, and other users seeking nominations for the user advisory group.

- We had an unusual amount of turnover in the third quarter. In addition to the usual turnover of practice fellows and postgraduate technical assistants, we hired two project managers and two assistant project managers. Two project managers left the FASB to pursue other opportunities and a senior project manager retired from the FASB. In addition, the TA&I director joined the FASB.

ITEM 3: WASHINGTON ACTIVITIES

- The chairman, a Board member, and a staff member met individually with numerous Members of Congress and their staff to discuss current FASB activities and other accounting issues.
- The chairman and a staff member met with a representative of the editorial board of The Washington Post.
- 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 Securities and Exchange Commission and the financial institution regulators.

ITEM 4: SPEECHES DELIVERED

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

- AICPA Controllers Workshop
- AICPA National Accounting & Auditing Technical Symposium
- American Accounting Association
- American Accounting Association, Financial Reporting Section
- American Enterprise Institute
- Equipment Leasing Association
- Florida Institute of CPAs
- Illinois Society of CPAs
- Institute of Management Accountants
- International Accounting Standards Board/Delves Group
- Institutional Investor
- KPMG
- New York Society of CPAs/SEC Conference
- New York Society of Security Analysts
- National Investor Relations Institute

- Rural Utilities Service of the US Department of Agriculture
- Society of Insurance Financial Management
- Texas Society of CPAs
- The Conference Board
- The Investment Analysts Society
- University of Chicago, Directors Consortium
- University of Chicago & KPMG
- University of West Florida
- Women in Housing & Finance, Inc.

ITEM 5: ADDITIONAL PUBLIC RELATIONS ACTIVITIES

- While some of the furor surrounding Enron and other corporate accounting scandals began to die down, interest in the FASB—and stock options—remained strong. During the July to September period, the FASB met with or was interviewed by a long list of publications, including *The New York Times*, *The Wall Street Journal*, *Washington Post*, *Financial Times*, *BusinessWeek*, *Institutional Investor*, *Fortune*, *Chicago Tribune*, *Los Angeles Times*, *San Francisco Chronicle*, *Dallas Morning News*, *Boston Globe*, and the *Stamford Advocate*. Requests for television interviews were numerous and included interviews that were aired by CNN^{fn} and Bloomberg Television.
- In July, Public Relations arranged a meeting with *The New York Times* that was attended by seven of its reporters, including one editorial page writer. Floyd Norris hosted the meeting at the newspaper's office and introduced us to his colleagues. A second meeting was held in August that introduced the FASB to the Washington Post's editorial board.
- The FASB set up a press conference that followed the September FASB/IASB joint meeting at which both chairmen participated. The press conference was attended by reporters from *The Wall Street Journal*, *Washington Post*, *Financial Times*, *BusinessWeek*, *Dow Jones*, *Bloomberg*, and the *Stamford Advocate*.

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 PD& S director met monthly with the GASB RTA director. FASB staff members were assigned to monitor two GASB projects.
- The FASB distributed the following drafts to the GASB for review:

- - Final Statement, *Acquisitions of Certain Financial Institutions*
- - Exposure Draft, *Statement 123 Accounting for Stock-Based Compensation Transition and Disclosure*

The FASB received drafts of the following GASB documents for review:

- - Exposure Draft on *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*
- - Exposure Draft on *Budgetary Comparison Schedules-Perspective Differences*, an amendment of GASB Statement No. 34