

REPORT OF THE CHAIRMAN OF THE FASB
TO THE FINANCIAL ACCOUNTING FOUNDATION
May 1, 2008 through July 31, 2008

ITEM 1: TECHNICAL ACTIVITIES

BOARD AND STAFF ACTIVITIES

a. Documents issued:

1. Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*.
2. Statement No. 163, *Accounting for Financial Guarantee Insurance Contracts*.
3. Final FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*.
4. Final FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*.
5. Final FSP SOP 94-3-1 and AAG HCO-1, *Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations*.
6. Proposed FSP ARB 43-a, *Amendment of the Inventory Provisions of Chapter 4 of ARB No. 43*. The comment period ended June 16, 2008.
7. Proposed FSP FAS 133-b and FIN 45-c, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45*. The comment period ended June 30, 2008.
8. Proposed Statement, *Disclosure of Certain Loss Contingencies*. The comment period ends August 8, 2008.
9. Proposed Statement, *Accounting for Hedging Activities*. The comment period ends August 15, 2008.
10. Proposed Concepts Statement, *Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information*. The comment period ends September 29, 2008.
11. Preliminary Views, *Conceptual Framework for Financial Reporting: The Reporting Entity*. The comment period ends September 29, 2008.

b. Agenda decisions to add projects:

12. *FAS 142 and FAS 144—Accounting for Defensive Intangible Assets*. The project was added to the Board's agenda and subsequently transferred to the EITF. The EITF will consider subsequent accounting of acquired intangible assets that the acquirer intends not to use or to use in a way other than the asset's highest and best use.
13. *Technical Corrections to FASB Statements*. The project is a standing project added to the Board's agenda to address technical corrections to the accounting literature on an annual basis, starting with technical corrections to FASB Statement No. 141 (revised 2007), *Business Combinations*.

c. Agenda decisions to remove projects:

14. *Definition of a Public Company (Phase 2)*. Phase 2 of the Board's project to consider the definition of a public company was removed from the Board's agenda because of cost-benefit considerations. The project was originally added to the agenda based on a recommendation from the AICPA healthcare expert panel. The first phase of the project resulted in the issuance of FSP FAS 126-1, *Applicability of Certain Disclosure and Interim Reporting Requirements for Obligors for Conduit Debt Securities*. The goal of phase 2 of the project was to create a single definition of a public company to be used throughout GAAP.
15. *FAS 144—Measuring Assets Held for Sale*. The Board's project to consider whether assets held for sale should be measured at fair value instead of fair value less cost to sell, as currently required under FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, was removed from the agenda. That decision was based on the results of staff analysis and the IASB's decision to remove a similar project from its agenda.
16. *Insurance Risk Transfer*. The project was removed from the Board's agenda because the Board plans to consider at a future date whether to address insurance accounting in a joint project with the IASB.
17. *Accounting for Certain Nonfinancial Liabilities—Recognition and Measurement (Phase 2)*. The second phase of the project on the accounting for certain nonfinancial liabilities was removed from the Board's agenda because the Board plans to consider at a future date whether to address that accounting in a joint project with the IASB.
18. *Whether Options (Including Embedded Conversion Options) Are Indexed to both an Entity's Own Stock and Currency Exchange Rates*. Proposed Statement 133 Implementation Issue No. C21, "Whether Options (Including Embedded Conversion Options) Are Indexed to both an Entity's Own Stock and Currency Exchange Rates," will not be issued as final and was removed from the Board's agenda because that issue was resolved by the consensus in EITF Issue No. 07-5, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock."

d. Emerging Issues Task Force (EITF):

1. At the June 25, 2008 Board meeting, the Board ratified the consensuses reached at the June 12, 2008 EITF meeting on Issues No. 07-5, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock," No. 08-3, "Accounting by Lessees for Nonrefundable Maintenance Deposits," and No. 08-4, "Transition Guidance for Conforming Changes to Issue No. 98-5."
2. The Board also ratified the consensus-for-exposure reached by the Task Force on Issue No. 08-5, "Issuer's Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement." The comment period for the draft abstract posted to the FASB website for Issue 08-5 ended on August 4, 2008.
3. Six Board members participated in the June EITF meeting.

- e. Six Board members, several staff members, and invited guests participated in the June meeting of the Financial Accounting Standards Advisory Council.
- f. Seven Board members and several staff members participated in the June meeting of the Investors Technical Advisory Committee in Norwalk. One Board member and the several staff members also met in a closed meeting with the Investors Technical Advisory Committee that same day. That Committee provided investor perspectives on a variety of topics including the use of fair value for financial instruments, improvements to the disclosures for Statement 140 and Interpretation 46(R), the liabilities and equity project, the scope for the leasing project, and the FASB/IASB Memorandum of Understanding.
- g. The chairman, three Board members, and staff participated in the June meeting of the Small Business Advisory Committee in Norwalk. Major topics discussed were international convergence and loss contingency disclosures.
- h. Seven Board members and two staff members participated in a meeting with members of FEI's Committee on Corporate Reporting in June. That Committee provided its views on the Statement 140 and Interpretation 46(R) amendments, the FASB Exposure Draft on loss contingency disclosures, fair value measurements, the postretirement benefits project, and convergence.
- i. Seven Board members, the director of TA&I, the director of MP&T, and staff participated in the 2008 Insurance Industry Forum, which included representatives from several insurance industry trade associations (including an international trade association), the AICPA, the Academy of Actuaries, the international Association of Insurance Supervisors (regulators), the SEC, rating agencies, and an analyst.
- j. A staff member attended a meeting with the Private Company Financial Reporting Committee to discuss issues of concern to private companies including Interpretation 48, Interpretation 46(R), loss contingency disclosures, and the potential effect on U.S. private company reporting of a movement toward IFRS for U.S. public companies.
- k. Six Board members attended a liaison meeting with the Accounting Principles & Practices Board of the Healthcare Financial Management Association.
- l. Two Board members and the NFP Mergers and Acquisition team met with representatives of two large healthcare systems.
- m. The chairman, one Board member, and the technical director met with the senior professional partners of the four largest accounting firms to discuss observations and challenges in the accounting and auditing profession.
- n. The chairman and another Board member met with representatives of the IMF about financial stability issues in the global capital markets.
- o. One staff member attended a portion of an AcSEC meeting dealing with revisions to the AICPA Not-for-Profit Audit & Accounting Guide.

INTERNATIONAL ACTIVITIES

- a. The FAF and FASB hosted the forum, “High-Quality Global Accounting Standards: Issues and Implications for U.S. Financial Reporting,” in New York.
- b. FASB staff participated in IASB Board meetings and discussed various technical issues on the Boards’ joint projects on revenue recognition, amendments to IFRS 5, financial statement presentation, emissions trading, earnings per share, leases, and liabilities and equity.
- c. The FASB’s conceptual framework Board advisors met with the IASB via video conference and discussed technical matters.
- d. The FASB and IASB directors continued their ongoing series of weekly conference calls to discuss technical and administrative matters.
- e. The chairman and another Board member met with the Accounting Standards Board of Japan to discuss global convergence in Tokyo.
- f. The chairman participated in a meeting on globalization in Moscow.
- g. A Board member participated in the IASC Foundation Conference in the Netherlands.

OTHER ACTIVITIES

- a. The following professional development sessions were presented to the Board and staff:
 1. Jill Switter, Project Manager, and Brian Stevens, Practice Fellow, updated the staff on various issues on the liabilities and equity project. In particular, their discussion covered FASB Preliminary Views, *Financial Instruments with Characteristics of Equity*, proposed FSP APB 14-a, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Settlement)*, and EITF Issue No. 07-5, “Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity’s Own Stock.”
 2. Marianne M. Jennings, Professor, Arizona State University, represented the Association of Government Accountants at this audio conference. She recounted recent ethical lapses in government and examined the causes and effects. By examining a series of ethical lapses, one finds that a pattern emerges. That pattern allows for the following question to be asked: What is it in the culture of an agency that allows obvious ethical breaches to occur and continue? Once that culture is understood, one can think about putting detection methods, as well as antidotes, in place.
 3. Cindy Fornelli, Executive Director, and Lillian Ceynowa, Director of Professional Practice & Member Relations, discussed an overview of the Center for Audit Quality (CAQ). That overview included a summary of its

structure, membership, mission, and strategic objectives. The presentation highlighted the activities that CAQ has initiated to date and those that are forthcoming.

4. Departing FASB Board Members George Batavick, Mike Crooch, and Don Young reflected on the accomplishments and challenges during their terms as members of the FASB.
5. Paul Angelo, Senior Vice President and Actuary, The Segal Company, and Jeremy Gold, FSA, PhD, Jeremy Gold Pensions, spoke to the GASB Board and staff on (a) a financial economics or fair value approach and (b) an actuarial funding approach to measurement of pension costs and obligations for accounting purposes.
6. Tom Allen, FASAB Chairman, presented information about the current activities of FASAB, the accounting standards setter for the federal government. Topics covered included sustainability reporting, social insurance, natural resources, conceptual framework projects, and other issues being considered by FASAB.
7. Gregg Saunders and Louis Matherne of XBRL U.S. instructed the core team and reviewers working on XBRL on how to create new taxonomies and extensions to existing taxonomies in Spider Monkey software that will be used to tag financial statements as part of the XBRL Project under the auspices of the SEC in the United States.
8. The PD Committee arranged for a fun, interactive, and team-building training session for all FASB, GASB, and FAF employees. The course was presented by Keith Sanders of Rockhurst University Continuing Education Center. This seminar was about being a team player, thinking like a unit, and meeting expectations with others and through others. The seminar also provided methods for boosting morale and fostering team spirit.

EXTERNAL CONFERENCES

Some staff attended the 7th Annual Financial Reporting Conference at the Robert Zicklin Center for Corporate Integrity.

ITEM 2: ADMINISTRATIVE AND STRATEGIC ACTIVITIES

- a. All Board members attended the May FAF Trustees meeting.

ITEM 3: WASHINGTON ACTIVITIES

- a. The chairman conferred with Congressional staff members on international convergence, major project activities, and other technical activities of the Board.

- b. Staff members met in separate meetings with various staff of Congressional committees and representatives of Washington, DC-based trade associations to discuss the role of the FASB, various current projects, and other matters of mutual interest.
- c. The TA&I director participated as a senior advisor to the SEC Advisory Committee on Improvements to Financial Reporting.
- d. The chairman participated as an official observer to the U.S. Department of the Treasury's Advisory Committee on the Auditing Profession. Board members are also acting as observers to the subcommittees of this committee.
- e. The chairman, two Board members, the director of TA&I, the director of MP&T, and a staff member held quarterly meetings with the SEC and the PCAOB to discuss current FASB activities and other matters of mutual interest.
- f. The chairman, other Board members, and senior staff members held a number of meetings and discussions with financial institution regulators about accounting and reporting issues emanating from the credit crisis.

ITEM 4: SPEECHES DELIVERED

Principal platforms addressed by the Board and staff members during the May 2008 through July 2008 period include:

- 2008 American Bankers Association CFO Exchange
- 2008 API Risk Control Committee Meeting
- 2008 Corporate Governance & Globalization Conference
- AICPA National Not-for-Profit Industry Conference
- AICPA National Advanced Accounting & Auditing Technical Symposium(NAATS)
- AICPA Tax Strategies
- Annual FICPA Not-for-Profit Organizations Conference
- Atlanta Federal Reserve Bank Conference
- BAI CFO Conference
- Baruch College 7th Annual Financial Reporting Conference (CUNY)
- BDK Annual Audit and Tax Conference
- Bermuda Reinsurance Club
- Boston College
- CFA Institute Annual Conference
- CFO & Mid-Market CFO Summit XVI
- CIEBA
- Connecticut Society of CPAs
- CPE Inc.
- CT State Society of CPAs (CSCPA)
- Ernst & Young & Society of Actuaries
- Ernst & Young International IFRS Conference

- Ernst & Young New York Conference
- Financial Executives International Summit 2008
- Financial Executives International San Francisco Chapter
- Florida Institute of Certified Public Accountants
- Houston Chapter of the Texas CPA Society – Financial Reporting Symposium
- Illinois CPA Society
- IMA Business Symposium
- IMA Institute of Management Accountants
- International Accounting Standards Committee Foundation
- Massachusetts Society of CPAs
- Michigan Association of Certified Public Accountants (MACPA)
- National Co-op Business Association (NCBA)
- NIRI Annual Meeting
- NY State Society of Security Analysts (NYSSA)
- Oregon State University Accounting Program
- Rutgers & Intl. Journal of Corporate Governance & Disclosure
- SEC Institute
- Standard & Poor's
- Stanford University Director's College
- Univ. of Washington Milgard School of Business Financial Reporting Conference
- Univ. of Southern California Financial Reporting Conference
- Univ. of Michigan Annual Accounting Research Conference

ITEM 5: ADDITIONAL COMMUNICATIONS ACTIVITIES

- a. Completed and distributed 2007 Annual Report to the FAF Trustees and FASB/FAF constituents;
- b. Wrote and distributed press releases on the following topics: FASB Issues Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (May 9); Financial Accounting Foundation Names Teresa S. Polley President and Chief Operating Officer (May 21); George J. Batavick to Remain on the Financial Accounting Standards Board (May 22); FASB Issues Statement No. 163, *Accounting for Financial Guarantee Insurance Contracts* (May 23); Financial Accounting Standards Board Meets with Accounting Standards Board of Japan to Discuss Global Convergence (May 27); U.S. FASB and IASB Seek Views on Two Consultative Documents on the Conceptual Framework (May 29); MEDIA ADVISORY: FASB Announces Changes in Staff Leadership (June 2); MEDIA ADVISORY: Alicia A. Posta Named Executive Director of FASB Advisory Councils (June 3); FASB Issues Exposure Draft on *Disclosure of Certain Loss Contingencies* (June 5); FASB Issues Exposure Draft on *Accounting for Hedging Activities* (June 6); MEDIA ADVISORY: The Financial Accounting Foundation and the Financial Accounting Standards Board to Host *High-Quality Global Accounting Standards: Issues and Implications for U.S. Financial Reporting* (June 9);
- c. Presented new external communications strategy to senior leaders;
- d. Conducted media interviews on a number of topics, including EITF Issue 03-6, Share-Based Payments; QSPEs (Joe Rosta, American Banker); Off-Balance-Sheet

- Accounting (Mark Pittman, Bloomberg); Hedging (Glenn Cheney, Accounting Today; Tammy Whitehouse, Compliance Week; Dave Corrado, Treasury & Risk); Statement 141(R) (Abby Roberts, mergermarkets Americas); Leasing (Emily Pickrell, Thomson); and other issues, including international convergence and fair value.
- e. Responded to media questions and hosted one-on-one interviews as part of the FASB's June 16th convergence forum at Baruch College in New York. One-on-one interviews with Bob Herz and Terri Polley were conducted by Floyd Norris of the New York Times; Emily Chasan of Reuters; and Joanna Chung of Financial Times;
 - f. Supplied resources and research materials to Dale Flescher, a professor who has been hired to write the history of the FAF;
 - g. Met with professional speechwriter David Dann to discuss creation of a speech for Bob Herz about accounting and its role in the economy;
 - h. Worked with Russ Golden and Peter Proestakes to discuss media relations outreach on the FASB's role in the rollout of XBRL;
 - i. Implemented program to get "Summaries of Decisions Reached" for each Board meeting posted to the FASB website within hours after each meeting, giving media and constituents quick and easy access to the information;
 - j. Began work on a new section of the FASB website called "Convergence Central," where up-to-date information on joint projects and other convergence information will be readily available to the public;
 - k. Advanced development of Washington-based coalition that will comprise investor supporters and those committed to independent standard setting (initial meetings planned for September).
 - l. On June 2, the FASB hosted a webcast entitled "The Crisis in the Credit Markets – Causes, Reporting Issues, Responses." Moderated by David Reilly of the New York Times, the panel included Bob Herz.
 - m. On June 23, the FASB hosted a "Mid-Year FASB Update" webcast with a panel that included Board member George Batavick and Russ Golden. FASAC Chairman Dennis Chookaszian moderated.
 - n. On July 7, the FASB conducted a tour for RMIT students.

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 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 staff distributed the following drafts to the GASB for review:
 - Final FSP FAS 117-a, *Endowments of Not-for-Profit Organizations: Net Assets Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*

- Final FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*
 - Final FSP SOP 94-3-1 and AAG HCO-1, *Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations*.
 - Proposed Concepts Statement, *Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information*
 - Proposed Statement, *Accounting for Hedging Activities*
 - Proposed FSP FAS 133-b and FIN 45-c, *Disclosures about Credit Derivatives: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45*.
 - Preliminary Views, *Financial Statement Presentation*
 - Preliminary Views, *Reporting Entity*.
- e. The FASB staff received the following GASB drafts for review:
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*
 - Proposed Technical Bulletin, *Determining the Annual Required Contribution (ARC) Adjustment for Postemployment Benefits*
 - Request for Response, *Suggested Guidelines for Voluntary Reporting of SEA Performance Information*
 - 2007-2008 *Comprehensive Implementation Guide*.