

REPORT OF THE CHAIRMAN OF THE FASB  
TO THE FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL  
For the quarter ended June 30, 2003

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**ITEM 1: TECHNICAL ACTIVITIES**

**A. BOARD ACTIVITIES**

- As planned, the Board issued the following documents:
  - - FASB Statement No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*
  - - FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*
  - - FASB Exposure Draft, *Qualifying Special-Purpose Entities and Isolation of Transferred Assets*.
- The Board added a project to its agenda to codify and improve existing guidance for measuring fair value. The near-term objective of the project is to develop a Statement that provides guidance for fair value measurements of assets and liabilities measured at fair value under other accounting pronouncements. The longer-term objective of the project is to improve related conceptual guidance in FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*.
- The Board cleared, subject to certain changes, a final AICPA SOP, *Accounting for Certain Nontraditional Long-Duration Insurance Contracts and Separate Accounts*. A final clearance memorandum has been sent to the Board with the expectation that the final SOP will be published by the AICPA around the end of June.
- The Board met with members of its resource group for the Purchase Method Procedures project and others to discuss any issues or concerns they believe the Board should consider prior to finalizing its tentative decisions in an Exposure Draft of a proposed Statement.
- The Board held 34 separate sessions on 13 dates to deliberate technical issues for 14 agenda projects or possible agenda projects.
- A majority of Board members participated in the May meeting of the Emerging Issues Task Force (EITF).

The Board met with representatives of the following organizations and discussed matters of mutual interest:

- - AICPA Accounting Standards Executive Committee
- - Equipment Leasing Association
- - Healthcare Financial Management Association
- - Financial Executives International
- - American Accounting Association
- - Association for Investment Management and Research.

## B. INTERNATIONAL ACTIVITIES

- The chairman, a Board member, and the MP&T director, attended the National Standard Setters meeting in London.
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- The Board, senior staff, FASB staff monitoring IASB projects, and the IASB liaison Board member met monthly to discuss IASB agenda and research projects with a focus on recent decisions by the IASB and areas of potential divergence.
- 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 phone. The IASB staff participates similarly in FASB meetings.
- The Board and staff continued to work closely with the IASB and staff on their similar projects on performance reporting and stock-based compensation.
- A Board member and staff met with Tatsuya Terazawa, special advisor to the Japanese Ministry of Economy, Trade and Industry to discuss performance reporting.
- A Board member and the MP&T director met with Yuji Mizuno, senior staff writer, Business News Department of Japan's Nihon Keizai Shimbun, to familiarize him with current U.S. policies and practices on corporate governance, accounting practices, and other business issues.
- Jim Obazee, deputy director (technical) from the Nigerian Accounting Standards Board, spent two months at the FASB offices. The purpose of his visit was to observe our process and procedures.
- A delegation of Chinese accounting regulators visited the FASB for a day.

- Laima Kazlauskiene, director of the Lithuanian Accounting Institute, visited the FASB for a week to observe the FASB's process.

### C. OTHER ACTIVITIES

- The staff posted to the FASB website six FASB Staff Positions related to implementation of FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*. The comment deadline was May 26, 2003. The staff is in the process of analyzing comments received, and final FSPs are expected to be issued in early July.
- The chairman and a staff member attended the TIAA-CREF Institute Forum on Fair Value Accounting Standards for Life Insurance Contracts in New York.
- The chairman, two Board members, and the TA&I director met with McGladry, BDO Seidman & Grant Thornton to discuss Interpretation 46.
- The chairman met with representatives from the Federal Reserve Bank of New York to discuss matters of mutual interest.
- The chairman, a Board member, and the TA&I director met with bank regulators on purchased loans.
- The chairman and a Board member met with a representative of Pension Benefit Guarantee Corporation (PBGC) to discuss pension issues and their impact on the PBGC.
- The chairman and a Board member met with representatives of Morgan Stanley to discuss issues affecting the securities industries.
- Three Board members and the director of TA&I met with representatives of KPMG and NVR Inc. to discuss Interpretation 46.
- A Board member and staff participated in the initial meeting of the Valuation Resource Group. The purpose of that group—which is made up of auditors, preparers, and valuation specialists—is to provide input to the Board, EITF, and staff on issues related to fair value measurements.
- Various staff members participated in closed meetings of EITF working groups.
- The TA&I director and various staff attended two AcSEC meetings in Connecticut and New York.
- The TA&I director attended a meeting of the Steering Committee of the Group of Thirty to discuss a report it is preparing on threshold issues in financial reporting.

- The TA&I director and various staff members participated in a meeting attended by valuation experts and auditors to discuss fair value issues.
- The MP&T director and various staff members participated in a conference call with FEI members to provide them with an update on selected FASB projects.
- The following professional development sessions were presented to the Board and staff:
  - - A video from the Financial Management Network Series. Jeffrey Rudman, chair of the Corporate and Securities Litigation Group at Hale and Dorr LLP, discussed *SEC Enforcement: What Lies Ahead*.
  - - John Casea, First Vice President, Merrill Lynch, helped us understand how investors use the financial statements and disclosures.
  - - Michael Peskin, Morgan Stanley and Jeremy Gold, an independent actuary, discussed valuing pension obligations.
  - - Chuck Landes and Kim Gibson, AICPA, discussed Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*. Brian Degano, FASB Practice Fellow discussed his experiences in forensic accounting.
  - - Paula Todd, Principal of Towers Perrin, discussed why stock option plans are created, common features associated with such plans, and the processes enterprises use to determine the quantity of employee stock options to award.
  - - John K. Wulff, departing Board member, spoke about his years on the Board and his views on financial reporting and standard setting.
- A staff member attended three meetings of the AICPA's Special Committee on Enhanced Business Reporting (SCEBR) to listen to the Committee's preliminary views on a comprehensive reporting model for all domestic and foreign companies.
- Several staff members attended the Second Annual Financial Reporting Conference at Baruch College.

## **ITEM 2: ADMINISTRATIVE AND STRATEGIC ACTIVITIES**

- The Board, staff directors, and certain project teams met to discuss the project plans for six agenda projects.
- The Board and staff directors participated in a strategic planning meeting focused on the future agenda of the FASB. The directors subsequently met with the senior staff members to discuss the views on the potential projects and the relationships and dependencies between projects.

- Some or all Board members participated with the staff directors and various staff members in four separate meetings to discuss process effectiveness initiatives.
- In April, the Board and staff directors participated in a meeting with the International Survey Research Company to discuss the results of the Employees Satisfaction Survey.
- In June, all staff members participated in a meeting to review the results of the Employees Satisfaction Survey. All staff members (except the staff directors) also participated in break-out sessions to further discuss those results.
- Several staff members participated in a full-day off-site Microsoft Project 2002 training course.
- Twenty staff members completed a workshop on effective writing.
- A staff member attended a conference to learn about the latest LiveEDGAR developments.

### **ITEM 3: WASHINGTON ACTIVITIES**

- The chairman testified at a hearing of the Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises of the Committee on Financial Services on “The Accounting Treatment of Employee Stock Options.”
- The chairman and a Board member participated in a roundtable discussion sponsored by several United States Senators, titled “Preserving *Partnership Capitalism* Through Stock Options for America’s Workforce.”
- The chairman and a staff member met with the Comptroller General of the United States General Accounting Office to discuss current FASB activities and other issues.
- The chairman, a Board member, the TA&I director, and two staff members met with the staff of the Joint Committee on Taxation to discuss the “Report of Investigation of Enron Corporation and Related Entities Regarding Federal Tax and Compensation Issues, and Policy Recommendations.”
- The chairman and a staff member, at the request of Representative Cliff Stearns, Chairman of the Commerce, Trade and Consumer Protection Subcommittee of the Committee on Energy and Commerce, met with Members of the Canadian Standing Senate Committee on Banking, Trade and Commerce to discuss current FASB activities and other issues.
- The chairman, five Board members, the two staff directors, and a staff member, attended a reception and dinner following a public meeting of the Financial Accounting Foundation. Others attending included the Chairman and two

Commissioners of the United States Securities and Exchange Commission, two members of the Public Company Accounting Oversight Board, the Comptroller General of the GAO, a Governor of the Federal Reserve System, the Chairman of the Federal Deposit Insurance Corporation, the Director of the Office of Thrift Supervision, Representative Christopher Shays, and several Congressional staff.

- Two staff members met with the staff of the Committee on Energy and Commerce to discuss the accounting for derivatives.
- The chairman and a staff member met individually with several Members of Congress and staff to discuss current FASB activities and other issues.
- The chairman, a Board member, the MP&T director, the TA&I director, and a staff member held their quarterly update meetings with the staff of the SEC and the financial institution regulators.
- 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 this period included:

- American Accounting Association
- American Petroleum Institute
- Baruch College
- Bond Market Association
- Broadcast Cable Financial Manager
- Brookings Institution
- CEMS-Carnegie Bosch Institute
- Colorado State University
- Creighton University
- Directors College at Vanderbilt
- Edison Electric Institute
- Emory University
- Federal Reserve Bank of Chicago
- Florida Institute of CPAs
- Harvard University
- Institute of Management Accountants
- Korean Accounting Association
- Massachusetts Society of CPAs
- Michigan Association of CPAs
- National Investor Relations Institute
- Neuberger Berman
- New York City Bar Program

- New York Society of CPAs
- New York Society of Security Analysts
- New York Stock Exchange/ICMAC
- New York University
- NJ Educational Facilities Authority
- Northwestern University
- Oregon State University
- Pennsylvania Institute of CPAs
- Practitioners Symposium
- PricewaterhouseCoopers—Energy Conference
- PricewaterhouseCoopers Entertainment & Market Seminar
- PricewaterhouseCoopers Telecom Financial Executive Conference
- Seattle University, The Directors' Training Academe
- Securities & Exchange Commission
- Standard & Poor's
- Stanford Directors College
- Texas Society of CPAs
- TIAA-CREF Institute Conference
- Tuck School of Business, Private Equity Valuation and Performance Reporting Conference
- University of New Hampshire
- University of Central Florida
- University of Connecticut
- University of North Carolina
- University of Southern California
- University of Tulsa, The Conference of Accountants
- Virginia Society of CPAs
- Wichita University

#### **ITEM 5: ADDITIONAL PUBLIC RELATIONS ACTIVITIES**

- The FASB issued four press releases (including the Foundation's announcement of new Board member Leslie Seidman).
- 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 stock-based compensation. While most of the coverage has focused on the Board's recent decisions regarding requirement of an expensing approach, some reporters have focused on recent efforts in Washington that may impede the standard-setting process. Going forward, we expect increased media attention on valuation.
- While stock option accounting is of paramount interest currently, pension accounting is a strong second. Our pension disclosure project has received a fair amount of coverage as has a more recent EITF development on cash balance pension plans.

- Public Relations had extensive contact with the press and participated in or arranged for interviews and conference calls with *The New York Times*, *The Wall Street Journal*, *Washington Post*, *Financial Times*, *BusinessWeek*, *Economist*, *Investor's Business Daily*, *San Jose Mercury News*, *Boston Globe*, *Dow Jones*, *Bloomberg*, *Reuters*, *Nikkei*, and numerous other publications.
- Public Relations distributed approximately 1,000 copies of the Foundation's Annual Report along with a cover letter to members of the financial and trade press as well as to FASAC, GASAC, and User Advisory Council members.

#### **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 and the staff directors.
- The GASB RTA director and the FASB PD&S director held monthly meetings and met quarterly with the FASB and GASB chairmen.
- The FASB distributed the following preliminary draft to the GASB for review:
  - - Exposure Draft, *Qualifying Special-Purpose Entities and Isolation of Transferred Assets*.
- The FASB received a draft of the following GASB documents for review:
  - - Final Statement, *Budgetary Comparison Schedules—Perspective Differences*
  - - Final Technical Bulletin, *Disclosure Requirements for Derivatives Not Presented at Fair Value on the Statement of Net Assets*.