

REPORT OF THE CHAIRMAN OF THE FASB
TO THE FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL
For the quarter ended March 31, 2003

ITEM 1: TECHNICAL ACTIVITIES

A. BOARD ACTIVITIES

- As planned, the Board issued the following documents:
 - - FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*
 - - FASB Exposure Draft, *Accounting for Real Estate Time-Sharing Transactions*.
- The Board delayed the issuance of the following documents to the second quarter of 2003:
 - - Final limited-scope Statement on accounting for certain financial instruments with characteristics of both liabilities and equity
 - - Final Statement on the amendment of Statement 133 on derivative instruments and hedging activities.
- The Board added the following projects to its agenda:
 - - A project that addresses issues raised in connection with EITF Issue No. 02-12, “Permitted Activities of a Qualifying Special-Purpose Entity in Issuing Beneficial Interests under FASB Statement No. 140.”
 - - A limited-scope project that will amend the relevant existing authoritative literature to eliminate perceived ambiguities under U.S. law regarding the meaning of the phrase *legally released from being the primary obligor* as it is used in paragraph 16(b) of Statement 140.
 - - A project to improve the accounting for stock-based compensation. That project will address recognition and measurement of stock-based compensation as an expense and will also consider disclosure requirements related to stock-based compensation arrangements. The Board’s objective is to work cooperatively with the IASB to develop a single, high-quality accounting standard.
 - - A project to reconsider the existing disclosure requirements for pension plans. The objective of that project is to consider whether additional information should be required to be disclosed so as to improve users’ ability to estimate the impact of a pension plan on future earnings and cash flows.

- As planned, the Board discussed comments received on the following documents:
 - FASB Invitation to Comment, *Accounting for Stock-Based Compensation: A Comparison of FASB Statement No. 123, Accounting for Stock-Based Compensation, and Its Related Interpretations, and IASB Proposed IFRS, Share-based Payment*
 - FASB Proposal, *Principles-Based Approach to U.S. Standard Setting*.
- The Board held 32 separate sessions on 10 dates to deliberate technical issues for 18 agenda projects or possible agenda projects.
- The Board met with the acting chief accountant and other representatives of the SEC to discuss matters of mutual interest including the interaction between the provisions of a forthcoming limited-scope Statement on accounting for certain financial instruments with characteristics of both liabilities and equity and the reporting requirements issued by the SEC in Accounting Series Release No. 268, *Redeemable Preferred Stocks*, and related guidance.
- The Board met with the Quality Control Inquiry Committee of the AICPA to discuss the committee's observations about accounting issues that are frequently a subject of the cases it investigates.
- A majority of Board members participated in the first meeting of the newly formed User Advisory Council (UAC). More than 30 members of the UAC attended the full-day session, which included an extensive orientation about the Board's history and process. The group also discussed several technical projects. The FASB established the UAC to increase user participation in the accounting standard-setting process.
- A majority of Board members participated in the January and March meetings of the Emerging Issues Task Force (EITF).
- The Board met with representatives of the following organizations and discussed matters of mutual interest:
 - American Bar Association
 - National Association of College and University Business Officers
 - American Bankers Association.

B. INTERNATIONAL ACTIVITIES

- Andrew Lennard, director of operations of the UK Accounting Standards Board, spent a week at the FASB offices. He observed a number of public meetings and met with staff to discuss current FASB projects.

- Atsushi Itabashi, a technical staff member for the Japanese Accounting Standards Board, visited the FASB and met with several members of the FASB staff.
- Dr. Wolfgang Schaum from the Institut der Wirtschaftsprüfer (the body that represents the German accounting profession) spent a week at the FASB offices. The purpose of his visit was to gain an understanding of the FASB's standard-setting process and to become familiar with several FASB projects of international interest.
- The FASB hosted a brief meeting with visitors from the Disclosure Committee of the Japanese Institute of Certified Public Accountants. They met with the Chairman and several members of the staff.
- 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 FASB 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 FASB Board and staff continue to work closely with the IASB and staff on their similar project on performance reporting.
- The chairman, a Board member, and FASB staff, together with the IASB chairman, another IASB member, and IASB staff, met with the SEC acting chief accountant and his staff to discuss the short-term international convergence project.
- Two staff members participated via telephone in the January meeting of the Canadian Accounting Standards Board (AcSB) on the combinations between mutual enterprises project (a joint project between the AcSB and the FASB). The FASB and AcSB staffs continue to work closely on this joint project.
- Two staff members participated in a conference call with the AcSB staff to discuss developments in the FASB/IASB revenue recognition project, which the AcSB is following.

C. OTHER ACTIVITIES

- In February 2003, the FASB staff began issuing future application guidance through FASB Staff Positions (FSPs). The FASB staff circulated two drafts of proposed FSPs to Board members for their review, and a majority of the Board did not object to those proposed FSPs. The proposed FSPs were posted to the

FASB website for comment for a period of 30 days. At the end of the exposure period, the FASB staff will draft the final FSPs. Provided that a majority of the Board does not object, the final FSPs will be posted to the FASB website and remain there until they can be incorporated into the printed FASB literature. The Board believes that this new process and form of guidance will ensure more timely and consistent communication about the application of FASB literature. The two proposed FSPs posted to our website during the first quarter are:

- - “Accounting for Accrued Interest Receivable Related to Securitized and Sold Receivables under Statement 140”
 - - “Accounting for Intellectual Property Infringement Indemnifications under FASB Interpretation No. 45, *Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.*”
- The chairman, two Board members, two staff directors, a project manager, and the FAF vice president of publishing participated in a meeting and a follow-up conference call with representatives of the XBRL consortium to gain a better understanding of XBRL (eXtensible Business Reporting Language) and to discuss FASB’s role in the XBRL consortium.
 - The chairman, a Board member, and a staff member participated in a roundtable discussion on principles-based standards at Baruch College.
 - Various staff members participated in closed meetings of EITF working groups.
 - The TA&I director and various staff attended two AcSEC meetings in New York.
 - The chairman, two Board members, and the TA&I director met with the SIA and the SEC to discuss fair value of derivatives when there is little observable market information.
 - Three Board members, the MP&T director, and staff met with representatives from Morgan Stanley to discuss pension accounting.
 - The chairman met with the chairman of the Fiscal Policy Committee of the Business Roundtable to discuss current issues and accounting for employee stock options.
 - The chairman and a Board member met with senior financial executives of IBM to discuss matters of mutual interest.
 - The following professional development sessions were presented to the Board and staff:
 - - A video from the Financial Management Network Series. Douglas

Carmichael, author of *The CPA's Guide to Professional Ethics*, explained what ethical rules govern the preparation of financial statements and other tasks formed by corporate financial managers.

- Andrew Lennard, director of operations of the UK Accounting Standards Board, discussed convergence from the European perspective and his essay published in October 2002, *Liabilities and How to Account for Them*.
 - A video from the Financial Management Network Series. Richard Langan, Nixon Peabody LLP, discussed the regulatory outlook in the wake of Sarbanes-Oxley.
 - Bob Wilkins and Ron Lott, FASB staff, discussed FASB Interpretations No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, and No. 46, *Consolidation of Variable Interest Entities*.
 - Matt Pinson, FASB industry fellow, introduced the three valuation approaches used by valuation professionals and discussed what must be assumed to use each of the three approaches to measure fair value in accordance with US GAAP.
 - Doctor Tim Luehrman, Standard & Poor's Valuation group, instructed us in the valuation of options, including employee stock options.
- Twelve staff members participated in a full-day on-site Microsoft Project 2002 "Level 2" training course.
 - Ten staff members participated in five sessions of a six-session effective writing workshop that is being taught by an outside consultant.

ITEM 2: ADMINISTRATIVE AND STRATEGIC ACTIVITIES

- The Board, staff directors, and most project teams met over the course of several days to discuss the project plans for active agenda projects and the Board's priorities for the first half of 2003.
- The chairman, a Board member, the staff directors, and several staff members participated in a half-day process efficiency meeting. The objective of that meeting was to agree upon the purpose and goals of the second phase of our process efficiency review. A consultant participated in that meeting as well as several planning meetings with the staff leading Phase II of that review.
- The Board and staff directors participated in a strategic planning meeting focused on the future agenda of the FASB.

ITEM 3: WASHINGTON ACTIVITIES

- The chairman testified before the Commerce, Trade and Consumer Protection Subcommittee of the Committee on Energy and Commerce. The title of the hearing was "A Review of FASB Actions Post-Enron and WorldCom."

- The chairmen of the GASB and FASB, FASB Board members, the GASB and FASB staff directors, and a staff member had lunch with Christopher Shays (R-Connecticut) who visited the FASB offices.
- The chairman, the chairman and president of the FAF, the executive vice president of the FAF, and an FASB staff member met with the SEC chairman and staff to discuss current FAF and FASB activities and other issues.
- The chairman, the chairman and president of the FAF, and an FASB staff member met with a Member of Congress and his staff to discuss current FAF and FASB activities and other issues.
- The chairman, a Board member, 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, and a staff member met with the Department of Treasury Under Secretary for Domestic Finance, the Assistant Secretary for Financial Institutions, and staff to discuss current FASB activities and other issues.
- The chairman, a Board member, and a staff member met with the Comptroller of the Currency and staff to discuss current FASB activities and other 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 issues.
- The chairman, a Board member, the MP&T director, and a staff member held their quarterly update meeting with the staff of the SEC and the financial institution regulators.

ITEM 4: SPEECHES DELIVERED

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

- Accounting Program Leadership Group
- American Accounting Association
- American Council of Life Insurers
- American Law Institute/American Bar Association
- American University, WA College of Law
- Association for Investment Management and Research
- Canadian & US Financial Reporting
- Center for Business Intelligence
- City University of Hong Kong
- Consulting Actuaries

- Council of Institutional Investors
- Dartmouth University
- Deloitte & Touche/American Accounting Association Trueblood Seminar
- Directors Consortium
- Duke Directors Education Institute
- Economic Club of Toronto
- Federal Deposit Insurance Company
- Federal Energy Regulatory Commission
- Federal Reserve Board
- Financial Executives International
- Harvard Business School
- NASD International Securities Symposium
- National Association of Business Economics
- Northern Illinois University
- Pace University Conference
- Syms School
- The Center for Business Intelligence – Governance, Compliance and Reporting Conference
- University of Delaware
- University of Michigan

ITEM 5: ADDITIONAL PUBLIC RELATIONS ACTIVITIES

- The FASB issued four press releases in the first quarter of 2003. The March 12 announcement of the Board’s decision to add two projects to improve the accounting for stock options and pensions drew considerable interest.
- The press was well represented at the FASB’s March 12 Board meeting and included reporters from *USA Today*, *The Wall Street Journal*, *Dow Jones*, *Bloomberg*, and others. A small press conference was held immediately following the portions of the meeting that covered stock-based compensation and pensions.
- Other significant developments on the media front included the FASB chairman’s participation in CNBC’s *Kudlow & Cramer* program that aired on February 5. Feedback from that program has been uniformly positive.
- A staff member was interviewed on National Public Radio regarding a story on revenue recognition.
- Public Relations also arranged an editorial board meeting for the FASB chairman to meet with *BusinessWeek*’s editor-in-chief, Steve Shepard, managing editor, Mark Morrison, and five of the magazine’s editors and reporters. The meeting, which took place on February 20, was productive and was an excellent opportunity for the two organizations to become better acquainted.

- The FASB has continued to have frequent contact with the major press, including *The New York Times*, *The Wall Street Journal*, *Washington Post*, *Financial Times*, and others.

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 drafts to the GASB for review:
 - - Final Statement, *Amendment of Statement 133 on Derivative Instrument Hedging Activities*
 - - Final Statement, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*.
- The FASB received a draft of the following GASB documents for review:
 - - Final Statement, *Deposit and Investment Risk Disclosures*
 - - Proposed Technical Bulletin, *Disclosure Requirements for Derivatives Not Presented at Fair Value on the Statement of Net Assets*.