

REPORT OF THE CHAIRMAN OF THE FASB
TO THE FINANCIAL ACCOUNTING FOUNDATION
September 1, 2005 through January 31, 2006

ITEM 1: TECHNICAL ACTIVITIES

BOARD AND STAFF ACTIVITIES

- a. The following documents were issued and posted to the website:
1. FASB Revised Exposure Draft, *Earnings per Share* (September 30, 2005). Comments were requested by November 30, 2005.
 2. FASB Exposure Draft, *The Fair Value Option for Financial Assets and Financial Liabilities* (January 25, 2006). Comments are requested by April 10, 2006.
 3. FASB Invitation to Comment, *Selected Issues Relating to Assets and Liabilities with Uncertainties* (September 30, 2005). Comments were requested by January 3, 2006.
- b. The following FSPs were posted to the FASB website:
1. FSP FAS 13-1—"Accounting for Rental Costs Incurred during a Construction Period" (Posted: October 6, 2005)
 2. FSP FAS 123(R)-2—"Practical Accommodation to the Application of Grant Date as Defined in FASB Statement No. 123(R)" (Posted: October 18, 2005)
 3. FSP FAS 115-1 and FAS 124-1—"The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" (Posted: November 3, 2005)
 4. FSP FAS 140-2—"Clarification of the Application of Paragraphs 40(b) and 40(c) of FASB Statement No. 140" (Posted: November 9, 2005)
 5. FSP FAS 123(R)-3—"Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards" (Posted: November 10, 2005)
 6. FSP FIN 45-3—"Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners" (Posted: November 10, 2005)
 7. FSP SOP 94-6-1—"Terms of Loan Products That May Give Rise to a Concentration of Credit Risk" (Posted: December 19, 2005)
 8. FSP AAG INV-1 and SOP 94-4-1—"Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans" (Posted: December 29, 2005)
 9. Proposed FSP FAS 142-d—"Amortization and Impairment of Acquired Renewable Intangible Assets" (Posted: December 21, 2005) (Comment Deadline: March 27, 2006)

10. Proposed FSP FAS 133-a—"Accounting for Unrealized Gains (Losses) Relating to Derivative Instruments Measured at Fair Value under Statement 133" (Posted: October 21, 2005) (Comment Deadline: November 21, 2005)
 11. Proposed FSP FIN 46(R)-c—"Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)" (Posted: September 29, 2005) (Comment Deadline: November 30, 2005)
 12. Proposed FSP FAS 123(R)-d—"Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event" (Posted: January 16, 2006) (Comment Deadline: January 31, 2006) [Final FSP FAS 123(R)-4 was posted on February 3, 2006.]
- c. At its September 21, 2005 meeting, the Board added a project to its agenda to provide disclosure guidance for entities that originate, hold, guarantee, or service nontraditional loan products (for example, option adjustable rate mortgages). The Board decided that guidance would be in the form of an FSP. As noted above, the FSP was issued in December 2005.
 - d. At its November 10, 2005 meeting, the Board added a comprehensive project to its agenda to reconsider the existing guidance on accounting for postretirement benefits including pension benefits. The Board decided to conduct the project in two phases. The first phase is targeted for completion by the end of 2006 and seeks to improve financial reporting by requiring that the overfunded or underfunded status of postretirement benefit plans, measured as the difference between the fair value of plan assets and the benefit obligation (for example, projected benefit obligation for pensions), be recognized on the balance sheet. In the second, multiyear phase of the project, the Board expects to comprehensively consider a variety of issues related to the accounting for postretirement benefits. The FASB expects to conduct this phase jointly with the IASB.
 - e. At the September 28, 2005 Board meeting, the Board ratified the consensuses reached at the September 15, 2005 EITF meeting on the following Issues:
 1. 04-13, "Accounting for Purchases and Sales of Inventory with the Same Counterparty"
 2. 05-7, "Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues"
 3. 05-8, "Income Tax Consequences of Issuing Convertible Debt with a Beneficial Conversion Feature."
 - f. At the September 28, 2005 Board meeting, the Board also ratified modifications agreed to at the September 15, 2005 EITF meeting on existing consensuses on

1. Issue No. 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments"
 2. Issue No. 05-6, "Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination."
- g. At its December 20, 2005 meeting, the Board added a project to its agenda to address the permitted activities of a qualifying special-purpose entity (SPE) in the context of servicer discretion. The Board agreed to provide interpretive guidance with respect to the passive nature of a qualifying SPE. The Board decided that guidance would be in the form of an FSP.
- h. The EITF Agenda Committee decided to cancel the November 10, 2005, and January 6, 2006 EITF meetings. The next EITF meeting is scheduled for March 15-16, 2006.
- i. Six Board members participated in the September meeting of the Financial Accounting Standards Advisory Council.
- j. Four Board members participated in the September meeting of the FASB's User Advisory Council.
- k. Five Board members participated in the November meeting of the FASB's Small Business Advisory Committee.
- l. Various staff attended three AcSEC meetings.
- m. The Board met in public meetings with representatives of the following organizations and discussed matters of mutual interest:
1. CFA Institute
 2. AICPA PCPS Technical Issues Committee
 3. Institute of Management Accountants
 4. National Investor Relations Institute
 5. New York Society of Security Analysts
 6. American Bar Association.
- n. The Board, seven IASB Board members, the TA&I director, and staff participated in an insurance industry roundtable discussing current FASB projects affecting the industry. Representatives from industry trade organizations (11), insurance analysts (2), and the AICPA (2) presented their views and concerns to both Boards.
- o. Public roundtables were held jointly with the IASB (2 in Norwalk on October 27, 2005, and 3 in London on November 9, 2005) on the Boards' exposure

drafts on applying the acquisition method and accounting for noncontrolling interests.

- p. The chairman, one Board member, and the TA&I director met with the professional practice partners of the Big Four public accounting firms to enhance their communication and discuss professional developments.
- q. The chairman, two Board members, and staff met with representatives from NASBA (National Association of State Boards of Accountancy) to discuss the issue of GAAP for private companies.
- r. Two Board members, the TA&I director, and staff met with representatives of the financial guarantee industry to discuss an industry proposed loss reserving model in relation to the Financial Guarantee Loss Reserving project. The industry representatives also presented several other issues currently being discussed within the industry for consideration.
- s. One Board member and TA&I director met with representatives from the SEC, the PCAOB, and Banking Regulators to discuss issues related to the application of Statement 140 with respect to the impact of servicer's discretion on the status of a qualifying SPE.
- t. Two Board members, five IASB Board members, and staff attended a dinner sponsored by the American Council of Life Insurers and attended by several senior executives of its member companies.
- u. One Board member, the TA&I director, and staff met with representatives of Benfield Company to discuss testing risk transfer in finite risk contracts.
- v. The TA&I director and staff met with representatives of the Appraisal Industry Task Force (AITF) Sub-Committee to discuss that group's concerns about the need for implementation guidance related to estimating fair value.
- w. The TA&I director and staff held a 123R Group Meeting to discuss implementation issues.
- x. Two staff members participated in a teleconference with representatives of the Reinsurance Association of America's Accounting Committee to discuss the FASB's insurance risk transfer project.
- y. Six staff members held a teleconference meeting with members of the Basel Committee Accounting Task Force on the Conceptual Framework project.
- z. Five staff members and members of the CFA Institute held a teleconference meeting to discuss the objectives of financial reporting.

- aa. Three staff members attended a meeting with the AITF to discuss the Business Combinations Exposure Draft.
- bb. Two staff members participated in a conference call with the Interfirm FV Committee (ad hoc group of national valuation representatives of the Big 4 public accounting firms) to discuss valuation issues and a white paper “Arguments on Applying Contributory Asset Charge for Going Concern When Valuing an Intangible Asset under an Excess Earnings Approach.”

INTERNATIONAL ACTIVITIES

- a. The Board, senior staff, FASB staff monitoring IASB projects, and the IASB liaison Board member met after each IASB meeting to discuss IASB agenda and research projects with a focus on recent decisions by the IASB and areas of potential divergence.
- b. The Board and staff continue to work closely with the IASB and staff on their joint projects on purchase method procedures, revenue recognition, performance reporting, conceptual framework, short-term convergence, and liabilities and equity (modified joint). FASB staff members participated in several IASB Board meetings related to the joint revenue recognition, performance reporting, and conceptual framework projects. For joint projects, the FASB staff generally participates in IASB meetings by video conference or telephone. The IASB staff participates in FASB meetings by phone.
- c. The IASB and FASB held a joint meeting in Norwalk and discussed the following projects: revenue recognition, performance reporting, short-term convergence (income taxes), and conceptual framework.
- d. Two Board members and a staff member participated in the acquisition method and accounting for noncontrolling interests roundtables in London, while the chairman, two Board members, and the MP&T director participated from Norwalk by video conference.
- e. The chairman, three Board members, and the MP&T director met with representatives from the IASB to discuss the Boards’ approaches to the international convergence program.
- f. A Board member and staff member attended the Insurance Working Group meeting in London to discuss accounting issues related to the IASB’s Insurance Contracts, Phase II project.
- g. A Board member attended the KPMG/IASB Conference in Berlin.
- h. The chairman and a Board member attended the World Standards Setters meeting in London.

- i. The chairman participated in “Meet the Experts” (hosted by the IASB & PwC) in London to update representatives from approximately 600 European companies on U.S. and international developments.
- j. The chairman and the FAF chairman attended the IASC Foundation meeting in New York.
- k. Staff members participated in the Financial Instruments Working Group meeting held in London. Matters discussed included derecognition and fair value.

OTHER ACTIVITIES

- a. The following professional development sessions were presented to the Board and staff:
 - 1. FASB staff members Stefanie Tamulis, Jenni Sullivan, Vickie Lusniak, Jeff Johnson, Donald Thomas, Stuart Moss, Jeffrey Cropsey, Liz Figgie, Pat Donoghue, Brooke Richards, Bob Wilkins, and Linda MacDonald provided project updates on recent developments in various FASB Board projects.
 - 2. Mike Tovey, FASB project manager, led a second session on Statement 123 (R). The session took the content of the first session into practice by using case studies to hone participants’ ability to identify share-based payment arrangements and account for such arrangements.
 - 3. FASB Board members, FASB staff, and others presented at the FASB Fellow Alumni Forum and Accounting Update. The topics included the following: (a) Standard Setting from the FASB’s Perspective, (b) IASB Update and International Convergence, (c) Activities of the PCAOB, (d) SEC Developments, (e) Technical Application and Implementation Activities Update, (f) Panel on Issues Facing the Accounting Industry, and (g) New Board Members.
 - 4. FASB practice fellows James Geary, Reggie Oakley, Susan Cosper, Paul Beswick, and Amie Thuener updated the staff on EITF Issues 04-13, 05-1, 05-7, 05-8, 05-4, and 05-6.
 - 5. Douglas Carmichael, chief auditor of the Public Company Accounting Oversight Board; Keith Wilson, associate chief auditor, PCAOB; and Greg Fletcher, assistant chief auditor, PCAOB, discussed the PCAOB’s standard-setting philosophy and process, current and future standard-setting activities, and the effect of the Sarbanes-Oxley Act on auditing and corporate governance.
 - 6. Wilson Campbell, GASB project manager; Jay Fountain, GASB consultant, and others provided a comprehensive update on GASB Service Efforts and Accomplishments (SEA) reporting by governments.
 - 7. The Conceptual Framework project team led two professional development sessions. Kevin McBeth, FASB project manager, led a discussion on the

Invitation to Comment, *Selected Issues Relating to Assets and Liabilities with Uncertainties*. Halsey Bullen, FASB senior project manager, led a discussion about assessing benefits and costs of accounting standards.

8. Steven P. Merriett, supervisory financial analyst, Federal Reserve Board Division of Banking Supervision and Regulation, led a session in which he provided (a) an overview of the Fed's Banking Supervision and Regulation mission and organization and (b) an introduction to the motivators driving the Fed's position on accounting issues.
 9. Don Young, FASB Board member, discussed his perspective of the goals and challenges of the FASB.
 10. Garrett Stauffer and Jim Lee, PricewaterhouseCoopers LLP, discussed the lessons learned from implementing the Sarbanes-Oxley Act of 2002 and how companies and accounting firms are adapting to the new internal control reporting standards issued by the PCAOB.
- b. Four staff members attended the FEI Current Financial Reporting Conference in New York.
 - c. Several staff members attended the AICPA/SEC Conference in Washington, D.C.

ITEM 2: ADMINISTRATIVE AND STRATEGIC ACTIVITIES

- a. In advance of updating the Technical Plan table as of October 1, the Board and staff participated in an administrative meeting to discuss planned activities and due process documents for each agenda project as well as the Board's priorities for the fourth quarter of 2005 and the first quarter of 2006.
- b. The chairman, one Board member, two directors, a senior staff member, two members of the codification team, and the FAF president participated in a meeting with several members of the SEC staff to discuss XBRL taxonomy development.
- c. The Board and senior staff participated in strategic planning meetings to discuss the FASB's "strategic positioning" in relation to international convergence and other key issues and challenges and to discuss the FASB's role in setting valuation standards.
- d. The Board and staff directors participated in three administrative meetings to discuss various operating and process issues.
- e. New staff members participated in training sessions covering the following topics: processes and procedures, effective writing, project planning and communications, and staffing issues.
- f. Staff members attended seminars on management skills and public speaking.

- g. The chairman, four Board members, and two staff directors attended an FAF Trustees meeting in Norwalk.
- h. The chairman and PD&S director participated in an FAF Trustee's Finance Committee meeting and a Trustee's conference call to discuss the FAF's budget.

ITEM 3: WASHINGTON ACTIVITIES

- a. The chairman, the president of the Financial Accounting Foundation, a Board member, and a staff member met in several meetings with various Members of Congress, governmental officials, and representatives of a Washington, DC-based association and institute, to discuss the role of the FAF and the FASB, the project on postretirement benefit obligations including pensions, and other matters of mutual interest.
- b. A staff member met with representatives of a number of associations, staff to Members of Congress, Congressional committees, government agencies, and other entities and organizations to discuss current FASB activities and other issues.
- c. Two Board members, the technical directors, and staff held their quarterly meeting with the SEC and the PCAOB to discuss current issues.
- d. Two Board members, the technical directors, and staff held their quarterly meeting with financial institution regulators to discuss current issues.

ITEM 4: SPEECHES DELIVERED

Principal platforms addressed by the Board and staff members during the September 2005 and January 2006 period include:

- - American Institute of Certified Public Accountants
- - Asia Pacific Conference
- - Association of Financial Professionals
- - Bank Administration Institute
- - Barclays Capital
- - Boston Security Analysts Society
- - Case Western Reserve University
- - CFO Summit
- - Colorado Society of Certified Public Accountants
- - Committee on Bank Accounting and Reporting
- - Construction Financial Management Association
- - Equipment Leasing Association
- - Financial Executives International
- - Florida Institute of Certified Public Accountants
- - Georgia State University

- - International Association of Accounting Education and Research
- - KPMG
- - Massachusetts Institute of Technology
- - Missouri Society of Certified Public Accountants
- - National Association for Stock Plan Professionals
- - National Association of Regulatory Utility Commissioners
- - National Investor Relations Institute
- - New York Society of Security Analysts
- - North Carolina Association of Certified Public Accountants
- - Oklahoma State University
- - Practicing Law Institute
- - PricewaterhouseCoopers
- - Puerto Rico Certified Public Accountants Society
- - Securities Industry Association
- - New York Society of Actuaries
- - Texas Society of Certified Public Accountants
- - The Accounting Hall of Fame
- - The Associated General Contractors of America
- - The Center for Corporate Reporting and Governance
- - University of California
- - University of Manchester
- - Utah State University
- - Virginia Tech
- - Washington Society of Certified Public Accountants

ITEM 5: ADDITIONAL COMMUNICATIONS ACTIVITIES

- a. The FASB, through the Communications Department, issued four press releases this period for the following: an FASB Exposure Draft on fair value option, the addition of a comprehensive project to reconsider accounting for pensions and other postemployment benefits, an FASB revised proposal to improve reporting of earnings per share and enhance comparability in cross-border financial reporting, and the launch of the Investor Task Force.
- b. Media inquiries and outreach focused on all of these subjects with our pensions and other postemployment benefits project drawing significant interest. Other issues covered extensively by the media during the period were stock option accounting, complexity, and financial performance reporting.
- c. In anticipation of both reporter demands as well as in line with our strategy to be proactive on the media relations front, the FASB hosted a formal press roundtable in conjunction with our pension and OPEB agenda decision. Toward this end, the communications team hosted on site

reporters from the *Wall Street Journal*, *The New York Times*, *Associated Press*, *Bloomberg News*, *Washington Post*, *Reuters*, and others.

- d. As part of our commitment to inform and educate reporters about our mission and role in the capital markets, Ed Trott was selected to participate in Columbia University's Knight-Bagehot Fellowship Dinner. The event provided a forum for leading reporters to share their views of the FASB and ask questions about the Board, its process, mission, and projects.
- e. Five issues of *The FASB Report*, the FASB's monthly newsletter, were produced and distributed. Topics included the appointment of Bob DeSantis, the project on Uncertain Tax Positions, the comprehensive project to reconsider accounting for pensions and other postretirement benefits, the Investor Task Force, and complexity.
- f. In conjunction with the Communications Department, a visit was conducted for a group from the University of New Hampshire who observed an FASB meeting and had a post meeting Q & A with an FASB postgraduate technical assistant.

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 the staff 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 draft to the GASB for review:
 - FASB Revised Exposure Draft, *Earnings per Share*
 - FASB Exposure Draft, *The Fair Value Option for Certain Financial Assets and Financial Liabilities*
 - FASB Statement No. 155, *Accounting for Certain Hybrid Financial Instruments*
 - FASB Statement No. 15X, *Accounting for Servicing of Financial Assets*
- e. The FASB staff received the following GASB drafts for review:
 - GASB Exposure Draft, *Sales and Pledges of Receivables and Future Revenues*
 - Implementation Guide to GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*
 - GASB Exposure Draft, *Accounting for Financial Reporting for Pollution Remediation Obligations*

- f. At the request of the GASB chairman, the chairman and one Board member reviewed and provided comments on a paper on the differences between governmental accounting standards and private-sector accounting standards.