

REPORT OF THE CHAIRMAN OF THE FASB
TO THE FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL
July 1 through October 31, 2004

ITEM 1: TECHNICAL ACTIVITIES

BOARD AND STAFF ACTIVITIES

- a. A “Summary of FASB Tentative Decisions on Business Combinations,” was posted to the FASB website in August. That summary reflects Board decisions on its business combinations project through July 27, 2004, and is in a format similar to a proposed Statement; in this case, FASB Statement No. 141, *Business Combinations*, as it would be amended by the decisions reached in the current business combinations project.
- b. A “Summary of FASB Tentative Decisions on Noncontrolling Interests,” a separate phase of the Board’s business combinations project, was also posted to the website in August. Those decisions also are provided in a format similar to a proposed Statement; in this case, a proposed Statement that would replace Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements*. (That proposed Statement would codify the existing requirements of ARB 51 and FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries*, as they would be amended by the decisions reached in this project.)
- c. On July 27, 2004, the Board considered whether to direct the staff to issue a proposed FASB Staff Position (FSP) related to the application of FASB Statement No. 109, *Accounting for Income Taxes*, to uncertain tax positions. Instead of directing the staff to issue a proposed FSP, the Board decided to add a project to its agenda and directed the staff to prepare a proposed Interpretation.
- d. On September 21, 2004, the Board held a roundtable meeting relating to the June 2004, FASB Exposure Draft, *Fair Value Measurements*.
- e. The Board held approximately 46 separate sessions on 17 dates to deliberate technical issues for 19 agenda projects or possible agenda projects.
- f. The Board held an informational Board meeting with representatives from Genentech, Qualcomm, Cisco Systems, and Latham & Watkins to discuss stock option valuation issues.
- g. The following FSPs were posted to the FASB website:
 1. FSP FAS 142-2, “Application of FASB Statement No. 142, *Goodwill and Other Intangible Assets*, to Oil- and Gas-Producing Entities” (September 2,

2004). The proposed FSP FAS 142-b was posted to the website on July 19, 2004, and comments were requested by August 17, 2004.

2. Proposed FSP FAS 140-b, “Application of EITF Issue No. 85-24, ‘Distribution Fees by Distributors of Mutual Funds That Do Not Have a Front-End Sales Charge,’ When Future Distribution Fees Are Sold to Unrelated Third Parties” (August 3, 2004). Comments were requested by September 2, 2004.
 3. Proposed FSP FAS 142-c, “Application of FASB Statement No. 142, *Goodwill and Other Intangible Assets*, to Exchange Memberships” (July 21, 2004). Comments were requested by August 20, 2004. On September 8, the Board decided it disagreed with the guidance in the proposed FSP and directed the staff to not post FSP FAS 142-c to the website as final.
 4. Proposed FSP EITF Issue 03-1-a, “Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, ‘The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments’” (September 15, 2004). Comments were requested by October 29, 2004.
 5. FSP EITF 03-1-1—Effective Date of Paragraphs 10–20 of EITF Issue No. 03-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments” (September 30, 2004). The proposed FSP EITF Issue 03-1-b was posted to the website on September 15, 2004, and comments were requested by September 29, 2004.
- h. All Board members participated in the September meeting of the Emerging Issues Task Force (EITF).
 - i. At the October 13, 2004 Board meeting, the Board ratified the consensus reached at the September 29-30, 2004 EITF meeting on EITF Issues 04-1, 04-8, and 04-10.
 - j. At the October 13, 2004 Board meeting, the staff indicated that it would be bringing EITF Issues 03-9, 04-9, and 04-E, which the Task Force removed from its agenda, to the Board at a future Board meeting.
 - k. On October 15, 2004, the Board met with representatives of several insurance industry representational organizations (the FASB Insurance Industry Forum). One of the issues discussed was EITF Issue 03-1.
 - l. The Board met in a public meeting with representatives of the following organizations and discussed matters of mutual interest:
 1. Edison Electric Institute

2. Financial Institutions Accounting Committee of the Financial Managers Society
 3. The New York Society of Security Analysts
 4. American Gas Association
 5. AICPA Private Companies Practice Section Technical Issues Committee.
- m. Board members and staff participated in one or more of eight field visits to consider costs and benefits of certain decisions reached in the projects on business combinations and accounting for noncontrolling interests.
 - n. Board members and staff participated in closed meetings with GE and Citigroup (each attended by 2 FASB Board members and 1 IASB Board member, as well as various FASB/IASB staff members) to discuss the measurement of deferred taxes on unremitted earnings of foreign subsidiaries (an issue in the short-term tax convergence project).
 - o. Two Board members and the MP&T director met with representatives of Morgan Stanley to discuss stock options.
 - p. Three Board members and staff met with representatives of Morgan Stanley to discuss Modelware, a propriety system that will be used by analysts to assist them in performing meaningful comparative analysis of financial information. The Board and staff discussed how this system may be useful in understanding how analysts use financial information, which may be helpful to the FASB/IASB's financial performance reporting project.
 - q. Three Board members and staff met with the FEI Committee on Corporate Reporting FASB liaison group to discuss current developments on several of the projects on the Board's agenda.
 - r. One Board member participated in a quarterly meeting of the FEI's Committee on Corporate Reporting.
 - s. One Board member participated in a quarterly meeting of the Technical Issues Committee of the AICPA Private Companies Practice Section.
 - t. One Board member participated in a quarterly meeting of the PCAOB's Standing Advisory Group.
 - u. One Board member, the TA&I director, and staff met with representatives from investment companies to discuss a proposed FSP on the application of Statement 140 to sales of distributor fees.
 - v. Three Board members, the TA&I director, and several staff members met with representatives of the International Swaps and Derivatives Association (ISDA) to

- discuss the beneficial interests project with particular focus on evaluating cash flows for the purposes of identifying and bifurcating embedded derivatives.
- w. The chairman and a staff member met with representatives of the AICPA's Enhanced Business Reporting Consortium (EBR) to discuss ways in which the FASB can assist EBR in targeting members for the consortium. They also discussed how the FASB's current projects on reporting financial performance and codification dovetail with EBR's simplification project. It was determined that the FASB would continue to supply an observer for the simplification project.
 - x. A staff member met with the AICPA EBR Simplification Director to discuss the details of what the project would entail as well as to gather feedback from the FASB regarding the scope and direction of the project. The first meeting of the Simplification Group will be held on November 10, 2004, in NYC.
 - y. A staff member attended the quarterly meeting of the AITF to discuss fair value measurement, business combinations, and employee stock options issues. Observers from the SEC and PCAOB were also present.
 - z. The chairman, one Board member, and staff met with representatives from the Center for Excellence in Accounting and Security Analysis (CEASA) to discuss their proposed approach in accounting for claims whose payoffs depend on the performance of a entity's stock price, for example, warrants, convertible bonds, and compensation options.
 - aa. The chairman, one Board member, the director of MP&T, and several FASB staff members met with representatives of the National Venture Capital Association to discuss the accounting for share-based payment arrangements by nonpublic companies.
 - bb. The chairman, two Board members, six IASB members, and a staff member met with some ACLI member company executives and ACLI staff to discuss financial reporting and standard-setting issues concerning the life insurance industry.
 - cc. The TA&I director and various staff attended three AcSEC meetings.
 - dd. The TA&I director and various staff participated in closed meetings of EITF working groups.

INTERNATIONAL ACTIVITIES

- a. The chairman and PD&S director met with representatives of the Chinese Ministry of Finance to discuss matters of mutual interest.
- b. A Board member and the MP&T director attended the National Standards Setters meeting in London.

- c. The chairman, a Board member, and the MP&T director met with the two IASB Board members and SEC staff members to discuss issues relating to international convergence.
- d. One Board member, the MP&T director, and the PD&S director met with a professor from Columbia University to discuss international convergence.
- e. 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.
- f. 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, and short-term convergence. 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.
- g. A staff member attended an IASB Insurance Working Group meeting in London. The subject of the meeting was the IASB's Insurance Contracts, Phase II Project.
- h. A staff member attended the IASB Financial Instruments Working Group meeting in London. The purpose of this meeting was to help the IASB analyze accounting issues relating to financial instruments.
- i. The chairman met with the European Commission Director and two associates to discuss international convergence of accounting standards.
- j. The IASB and FASB held a joint meeting in Norwalk and decided to add to their technical agendas a joint project to develop a common conceptual framework that will be based on and build on their existing frameworks. The Boards also discussed their short-term convergence (income taxes) project, their revenue recognition project, and administrative procedures between the two Boards. Representatives of the CFA Institute discussed their draft paper, "A Comprehensive Business Reporting Model," at that joint meeting. The Boards also met in a joint administrative session to discuss ways in which to improve the management of joint projects.
- k. Various members of the FASB and IASB staff met informally to discuss the similarities and difference in the due process procedures of the two Boards.

OTHER ACTIVITIES

- a. The following professional development sessions were presented to the Board and staff:
1. Wayne Borkowski, Borkowski & Associates, Inc., discussed the impact of FASB standards on preparers, auditors, and users of financial statements.
 2. Jeremy Bulow, Stanford University, and Richard A. Stepp, Professor of Economics, GSB Trust Faculty Fellow 2003–2004, discussed valuing employee stock options.
 3. Jim Leisenring, IASB Board member, provided an IASB update.
 4. Buddy Pizsel, Senior Vice President and Controller, Prudential; Eric Berg, Lehman Brothers; and Brian Meredith, Bank of America, gave the Board and staff an analyst’s perspective on financial statements issued by insurance companies.
 5. Cheri Mazza, Associate Professor, Fordham University, and Jim Hunton, Trustee Professor of Accounting, Bentley College, discussed their Working Paper, “Financial Reporting Transparency and Earnings Management.”
 6. Linda MacDonald, Project Manager; Lisa Munro, Practice Fellow; Stefanie Tamulis, Assistant Project Manager; Amie Thuener, Practice Fellow; Danielle Zeyher, Project Manager; Brooke Richards, Assistant Project Manager, Jenni Sullivan; Project Manager; Jeff Johnson, Project Manager; Pat Donoghue, Project Manager; Eric Smith, Practice Fellow; Paul Laurenzano, Practice Fellow; Bob Wilkins, Senior Project Manager; Randall Sogoloff, Practice Fellow; and Gerard O’Callaghan, Practice Fellow, updated the staff on the following current FASB projects: revenue recognition, business combinations, fair value measurements, performance reporting, liability and equity, short-term convergence, Statement 140—related projects, equity-based compensation, Statement 143 Interpretation, and Statement 87 Interpretation/Amendment of Statement 35.
 7. Kevin McBride, Randall Sogoloff, Christopher Larson, Lisa Munro, Gerard O’Callaghan, Paul Laurenzano, and Landon Westerlund, FASB Fellows, gave an update on various EITF issues.
 8. Jennifer Moriarty, FASB Practice Fellow, Campbell Pryde, KPMG, Jeff Naumann, AICPA; and Louis Matherne, AICPA; also attending but not instructing: Mike Willis, PwC; Paul Penler, E&Y; and Yosef Newman, D&T; gave a presentation on Taxonomy Development Activities Relating to XBRL.
 9. Paul Pacter, Director of Standards for SMEs, IASB; Director, Global IFRS Office, Deloitte Touche Tohmatsu, Hong Kong, gave a presentation on the Need for Global Accounting Standards and the IASB Preliminary Views Document on Accounting Standards for Small and Medium-Sized Entities (SMEs).

- b. A staff member attended a two-day training seminar on income taxes.
- c. A staff member participated in an XBRL International Domain Working Group meeting in London.
- d. A staff member and the PD&S director attended an XBRL meeting in New York on US GAAP taxonomy development.

ITEM 2: ADMINISTRATIVE AND STRATEGIC ACTIVITIES

- a. The Board, the TA&I director, and a staff member attended an FAF Finance Committee meeting.
- b. The Board and the TA&I director attended an FAF Trustees meeting.
- c. Various Board members, staff directors, and certain project teams met to discuss the project plans for six agenda projects.
- d. The Board and staff directors met to discuss the Board's technical agenda and its priorities for October 2004 through March 2005.
- e. The chairman, one Board member, and the TA&I director met with Barry Melancon and other representatives of the AICPA to discuss our codification project and the implications of it in terms of using AICPA literature as well as our general operating procedures in working with the AICPA.
- f. One Board member, two staff directors, and two staff members met with consultants to discuss possible changes to the style/format of FASB pronouncements.
- g. Various staff participated in a series of training sessions for new staff members.
- h. A staff member attended a two-day training session on Microsoft Project 2002. We held informal training sessions with various staff on the Enterprise features of MS Project 2002.

ITEM 3: WASHINGTON ACTIVITIES

- a. The chairman, a Board member, and a staff member met with several Members of Congress and staff to discuss current FASB activities.
- b. The chairman, a Board member, the TA&I director, the MP&T director, and a staff member met with the SEC staff to discuss current FASB activities.
- c. The chairman, one Board member, and the TA&I director met with the SEC staff and bank regulators on EITF Issue 03-01.

- d. 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.
- e. The chairman, a Board member, the TA&I director, the MP&T director, and a staff member held their quarterly meeting with the staff of the Banking Regulatory Agencies to discuss current issues.
- f. The TA&I director and the codification consultant met with the SEC staff to review our plans for the project to help the SEC prepare for activities it must perform relative to the codification.

ITEM 4: SPEECHES DELIVERED

Principal platforms addressed by the Board and staff members during the July to October period included:

- AcPen Network Satellite Broadcast/Business Professionals Network
- AICPA National Accounting and Auditing Technical Symposium
- American Accounting Association
- American Gas Association
- Ball State University
- Baruch College
- Canadian Institute of Chartered Accountants
- Columbia University
- Committee on Bank Accounting and Reporting
- Equipment Leasing Association
- Financial Executives International
- Florida Institute of CPAs
- Georgia State University
- Grand Contractors Association
- HDR, Inc
- Institutional Investor
- Investment Management Institute
- KPMG
- Midwest Financial Reporting Symposium
- National Economic Research Association
- National Society of Accountants for Cooperatives
- New York University
- NYSE
- Practicing Law Institute
- PricewaterhouseCoopers
- Society of Insurance Financial Management
- United States Department of Agriculture
- University of Dayton
- University of Rochester

- - University of Tennessee
- - University of Texas
- - Virginia Tech

ITEM 5: ADDITIONAL PUBLIC RELATIONS ACTIVITIES

- a. Media inquiries focused on three main areas: stock options expensing, contingent convertible bonds, and fair value measurement.
- b. As anticipated, the majority of the media interest has continued to be in connection with the Board's project on equity-based compensation. Most of the coverage has been focused around the redeliberations of the Exposure Draft, *Share-Based Payment*. Since the open comment period for this project ended on June 31, 2004, the press has shown a great interest in where the Board will go next with this project. Many reporters have also shown great interest in the Board's response and reaction to the Congressional bill on *The Stock Option Reform Act*, which was passed by the House on July 20, 2004, in an attempt to block the FASB's effort to expense for stock options.
- c. The FASB continued its frequent contact with the major press including the *Wall Street Journal*, *New York Times*, *Financial Times*, *Washington Post*, and *CFO Magazine*.
- d. Three staff members received media training through the Public Relations Department and Franchetti Communications. In the half-day program, the staff learned how to more effectively identify and communicate their message to the media.
- e. In conjunction with the Public Relations Department, visits were conducted including (1) a group from PricewaterhouseCoopers Japan, who observed a Board meeting and received a post meeting briefing from the chairman, and (2) a professor of accounting from Ritsumeikan Asia Pacific University, Japan, who observed a Board meeting and met individually with two Board members.

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 drafts to the GASB for review:

- FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*
- FASB Exposure Draft, Accounting for Real Estate Time-Sharing Transactions
- FASB Statement No. 15X, *Inventory Costs*
- FASB Statement No. 123 (revised December 2004), *Share-Based Payment*