

## THE **FASB** REPORT

**Technical Plan—April 1, 2005 through September 30, 2005**

### Highlights of the First Quarter of 2005

#### Document Posted to Website

FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (March 2005).

#### Agenda Decisions

**Derivatives Disclosures.** On March 9, the Board decided to add a project to its technical agenda to reconsider the disclosure requirements of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. Various constituents have expressed criticism that Statement 133 lacks transparent disclosures that allow a user of financial statements to assess the overall risk of derivatives on a reporting entity from both a quantitative and a qualitative perspective. This project will consider enhanced disclosures, which will include a reconsideration of the usefulness of the existing disclosure requirements. The Board instructed the staff to consider whether the scope of the project should be expanded to include financial instruments that are not within the scope of Statement 133 (see page 10).

**Contingent Environmental Liabilities.** Also on March 9, the Board decided not to add a project to its agenda that would reconsider the accounting and reporting for contingent environmental liabilities. The Board specifically considered whether contingent environmental liabilities that meet the recognition criteria in paragraph 8 of FASB Statement No. 5, *Accounting for Contingencies*, should be recognized at expected value. In declining this request the Board indicated that it did not intend to reconsider Statement 5 and FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss*, solely in the context of environmental liabilities. The request also raised a question as to whether contingent environmental liabilities of a similar nature should be aggregated for purposes of assessing materiality. The Board indicated that it believes the current accounting literature addresses this concern.

**Equity-Based Compensation.** On March 30, the Board decided to defer work on the second phase of its project on share-based payment until such time as it completes (or makes substantial progress toward completing) its project on *Financial Instruments: Liabilities and Equity* (see page 5).

#### Posted FASB Staff Positions (FSPs)

1. Final FSP FIN 46(R)-5, “Implicit Variable Interests under FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*” (March 3, 2005).
2. Final FSP EITF 85-24-1, “Application of EITF Issue No. 85-24, ‘Distribution Fees by Distributors of Mutual Funds That Do Not Have a Front-End Sales Charge,’ When Cash for the Right to Future Distribution Fees for Shares Previously Sold Is Received from Third Parties” (March 11, 2005).
3. Proposed FSP FAS 19-a, “Accounting for Suspended Well Costs” (February 4, 2005). Comments were requested by March 7, 2005. (Final FSP FAS 19-1 subsequently was posted to the website on April 4, 2005.)
4. Proposed FSP FAS 131-a, “Determining Whether Operating Segments Have ‘Similar Economic Characteristics’ under Paragraph 17 of FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*” (March 3, 2005). Comments are requested by April 18, 2005.
5. Proposed FSP FAS 143-a, “Accounting for Electronic Equipment Waste Obligations” (March 7, 2005). Comments are requested by April 21, 2005.
6. Proposed FSP APB 18-a, “Accounting by an Investor for Its Proportionate Share of Other Comprehensive Income of an Investee Accounted for under the Equity Method in Accordance with APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, upon a Loss of Significant Influence” (March 11, 2005). Comments are requested by April 25, 2005.
7. Proposed FSP EITF 00-19-a, “Application of EITF Issue No. 00-19, ‘Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock,’ to Freestanding Financial Instruments Originally Issued as Employee Compensation” (March 31, 2005). Comments are requested by April 15, 2005.

*Continued on page 16>*

## Board Projects

As of April 1, 2005

	2005			2006	
	2Q	3Q	4Q	1Q	2Q
<b>MAJOR PROJECTS:</b>					
<b>Business Combinations:</b>					
Purchase Method Procedures (page 3)	<b>E</b>				<b>F</b>
Noncontrolling Interests (page 3)	<b>E</b>				<b>F</b>
Combinations of Not-for-Profit Organizations (page 4)		<b>E</b>			
<b>Conceptual Framework:</b> (page 4)					
Objectives and Qualitative Characteristics	<b>Note 1</b>		<b>I</b>		
Elements, Recognition, Measurement Attributes					
Reporting Entity					
<b>Fair Value Measurements</b> (page 5)		<b>F</b>			
<b>Financial Instruments: Liabilities and Equity</b> (page 5)	<b>MD</b>			<b>I</b>	
<b>Financial Performance Reporting by Business Enterprises</b> (page 6)					
<b>Liability Extinguishment</b> (page 6)					
<b>Revenue Recognition</b> (page 7)					
<b>Short-Term International Convergence:</b> (page 7)					
Accounting Changes and Error Corrections	<b>F</b>				
Earnings per Share	<b>E</b>	<b>F</b>			
Income Taxes		<b>E</b>			
Research and Development					
<b>TECHNICAL APPLICATION AND IMPLEMENTATION PROJECTS:</b>					
<b>Statement 140 Issues:</b>					
Qualifying Special-Purpose Entities and Isolation of Transferred Assets (page 8)		<b>E</b>			<b>F</b>
Beneficial Interests in Securitized Financial Assets (page 8)		<b>E</b>			<b>F</b>
Servicing Rights (page 9)		<b>E</b>			<b>F</b>
<b>Fair Value Option</b> (page 9)		<b>E</b>			
<b>Amendment of Statements 87 and 35</b> (page 10)					
<b>Uncertain Tax Positions</b> (page 10)	<b>E</b>		<b>F</b>		
<b>Derivatives Disclosures</b> (page 10)					
<b>Potential FASB Staff Positions and Other Activities:</b> (pages 10–13)					
Other Comprehensive Income upon the Loss of Significant Influence	<b>F</b>				
Segment Reporting: Similar Economic Characteristics	<b>F</b>				
Electronic Waste Obligations	<b>F</b>				
Suspend Well Costs	<b>F</b>				
Partnerships: Interaction of AICPA SOP 78-9 and EITF Issue 04-5		<b>F</b>			
Employee Compensation: Classification of Freestanding Financial Instruments	<b>F</b>				
Leveraged Leases	<b>E, F</b>				
Stable Value Investments	<b>E</b>	<b>F</b>			
Life Settlements	<b>E</b>	<b>F</b>			
Useful Life Amortization of Intangible Assets	<b>E</b>	<b>F</b>			
Warrants for Redeemable Shares	<b>E</b>	<b>F</b>			
Other-Than-Temporary Impairment					
Insurance Risk Transfer					
Minimum Revenue Guarantees					
Whether an Interest Is a Variable Interest	<b>E</b>	<b>F</b>			
Statement 133 Implementation Issue: Evaluation of Net Settlement					
Statement 133 Implementation Issue: Applicability of Paragraph 13(b)	<b>E</b>	<b>F</b>			
<b>OTHER TECHNICAL ACTIVITIES:</b>					
<b>GAAP Hierarchy</b> (page 15)					
	<b>E</b>	<b>F</b>			

**Note 1:** The IASB and FASB plan to post to their websites in the second quarter of 2005, a staff-authored document that provides constituents with important background information about this significant joint project.

**Codes:** **E** - Exposure Document **F** - Final Document **I** - Initial Due Process Document **MD** - Milestone Draft

## BOARD PROJECTS

*The project summaries in this semiannual technical plan are provided for the information and convenience of constituents who follow the Board's deliberations. The summaries describe the objective of each project, the activities planned for the six-month period ending September 30, 2005, and the expected timing of due process documents. A complete history of each project, including all tentative decisions made to date, is available on the FASB website.*

## MAJOR PROJECTS

### **Business Combinations: Purchase Method Procedures (including Combinations between Mutual Enterprises)**

**Objective.** This project is the second phase of the FASB's overall project on business combinations. In this project the Board plans to revise the existing guidance on the application of the purchase method (developed over 30 years ago) in ways that will improve the completeness, relevance, and comparability of financial information about business combinations that is reported in financial statements. Those improvements will be achieved by:

1. Eliminating existing inconsistencies in the guidance for measuring assets acquired and liabilities assumed in a business combination
2. Developing guidance for determining the assets and liabilities that should be recognized in the initial accounting for the business combination (such as liabilities associated with contingent consideration arrangements and planned exit activities)
3. Determining whether a transaction or event other than a purchase of net assets or equity interests that results in a reporting entity obtaining control over a business should be accounted for by the purchase method
4. Undertaking the project jointly with the IASB with the goal of developing a single high-quality accounting standard that could be used for both cross-border and domestic financial reporting.

The FASB and the IASB (the "Boards") plan to develop Exposure Drafts of their proposed Statements on accounting for business combinations that will differ only in the few instances in which the Boards reach differing conclusions. To enhance the understandability of the Boards' decisions, the Exposure Drafts will be in the form of a comprehensive standard that includes the decisions reached in this phase of the business combinations project and those reached in their separate but earlier projects that led to the issuance of FASB Statement No. 141, *Business Combinations*, and the IASB's IFRS 3, *Business Combinations*.

**Plans for the next six months.** The Boards plan to complete their deliberations in the second quarter and issue their Exposure Drafts. The Boards plan to hold one or more roundtable meetings to discuss its proposal with constituents at or near the close of the comment period and will seek companies willing to participate in such meetings. The staff and Boards also will begin their analysis of comment letters and planning for the redeliberations phase of the project.

**Expected timing of due process document.** The FASB plans to issue an Exposure Draft of a proposed Statement that would replace Statement 141 in June 2005. The FASB's goal is to issue a final Statement for this project in mid-2006.

### **Business Combinations: Noncontrolling Interests**

**Objective.** This project relates to both the Board's project on business combinations and its project on *Financial Instruments: Liabilities and Equity* (see page 5). The Board's objective is to improve the comparability and representational faithfulness of financial information by establishing standards that clarify (1) the classification of noncontrolling (minority) interests in consolidated statements of financial position and (2) accounting for and reporting of transactions between the reporting entity and holders of such noncontrolling interests. The FASB and the IASB decided to address those issues concurrently through deliberations led by a single project team (the business combinations team). Certain Board decisions reached in this project affirm or modify tentative conclusions that the Board proposed and exposed for comment in its October 2000 Exposure Draft, *Accounting for Financial Instruments with Characteristics of Liabilities, Equity, or Both*.

**Plans for the next six months.** The Board plans to expose for public comment its decisions reached relating to the accounting for and reporting of noncontrolling interests by issuing an Exposure Draft of a proposed Statement that would amend and replace ARB No. 51, *Consolidated Financial Statements*, as amended by FASB Statement No. 94, *Consolidation*

*Continued on page 4>*

of *All Majority-Owned Subsidiaries*. The Boards plan to discuss that proposal with interested constituents in roundtable meetings on business combinations. The Board and staff will begin the process of analyzing the comment letters received and developing a plan for redeliberations.

**Expected timing of due process document.** The Board plans to issue an Exposure Draft of the proposed replacement of ARB 51 in June 2005. That Exposure Draft will be issued concurrently with the Exposure Draft of the proposed replacement of Statement 141. The Board's goal is to issue a final Statement for this project in mid-2006.

## **Business Combinations: Combinations of Not-for-Profit Organizations**

**Objective.** This project is another phase of the Board's overall project on business combinations. The Board's objective is to develop standards of accounting and reporting for the acquisition of another entity by a not-for-profit (NFP) organization. In developing that standard, the Board expects to improve the completeness, relevance, and comparability of financial information about such acquisitions reported in the financial statements of NFP organizations. For example, the Board plans to address the perceived noncomparability that results from existing accounting standards that permit economically similar combinations to be accounted for using different methods (pooling-of-interests method or purchase method) that produce dramatically different financial information. In addition, this project will provide guidance that assists NFP organizations in the application of FASB Statement No. 142, *Goodwill and Other Intangible Assets*, and the proposed Statement on accounting and reporting of noncontrolling interests in consolidated subsidiaries.

At the inception of this project, the Board affirmed its longstanding view that similar transactions and circumstances should be accounted for similarly. The Board concluded that acquisitions by NFP organizations are similar in many respects to acquisitions made by business enterprises. Thus, the overall approach in this project is to presume that the standards in Statement 141 (as they would be amended by the *Business Combinations: Purchase Method Procedures* project), should be applied in accounting for acquisitions by NFP organizations unless a difference is identified that justifies a different accounting treatment.

**Plans for the next six months.** In the second quarter of 2005, the Board plans to complete deliberations and begin drafting the Exposure Draft of a proposed Statement. The remaining issues to be considered include disclosures and certain matters relating to fair value measurement.

**Expected timing of due process document.** The Board plans to issue an Exposure Draft in the third quarter of 2005, following issuance of its Exposure Draft of a proposed Statement to replace Statement 141 (see page 3).

## **Conceptual Framework**

**Objective.** The FASB's objective in undertaking this joint project with the IASB is to develop a common conceptual framework that both converges and improves on the Boards' existing frameworks. The FASB and the IASB—and their constituents—need that improved framework to provide a sound foundation for developing future accounting standards. That is an essential step in fulfilling the Board's goal of developing standards that are more principles-based, internally consistent, internationally converged, and that lead to financial reporting that provides the information needed for investment, credit, and similar decisions.

**Plans for the next six months.** The Boards plan to provide their constituents with important background information about this significant joint agenda project. They plan to communicate why the two Boards need a framework, how their existing frameworks fill part but not all of that need, the aspects of the frameworks that the Boards aim to update and complete, and the overall plan for the project that will lead to tomorrow's improved framework.

The Boards will begin deliberation of conceptual issues at their April 2005 joint meeting in London, England. Meetings held during the next six months will focus primarily on the objectives of financial statements and financial reporting and qualitative characteristics of accounting information. In the present FASB framework, those concepts are addressed in FASB Concepts Statements No. 1, *Objectives of Financial Reporting by Business Enterprises*, and No. 2, *Qualitative Characteristics of Accounting Information*. Similar concepts are included in the IASB's present *Framework* and the frameworks of several other national standards setters. The FASB and IASB frameworks both establish the principal objective for financial statements as being, in general terms, to provide information useful to a wide range of external parties in making investment, credit, and similar decisions. Both frameworks discuss *understandability*, *relevance*, *reliability*, *comparability*, and other qualities needed for accounting information to be useful. But the discussions of those objectives and qualitative characteristics differ in some respects.

Later in 2005, the Boards expect their focus to turn to the elements of financial statements, criteria for recognizing and derecognizing items that meet the definition of an element, and clarifying the various possible attributes for measuring recognized items. Those concepts are addressed in FASB Concepts

Statements No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*, and No. 6, *Elements of Financial Statements*, as well as in the *IASB Framework* and the frameworks of several other national standards setters. The Boards anticipate that changes may be needed in the definitions of elements, in recognition and derecognition criteria, and in defining measurement attributes. The staff plans to conduct preliminary research on those concepts during the next six months.

Beginning in mid-2005, the FASB staff will begin fundamental research on the concept of the reporting entity, which may have ramifications for elements, recognition, and measurement. The present FASB framework lacks a concept of reporting entity, and the present *IASB Framework* only discusses it very briefly.

**Expected timing of due process documents.** Because this project is at a very early stage, the Boards have made only tentative decisions about the nature and timing of the due process documents they expect to issue. If the Boards agree on objectives and qualitative characteristics that are similar to their present concepts, they plan to issue an initial due process document, perhaps in the form of an Exposure Draft, toward the end of 2005. The initial due process documents for the next phases are not expected until 2006 or later, and are more likely to be in the form of initial discussion documents, such as a Preliminary Views document.

## Fair Value Measurements

**Objective.** The overall objective of this project is to develop a framework for the fair value measurements required under other accounting pronouncements. The Statement that results from this project will focus on the definition of fair value and how to measure it. It also will expand and improve the disclosures about fair value measurements required in the notes to financial statements. The Statement will not determine what to measure at fair value—the Board will continue to make those decisions on a project-by-project basis.

The Statement developed in this project will codify and improve the guidance that currently exists for developing fair value measurements, thereby improving the consistency and comparability of fair value measures in reported financial information.

**Plans for the next six months and expected timing of due process document.** The Board plans to complete its redeliberations of the Exposure Draft of the proposed Statement on fair value measurements. Remaining issues to be considered include block discounts, disclosure requirements, scope, transition, and effective date. The Board plans to issue a final Statement in the third quarter of 2005.

## Financial Instruments: Liabilities and Equity

**Objective.** This project is one part of the Board's broader initiatives to improve the accounting for financial instruments. The objective is to develop a comprehensive standard of accounting for and the reporting of financial instruments with characteristics of equity and of liabilities, assets, or both. Such a standard will improve financial reporting by providing a more complete and representational faithful depiction of those financial instruments in the statement of financial position. The improved classification, measurement, and presentation guidance provided by this standard, when combined with required disclosures in notes to financial statements, is intended to provide users of financial statements with decision-useful information about an entity's obligations to transfer assets or issue shares.

Consistent with the FASB's broader convergence goals, the Board will use this project to further convergence with accounting standards developed by the IASB. Presently, the FASB and the IASB plan to conduct this project under a "modified joint approach." Under that approach, the initial due process document issued by the FASB will be in the form of a Preliminary Views document. That document will be concurrently published by the IASB for comment by its constituents. The Boards plan to use the input received on those initial due process documents as the basis for a joint project to develop a common standard of accounting and reporting. In that joint project, the Boards would jointly deliberate and develop a proposed statement of financial accounting and reporting, to be followed by joint redeliberations and development of a common final Statement.

**Plans for the next six months.** In the first quarter of 2005, the Board substantially completed its initial deliberations regarding classification of single component instruments. The staff prepared a summary of those decisions and the basis for them in a format similar to a proposed Statement of financial accounting that the Board refers to as a "milestone draft." The staff plans to post that milestone draft to the FASB website during the second quarter of 2005.

Beginning in April, the FASB will discuss issues relating to classification, measurement, and presentation of both single- and multiple-component financial instruments. In developing those standards, the Board will consider the related implications for the conceptual definitions of equity, liabilities, and assets. Specific issues planned for discussion include:

1. Measurement and presentation of single-component instruments, including whether the classification of such instruments as liabilities or as equity should change subsequent to initial recognition

*Continued on page 6>*

## **Financial Instruments: Liabilities and Equity** *(continued from page 5)*

2. How to distinguish between single-component and multiple-component instruments
3. Classification and measurement of multiple-component instruments, including consideration of the reassessed expected outcome approach, a fundamental-components approach, and minimum-obligation approach, and other possible approaches
4. Whether to establish criteria for linking related instruments.

**Expected timing of due process document.** The Board decided that the initial due process document should be in the form of a Preliminary Views document. The Board's goal is to issue that document in the first quarter of 2006.

## **Financial Performance Reporting by Business Enterprises**

**Objective.** The objective of this joint project with the IASB is to establish standards for the presentation of information in financial statements that improves the usefulness of that information in assessing the financial performance of a business enterprise. Those standards will address:

1. What makes up a complete set of financial statements
2. Whether to require presentation of comparative financial information
3. How financial information should be classified, aggregated, and displayed on the face of the basic financial statements (for both interim and annual periods).

This project will not address management discussion and analysis or the reporting of so-called pro forma earnings in press releases and other communications outside the financial statements. Nor will this project include reconsideration of the current requirements relating to the disclosure of segment information.

To further its goal of promoting convergence of accounting standards used internationally, the FASB is conducting this project jointly with the IASB.

**Plans for the next six months.** Both the FASB and the IASB will consider the specific following issues:

1. What makes up a set of financial statements (in particular, whether to require a statement of changes in equity)
2. Whether to require a single statement of comprehensive income and, if so, whether that statement should require or permit a

subtotal similar to the existing subtotals "net income" (U.S. GAAP) or "profit and loss" (international accounting standards)

3. Whether to require rather than encourage the presentation of comparative financial information.

In addition, the Boards will begin to consider issues relating to the presentation of information on the face of the basic financial statements.

In preparation for future deliberations, representatives of both Boards will discuss issues relating to the classification, aggregation, and display of information on the face of financial statements with members of its Joint International Working Group at a meeting to be held in June 2005, in New York City.

**Expected timing of due process document.** The Boards expect that the initial due process document issued for this project likely will be in the form of a Preliminary Views document. At their joint meeting in April 2005, the Boards expect to make decisions about the form of that document and set a goal for when it should be issued.

## **Liability Extinguishment**

**Objective.** The objective of this project is to consider broadly the criteria for liability extinguishment. In particular, this project will:

1. Support the Board's project on revenue recognition by developing guidance relating to the recognition of performance obligations arising from contracts with customers and the derecognition of performance obligations through either partial or complete performance.
2. Address certain practice questions raised by constituents about the application of the extinguishment guidance in Statement 140 to certain financial instrument transactions. This portion of the project may result in the issuance of interpretive guidance or, possibly, clarifying amendments to Statement 140.
3. Consider whether the liability derecognition guidance in Statement 140 should apply to those liabilities excluded from the scope of that Statement.

**Plans for the next six months.** The Board plans to discuss the accounting recognition of performance obligations arising from contracts with customers, including:

1. The nature of a reporting entity's performance obligations at contract inception, including whether some or all of those obligations should be recognized as liabilities at inception.
2. The types of events and circumstances that change those performance obligations (such as partial or complete performance

by the reporting entity or the counterparty) and how those changes should be recognized in financial statements.

The Board plans to initially discuss those issues in the context of obligations under unilateral contracts (such as firm offers). It will then consider those questions in the context of simple bilateral contracts, that is, “single element” contracts for the provision of goods or services that are fully executory at inception. The Board will then consider issues associated with the accounting recognition of performance obligations in “multiple element” contracts, including those that include post-delivery performance obligations such as return rights or warranties.

**Expected timing of due process document.** The Board has not made a decision about the nature or timing of the initial due process document to result from this project.

## Revenue Recognition

**Objective.** The objective of this project is to develop coherent conceptual guidance for revenue recognition and a comprehensive Statement on revenue recognition that would be based on those concepts. In particular, the project is intended to improve financial reporting by:

1. Eliminating inconsistencies in the existing conceptual guidance on revenues in certain FASB Concepts Statements
2. Providing conceptual guidance that would be useful in addressing issues that may arise in the future
3. Eliminating inconsistencies in the existing standards-level authoritative literature and accepted practices
4. Filling voids that have emerged in revenue recognition guidance in recent years.

Concurrent with the goal of improving the quality of financial reporting in the United States, the FASB is also seeking to promote the international convergence of accounting standards by conducting this project jointly with the IASB.

The comprehensive Statement that will result from this project is initially planned to apply to business entities generally; however, the FASB may conclude that certain transactions or industries requiring additional study should be excluded from the scope of the initial standards-level guidance and addressed separately.

**Plans for the next six months.** The Board plans to discuss the progress it has made toward the development of broad concepts for revenue recognition based on the conceptual definitions of assets and liabilities and make a decision about the future direction of this project. Alternatives under consideration include, but are not limited to, (1) continue development of the broad conceptual model and a comprehensive standard that is based on it and (2) continue development of conceptual guidance

as part of the broader *Conceptual Framework* project (see page 4), and undertake one or more separate projects aimed at filling gaps or voids in the existing literature.

**Expected timing of due process document.** Previously, the Board’s plans included issuance of a Preliminary Views document by the end of 2005. As part of its discussion on the future direction of this project, the Board will make decisions about the nature and timing of due process documents.

## Short-Term International Convergence

**Objective.** In October 2002, the IASB and FASB mutually agreed to undertake efforts to reduce or eliminate certain narrow differences between U.S. GAAP and International Financial Reporting Standards (IFRS). Those differences, while not necessarily important issues for either Board individually, are collectively major irritants to those using, preparing, auditing, or regulating cross-border financial reporting.

The overall objective of the short-term convergence effort is to improve financial reporting in the United States while concurrently eliminating a variety of individual differences between U.S. GAAP and IFRS. Projects falling under the heading of “short-term convergence” are limited to those that would address differences outside the scope of a major project for which convergence around a high-quality solution appears to be achievable in the short-term, usually by selecting between existing IFRS and U.S. GAAP.

The Boards plan to accomplish their overall short-term convergence objective through a series of narrowly scoped projects. As of April 1, 2005, those narrowly scoped projects in process include a project on reporting accounting changes, a project to eliminate certain differences in reporting earnings per share, and a project to address certain differences in the accounting for income taxes. As of April 1, 2005, the FASB staff was also evaluating whether the Board should undertake a project to address certain differences in the accounting for research and development.

### *Accounting Changes and Earnings per Share*

In these two projects, the Board seeks to improve the reporting of a change in accounting principle and the reporting of earnings per share, while eliminating differences between U.S. GAAP and comparable IFRS.

**Plans for the next six months.** The Board expects to complete redeliberations and issue a Statement that would improve and replace APB Opinion No. 20, *Accounting Changes*. The Board also plans to complete its redeliberations of proposed changes in the reporting of earnings per share.

*Continued on page 8>*

## Short-Term International Convergence

(continued from page 7)

**Expected timing of due process documents.** The Board plans to issue a final Statement on accounting changes and error corrections in the second quarter of 2005. The Board expects to issue a revised Exposure Draft on earnings per share in the second quarter of 2005, followed by a final Statement in the third quarter of 2005.

### Income Taxes

The objective of this short-term convergence project is to improve the accounting for income taxes while reducing the existing differences between FASB Statement No. 109, *Accounting for Income Taxes*, and IAS 12, *Income Taxes*. Although Statement 109 and IAS 12 are based on similar principles, there are certain differences in the application of those similar principles that result in noncomparability of financial information reported internationally. The Boards are jointly deliberating the issues in this project.

### Plans for the next six months and expected timing of due process document.

The Boards expect to complete deliberations of the remaining issues in the project and issue an Exposure Draft during the third quarter of 2005. The remaining issues to be considered primary include certain differences in intraperiod tax allocation methods and differences in disclosures about taxes required in notes to financial statements.

### Research and Development

This potential short-term convergence project is currently in the staff research phase. The staff research consists of identifying existing differences between U.S. GAAP and IFRS relating to the accounting for research and development and evaluating the feasibility of one or more narrowly scoped projects that would improve financial reporting in the United States while eliminating differences between U.S. GAAP and IFRS. At the same time, the IASB staff is conducting research aimed at determining whether IAS 38, *Intangible Assets*, could be improved by incorporating aspects of U.S. GAAP, in particular, aspects of FASB Statement No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*.

### Plans for the next six months and expected timing of due process document.

The Board plans to discuss the staff research and make a decision about the scope of the research and development convergence project. Deliberations would commence as soon as those scope decisions are made. The Board plans to set its goals related to the timing of a due process document once the project scope is determined.

## TECHNICAL APPLICATION AND IMPLEMENTATION PROJECTS

### Statement 140 Issues: Qualifying Special-Purpose Entities and Isolation of Transferred Assets

**Objective.** The objective of this project is to amend FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, to:

1. Specify the conditions under which a qualifying special-purpose entity (SPE) is permitted to issue beneficial interests with maturities that are shorter than the maturities of the assets held by the qualifying SPE and roll over those beneficial interests at maturity
2. Clarify or amend other requirements of Statement 140 related to commitments by transferors, their affiliates, and their agents to provide additional assets to fulfill obligations to the beneficial interest holders
3. Clarify the circumstances under which assets must be transferred via a qualifying SPE to achieve sale accounting
4. Amend the provisions related to the initial measurement of retained interests
5. Deal with other issues related to transfers of financial assets that arose during deliberations of this amendment of Statement 140.

The proposed Statement would clarify and amend those provisions in Statement 140 that have resulted in inconsistent application of Statement 140 and would improve the comparability of financial statements.

### Plans for the next six months and expected timing of due process document.

The Board plans to complete redeliberations in the second quarter of 2005 when it discusses the effective date and transition provisions. The Board will then proceed with drafting a revised Exposure Draft of a proposed Statement that it expects to issue for public comment in the third quarter of 2005.

### Statement 140 Issues: Beneficial Interests in Securitized Financial Assets

**Objective.** In January 2004, the Board added a project to its agenda to resolve the issues that led to the interim FASB staff guidance that beneficial interests in securitized financial assets are not subject to the provisions of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. That interim guidance is reflected in Statement 133

Implementation Issue No. D1, “Application of Statement 133 to Beneficial Interests in Securitized Financial Assets” (Implementation Issue D-1). The Board believes that it is inappropriate to maintain the interim guidance in Implementation Issue D-1 that conflicts with the fundamental conclusions of Statement 133 and was not expected to be permanent when it was issued in June 2000. The Board acknowledges that this project could involve amending or providing interpretative guidance on Statement 133 and potentially one or more of the provisions of Statement 140. More specific to Statement 140, the resolution of the interim guidance may require more beneficial interests to be accounted for as derivatives and in turn require clarification of the types of derivative instruments to which a qualifying SPE may be a party. The proposed Statement would eliminate the inconsistencies in financial reporting that exist as a result of the interim guidance of Implementation Issue D-1, which results in different accounting for transactions that are substantively the same, but that use different forms.

**Plans for the next six months and expected timing of due process document.** The Board expects to complete its deliberations in the second quarter of 2005. The major issues remaining include disclosure and transition. The Board will proceed to drafting an Exposure Draft of a proposed Statement that it expects to issue for public comment in the third quarter of 2005.

### **Statement 140 Issues: Servicing Rights**

**Objective.** In January 2004, the Board added a project to its agenda to reconsider the accounting for mortgage servicing rights. In reaching that agenda decision, the Board considered respondents’ comments on the June 2003 Exposure Draft, *Qualifying Special-Purpose Entities and Isolation of Transferred Assets*, which emphasized the need for fair value accounting for mortgage servicing rights to make the accounting for such rights consistent with the accounting required for derivative transactions used to mitigate the risks associated with servicing the assets. The existing accounting guidance requires servicing rights to be amortized over the expected period of benefit and assessed for impairment at each reporting date, while derivative instruments are to be accounted for at fair value. The use of different accounting methods causes volatility in the income statement. The objective of this project is to improve financial reporting by eliminating the differences in accounting for the hedged item and the hedging instrument. The Board acknowledges that this project may result in an amendment of one or more of the provisions of Statement 140 and FASB Statement No. 65, *Accounting for Certain Mortgage Banking Activities*.

During its deliberations, the Board expanded the scope of the project to reconsider the accounting for all separately recognized servicing rights.

**Plans for the next six months and expected timing of due process document.** The Board will complete its deliberations on the transition provisions and effective date in the second quarter of 2005. The Board expects to issue an Exposure Draft of a proposed Statement in the third quarter of 2005.

### **Fair Value Option**

**Objective.** In this project, the Board is considering whether to permit entities a one-time election to report certain financial instruments (and perhaps similar nonfinancial instruments) at fair value with the changes in fair value included in earnings. The fundamental objectives of this project include the following:

1. To mitigate problems in determining reported earnings caused by the mixed-attribute model (that is, problems related to some assets or liabilities being reported at the fair value measurement attribute, but other related liabilities and assets being reported at another measurement attribute, such as amortized cost)
2. To enable entities to achieve an offset accounting effect for the changes in the fair values of related assets and liabilities without having to apply more complex hedge accounting provisions, thereby providing some potential simplicity in the application of the accounting guidance for this area
3. To achieve further convergence with the IASB, which has incorporated a fair value option for financial instruments in its IAS 39, *Financial Instruments: Recognition and Measurement*
4. To expand the use of the fair value measurement attribute, particularly for financial instruments.

**Plans for the next six months.** The Board will address the following major issues:

1. Whether any criteria should be imposed to qualify for electing the fair value option, such as demonstrating that assets and liabilities used in the same business activity are accounted for differently (that is, a measurement attribute mismatch or anomaly exists)
2. Whether specific scope exceptions should be imposed, such as for investments in equity securities that are required to be accounted for under the equity method
3. Whether entities may apply the fair value option to individual assets (or liabilities) or whether entities should be required to adopt a policy for all similar assets or similar liabilities
4. Whether and to what degree the fair value option should be extended to other recognized nonfinancial assets and liabilities
5. What additional special disclosures should be required to address concerns about noncomparability among reporting entities attributable to the elective use of fair value.

*Continued on page 10>*

## **Fair Value Option** (continued from page 9)

**Expected timing of due process document.** The Board expects to issue an Exposure Draft of a proposed Statement in the third quarter of 2005.

## **Amendment of Statements 87 and 35**

**Objective.** The objective of this project is to provide measurement guidance for “cash balance” pension plan obligations that are not specifically addressed in FASB Statement No. 87, *Employers’ Accounting for Pensions*, and all other defined benefit plans that provide plan participants with a lump-sum benefit feature at the date of separation from employment. The typical provisions of defined benefit plans have evolved since the issuance of Statement 87 to include features that were not contemplated when that Statement was issued. The project is expected to improve financial reporting by providing guidance to ensure the application of Statement 87 is consistent with the original objectives of that Statement.

**Plans for the next six months and expected timing of due process document.** The Board expects to resume deliberations on this project in the second quarter of 2005. Some of the Board’s earlier decisions, including the original agenda decision and the scope of the project, may be reconsidered. The Board has not yet determined when a due process document resulting from this project will be issued.

## **Uncertain Tax Positions**

**Objective.** The objective of this project is to clarify the criteria for recognition of tax benefits in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. This project seeks to clarify what criteria must be met prior to recognition of the financial statement benefit of a position taken in a tax return.

Diverse accounting practices exist in the accounting for uncertain tax positions. Some entities recognize tax benefits for uncertain tax positions as they are filed on the income tax return; other entities recognize tax benefits for uncertain tax positions using gain contingency accounting; and finally other entities use a probable threshold to recognize tax benefits for uncertain tax positions. This project will result in more consistency in the reported amounts of income tax expense, and current and deferred tax assets and liabilities.

**Plans for the next six months and expected timing of due process document.** The Board has completed its deliberations and is drafting the proposed Interpretation. The Board expects to issue an Exposure Draft of a proposed Interpretation in the second quarter of 2005 with a 60-day comment period.

## **Derivatives Disclosures**

**Objective.** The objective of this project is to provide guidance on enhanced disclosure requirements and balance sheet and income statement display of derivatives accounted for in accordance with FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. Additionally, the project is expected to consider the relevance and applicability of the existing disclosure requirements in Statement 133.

**Plans for the next six months.** The Board is expected to decide whether the scope of the project should be limited to derivatives accounted for under Statement 133 or expanded to include additional financial instruments. In addition, the Board plans to begin deliberating alternative disclosure and display requirements.

**Expected timing of due process document.** The Board has not yet determined when a due process document resulting from this project will be issued.

## **Potential FASB Staff Positions and Other Activities**

*The FASB staff is working on the following potential FASB Staff Positions (FSPs) and other activities. The timing of expected due process documents for these activities are listed on the table on page 2.*

**Other Comprehensive Income upon the Loss of Significant Influence.** This FSP will provide guidance on accounting for an investor’s proportionate share of an investee’s equity adjustments for other comprehensive income upon a loss of significant influence. The Board decided that the investor’s proportionate share of an investee’s equity adjustments for other comprehensive income should be offset against the carrying value of the investment at the time significant influence is lost and the application of the equity method of accounting is discontinued.

Proposed FSP APB 18-a, “Accounting by an Investor for Its Proportionate Share of Other Comprehensive Income of an Investee Accounted for under the Equity Method in Accordance with APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, upon a Loss of Significant Influence,” was posted to the FASB website on March 11, 2005, for a 45-day comment period. During the second quarter, the staff will analyze the comment letters received and the Board will redeliberate previous decisions reached in light of constituent comments. Assuming the Board decides to proceed with the FSP, the final FSP is expected to be posted to the website in the second quarter of 2005.

**Segment Reporting: Similar Economic Characteristics.** This FSP will provide guidance on how to determine whether two or more operating segments have “similar economic characteristics” for purposes of applying paragraph 17 of FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*. Specifically, the FSP will address (1) whether both quantitative and qualitative factors should be considered for purposes of determining whether the economic characteristics of two or more operating segments are similar and (2) how an enterprise identifies the factors to consider for purposes of determining whether two or more operating segments have similar economic characteristics.

Proposed FSP FAS 131-a, “Determining Whether Operating Segments Have ‘Similar Economic Characteristics’ under Paragraph 17 of FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*,” was posted to the FASB website on March 3, 2005, for a 45-day comment period. During the second quarter, the staff will analyze the comment letters received and the Board will redeliberate previous decisions reached in light of constituent comments. Assuming the Board decides to proceed with the FSP, the final FSP is expected to be posted to the website in the second quarter of 2005.

**Electronic Waste Obligations.** This FSP will provide accounting guidance on the accounting for obligations associated with Directive 2002/96/EC on Waste Electrical and Electronic Equipment (the “Directive”) issued by the European Union. The Directive was enacted on February 13, 2003, and directs EU-member countries to adopt legislation to regulate the collection, treatment, recovery, and environmentally sound disposal of electrical and electronic waste equipment. The Directive distinguishes between “new” and “historical” waste. Proposed FSP FAS 143-a, “Accounting for Electronic Equipment Waste Obligations,” addresses whether commercial users of electronic equipment or producers of electronic equipment sold to both commercial users and private households should recognize the effects of the Directive with respect to historical waste under U.S. GAAP and, if so, when and how to account for those effects. The proposed FSP does not address the accounting for new waste.

The proposed FSP was posted to the FASB website on March 7, 2005, for a 45-day comment period. During the second quarter, the staff will analyze the comment letters received and the Board will redeliberate previous decisions reached in light of constituent comments. Assuming the Board decides to proceed with the FSP, the final FSP is expected to be posted to the website in the second quarter of 2005.

**Suspended Well Costs.** This FSP will amend the guidance for suspended well costs in FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*,

to address circumstances that would permit the continued capitalization of exploratory well costs beyond one year other than when additional exploration wells are necessary to justify major capital expenditures and those wells are under way or firmly planned for the near future.

Proposed FSP FAS 19-a, “Accounting for Suspended Well Costs,” was posted to the website on February 4, 2005. The comment period for the proposed FSP ended March 7, 2005. At its March 23, 2005 meeting, the Board directed the staff to post a final FSP to the FASB website in the beginning of the second quarter of 2005. (Final FSP FAS 19-1 subsequently was posted to the website on April 4, 2005.)

**Partnerships: Interaction of AICPA SOP 78-9 and EITF Issue No. 04-5.** Proposed FSP SOP 78-9-a, “Interaction of AICPA Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures*, and EITF Issue No. 04-5, ‘Investor’s Accounting for an Investment in a Limited Partnership When the Investor Is the Sole General Partner and the Limited Partners Have Certain Rights,’” was discussed at the November 30, 2004 Board meeting and posted to the FASB website for a 60-day comment period on December 22, 2004. At the March 2005 EITF meeting, the Task Force confirmed the tentative conclusion reached in November 2004 on Issue 04-5, which provides a framework for addressing the question of when a general partner, as defined, should consolidate a limited partnership. The Task Force requested that the Board consider amending the guidance in SOP 78-9 to be consistent with the tentative conclusion reached in Issue 04-5. Accordingly, this FSP will eliminate the concept of “important rights” in paragraph .09 of SOP 78-9 and replace it with the concepts of “kick-out rights” and “substantive participating rights” as defined in the draft abstract for Issue 04-5. The FSP also proposes an amendment to paragraph .07 of SOP 78-9 to be consistent with the changes proposed in paragraph .09.

The Board received 10 comment letters on the proposed FSP. The Board will redeliberate the proposed FSP in light of the issues raised in the comment letters once the EITF reaches a final consensus, which is expected at the June 2005 meeting.

**Employee Compensation: Classification of Freestanding Financial Instrument.** This FSP will provide guidance about when freestanding financial instruments originally issued as employee compensation, including employee share options, should be classified as liabilities under the provisions of EITF Issue No. 00-19, “Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock.” Such instruments cease to be subject to the provisions of FASB Statement No. 123 (revised 2004), *Share-Based Payment*, when the rights conveyed to the holder are no longer dependent on the holder being an employee of the entity.

*Continued on page 12>*

## Potential FASB Staff Positions and Other Activities *(continued from page 11)*

Proposed FSP EITF 00-19-a, "Application of EITF Issue No. 00-19, 'Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock,' to Freestanding Financial Instruments Originally Issued as Employee Compensation," was posted to the website on March 31, 2005, with a 15-day comment period. During the second quarter, the staff will analyze the comment letters received and the Board will redeliberate previous decisions reached in light of constituent comments. Assuming the Board decides to proceed with the FSP, the final FSP is expected to be posted to the website in the second quarter of 2005.

**Leveraged Leases.** This FSP will provide guidance on the accounting for changes in timing of the realization of tax benefits from a leveraged lease. The FSP will amend FASB Statement No. 13, *Accounting for Leases*, and require a lessor of a leveraged lease to (1) perform a recalculation of the lease and (2) reevaluate the classification of the lease when there is a change in the timing of the realization of tax benefits directly associated with that leveraged lease.

The proposed FSP is expected to be posted to the FASB website in the second quarter of 2005 for a 60-day comment period.

**Stable Value Investments.** This FSP will require fully benefit-responsive investment contracts to be accounted for at contract value if held by an investment company established under a trust whereby the trust itself must be adopted as part of one or more qualified employer sponsored defined-contribution plans (including both health and welfare benefit plans or pension plans) and the employee has the primary responsibility for directing his or her own investment allocations within the plan. The FSP will include a definition of fully benefit-responsive and additional disclosure requirements primarily regarding interest crediting rates associated with investment contracts reported at contract value. This issue was brought to the attention of the staff in a November 30, 2004 letter to the FASB from the AICPA's Accounting Standards Executive Committee and the AICPA's Investment Companies Expert Panel.

The proposed FSP is expected to be posted to the FASB website in the second quarter of 2005.

**Life Settlements.** This FSP will provide accounting guidance for an investment in life settlements (which includes viaticals). A life settlement for the purposes of this project is a transaction between the owner of a life insurance contract (the insured) and a third party (life settlement provider), where the life settlement provider

does not have an insurable interest (an interest in the survival of the insured, which is required to support the issuance of an insurance policy) in the life of the insured and intends to continue paying the premiums on the insured's life insurance policy. The scope of the FSP would include brokered settlement transactions whereby a broker facilitates settlement transactions between insureds and life settlement providers.

The proposed FSP is expected to be posted to the FASB website in the second quarter of 2005.

**Useful Life and Amortization of Intangible Assets.** This FSP will provide guidance on how the factors in subparagraph 11(d) of FASB Statement No. 142, *Goodwill and Other Intangible Assets*, should be evaluated in determining the useful life and amortization of intangible assets. Specifically, the Board will consider whether to (1) retain or replace the guidance in subparagraph 11(d), (2) provide additional guidance on evaluating the terms *substantial cost* and *material modifications*, or (3) reconsider the guidance on recording residual values for intangible assets contained in paragraph 13 of Statement 142. Additionally, the Board will consider whether to provide additional guidance on the method in which intangible assets are amortized in accordance with paragraph 12 of Statement 142.

The proposed FSP is expected to be posted to the FASB website in the second quarter of 2005.

**Warrants for Redeemable Shares.** This FSP will address the issuer's accounting for freestanding warrants and other similar instruments on shares that are redeemable under FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. Paragraph 11 of Statement 150 applies to a freestanding financial instrument, other than an outstanding share, that, at inception, embodies an obligation to repurchase the issuer's equity shares and requires or may require the issuer to settle the obligation by transferring assets. FSP FAS 150-1, "Issuer's Accounting for Freestanding Financial Instruments Composed of More Than One Option or Forward Contract Embodying Obligations under Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*," explains that warrants for shares that are puttable are liabilities under paragraph 11 of Statement 150 because the warrants embody obligations to repurchase the issuer's shares and may require a transfer of assets. However, Example 2 in FSP FAS 150-1 illustrates a warrant for shares that can be put back at a fixed price by the holder immediately after exercise of the warrant. This proposed FSP addresses whether the timing of the redemption feature or the redemption price matters.

At its March 30, 2005 meeting, the Board directed the staff to post a proposed FSP to the FASB website early in the second quarter of 2005. The proposed FSP would require warrants and other similar instruments on shares that are redeemable (either puttable or mandatorily redeemable) to be classified as liabilities under paragraph 11 of Statement 150 regardless of the timing of the redemption feature or the redemption price.

**Other-Than-Temporary Impairment.** The Board directed the FASB staff to post to the FASB website two FSPs that address application questions on EITF Issue 03-1. Proposed FSP EITF 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,’” addresses questions about the application of paragraph 16 of Issue 03-1 to debt securities that have suffered impairments because of increases in interest rate and/or sector spreads. 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,’” defers the effective date of paragraphs 10–20 of Issue 03-1 until proposed FSP EITF 03-1-a is finalized.

The Board received over 250 comment letters from constituents on proposed FSP EITF 03-1-a. The vast majority of those comment letters requested the Board to rescind the consensus reached in Issue 03-1. Although this issue was not one of the specific issues that the proposed FSP addressed, respondents expressed their concerns with the other-than-temporary impairment model. The Board plans to deliberate the impairment model at a future Board meeting. Until the Board issues final guidance on this issue, an entity holding investments should continue to apply relevant “other-than-temporary” guidance, as applicable. The disclosure guidance in paragraphs 21 and 22 of Issue 03-1 remains effective.

**Insurance Risk Transfer.** This proposed project will consider current issues concerning the determination of whether an insurance or reinsurance contract transfers significant insurance (reinsurance) risk. This determination is necessary to determine whether the contract is accounted for as an insurance or reinsurance arrangement or whether it is accounted for as a financing arrangement (like a loan).

In April, the Board will make an agenda decision and provide direction to the staff on its preferred approach. The form and timing of any resulting guidance has not been determined.

**Minimum Revenue Guarantees.** This FSP will address whether minimum revenue guarantees are within the scope of FASB Interpretation No. 45, *Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. An example of such a guarantee is a

hospital’s guarantee that a nonemployee physician that was recruited to relocate to the hospital’s community will achieve a specified minimum amount of revenue from professional services during a specified period of time.

The Board plans to discuss this proposed FSP at a future Board meeting.

**Determining Whether an Interest Is a Variable Interest.** This FSP will provide guidance on how to determine whether an interest is a variable interest in a potential variable interest entity. The FSP will provide guidance for determining what variability needs to be considered when determining whether an interest is a variable interest.

The proposed FSP is expected to be posted to the FASB website in the second quarter of 2005.

**Statement 133 Implementation Issue: Evaluation of Net Settlement.** This proposed Implementation Issue would provide guidance for evaluating whether the potential settlement of the debtor’s obligation to the creditor, that would occur upon exercise of an embedded put option or call option, meets the net settlement criterion in paragraph 9(a) of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. An analysis of whether the net settlement criterion is met is relevant when the economic characteristics and risks of the embedded put option or call option are considered to be not clearly and closely related to economic characteristics and risks of the host contract under paragraphs 13 and 61(d) of Statement 133.

The Board expects to discuss this Implementation Issue at a future Board meeting.

**Statement 133 Implementation Issue: Applicability of Paragraph 13(b).** Under this proposed Implementation Issue, the conditions in paragraph 13(b) of Statement 133, would not be applicable to embedded call options that are exercisable only by the debtor. If the conditions in paragraph 13(b) are met, the economic characteristics and risks of the embedded derivative would be considered not clearly and closely related to the economic characteristics and risks of the host contract, which could result in bifurcation of the embedded derivative if certain other conditions are met.

After discussion with the Board, the staff expects to release the proposed Implementation Issue for public comment in the second quarter of 2005.

## RESEARCH PROJECTS

*In addition to the major projects and technical application and implementation projects discussed above, the Board has research projects on its agenda. Through research projects, technical issues are studied for the purpose of developing the nature and scope of potential major projects. Current research projects are discussed below.*

### Accounting for Insurance Contracts

Although the active FASB technical agenda does not include a broad project on the accounting for insurance contracts, the FASB is monitoring the IASB's active insurance contracts project. The IASB plans to develop its preliminary views on the accounting for such contracts and seek constituent input on them through the publication of a discussion paper (a discussion paper is similar to an FASB Preliminary Views document). The FASB expects to seek input from its constituents on the IASB's preliminary views by issuing an Invitation to Comment containing the IASB discussion paper. The feedback received on that Invitation to Comment will be used by the Board in deciding whether to add to its agenda a joint project with the IASB to develop a comprehensive standard on accounting for insurance contracts. As of April 1, 2005, a definitive timetable for the IASB discussion paper and FASB Invitation to Comment has not been determined.

### International Convergence

In addition to the short-term international convergence project that is currently on the Board's major project agenda, the FASB has authorized the staff to conduct a research project on international convergence. That research project has the following three objectives:

*Identify all existing differences between U.S. GAAP and IFRS.* The FASB, IASB, and other research organizations have already done much of this work. The staff will validate and complete that work. The listing of differences will be continuously monitored and updated as new differences arise and existing differences are resolved.

*Categorize differences based on the most effective strategy for resolving them.* The FASB staff has identified three possible strategies for resolving differences between U.S. GAAP and IFRS: the difference (1) is expected to be resolved within the short-term convergence project, (2) is expected to be resolved within another major agenda project currently on the agenda of one or both Boards, or (3) is part of an issue that requires comprehensive reconsideration by one or both Boards. Additional strategies may be identified as work progresses.

*Provide input to the FASB's agenda-setting process as needed to further the goal of convergence.* The FASB and the IASB have agreed to coordinate their agendas when possible. The research project will provide the FASB with the necessary information about the effect of current and future agenda projects on convergence to enable the FASB to make informed agenda decisions that ultimately will lead to greater compatibility between U.S. GAAP and IFRS.

### Financial Instruments

The Board has a long-term objective of establishing standards that would require reporting of all financial instruments at fair value in the financial statements. Prior to promulgating such standards, however, the Board believes that certain conceptual and practical issues relating to fair value measurements should be resolved. The Board currently has two major projects on its agenda directed toward that objective: (1) its project on *Fair Value Measurements* (page 5) that will address the conceptual and practical issues relating to measurement, (2) its project on *Financial Instruments: Liabilities and Equity* (page 5), and its project on *Financial Performance Reporting by Business Enterprises* (page 6).

The Board also is considering the nature and timing of potential future projects that would address other issues related to the accounting and reporting of financial instruments at fair value. As part of that process, the FASB staff and the IASB staff are currently analyzing existing FASB and IASB accounting standards for financial instruments to develop recommendations for medium- to long-term plans that would be consistent with the FASB's (1) long-term objective of reporting all financial instruments at fair value, (2) overall mission to improve financial reporting in the United States through an evolutionary approach, and (3) commitment to convergence of accounting standards internationally. Consequently, the staff recommendation will include both improvement projects and other potential joint projects between the two Boards that would be consistent with those plans. The FASB and IASB will discuss several possible topics for joint projects at their April 2005 joint meeting in London, England.

### Consolidations: Policy and Procedure

The Board has on its agenda a long-term project to develop comprehensive accounting guidance on accounting for affiliations between entities, including reconsideration of ARB No. 51, *Consolidated Financial Statements*. The objective of this research project is to identify and develop plans for the next steps in achieving the Board's long-term objective. The Board expects that the staff resources necessary to conduct that research should become available in the third quarter of 2005, at which time substantive research should commence.

## Share-Based Payment

The Board has on its agenda a long-term project to develop comprehensive guidance on the accounting for share-based payment arrangements. The first phase of that project, which focused primarily on the accounting for certain share-based payment transactions with employees, concluded with the December 2004 issuance of FASB Statement 123 (revised 2004), *Share-Based Payment*. Future phases of the project will reconsider the accounting for employee stock ownership plans in AICPA Statement of Position 93-6, *Employers' Accounting for Employee Stock Ownership Plans*, and the accounting for share-based payment transactions with nonemployees in Statement 123(R). The Board does not expect to commence this phase until it completes (or makes substantial progress toward completing) its project on *Financial Instruments: Liabilities and Equity* (see page 5).

## OTHER TECHNICAL ACTIVITIES

*The FASB also is involved in other technical activities that may help to expand our understanding of financial reporting issues and may indirectly affect our formal agenda. Some of the activities currently under way are discussed below.*

### GAAP Hierarchy

The Board identified a number of initiatives aimed at improving the quality and transparency of standards and the standard-setting process in the July 2004 *FASB Response to SEC Study on the Adoption of a Principles-Based Accounting System*. In that document, the Board stated that creating two levels of literature (authoritative and nonauthoritative) and elevating the conceptual framework within the generally accepted accounting principles (GAAP) hierarchy are key elements of the Board's goal of improving the quality of the GAAP hierarchy and, therefore, the quality and transparency of standards and the standard-setting process. The first steps toward improving the GAAP hierarchy are to move the hierarchy from the auditing literature to the accounting literature and to define the meaning of *authoritative literature*.

The objectives of this project are to move the GAAP hierarchy from the American Institute of Certified Public Accountant's Statement of Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles in the Independent Auditor's Report*, to FASB literature

and to define the meaning of *authoritative literature*. This project also provides insight into the Board's future goals associated with improving the GAAP hierarchy.

**Expected timing of due process document.** The Board expects to issue an Exposure Draft of a proposed Statement in the second quarter of 2005 with a 60-day comment period.

### Codification

In September 2004, the Financial Accounting Foundation Trustees approved the Board's plan to develop a U.S. GAAP Codification. The objective of the codification is to integrate and topically organize all relevant accounting guidance issued by the U.S. standard setters (FASB, AICPA, EITF, and SEC). The Board will issue the codification draft (which is not expected until 2007) to constituents for an extended verification period. The objective of the verification process is to ensure that the codification accurately reflects existing U.S. GAAP. Once the Board addresses constituent comments, the codification will become the single authoritative source of U.S. GAAP and will supersede all existing standards.

### XBRL

In September 2003, the Board established an XBRL fellowship position. The XBRL Fellow is responsible for furthering XBRL awareness at the FASB and liaising with the XBRL Consortium, a group of more than 200 leading accounting, technology, and financial services companies and government agencies.

Through this fellowship, the FASB expects to be in a stronger position to track new technology developments that impact financial reporting. This, in turn, should assist the Board in advancing the financial reporting model in response to evolving technology and changing financial statement user needs.

**Plans for the next six months.** In April 2005, we will attend the 11th XBRL International Conference in Boston, Massachusetts. During the second and third quarter of 2005, we plan to (1) conduct another training session for the Board and staff to further increase their understanding of XBRL, (2) continue to participate in a variety of discussions with members of the XBRL Consortium and its taxonomy working groups, (3) continue to develop an extension taxonomy based on FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, and (4) explore the possibility of developing a convergence taxonomy between FASB and IASB standards.

## THE EMERGING ISSUES TASK FORCE

A summary of EITF Issues and their resolutions or other status is published in an FASB loose-leaf subscription service, *EITF Abstracts*, which summarizes the Task Force proceedings. The service includes a summary of each Issue discussed by the Task Force and any conclusions reached, along with a comprehensive topical index.

The FASB website provides brief descriptions of recently discussed EITF Issues and other Issues currently on the agenda under the EITF section, "Description and Status of Current Issues." In addition, Issue summaries and related attachments, which are discussion materials distributed to each EITF member, produced for the June/July 2004 EITF meeting and subsequent meetings, may be downloaded without charge from the EITF section, "Current and Prior EITF Meeting Materials and Minutes." The minutes of the November 2003 EITF meeting and subsequent meetings are also available free of charge. Materials for earlier Issues and minutes for earlier meetings are available individually from the FASB Order Department at 1-800-748-0659.

**EITF meeting schedule.** The next EITF meeting is scheduled for June 15–16, 2005.

## Highlights of the First Quarter of 2005

(continued from page 1)

### Emerging Issues Task Force (EITF)

At its March 30, 2005 meeting, the Board ratified the consensus reached by the Task Force at its March 17, 2005 meeting on Issue No. 04-6, "Accounting for Stripping Costs Incurred during Production in the Mining Industry."

Also at its March 30 meeting, the Board considered the Task Force's request that arose from its deliberations on Issue No. 04-7, "Determining Whether an Interest Is a Variable Interest in a Potential Variable Interest Entity," that the Board consider providing guidance on the variability that should be considered when determining whether an interest is a variable interest entity. The Board directed the staff to draft an FSP to provide that guidance (see page 13).

At the March 17, 2005 EITF meeting, the Task Force reached a tentative conclusion on Issue No. 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights" (formerly, "Investor's Accounting for an Investment in a Limited Partnership When the Investor Is the Sole General Partner and the Limited Partners Have Certain Rights"). Additionally, the Task Force directed the FASB staff to consider certain changes to Issue No. 96-16, "Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights," that would conform the guidance on evaluating whether rights associated with the acquisition and disposition of assets are substantive participating rights to the tentative conclusion reached in Issue 04-5. The FASB staff will draft a proposed change to Issue 96-16 and post it to the FASB's website for public comment. The Task Force will consider the comments on the proposed change to Issue 96-16, including transition alternatives, in conjunction with its deliberations on reaching a final consensus on Issue 04-5 at the June 15–16, 2005 EITF meeting. As a result, the Board will delay its deliberations on the proposed FSP SOP 78-9-a, "Interaction of AICPA Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures*, and EITF Issue No. 04-5, 'Investor's Accounting for an Investment in a Limited Partnership When the Investor Is the Sole General Partner and the Limited Partners Have Certain Rights,'" until the Task Force reaches a final consensus on Issue 04-5 (see page 12).

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## **The FASB Report**

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