

REPORT OF THE CHAIRMAN OF THE FASB
TO THE FINANCIAL ACCOUNTING FOUNDATION
May 1, 2006 through July 31, 2006

ITEM 1: TECHNICAL ACTIVITIES

BOARD AND STAFF ACTIVITIES

- a. FASB Statement No. 157, *Fair Value Measurements* (June 2006), was approved for issuance and is expected to be available on the FASB website in August.
- b. The following documents were issued and posted to the website:
 1. FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (June 2006).
 2. FASB Preliminary Views, *Conceptual Framework for Financial Reporting: Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information* (July 6, 2006). The deadline for comments is November 3, 2006.
 3. FASB Invitation to Comment, *Bifurcation of Insurance and Reinsurance Contracts for Financial Reporting* (May 26, 2006). The deadline for comments is August 24, 2006.
 4. FASB and AICPA Joint Invitation to Comment, *Enhancing the Financial Accounting and Reporting Standard-Setting Process for Private Companies* (June 8, 2006). The deadline for comments is August 15, 2006.
- c. The following FSPs were posted to the FASB website:
 1. Final FSP FAS 13-2, "Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction" (July 13, 2006).
 2. Final FSP FIN 46(R)-6, "Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)" (April 13, 2006).
 3. Proposed FSP FAS 123(R)-e, "Amendment of FASB Staff Position FAS 123(R)-1" (June 8, 2006). The deadline for comments was July 8, 2006.
 4. Proposed FSP FAS 126-a, "Revision to the Definition of a Public Entity to Include an Obligor for Conduit Debt Securities" (June 15, 2006). The deadline for comments was July 31, 2006.
 5. Proposed FSP AUG AIR-a, "Accounting for Planned Major Maintenance Activities" (May 31, 2006). The deadline for comments was July 31, 2006.
- d. *Lease Accounting*. At its July 19, 2006 meeting, the Board added a project to its agenda to comprehensively reconsider the existing accounting for leases. The project

will be a joint project with the IASB. The initial due process document will be a discussion paper that expresses the Boards' preliminary views. In addition, a joint international working group will be formed to provide input to both the IASB and the FASB.

- e. *Amendment of FSP FAS 123(R)-1.* At its May 31, 2006 meeting, the Board added a project to its agenda to clarify the classification guidance in FSP FAS 123(R)-1, "Classification and Measurement of Freestanding Financial Instruments Originally Issued in Exchange for Employee Services under FASB Statement No. 123(R)." This project is intended to amend FSP FAS 123(R)-1 to exclude certain transactions from the definition of modification in FASB Statement No. 123 (revised 2004), *Share-Based Payment*. On June 8, the Board issued a proposed FSP with a 30-day public comment period.
- f. *Definition of a Public Entity in a Conduit Borrowing Arrangement.* At its June 7, 2006 meeting, the Board added a project to its agenda to clarify the definitions of the terms public entity and nonpublic entity. This project will clarify whether a conduit obligor in a conduit borrowing arrangement meets the definition of a public entity. The clarified definition would apply to accounting standards in which the criterion for determining a public entity is based on debt that is traded in a public market. On June 15, the Board issued a proposed FSP with a 45-day public comment period.
- g. *Registration Payment Arrangements.* At its June 20, 2006 meeting, the Board added a project to its agenda to address the accounting for registration payment arrangements. In August, the Board plans to issue a proposed FSP for public comment.
- h. *Measurement of Nonfinancial Assets and Nonfinancial Liabilities in Business Combinations and Impairment Evaluations.* At its June 28, 2006 meeting, the Board added a project to its agenda to address the diversity in practice that has arisen with respect to the use of entity-specific assumptions, rather than market-participant assumptions, to measure the fair value of nonfinancial assets and nonfinancial liabilities under FASB Statements No. 141, *Business Combinations*, No. 142, *Goodwill and Other Intangible Assets*, and No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. In August, the Board plans to issue a proposed FSP for public comment.
- i. *Amendments of FASB Statement No. 123(R)/Technical Corrections.* At its July 26, 2006 meeting, the Board added a project to its agenda to (1) clarify the disclosure requirements for a nonpublic entity and (2) amend illustrations 4(b) and 13(e) of Appendix A of Statement 123(R). In the third quarter, the Board plans to discuss whether to issue a proposed FSP.
- j. *Useful Life and Amortization of Intangible Assets.* At its May 31, 2006 meeting, the Board discussed the comment letters received on proposed FSP FAS 142-d, "Amortization and Impairment of Acquired Renewable Intangible Assets," and decided not to address the issues in the proposed FSP.

- k. *Accounting for Unrealized Gains (Losses) Relating to Derivative Instruments Measured at Fair Value under Statement 133.* At its May 3, 2006 meeting, the Board decided to address the issues in proposed FSP FAS 133-a, “Accounting for Unrealized Gains (Losses) Relating to Derivative Instruments Measured at Fair Value under Statement 133,” in its project on fair value measurements, thereby eliminating the need to issue a final FSP.
- l. At its July 26, 2006 Board meeting, the Board directed the staff to pursue issuance of proposed FASB Staff Position FAS 123(R)-f, “Technical Corrections of Statement 123(R).” The proposed FSP will be posted to the FASB website in early August.
- m. On July 10, 2006, the staff posted to the derivatives implementation guidance (DIG) website a document that presents the changes made to the materials in the February 10, 2004, edition of the bound FASB publication, *Accounting for Derivative Instruments and Hedging Activities* (also referred to as the Green Book). The document improves the utility of the 2004 Green Book.
- n. The Board met in public meetings with representatives of the following organizations and discussed matters of mutual interest:
 - 1. American Accounting Association
 - 2. Healthcare Financial Management Association
 - 3. Financial Executives International.
- o. All seven Board members participated in the June 15, 2006 EITF meeting.
- p. At the June 28, 2006 Board meeting, the Board ratified the consensuses reached at the June 15, 2006 EITF meeting on the following Issues:
 - 1. 05-1, “Accounting for the Conversion of an Instrument That Became Convertible upon the Issuer’s Exercise of a Call Option,” and its related amendment to Issue No. 03-7, “Accounting for the Settlement of the Equity-Settled Portion of a Convertible Debt Instrument That Permits or Requires the Conversion Spread to Be Settled in Stock (Instrument C of EITF Issue No. 90-19)”
 - 2. 06-2, “Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43”
 - 3. 06-3, “How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation).”
- q. The Board also ratified the tentative conclusions reached at the June 15, 2006 EITF meeting on the following Issues and approved the exposure of a draft abstract for each Issue for a 30-day public comment period ending August 4, 2006:

1. 06-1, “Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Equipment Necessary for an End-Customer to Receive Service from the Service Provider”
 2. 06-4, “Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements”
 3. 06-5, “Accounting for Purchases of Life Insurance—Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4.”
- r. The EITF Agenda Committee decided that the September 7, 2006 EITF meeting would be a one-day meeting.
 - s. Six Board members participated in the June meeting of the Financial Accounting Standards Advisory Council.
 - t. Six Board members participated in the June meeting of the FASB’s Small Business Advisory Council.
 - u. Various FASB staff members attended two AcSEC meetings.
 - v. The chairman, a Board member, and the TA&I director met with Big 4 national office partners to discuss their observations on FASB processes.
 - w. Three Board members and the three staff directors met with representatives from CCR/IMA to discuss issues on fair value measurements.
 - x. Two Board members and staff met with representatives from ISDA Accounting Committee to discuss some prevalent applications of the shortcut method of hedge accounting as well as the computational complexity of the long-haul method of hedge accounting.
 - y. A Board member and various staff members met separately with representatives of the Equipment Leasing Association, the National Association of Real Estate Investment Trusts, and The Lessors Network to discuss the new project on leasing.
 - z. Two staff members participated in a conference call as observers of the Reporting Simplification Task Force (of the AICPA’s Enhanced Business Reporting Consortium).
 - aa. The TA&I director and staff met with representatives from PricewaterhouseCoopers to discuss clarification of the shortcut method for hedge accounting.

INTERNATIONAL ACTIVITIES

- a. The Board, senior staff, FASB staff monitoring IASB projects, and the IASB liaison Board member met after each IASB meeting to discuss IASB agenda and research

projects with a focus on recent decisions by the IASB and areas of potential divergence.

- b. The Board and staff continue to work closely with the IASB and staff on their joint projects on purchase method procedures, revenue recognition, financial statement presentation, conceptual framework, short-term convergence, and liabilities and equity (modified joint). FASB staff members participated in several IASB Board meetings related to the joint business combinations, revenue recognition, financial statement presentation, and conceptual framework projects. For joint projects, the FASB staff generally participates in IASB meetings by video conference or telephone. The IASB staff participates in FASB meetings by phone.
- c. The TA&I director participated in the May and July International Financial Reporting Interpretations Committee (IFRIC) meetings in London.
- d. A Board member and staff had a brainstorming session with IASB advisors to discuss application of the financial statement presentation project's working principles.
- e. The chairman, a Board member, and the MP&T director participated in a joint meeting with representatives of the Accounting Standards Board of Japan in Tokyo.
- f. A staff member participated in the IASB's Standards Advisory Council meeting in London.
- g. A staff member attended a meeting of the IASB's Insurance Working Group in London. The purpose of the meeting was to continue discussions about accounting issues related to the IASB's Insurance Contracts, Phase II Project.
- h. Staff working on the financial statement presentation project held a conference call with some members of the project's Joint International Group, the FASB's User Advisory Council, and the IASB's Analyst Representative Group to discuss application of the working principles.
- i. The PD&S director discussed the fair value measurement project with the Board Advisers in London.

OTHER ACTIVITIES

- a. The following professional development sessions were presented to the Board and staff:
 1. Mr. Bill McGuire, President and CEO, and Ms. Rita Bostick, Managing Director from McGuire Performance Solution, Inc., presented an overview of new advances in core deposit valuation methodology and practice.

2. Halsey Bullen, FASB Senior Project Manager, presented a personal conceptual framework for financial reporting and led a discussion of key aspects of that and other conceptual frameworks.
3. Jeffrey Cropsey and Mark Trench, FASB Project Managers, presented an overview for insurance contracts, the nature of insurance risk transfer, and the Invitation to Comment, *Bifurcation of Insurance and Reinsurance Contracts for Financial Reporting*.
4. FASB Board Member Katherine Schipper reflected on her accomplishments and the challenges she encountered during her term as a member of the FASB.
5. Donald Thomas, FASB Project Manager; George Forster, former Vice President of Taxes and Assistant Treasurer of IBM Corporation; and Dennis Lubozynski, Senior Partner, Tax Quality and Risk from PwC, provided an overview of the administration of U.S. federal income tax, the requirements of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, and examples of how Interpretation 48 will be applied.
6. Ian Hague and Rebecca Villmann, staff of the AcSB –Canada and members of the IASB/FASB Conceptual Framework project team, provided the team’s latest thinking regarding an internationally converged definition of an asset and its essential characteristics.

ITEM 2: ADMINISTRATIVE AND STRATEGIC ACTIVITIES

- a. The Board and the PD&S director attended an FAF Trustees meeting.
- b. The Board, staff directors, the FAF president, and FASB staff met with SEC Commissioner Nazareth and SEC staff at the FASB offices to provide an overview of the organizational structure and operations of the FASB, an explanation of the Board’s standard-setting process, and updates on a number of technical agenda projects.
- c. The chairman, the FAF president, and a staff member met with representatives of various constituent groups and the SEC and the PCAOB to discuss matters relating to the possibility of the FAF assuming responsibility for development of XBRL financial reporting taxonomies.

ITEM 3: WASHINGTON ACTIVITIES

- a. A staff member met in separate meetings with various staff of Congressional committees and representatives of Washington, DC-based trade associations to discuss the role of the FASB, the project on postretirement benefit obligations including pensions, and other matters of mutual interest.
- b. The chairman testified before the U.S. Senate Committee on Banking, Housing, and Urban Affairs at a hearing titled “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans.”

- c. The chairman, a Board member, the TA&I director, and a staff member held quarterly meetings with the SEC and the PCAOB and banking regulators to discuss current FASB activities and other matters of mutual interest.

ITEM 4: SPEECHES DELIVERED

Principal platforms addressed by the Board and staff members during the May 2006 through July 2006 period include:

- - Accounting Standards Board of Japan
- - American Bankers Association
- - American Institute of Certified Public Accountants
- - Association of General Contractors
- - Baruch College
- - Colorado State University
- - Ernst & Young
- - Federal Reserve Bank
- - Financial Executives International
- - Financial Reporting Symposium
- - Florida Institute of Certified Public Accountants
- - General Electric
- - Hedge Fund Accounting Forum
- - JP Morgan
- - Pharmaceutical Industry Group
- - Michigan Association of Certified Public Accountants
- - Moore Stephens North America
- - National Association of Certified Valuation Experts
- - National Cooperative Business Association
- - National Institute of Accountants
- - National Investor Relations Institute
- - New York Society of Security Analysts
- - Pennsylvania Institute of Certified Public Accountants
- - PricewaterhouseCoopers
- - Reinsurance Association of America
- - San Jose State University
- - Securities and Exchange Commission
- - Stanford Law School
- - United States Department of Energy
- - University of Connecticut
- - University of Michigan
- - University of Southern Florida
- - University of Washington
- - Wichita State University

ITEM 5: ADDITIONAL COMMUNICATIONS ACTIVITIES

- a. The FASB, through the Communications Department, issued nine press releases this period for the following: a meeting between the FASB and the Accounting Standards Board of Japan, an Invitation to Comment on the bifurcation of insurance and reinsurance contracts, the FASB and AICPA proposal to improve financial reporting for private companies, a proposal to further clarify the definition of a public entity, the public roundtable on the proposal to improve accounting for postretirement benefit plans, including pensions, the FASB and IASB's first draft chapters of the joint conceptual framework, an FSP that requires recalculation of leveraged leases, an FASB Interpretation on accounting for income taxes, and the project to reconsider lease accounting.
- b. Media outreach focused on all of those subjects, with our pensions and other postemployment benefits project, our accounting for uncertain tax positions project, and our lease accounting project drawing significant interest. Other issues covered extensively by the media during the period were complexity and international convergence.
- c. Bylined articles highlighting the FASB's efforts to reduce complexity in the financial reporting system were written and placed in *Directorship Magazine* and on Forbes.com.
- d. The chairman and one Board member held a working session with *Wall Street Journal* reporter David Reilly on the FASB's fair value measurement project.
- e. In anticipation of reporter demands as well as in line with our strategy to be proactive on the media relations front, the FASB and the communications team continued to educate reporters from key outlets on the Board's activities and mission and independent process. Specific meetings or conference calls were held with reporters from the *Wall Street Journal*, *The New York Times*, *Associated Press*, *Bloomberg News*, *Washington Post*, *Reuters*, and many others.
- f. A press conference was held following the Board's vote to add a lease accounting project to the agenda. The chairman and a Board member spoke to members of the press from *The New York Times*, *Reuters*, *Associated Press*, and *Bloomberg News*, among others.
- g. The Communications Department began securing background interviews for new FASB member Tom Linsmeier with key reporters including Floyd Norris of the *New York Times*, Marie Leone of *CFO Magazine*, Steve Burkholder of *BNA*, and others.
- h. Three issues of *The FASB Report*, the FASB's monthly newsletter, were produced and distributed. Topics included the appointment of Christopher Allen to the FAF, Columbia University students' visit to the FASB, the appointment of Susan

Phillips to the FAF Board of Trustees, Thomas Linsmeier's appointment to the FASB, Katherine Schipper's departure, bifurcation of insurance and reinsurance contracts, and lease accounting.

- i. Drafting commenced on bylined articles in support of the Conceptual Framework project.
- j. Working sessions continued to be held with Applied Research Consulting, including the finalization of the quantitative phase of FASB perception study.

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 two 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:

--Statement No. 157, *Fair Value Measurements*

--Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*

--FSP FAS 13-2, "Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction"

--Preliminary Views, *Conceptual Framework for Financial Reporting: Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information*

--Proposed FSP AUG AIR-a, "Accounting for Planned Major Maintenance Activities."

- e. The FASB staff received the following GASB drafts for review:

--2006 Update of the *Comprehensive Implementation Guide*

--Technical Bulletin No. 2006-1, *Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D*

--Proposed Concepts Statement, *Elements of Financial Statements*.