

REPORT OF THE CHAIRMAN OF THE FASB
TO THE FINANCIAL ACCOUNTING FOUNDATION
August 1, 2007 through October 31, 2007

ITEM 1: TECHNICAL ACTIVITIES

BOARD AND STAFF ACTIVITIES

- a. Documents issued:
1. Proposed FSP APB 14-a, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*. The comment period ended on October 15 2007.
 2. Invitation to Comment, *An FASB Agenda Proposal: Accounting for Insurance Contracts by Insurers and Policyholders, Including the IASB Discussion Paper, Preliminary Views on Insurance Contracts*. The comment period ends on November 16, 2007.
 3. Proposed FSP SOP 94-3-a and AAG HCO-a, *Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations*. The comment period ends on November 30, 2007.
- b. Projects added to the Board's agenda:
1. Project to address implementation issues raised by constituents about AICPA SOP 07-1, including its interaction with FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*.
 2. Project to address the need for guidance for not-for-profit organizations concerning donor-restricted endowment funds in response to the model Uniform Prudent Management of Institutional Funds Act of 2006.
 3. Project to clarify the interaction between FASB Statement No. 13, *Accounting for Leases*, and FASB Statement No. 157, *Fair Value Measurements*.
 4. Project to address the accounting for convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement).
 5. Project to address disclosures about contingencies (Phase 1) and recognition and measurement of certain nonfinancial liabilities (Phase 2).
- c. Projects removed from the Board's agenda:
1. The Board decided not to finalize proposed FSP FAS 154-a, "Considering the Effects of Prior-Year Misstatements When Quantifying Misstatements in Current-Year Financial Statements."
 2. The Board removed from its agenda its separate projects on (a) going concern and liquidation basis of accounting and (b) subsequent events. The Board will address related issues in its codification project.

- d. Public Roundtable and other meetings:
 - 1. The Board held a public roundtable with respondents to the FASB Exposure Draft, *Accounting for Financial Guarantee Insurance Contracts*, to discuss significant issues raised in comment letters.
 - 2. Members of the Board met with members of the Joint International Group and the Financial Institutions Advisory Group, the Board's advisory groups on its financial statement presentation project, to discuss significant issues being addressed in that project.
- e. Emerging Issues Task Force (EITF):
 - 1. The EITF reached consensuses for exposure on the following Issues. The comment period ended on October 22, 2007:
 - EITF Issue No. 07-1, "Accounting for Collaborative Arrangements"
 - EITF Issue No. 07-4, "Application of the Two-Class Method under FASB Statement No. 128 to Master Limited Partnerships"
 - EITF Issue No. 07-6, "Accounting for the Sale of Real Estate When the Agreement Includes a Buy-Sell Clause."
- f. Six Board members participated in the September EITF meeting.
- g. At the September 26, 2007 Board meeting, the Board ratified the EITF consensuses-for-exposure (reached at the September 11, 2007 EITF meeting on Issues No. 07-1, No. 07-4, and No.07-6. The Board also approved issuance of a draft abstracts for each Issue for public comment.
- h. The Board met publicly with representatives of the AICPA Private Companies Practice Section, Technical Issues Committee to discuss matters of mutual interest.
- i. The Investors Technical Advisory Committee met in closed session to discuss a number of topics, including fair value of financial instruments, intangible assets, Statement 140, and international convergence issues.
- j. Two Board members and staff met in closed session with members of the Financial Institutions Accounting Committee (FIAC) of the Financial Managers Society. FIAC members presented their views and questions on measurement of loans held for sale and other implementation issues related to Statements 157 and 159, the proposed FASB Staff Position on repurchase finance transactions, the Exposure Draft on disclosures about derivative instruments, the financial statement presentation project, and allowances for loan and lease losses.
- k. Two Board members met with a representative from Graham Fisher & Co., Inc., to discuss banking regulatory issues.
- l. Three Board members and the TA&I director met with representatives from the Center for Audit Quality to discuss matters of mutual interest.

- m. Two Board members, the TA&I director, and staff met with Edison Electric Institute and American Gas Association to discuss hedge accounting and Statement 157 fair value measurements implementation issues.
- n. Staff members (Financial Statement Presentation team) participated in a web conference call with representatives of PwC to discuss preliminary results of their Performance Statement Survey.
- o. Staff members (Financial Statement Presentation team) met with real estate industry representatives to discuss a global real estate financial statement model that is being developed.
- p. Staff members held two phone meetings with members of NACUBO's Accounting Principles Council, representatives from Moody's Investor Services and Fitch Ratings, a state regulator from New Hampshire, and several other constituents to discuss UPMIFA's potential ramifications.
- q. One staff member had a quarterly meeting with the AICPA NFP Expert Panel in NYC to discuss UPMIFA and to update the panel on the FASB's activities. In October, they met again for follow-up discussion on UPMIFA, to update the panel on other FASB activities, and to discuss other topics of mutual interest.
- r. One staff member updated the AICPA Health Care Expert Panel by phone on the FASB's current activities.
- s. One staff member participated in a roundtable meeting with The Urban Institute Center on Nonprofits and Philanthropy and the Hauser Center for Nonprofit Organizations Harvard University on IRS Form 990 Redesign.
- t. One staff member participated in a panel discussion with the International Swaps and Derivatives Association, Inc., on implementation of Statements 157 and 159.
- u. One staff member participated in an AICPA webcast to discuss implementation of Statement 157.
- v. Staff members had a follow-up phone meeting with representatives from the IRS to discuss reconciliation issues between GAAP financial statements and the IRS Form 990.
- w. Staff members met with a subgroup of ITAC to discuss the two revenue recognition models developed over the past year.

INTERNATIONAL ACTIVITIES

- a. Six Board members, the MP&T director, and staff members met with the Financial Statement Presentation project's Joint International Group and Financial Institutions Advisory Group to discuss various issues in that project.

- b. The chairman, a Board member, and staff attended the World Standard Setters meeting in London.
- c. The PD&S director attended a meeting of the Standards Working Group of the six largest accounting firms in London.
- d. Three Board members and the director of MP&T met in closed meetings with members of the Accounting Standards Board of Japan in Norwalk.
- e. The FASB and the IASB held a semiannual joint meeting in Norwalk. The Boards discussions included various technical issues on the Boards' joint projects on financial statement presentation, the conceptual framework, revenue recognition, leasing, and accounting principles for derecognizing financial assets.
- f. We are finalizing the arrangements for a secondee from the Accounting Regulatory Department of the Ministry of Finance, China. This person will join the FASB staff in the near future for one year.

OTHER ACTIVITIES

- a. The following professional development sessions were presented to the Board and staff:
 - 1. Todd Johnson, FASB Senior Technical Advisor, Ron Bossio, FASB Senior Project Manager, and other FASB staff discussed unit-of-account issues that are to be considered in the conceptual framework project with project managers and fellows that have dealt or are currently dealing with such issues on standard-setting projects and to discern from their experiences whether there are underlying concepts that might be useful tools for standard-setters in addressing those issues. The discussions were conducted in a roundtable format with opportunities for other staff to raise questions and contribute their observations.
 - 2. Bob Wilkins, FASB Senior Project Manager, and Kevin Stoklosa, FASB Project Manager, presented two of three sessions that will provide a basic introduction to the requirements of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*.
 - 3. Dave Cornish, Senior Vice President, Deputy Controller, Financial Accounting and Control; Tom Shilen, Senior Vice President, Deputy Controller, Global Reporting; Kimberly Scardino, Vice President, Global Accounting Policy and Technical Advisory; Michael Nardo, Vice President, Financial Control and Oversight; Chris Wymbs, Vice President, Consumer Business Unit Controller; Alan Demers, Vice President, Quality; Bryan Nazworth, Vice President, External Reporting; and Paul Thompson, Vice President, Consolidations, Standards Implementation, gave an overview of the controllership organization and the accounting standard implementation process at American Express. They explained the overall objectives of the department while focusing on the role that each of them plays in

implementing new standards and complying with existing standards. In addition, they highlighted the efforts currently ongoing in preparing for the adoption of FASB Statement 157, *Fair Value Measurements*. The objective of the presentation was to illustrate the resources required to implement accounting standards in a multinational organization in a well-controlled manner.

4. Jim Leisenring, IASB Board Member, updated the staff on the activities of the IASB and its plans for convergence in both the near and the long terms. He discussed topics that are currently active on the IASB's agenda and its roadmap for the future.

EXTERNAL CONFERENCES

- a. Staff members attended the following conferences:
 1. The 19th Annual Insurance Industry Conference (KPMG)
 2. IFRS/GAAP Issues (KPMG)
 3. FEI's Global Reporting Conference
 4. 14th Annual Financial Reporting Conference (NYSSA)
 5. FEI's Current Financial Reporting Issues Conference

ITEM 2: ADMINISTRATIVE AND STRATEGIC ACTIVITIES

- a. The Board and one director attended the August FAF Trustees meeting.
- b. The FASB Staff Structure Review Committee met numerous times to develop its recommended changes to the staff structure and review drafts of the report. Because some of the Committee's recommendations relate to interactions with the IASB, members of the committee met with select IASB Board members and directors to get their input prior to proceeding with drafting the final report. A final report with the Committee's recommendations was delivered to the Board chairman in November.
- c. The PD&S director held training sessions with staff members to implement the FASB's procedures for drafting FASB standards and related project communications, developed through the FASB's understandability and codification initiatives.
- d. The Board, two staff directors, and selected staff members attended the 1.5 day FASAC retreat on international convergence.
- e. The Board and the FAF Trustees developed and issued a comment letter to the SEC on its recent releases relating to IFRS.

ITEM 3: WASHINGTON ACTIVITIES

- a. The Chairman testified on October 24, 2007, to the Senate Subcommittee on Securities, Insurance and Investment of the Committee on Banking on the international convergence activities of the Board.
- b. Staff members 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, various current projects, and other matters of mutual interest.
- c. The chairman participated as an official observer to the SEC Advisory Committee on Improvements to Financial Reporting. Board members are also acting as observers to the subcommittees of this committee.
- d. The chairman participated as an official observer to the U.S. Department of the Treasury's Advisory Committee on the Auditing Profession. Board members are also acting as observers to the subcommittees of this committee.
- e. The chairman, two Board members, the director of TA&I, the director of MP&T, and a staff member held quarterly meetings with the SEC and the PCAOB to discuss current FASB activities and other matters of mutual interest.
- f. The TA&I director participated as a senior advisor to the SEC Advisory Committee on Improvements to Financial Reporting.

ITEM 4: SPEECHES DELIVERED

Principal platforms addressed by the Board and staff members during the August 2007 through October 2007 period include:

- AGC/Associated General Contractors of America
- AGC/CFMA
- American Accounting Association Annual Meeting
- American Gas Association Accounting Principles Committee Annual Meeting
- Boston Accounting Research Colloquium (BARC)
- Center for Audit
- Center for Corporate Reporting and Governance
- CICA Financial Reporting Conference
- COBAR Meeting
- College of William and Mary
- Commodity Markets Council
- Council of Institutional Investors
- ELFA Lease Accountants Conference
- Ernst & Young Financial Reporting Conference
- FEI 1st Global Financial Convergence Conference
- Financial Executives International, Connecticut Chapter

- Financial Executives International, Standard Insurance Company
- Georgia State University
- Greenwich Associates 2007 Competitive Challenges Conference
- Mortgage Risk USA 2007 Conference
- Mutual Fund Directors Forum
- NACD Conference
- National Association of Regulatory Utility Commissioners
- NYSSA 14th Annual Reporting Conference
- PricewaterhouseCoopers
- Raymond James Company Conference
- Society of Insurance Financial Management
- Standard & Poor's Insurance Accounting Conference
- TEI Financial Reporting for Tax Executives Conference
- University of Oklahoma
- University of Texas & Texas Christian University

ITEM 5: ADDITIONAL COMMUNICATIONS ACTIVITIES

- a. On October 22-23, the Communications Department coordinated two key media outreach events in conjunction with the joint meeting of the FASB and IASB in Norwalk. On Monday, October 22, Jennifer Hughes of the Financial Times conducted a sit-down interview with Bob Herz and Sir David Tweedie, who discussed the Boards' efforts toward international convergence of accounting standards. On Tuesday, October 23, the Department hosted a press conference featuring Bob and Sir David offering views on convergence and a preview of their testimony before the U.S. Senate Banking committee held on that topic the following day. Media attending the press conference included Steve Burkholder of BNA publications, Susan Webster of BNA, and Emily Pickrell of Thomson. Among those who attended the press conference by phone were Ian Katz of Bloomberg, Emily Chasan of Reuters, Ellen Heffes and Edith Orenstein of FEI, Arleen Thomas of AICPA.org, Glenn Cheney of Accounting Today, Tammy Whitehouse of Compliance Week, and Ido Greenboim of KPMG.
- b. The FASB, through the Communications Department, also issued three press releases during this period: FASB Issues Invitation to Comment on Agenda Proposal: Accounting for Insurance Contracts by Insurers and Policyholders (08/02/07), FASB Accounting Standards CodificationTM Approaches Constituent Verification Phase (10/19/07), and Financial Accounting Standards Board Meets with Accounting Standards Board of Japan to Discuss Global Convergence (10/24/07). A media advisory was also issued to alert the press to the October 23 FASB/IASB press conference.
- c. The Department coordinated communications efforts with outside organizations on FASB-related issues. These efforts included working with Bob Herz and FAF staff to provide comment on a draft press release developed by the SEC and XBRL US for an SEC press conference in September; arranging Bob's participation in press outreach events in conjunction with the September FEI conference; and working with reporter Mary-Jo Kranacher on revisions to a Bob Herz profile to appear in *CPA Journal*.

- d. The Department responded to media inquiries, arranged interviews, and developed talking points on a number of topics including Statement 48 (Deb Schell, Pittsburgh Business Times); PCAOB/FASB member salaries (Nick Rummell, Financial Week); accounting for postretirement benefits; the Codification project (Glenn Cheney, Accounting Today); off-balance-sheet instruments (Ian Katz, Bloomberg; Andrew Osterland, Financial Week;); FSP APB 14-a (Denise Lugo, BNA); ITAC letter to the SEC (Sirena Scales of Thomson); Level 3 assets (Peter Eversted, Fortune Magazine; Liz Moyer, Forbes Magazine); accounting for contingencies (Emily Pickrell, Thomson); Statement 157 (Wall Street Journal; Herb Lash, Reuters); VEBA (Catherine Rampell, Washington Post); Conceptual Framework (Emily Pickrell); FAS 58 (Dow Jones); share-based payments; Statement 140 (Vince Ryan, CFO Magazine); FASB technical agenda (Glenn Cheney, Accounting Today); SIVs (Chris Rugaber, AP); Statement 5 (Nick Rummell, Financial Week); Financial Statement Presentation. The Department also worked with Sarah Johnson of CFO.com to clarify comments made by Leslie Seidman as part of a Board discussion on whether to delay Statement 157.
- e. Planning for the 2007 Annual Report got under way, with the Department hosting preliminary planning meetings with representatives from Inergy, the firm that will be designing this year's report. Based on these meetings, Inergy submitted its proposed timeline and budget for the project.
- f. The Department worked with Linda MacDonald to finalize the FASB speech acceptance guidelines for Board and staff members.
- g. Two issues of the FASB Report, the FASB's monthly newsletter, were produced and distributed. Topics included the FASB's Invitation to Comment on its "Accounting for Insurance Contracts" Project Proposal; the Small Business Advisory Council, and Private Company Financial Reporting Committee; Terri Polley's appointment as Interim COO of the FAF; the joint FASB/IASB project on Business Combinations; and a Q and A with Jim Leisenring, who celebrated 25 years in standard setting. The Department is currently working with Linda MacDonald and Gerard Carney on revamping the FASB Report as a quarterly publication, starting with the October Tech report.

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:
 - Proposed FSP SOP 94-3-1 and AAG HCO-a, *Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations*
 - Proposed FSP APB 14-a, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*

- Preliminary Views, *Financial Instruments with Characteristics of Equity*.
- e. The FASB staff received the following GASB draft for review:
- Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*.