

REPORT OF THE CHAIRMAN OF THE FASB
TO THE FINANCIAL ACCOUNTING FOUNDATION
May 1 through June 30, 2005

ITEM 1: TECHNICAL ACTIVITIES

BOARD AND STAFF ACTIVITIES

- a. The following documents were issued and posted to the website:
 1. FASB Statement No. 154, *Accounting Changes and Error Corrections* (May 2005).
 2. FASB Exposure Draft, *Business Combinations* (June 30, 2005). Comments are requested by October 28, 2005.
 3. FASB Exposure Draft, *Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries* (June 30, 2005). Comments are requested by October 28, 2005.
- b. The following TA&I projects were added to the Board's agenda (and will be addressed as FSPs):
 1. Classification of Freestanding Financial Instruments Issued as Employee Compensation
 2. Measuring Fair Value of Certain Derivative Contracts under Statement 133
 3. Financial Guarantee Insurance
 4. Interpretation of Paragraphs 40(b) and 40(c) of Statement 140
 5. Rental Costs.
- c. The project on Segment Reporting: Similar Economic Characteristics was removed from the Board's agenda.
- d. The following Statement 133 Implementation Issues were cleared by the Board and posted to the website:
 1. Issue B38, "Evaluation of Net Settlement with Respect to the Settlement of a Debt Instrument through Exercise of an Embedded Put Option or Call Option"
 2. Issue B39, "Application of Paragraph 13(b) to Call Options That Are Exercisable Only by the Debtor."
- e. Technical revisions to Statement 133 Implementation Issue B16, "Calls and Puts in Debt Instruments," also were posted to the website.
- f. The Board held approximately 32 separate sessions on 8 dates to deliberate technical issues for 28 agenda or possible agenda projects.

- g. The following FSPs were posted to the FASB website:
1. FSP FAS 150-5—“Issuer’s Accounting under FASB Statement No. 150 for Freestanding Warrants and Other Similar Instruments on Shares That Are Redeemable” (Posted: June 29, 2005)
 2. FSP FAS 143-1—“Accounting for Electronic Equipment Waste Obligations” (Posted: June 8, 2005)
 3. FSP EITF 00-19-1—“Application of EITF Issue No. 00-19 to Freestanding Financial Instruments Originally Issued as Employee Compensation” (Posted: May 31, 2005)
 4. Proposed FSP FAS 123(R)-a—“Classification and Measurement of Freestanding Financial Instruments Originally Issued as Employee Compensation” (Posted: June 28, 2005)(Comment Deadline: July 29, 2005)
 5. Proposed FSP TB 85-4-a—“Accounting for Life Settlement Contracts by Investors” (Posted: June 17, 2005) (Comment Deadline: August 1, 2005)
 6. Proposed FSP FIN 45-b—“Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners” (Posted: June 9, 2005) (Comment Deadline: August 8, 2005)
- h. At the June 29, 2005 Board meeting, the Board ratified the consensuses reached at the June 15-16, 2005 EITF meeting on Issues 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,” No. 05-2, "The Meaning of ‘Conventional Convertible Debt Instrument’ in EITF Issue No. 00-19, 'Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock,'" No. 05-5, “Accounting for the Altersteilzeit Early Retirement Programs,” and No. 05-6, “Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination.”
- i. At the June 29, 2005 Board meeting, the Board also ratified modifications agreed to at the June 15-16, 2005 EITF meeting on existing consensuses on Issues No. 96-16, “Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholders Have Certain Approval or Veto Rights,” No. 01-9, “Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products),” No. 04-6, “Accounting for Stripping Costs Incurred during Production in the Mining Industry,” and No. 04-10, “Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds.”
- j. At the request of the EITF, the staff will post a draft abstract of Issue No. 04-13, “Accounting for Purchases and Sales of Inventory with the Same Counterparty,” to the FASB website for public comment on July 7, 2005. The comment deadline will be August 20, 2005, and the Task Force plans to discuss comments on the draft at its September 14-15, 2005 meeting.

- k. At the June 29, 2005 Board meeting, the Board agreed to finalize proposed FSP SOP 78-9-a, "Interaction of AICPA Statement of Position 78-9 and EITF Issue No. 04-5." A final decision on the proposed FSP had been postponed until the EITF reached a consensus on Issue 04-5 at the June 15-16, 2005 EITF meeting. That FSP will amend the guidance in SOP 78-9, *Accounting for Investments in Real Estate Ventures*, to conform that guidance to the consensus in Issue 04-5. The FSP will be posted to the FASB website on July 15, 2005.
- l. Seven Board members participated in the June meeting of the EITF.
- m. The EITF Working Group for Issue. 04-13 met on May 17, 2005.
- n. The FASB staff conducted a review of the EITF processes and procedures, which included a questionnaire that was sent to a wide range of FASB constituents, during the second quarter and discussed the results of that review with the Task Force at the June 15-16, 2005 EITF meeting.
- o. The staff will be undertaking pre-agenda decision work related to the recommendations to the FASB contained in the SEC staff report titled *Report and Recommendations Pursuant to Section 401(c) of the Sarbanes-Oxley Act of 2002 On Arrangements with Off-Balance Sheet Implications, Special Purpose Entities, and Transparency of Filings by Issuers*.
- p. The Board met in public meetings with representatives of the following organizations and discussed matters of mutual interest:
 - 1. American Accounting Association
 - 2. Equipment Leasing Association of America
 - 3. Financial Executives International's Committee on Corporate Reporting.
- q. The chairman, two Board members, the TA&I director, and staff met with representatives from the National Venture Capital Association to discuss issues of concern for private companies with respect to Statement 123(R).
- r. A Board member and a staff member met with representatives of the New York State Insurance Department and the National Association of Insurance Commissions in New York City to discuss our mutual projects on risk transfer and finite risk reinsurance.
- s. Three Board members, two staff directors, and various staff met with the Valuation Resource Group to discuss issues involved in measuring the fair value of certain liabilities: performance and asset retirement obligations.
- t. Two Board members and staff met with representatives of the AICPA to discuss private company financial reporting matters.
- u. Two staff members met with the Interfirm Fair Value Measurement Committee.

INTERNATIONAL ACTIVITIES

- a. The Board, senior staff, FASB staff monitoring IASB projects, and the IASB liaison Board member met after each IASB meeting to discuss IASB agenda and research projects with a focus on recent decisions by the IASB and areas of potential divergence.
- b. The Board and staff continue to work closely with the IASB and staff on their joint projects on purchase method procedures, revenue recognition, performance reporting, conceptual framework, short-term convergence, and liabilities and equity (modified joint). Several FASB staff members participated in the May and June IASB Board meetings in London for the following projects: short-term convergence (income taxes), revenue recognition, performance reporting, and conceptual framework. 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 chairman, a Board member, and the MP&T director had various discussions with representatives from the SEC and the IASB to discuss international convergence.
- d. The chairman attended the FAF International Committee meeting in Washington.
- e. The Board and staff participated in the Joint International Working Group (Performance Reporting) meeting in New York.
- f. The chairman, a Board member, and the PD&S director met with members of the Audit Committee of the Unified Energy System of Russia (UES).
- g. The chairman and a Board member attended the IASB Conference on Convergence in London.

OTHER ACTIVITIES

- a. The following professional development sessions were presented to the Board and staff:
 1. Jeanette Franzel, CGFM, Director, Auditing Standards and Corporate Issues, GAO; Marcia B. Buchanan, CGFM, Assistant Director for Auditing Standards, GAO; and Sam McCall, CGFM, City Auditor, City of Tallahassee, FL, and AGA National President-Elect presented via audio conference to the staff issues relating to the implementation of Government Auditing Standards, including how to address unique risks in the government environment, abuses and improper payments, internal controls, independence, and continuing education requirements for government auditors.
 2. William Wilt, Vice President, Equity Research—Morgan Stanley, presented to the staff Morgan Stanley's approach to rating an insurance company and

the role of financial statements in the process, the role of other sources of information in the process, and an evaluation of what is important and what is not in published financial statements.

3. Michael Tovey, FASB Project Manager; Donald Thomas, FASB Project Manager; Jeffrey Johnson, FASB Project Manager; Eric Smith, FASB Practice Fellow; and Ronald Bossio, FASB Senior Project Manager, updated the staff on the following projects: Stock-Based Compensation; Uncertain Tax Positions; Accounting Changes and EPS; Business Combinations; and QSPEs, Hybrid Financial Instruments, and Servicing Rights, which relate to FASB Statement No.140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.
- b. We will begin holding monthly training sessions for all technical staff on the developments in the Board's conceptual framework project.
- c. A Board member and several staff members presented updates on various FASB projects to current and former Postgraduate Technical Assistants (PTAs) as part of the PTA Forum held at the FASB offices.

ITEM 2: ADMINISTRATIVE AND STRATEGIC ACTIVITIES

- a. A staff member attended an XBRL US Assurance Working Group meeting at the AICPA to discuss assurance over XBRL documents.
- b. In advance of updating the Technical plan table as of July 1, various Board members and staff directors met with various staff to discuss the project plans for 11 agenda projects. The Board and staff participated in an administrative meeting to discuss planned activities and due process documents for each agenda project as well as the Board's priorities for the third quarter of 2005.
- c. The Board and senior staff participated in two strategic planning meetings to develop long-term goals for standard-setting activities, the financial reporting model, and related objectives. The Board will have a series of meetings throughout the summer further discussing these matters.
- d. The Board and staff directors participated in an administrative meeting to discuss various operating and process issues.
- e. Several new staff members participated in training sessions covering the following topics: processes and procedures, effective writing, project planning and communications, and staffing/personnel issues.
- f. A staff member attended a two-day seminar on income taxes.

ITEM 3: WASHINGTON ACTIVITIES

- a. Two Board members, the TA&I director, and staff held their quarterly meeting with the SEC and the PCAOB to discuss current issues.
- b. Two Board members, the TA&I director, and staff held their quarterly meeting with financial institution regulators to discuss current issues.
- c. Three staff members met with the staff of the Permanent Subcommittee on Investigations of the Senate Committee on Homeland Security and Governmental Affairs to discuss accounting for income taxes.
- d. A staff member met with representatives of a number of associations, staff to Members of Congress, Congressional committees, government agencies, and other entities and organizations to discuss current FASB activities and other issues.
- e. The Board members attended an FAF Trustees meeting in Washington DC.

ITEM 4: SPEECHES DELIVERED

Principal platforms addressed by the Board and staff members during the May 2005 and June 2005 period included:

- AGN International American
- American Gas Association and Edison Electric Institute
- American Institute of Certified Public Accountants
- American Securities Forum
- American Woman's Society of Certified Public Accountants
- Baruch College
- Credit Union National Association
- DFK/USA
- European Accounting Association
- Florida Institute of Certified Public Accountants
- Houston Certified Public Accountants Society
- Institute of Management Accountants
- Institutional Investor
- Insurance Accounting & Systems Association
- International Accounting Standards Board
- KPMG
- Massachusetts Society of Certified Public Accountants
- Merrill Lynch
- National Investor Relations Institute
- Oregon State University
- Pennsylvania Institute of Certified Public Accountants

- - PricewaterhouseCoopers
- - Public Company Accounting Oversight Board
- - Stanford Law School
- - Tax Executives Institute
- - Temple University
- - The Entrepreneurship Institute
- - University of Oklahoma
- - University of Southern California
- - University of Washington Business School
- - University Tuck School of Business at Dartmouth
- - Wichita State University

ITEM 5: ADDITIONAL PUBLIC RELATIONS ACTIVITIES

- a. The FASB, in conjunction with the Public Relations Department, issued three press releases this quarter for the following: IASB and FASB Exposure Drafts to improve and align the accounting for business combinations, an SEC staff report titled *Report and Recommendations Pursuant to Section 401(c) of the Sarbanes-Oxley Act of 2002 On Arrangements with Off-Balance Sheet Implications, Special Purpose Entities, and Transparency of Filings by Issuers*, and Statement No. 154, *Accounting Changes and Error Corrections*.
- b. Media inquiries focused primarily on: pension accounting, stock options expensing, and finite risk insurance.
- c. The FASB continued its frequent contact with the major press including the *Wall Street Journal*, *New York Times*, *Financial Times*, and *Washington Post*.
- d. Two issues of *The FASB Report*, the FASB's monthly newsletter, were produced and distributed. Topics included the Financial Accounting Standards Advisory Council quarterly meeting, the Small Business Advisory Committee meeting, the User Advisory Council meeting, the Postgraduate Technical Assistant Forum, and news of FAF appointments.
- e. An article, *Revisiting the Concepts*, discussing the new joint Conceptual Framework project, coauthored by Halsey Bullen (FASB staff) and Kimberley Crook (IASB staff), was posted to the FASB and IASB websites.

ITEM 6: GASB LIAISON ACTIVITIES

- a. FASB meeting minutes were sent to the GASB RTA director and certain GASB staff.
- b. GASB meeting minutes were sent to the FASB chairman and the staff directors.
- c. The GASB RTA director and the FASB PD&S director held monthly meetings and met quarterly with the FASB and GASB chairmen.

- d. The GASB forwarded the following drafts to the FASB for review:
 - GASB Statement No. 47, *Termination Benefits*
 - GASB Implementation Guides for GASB Statements No. 43 and No. 45.

- e. The FASB staff distributed the following drafts to the GASB for review:
 - FASB Statement No. 154, *Accounting Changes and Error Corrections*
 - FASB Exposure Draft, *Accounting for Hybrid Financial Instruments*
 - FASB Exposure Draft, *Accounting for Servicing of Financial Assets*
 - FASB proposed Interpretation, *Accounting for Uncertain Tax Positions*
 - FASB Exposure Draft, *Accounting for Transfers of Financial Assets*
 - FASB Exposure Draft, *Earnings per Share*.