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## REPORT OF THE FASB CHAIRMAN

October 1, 2014 through December 31, 2014

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### ITEM 1: STANDARDS-SETTING ACTIVITIES

#### A. FINAL STANDARDS AND DOCUMENTS ISSUED FOR PUBLIC COMMENT

1. The Board issued the following final documents:
  - a. Accounting Standards Update No. 2014-16, *Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity* (a consensus of the Emerging Issues Task Force; issued November 3, 2014).
  - b. Accounting Standards Update No. 2014-17, *Business Combinations (Topic 805): Pushdown Accounting* (a consensus of the Emerging Issues Task Force; issued November 18, 2014).
  - c. Accounting Standards Update No. 2014-18, *Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination* (a consensus of the Private Company Council; issued December 23, 2014).
2. The Board issued the following Exposure Drafts for public comment:
  - a. Proposed Accounting Standards Update, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Cost* (issued October 14, 2014). Comment deadline: December 15, 2014.
  - b. Proposed Accounting Standards Update, *Compensation—Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer’s Defined Benefit Obligation and Plan Assets* (issued October 14, 2014). Comment deadline: December 15, 2014.
  - c. Proposed Accounting Standards Update, *Earnings per Share (Topic 260): Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions* (a consensus of the FASB Emerging Issues Task Force) (issued October 30, 2014). Comment deadline: January 15, 2015.

- d. Proposed Accounting Standards Update, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (a consensus of the FASB Emerging Issues Task Force) (issued October 30, 2014). Comment deadline: January 15, 2015.
- e. Proposed Accounting Standards Update, *Financial Services—Investment Companies (Topic 946): Disclosures about Investments in Other Investment Companies* (issued December 4, 2014). Comment deadline: February 17, 2015.

## **B. CHANGES TO THE STANDARDS-SETTING AGENDA**

- 1. The Board made the following agenda decisions:
  - a. The Board added the following projects to its agenda:
    - i. Accounting for Financial Instruments—Hedging
    - ii. Identifiable Intangible Assets in a Business Combination for Public Companies and Not-for-Profit Entities
    - iii. Two projects that are part of the simplification initiative:
      - (1) Improvement to the Accounting for Share-Based Payments to Employees
      - (2) Liabilities and Equity: Targeted Improvements.
  - b. The Board added the following projects to the EITF’s agenda:
    - i. Issues in Accounting for Employee Benefit Plan Financial Statements
    - ii. Application of the Normal Purchases and Normal Sales Scope Exception to Certain Electricity Contracts within Nodal Energy Markets
    - iii. Recognition of Breakage for No-Cash Prepaid Cards.

## **C. SIGNIFICANT TECHNICAL DECISIONS**

- 1. Share-Based Payment Accounting Improvements: The Board made decisions that would simplify the accounting for share-based payments in several areas, including estimating forfeitures, determining minimum statutory withholding requirements, accounting for income taxes, and related presentation issues. The Board also decided to provide private companies with an alternative to estimate the expected term of an award and, separately, a one-time election to switch from measuring liability-classified awards at fair value to measuring liability-classified awards at intrinsic value.

2. **Simplification Initiative:** The Board decided to make improvements related to the recognition of intra-entity asset transfers and classification of deferred income tax assets and liabilities and affirmed their decision in redeliberations to remove the concept of extraordinary items from GAAP.
3. **Disclosure Framework: Board’s Decision Process:** The Board decided to change the description of materiality in Concepts Statement 8 to align with the Supreme Court’s description (and explain that it’s a legal concept that varies by jurisdiction), and that materiality is an entity-specific judgment, different from “relevance,” which is assessed by the Board.
4. **Pushdown Accounting:** The EITF reached a final consensus, ratified by the Board, that provides entities and their subsidiaries with an option to apply “pushdown accounting” upon the occurrence of a “change in control” event. In conjunction with the issuance of that Accounting Standards Update, the Securities and Exchange (SEC) rescinded the staff accounting bulletin that previously addressed the issue for public companies.
5. The Board is in the final stages of initial deliberations and redeliberations on several other key projects, and while a number of decisions were made by the Board, none of those decisions were individually significant.

**D. ACTIVITIES OF THE FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL (FASAC) AND FASB ADVISORY COMMITTEES**

**1. FASAC Meeting**

- a. All Board members, the FASB technical director, and certain other FASB staff participated in the December 18 FASAC meeting. The meeting focused on a discussion of potential financial reporting issues that could arise from financial markets and regulatory developments and the internal control consequences of various types of financial reporting changes.

**2. The following advisory committee meetings were held:**

- a. **Private Meeting of the Investor Advisory Committee (December):** Three Board members and several staff participated on a rotating basis; topics included new areas of investor concern and the FASB projects on financial performance reporting, leases, and financial instruments (impairment and hedging).
- b. **Public meeting of the Small Business Advisory Committee (SBAC) (November):** All Board members and several FASB staff participated; the discussion focused on implementation of FASB Accounting Standards Update 2014-09: *Revenue from Contracts with Customers*, the active

project on disclosures by business entities about government assistance, and the active project on simplifying the balance sheet classification of debt.

- c. FASB-IASB Joint Transition Resource Group for Revenue Recognition (October): The resource group held its second public meeting on October 31, 2014. All Board members and several FASB staff participated in the meeting. The resource group discussed several issues about the implementation of the new revenue recognition standard.

3. Advisory committee membership changes:

- a. Kirk Billingsley completed his service on the Small Business Advisory Committee on December 31, 2014.

E. OTHER SIGNIFICANT STAKEHOLDER OUTREACH ACTIVITIES

1. One or more Board members met with the following industry liaison groups:

- a. Private meeting with the Financial Executives International's Committee on Corporate Reporting (CCR) (December). A Board member participated; topics included implementation plans for the revenue recognition standard and the FASB's projects on leases, financial instruments, disclosure framework, and the simplification initiative.
- b. Private meeting with the American Gas Association (AGA) and Edison Electric Institute (EEI) (October). Two Board members and several FASB staff members met with AGA and EEI members. Topics discussed included implementation plans for the revenue recognition standard, application of the normal purchases and normal sales scope exception to certain electricity contracts within nodal energy markets, disclosure framework, and cloud computing. AGA and EEI members also provided input on the IASB's rate regulation project and an update on possible financial reporting implications of industry trends and changes.
- c. Public meeting with the AICPA's Auditing Standards Board (ASB) Audit Issues Task Force. Six Board members and several FASB staff members met with the ASB's Audit Issues Task Force members in October. The primary topic discussed was the accounting, auditing, and valuation interface in fair value, estimations, and valuations. The meeting also included discussion of FASB projects on disclosure framework and leases and AICPA ASB efforts related to auditor's reports, auditing going concern, and audit considerations for private companies related to the implementation of the revenue recognition standard.

2. Significant project-specific outreach activities follow:

- a. Implementation of the new revenue recognition standard:
    1. FASB and IASB members and staff met with preparers and auditors about potential implementation issues for licenses and performance obligations.
    2. FASB members and staff began meeting privately with selected preparers to discuss progress and any issues arising in the implementation of the new revenue recognition standard. The information gathered in these meetings will be used to assess a possible need for a delay in the effective date of the new requirements.
  - b. The FASB held a public forum at Pace University to discuss its disclosure framework project with interested stakeholders, including users, preparers, and auditors.
3. Other significant liaison activities included the following:
- a. An FASB member participated in a meeting of the Standards Advisory Committee of the Public Company Accounting Oversight Board.

**F. COLLABORATION WITH THE FASB'S PRIVATE COMPANY COUNCIL (PCC)**

1. All seven FASB members participated in the December 11, 2014 PCC meeting. Meeting highlights follow:
  - a. Definition of a Public Business Entity (Phase 2): The PCC and FASB discussed the number of different definitions of a public entity used in GAAP and their implications for the scope of the relevant standards. The PCC asked the FASB staff to analyze the feasibility of using the new definition of a public business entity throughout GAAP without affecting the scope of the standards. The staff will present the results of its analysis to the PCC at its next meeting.
  - b. Accounting for Partnerships: The PCC and the FASB discussed private company concerns on partnership accounting, specifically relating to pushdown accounting and payments made to partners. The PCC asked the FASB staff to continue their research on partner contributions of non-monetary assets for discussion at a future meeting.
  - c. Share-Based Payments: The PCC shared its views on the FASB's active project to simplify the accounting share-based payments to employees, which the FASB added to the FASB's agenda at the recommendation of the PCC. The PCC and the FASB specifically discussed private company issues relating to valuation methods and disclosure requirements.

- d. The PCC also provided input on the following active FASB projects: simplifying inventory; business combinations and related issues; definition of a business; liabilities and equity—short-term improvements; and accounting for financial instruments—classification, measurement, and impairment.

## G. INTERNATIONAL ACTIVITIES

1. Cooperative activities between the FASB and the IASB were as follows:
  - a. The FASB and the IASB held a joint videoconference Board meeting to discuss issues in their joint leases project.
  - b. The FASB and the IASB held a videoconference meeting of the joint Transition Resource Group for Revenue Recognition.
  - c. The FASB chairman and a Board member participated in a meeting of the IASB's Accounting Standards Advisory Forum.
  - d. The FASB vice chairman, staff, and the IASB vice chairman participated in several calls on revenue recognition.
  - e. A Board member participated in the IASB Academic Conference in Oxford.
2. Cooperative activities among the FASB and other national standards setters included the following:
  - a. Two Board members participated in a meeting of the International Forum of Accounting Standards Setters in London.
  - b. The FASB chairman and two Board members met with the Accounting Standards Board of Japan and representatives of Japan's Financial Services Agency in Tokyo.
  - c. Two Board members met with members from China's Ministry of Finance in Beijing.
  - d. Two Board members met with members from the Korea Accounting Standards Board in Seoul.
  - e. The FASB chairman, two Board members, and the FASB technical director met with representatives from other jurisdictions including Japan, Germany, Canada, and the UK to discuss jurisdictional activities and perspectives.
3. A Board member participated in the Three-Way Dialogue meeting in London.

## **ITEM 2: PREAGENDA RESEARCH**

### **A. CHANGES TO THE RESEARCH AGENDA**

1. The Board added the following projects to its research agenda
  - a. Accounting for Convertible Financial Instruments
  - b. Issues in Accounting for Share-Based Payment Awards to Nonemployees
  - c. Three issues identified by the Revenue Recognition Transition Resource Group:
  - d. Identifying Performance Obligations
    - i. Issues in Accounting Licenses
    - ii. Principal vs Agent (reporting revenue gross vs net).

### **B. SIGNIFICANT RESEARCH ACTIVITIES**

1. Significant research was conducted on the following potential projects: short-term improvements to liabilities and equity, implementation of the new revenue recognition standard, hedging, and potential projects as part of the simplification initiatives.

## **ITEM 3: STAKEHOLDER EDUCATION AND COMMUNICATIONS**

### **A. EDUCATIONAL WEBCASTS AND FEATURED VIDEOS**

1. The FASB held one educational webinar:
  - a. IN FOCUS: FASB Update for Private Companies and Not-for-Profit Organizations (December 15)
2. The FASB posted a featured video on its project on not-for-profit financial statements to its website.

### **B. SPEECHES DELIVERED**

1. FASB members or staff delivered speeches at 25 different conferences. The more significant follow:
  - a. AICPA SEC and PCAOB Conference
  - b. FEI CFRI Conference
  - c. Compliance Week West
  - d. Duquesne University Third Annual Accounting Conference



- e. AGC/CFMA Construction Financial Management Conference
- f. NYSSCPAs SEC Accounting & Auditing Conference.

**C. PRESS RELEASES, MEDIA ADVISORIES, AND TWEETS**

1. The FASB issued 8 press releases, media advisories, or tweets on a variety of topics.

**D. OTHER COMMUNICATIONS ACTIVITIES**

1. The fourth issue of FASB Outlook was published in October.
2. A web page dedicated to the Simplification Initiative was launched in October.

**ITEM 4: STRATEGIC, ADMINISTRATIVE, AND PROCEDURAL ACTIVITIES**

**A. STRATEGIC PLAN ACTIVITIES**

1. A working draft of the FAF, FASB, and GASB strategic plan for 2015-2017 was made available on a dedicated FAF webpage.

**B. ADMINISTRATIVE MATTERS**

1. None.

**C. PROFESSIONAL DEVELOPMENT PROGRAMS**

1. An Overview of the Financial Stability Board (FSB) and its G20-Mandated Role in Monitoring International Accounting Standards and Convergence. Mr. Gerald Edwards, Jr., former Senior Adviser, Federal Reserve Board, and former Senior Advisor on Accounting and Auditing Policy, Financial Stability Board, and former Associate Director and Chief Accountant, Federal Reserve Board, Division of Banking Supervision and Regulation.
2. Funding Valuation Adjustments, Part II. Bret Dooley, Managing Director, Head of Corporate Accounting Policies (and an EITF member); Jean-Francois Bessin, Managing Director, Head of Valuation Control Group; and Al Moffit, Managing Director, Treasurer of Corporate & Investment Bank.
3. Evolution of the Setting of Accounting Standards. Mr. Stephen A. Zeff, Professor of Accounting/Keith Anderson Professorship in Business, Rice University, and author of the forthcoming book, Aiming for a Single Global Standard: The International Accounting Standards Board, 2001–2011.



## **ITEM 5: FEDERAL GOVERNMENT AND REGULATORY LIAISON ACTIVITIES**

### **A. REPRESENTATIVES OF CONGRESS AND FEDERAL REGULATORY BODIES**

1. The FASB Board members, GASB chairman, FAF CEO, FAF EVP, and FAF VP met with Congressman Jim Himes (D-Conn) in a private meeting to discuss matters of mutual interest prior to a Town Hall Meeting with FAF/FASB/GASB staff.
2. The FASB technical director and FAF VP talked privately with David Katz, Senior Counsel, Senate Permanent Subcommittee on Investigations, to discuss IASB and FASB accounting convergence projects and other matters of mutual interest.
3. The FASB chairman and FAF VP met privately with Treasury Assistant Secretary for International Markets & Development to discuss matters of mutual interest.
4. The FASB chairman and GASB chairman updated staff members of the House Financial Services Committee on the FASB's and GASB's 2014 standards setting agendas.
5. The FASB chairman, vice-chairman, an FASB member, and the FASB technical director participated in a routine, private liaison meeting with representatives of the SEC staff and staff of the PCAOB to discuss matters of mutual interest.
6. The FASB chairman, vice-chairman, a FASB member, and the FASB technical director participated in a routine, private liaison meeting with staff representatives of various banking regulatory agencies.
7. The FASB Board members each met privately with the newly appointed SEC Chief Accountant, James Schnurr.
8. The FASB vice-chairman met privately with representatives of the SEC staff to discuss matters of mutual interest.
9. The FASB chairman and FAF vice president met with deputy assistant to the President and deputy director of National Economic Council on matters of mutual interest.
10. The FASB technical director held weekly conference calls with the SEC Deputy Chief Accountant.

## **ITEM 6: FAF/FASB/GASB INTERACTION**

### **A. MEETING MINUTES**

1. GASB and FASB meeting minutes were shared with the FASB and GASB Board members and staff.

### **B. MEETINGS**

1. The GASB and FASB directors met monthly to discuss their technical agenda projects and other matters of mutual interest.
2. The FASB and GASB chairmen and their respective directors held their quarterly meeting to discuss technical issues and other matters of mutual interest.

### **C. DOCUMENT DRAFT REVIEWS**

1. The GASB staff did not distribute any drafts for the FASB's review during the fourth quarter of 2014.
2. The FASB staff distributed the following drafts for the GASB's review:
  - a. Final Accounting Standards Update, Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items
  - b. Final Accounting Standards Update, Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination (a consensus of the PCC)
  - c. Final Accounting Standards Update, Consolidation (Topic 810): Amendments to Consolidation
  - d. Proposed Accounting Standards Update, Income Taxes (Topic 740): Intra-Entity Asset Transfers and Balance Sheet Classification of Deferred Taxes.

## **ITEM 7: XBRL ACTIVITIES**

The FASB is responsible for the ongoing development and maintenance of the U.S. GAAP Financial Reporting Taxonomy (Taxonomy) applicable to public issuers registered with the SEC.

### **A. TECHNICAL ACTIVITIES**

1. Published the 2015 Taxonomy pending final acceptance by the SEC. Publishing includes delivering a comprehensive collateral package of release notes and

other supporting materials to the SEC that supports final acceptance and facilitates Taxonomy use by stakeholders.

2. Published Taxonomy Exposure Drafts for:
  - a. Accounting Standards Update 2014-17, Business Combinations (Topic 805): Pushdown Accounting (a consensus of the FASB Emerging Issues Task Force)
  - b. Accounting Standards Update No. 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity (a consensus of the FASB Emerging Issues Task Force)
  - c. Proposed Accounting Standards Update, Earnings per Share (Topic 260): Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions (a consensus of the FASB Emerging Issues Task Force)
  - d. Proposed Accounting Standards Update, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (a consensus of the FASB Emerging Issues Task Force)
  - e. Proposed Accounting Standards Update, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement.

## **B. OUTREACH ACTIVITIES**

1. The more significant Taxonomy-related outreach activities this quarter included the following:
  - a. FASB’s Taxonomy Advisory Group meetings
  - b. Meetings of the FASB Taxonomy industry working groups, the IASB IFRS Taxonomy Consultative Group, quarterly staff meeting with IASB Taxonomy Staff, and the SEC Division of Economic and Risk Analysis (DERA) staff.

## Technical Agenda Overview

<b>FRAMEWORK PROJECTS</b>	<b>Current Stage</b>	<b>Timing</b>
Conceptual Framework: Measurement	Initial deliberations	
Conceptual Framework: Presentation	Initial deliberations	
Disclosure Framework: Board's Decision Process	ED redeliberations	

<b>RECOGNITION &amp; MEASUREMENT: BROAD PROJECTS</b>	<b>Current Stage</b>	<b>Timing</b>
Accounting for Financial Instruments: Classification and Measurement	ED redeliberations	<b>Q2 2015</b>
Accounting for Financial Instruments: Hedging	Initial deliberations	
Accounting for Financial Instruments: Impairment	ED redeliberations	
Insurance: Targeted Improvements to the Accounting for Long-Duration Contracts	ED redeliberations	
Leases	ED redeliberations	

<b>RECOGNITION &amp; MEASUREMENT: NARROW PROJECTS</b>	<b>Current Stage</b>	<b>Timing</b>
Accounting for Goodwill for Public Business Entities and Not-for-Profit Entities	Initial deliberations	
Accounting for Identifiable Intangible Assets in a Business Combination for Public Business Entities and Not-for-Profit Entities	Initial deliberations	
Accounting for Income Taxes: Intra-Entity Asset Transfers and Balance Sheet Classification of Deferred Taxes	ED Comment period deadline	<b>May 29, 2015</b>
Accounting Issues in Employee Benefit Plan Financial Statements (EITF 15-C)	Initial deliberations	
Application of the Normal Purchases and Normal Sales Scope Exception to Certain Electricity Contracts within Nodal Energy Markets (EITF 15-A)	Initial deliberations	
Clarifying the Definition of a Business	Initial deliberations	
Consolidation: Principal versus Agent Analysis	Drafting final standard	<b>Q1 2015</b>
Customer's Accounting for Fees in a Cloud Computing Arrangement	ED redeliberations	
Employee Share-Based Payment Accounting Improvements	Drafting ED	<b>Q2 2015</b>

<b>RECOGNITION &amp; MEASUREMENT: NARROW PROJECTS (continued)</b>	<b>Current Stage</b>	<b>Timing</b>
Liabilities & Equity: Targeted Improvements	Initial deliberations	
Recognition of Breakage for No-Cash Prepaid Cards (EITF 15-B)	Initial deliberations	
Simplifying the Measurement Date for Plan Assets	ED redeliberations	
Simplifying the Subsequent Measurement of Inventory	ED redeliberations	
Technical Corrections and Improvements	ED redeliberations	

<b>PRESENTATION &amp; DISCLOSURE PROJECTS</b>	<b>Current Stage</b>	<b>Timing</b>
Clarifying Certain Existing Principles on Statement of Cash Flows	Initial deliberations	
Definition of a Public Business Entity (phase 2) (PCC Issue 14-01)	Initial deliberations	
Disclosures by Business Entities about Government Assistance	Initial deliberations	
Disclosure Framework: Entity's Decision Process	ED redeliberations	
Disclosure Framework: Disclosure Review—Defined Benefit Plans	Initial deliberations	
Disclosure Framework: Disclosure Review—Fair Value Measurement	Initial deliberations	
Disclosure Framework: Disclosure Review—Income Taxes	Initial deliberations	
Disclosure Framework: Disclosure Review—Inventory	Initial deliberations	
Disclosure Framework: Disclosures—Interim Reporting	Initial deliberations	
Disclosures Related to Hybrid Financial Instruments That Contain Bifurcated Embedded Derivatives	Drafting ED	<b>Q1 2015</b>
Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions (EITF 14-A)	ED redeliberations	
Fair Value Hierarchy Levels for Certain Investments Measured at Net Asset Value (EITF 14-B)	ED redeliberations	
Financial Statements of Not-for-Profit Entities	Drafting ED	<b>Q2 2015</b>
Insurance: Disclosures about Short-Duration Contracts	Drafting final standard	<b>Q2 2015</b>
Investment Companies: Disclosures about Investments in Another Investment Company	ED comment period deadline	<b>Feb 17, 2015</b>
Simplifying the Balance Sheet Classification of Debt	Initial deliberations	
Simplifying the Presentation of Debt Issuance Cost	ED redeliberations	



<b>RESEARCH PROJECTS</b>
Accounting for Convertible Financial Instruments
Accounting for Financial Instruments: Interest Rate Risk Disclosures
Accounting for Income Taxes: Presentation of Tax Expense/Benefit
Financial Performance Reporting ( <i>formerly Financial Statement Presentation</i> )
Nonemployee Share-Based Payment Accounting Improvements
Partnership Accounting (PCC Research Agenda)
Private Company Employee Share-Based Payment Accounting—Intrinsic Value Option for All Awards
Revenue Recognition—Effective Date
Revenue Recognition—Identifying Performance Obligations
Revenue Recognition—Licenses
Revenue Recognition—Principal versus Agent (reporting revenue gross versus net)