



**Testimony of**

**Leslie F. Seidman, Chairman**

**Financial Accounting Standards Board**

**before the**

**U.S. House of Representatives Financial Services Subcommittee**

**on Capital Markets and Government Sponsored Enterprises**

**Accounting and Auditing Oversight: Pending Proposals and Emerging Issues  
Confronting Regulators, Standard Setters and the Economy**

**March 28, 2012**

## **Introduction**

Chairman Garrett, Ranking Member Waters, and Members of the Subcommittee:

My name is Leslie Seidman and I am the Chairman of the Financial Accounting Standards Board (FASB or Board). I would like to thank you for this opportunity to participate in today's important hearing.

As the Subcommittee examines current issues facing accountants and auditors, I thought it would be helpful to outline for you the manner in which accounting standards are developed. In doing so, I would like to begin by providing a brief overview of the FASB and its parent organization, the Financial Accounting Foundation (FAF). I also want to explain the FASB's robust due process and how we remain accountable to our stakeholders. As you requested, I have summarized some recent guidance promulgated by the FASB as well as several of our pending projects, including our disclosure framework project and our convergence projects with the International Accounting Standards Board (IASB). Finally, I would like to highlight some of the changes that we have made to our process to better understand and respond to the issues of private companies and not-for-profit organizations.

### **The FASB**

The FASB is an independent private-sector organization that operates under the oversight of the FAF. For nearly 40 years, the FASB has established standards of financial accounting and reporting for nongovernmental entities, including both businesses (public and private) and not-for-profit organizations. Those standards are recognized as authoritative, generally accepted accounting principles (GAAP) by the U.S. Securities and Exchange Commission (SEC or Commission) for public companies and by the American Institute of Certified Public Accountants (AICPA) for other nongovernmental entities.

U.S. GAAP is essential to the efficient functioning of the U.S. economy because investors, creditors, donors, and other users of financial reports rely heavily on credible, transparent, comparable, and unbiased financial information. In today's dynamic financial markets, the need for integrity, transparency, and objectivity in financial reporting is increasingly critical to ensure the strength of U.S. capital markets and provide investors with accurate and timely information.

In 2002, Congress enacted the Sarbanes-Oxley Act, which included provisions protecting the integrity of the FASB's accounting standard-setting process. The legislation provided the FASB with an independent, stable source of funding. The legislation mandated an ongoing source of funding for the FASB from annual accounting support fees collected from issuers of securities, as those issuers are defined in the Sarbanes-Oxley Act.

It is important to note that although the FASB has the responsibility to set accounting standards, it does not have authority to enforce them. Officers and directors of a company are responsible for preparing financial reports in accordance with accounting standards. Auditors provide an opinion as to whether those officers and directors appropriately applied accounting standards. The Public Company Accounting Oversight Board (PCAOB) is charged with ensuring that auditors of public companies have performed an audit in accordance with generally accepted auditing standards, which include an auditor's analysis of whether a public company has complied with appropriate accounting standards. The SEC has the ultimate authority to analyze whether public companies have complied with accounting standards.

#### **The Mission of the FASB**

The FASB's mission is to establish and improve standards of financial accounting and reporting that foster financial reporting by nongovernmental entities that provides decision-useful information to investors and other users of financial reports. That mission is accomplished through a comprehensive and independent process that encourages broad participation, objectively considers all stakeholder views, and is subject to oversight by the FAF's Board of Trustees.

We recognize the critical role that reliable financial reporting plays in supporting the efficient functioning of the capital markets. Robust financial reporting increases investor confidence, which in turn leads to better capital allocation decisions and economic growth. Accounting standards are not intended to drive behavior in a particular way; rather, they seek to present financial information so that financial statement users can make informed decisions about how to best deploy their capital.

Today, as the U.S. economy continues to recover from the financial crisis and recession, the FASB remains committed to ensuring that our nation's financial accounting and reporting

standards provide investors with the information they need to confidently invest in the U.S. markets.

To accomplish its mission, the FASB acts to do the following:

1. Improve the usefulness of financial reporting by focusing on the primary characteristics of relevance and reliability and on the qualities of comparability and consistency
2. Keep standards current to reflect changes in methods of doing business and changes in the economic environment
3. Consider promptly any significant areas of deficiency in financial reporting that might be addressed through the standard-setting process
4. Improve the common understanding of the nature and purposes of information contained in financial reports.

As it works to develop accounting standards for financial reporting, the FASB is committed to following an open, orderly process that considers the interests of the many who rely on financial information. Because we understand that the actions of the FASB affect so many stakeholders, we are steadfastly committed to ensuring that the decision-making process is independent, fair, and objective.

### **The Standard-Setting Process**

An independent standard-setting process is paramount to producing high-quality accounting standards, since it relies on the collective judgment of experts, and it is informed by the input of all interested parties through a thorough, open, and deliberative process. The FASB sets accounting standards through processes that are open, accord due process to all interested parties, and allow for extensive input from all stakeholders. Such extensive due process is required by our Rules of Procedure, set by the Board within the parameters of the FAF's bylaws. Our process is similar to the Administrative Procedure Act process used by federal agencies for rulemakings but provides far more opportunities for interaction with all interested parties. In fact, in recent years, we have significantly expanded our ability to engage with stakeholders in a variety of ways.

The FASB's extensive due process involves public meetings, public roundtables, field visits or field tests, liaison meetings and presentations to interested parties, and the exposure of our proposed standards for public comment. The FASB videocasts its Board meetings and education sessions on its website to make it easier for stakeholders to observe our decision-making process. The FASB also creates podcasts and webcasts to provide short, targeted summaries of our proposals and new standards so that people can quickly assess whether they have an interest and want to weigh in. We also have been proactively reaching out to meet with stakeholders, including a wide range of investors and reporting entities, to discuss our proposals to help us to assess whether the proposals will lead to better information as well as to assess the related costs. Those interactive meetings allow the FASB and its staff to ask questions to better understand why a person holds a particular view, which can accelerate the identification of issues and possible solutions.

The FASB proactively meets with stakeholders, including a wide range of investors, auditors, and reporting entities, to identify implementation issues with existing standards. Those meetings with stakeholders help us to assess whether U.S. GAAP is providing useful information and also to assess the related costs.

The FASB conducts outreach on a frequent and regular basis with its numerous advisory groups. The primary role of advisory group members is to share their views and experience with the Board on matters related to practice and implementation of new standards, projects on the Board's agenda, possible new agenda items, and strategic and other matters.

In addition to the FASB's advisory groups, the Emerging Issues Task Force (EITF or Task Force) assists the FASB in improving financial reporting through the timely identification, discussion, and resolution of financial accounting issues relating to U.S. GAAP. The EITF also was designed to promulgate implementation guidance for accounting standards to reduce diversity in accounting practice on a timely basis. The EITF assists the FASB in addressing implementation, application, or other emerging issues that can be analyzed within existing U.S. GAAP. Task Force members are drawn from a cross section of the FASB's stakeholders, including auditors, preparers, and users of financial statements. The chief accountant or the deputy chief accountant of the SEC attends Task Force meetings regularly as an observer with

the privilege of the floor. The structure of the EITF is designed to include persons in a position to be aware of emerging issues before they become widespread and before divergent practices become entrenched.

The FASB also meets regularly with the staff of the SEC and the PCAOB. Additionally, since banking regulators have a keen interest in U.S. GAAP financial statements as a starting point in assessing the safety and soundness of financial institutions, we meet with them on a quarterly basis and otherwise, as appropriate. We also understand Congress's great interest and regularly brief Members and their staffs on accounting developments.

In short, the FASB actively seeks input from all of its stakeholders on proposals and processes and we are listening to them. Wide consultation provides the opportunity for all stakeholder voices to be heard and considered, the identification of unintended consequences, and, ultimately, broad acceptance of the standards that are adopted. The Board's wide consultation also helps it to assess whether the benefits to users of improved information from proposed changes outweigh the costs of the changes to preparers and others.

The FASB Chairman's Reports for all four quarters of 2011, which enumerate the FASB's technical activities, its education and communication activities, and its various forms of outreach with stakeholders, are provided as Attachment 1.

### **Oversight of FASB**

The FASB's accountability derives from oversight at two levels. First, the Board is overseen by the independent Board of Trustees of the FAF. Organized in 1972, the FAF is an independent, private-sector, not-for-profit organization. The FAF exercises its authority by having responsibility for oversight, administration, and finances of the FASB and its sister organization the Governmental Accounting Standards Board (GASB). The FAF also has responsibility for the following:

1. Selecting the members of the FASB, the GASB, and their respective Advisory Councils
2. Overseeing the FASB's and the GASB's Advisory Councils (including their administration and finances)

3. Overseeing the effectiveness of the FASB's and the GASB's standard-setting processes and holding the Boards accountable for those processes
4. Protecting the independence and integrity of the standard-setting process
5. Educating stakeholders about those standards.

Second, the FASB also is subject to oversight by the SEC with respect to standard setting for public companies. The SEC has the statutory authority to establish financial accounting and reporting standards for publicly held enterprises. For nearly 40 years, the SEC has looked to the private sector to set accounting standards. In 2003, the SEC issued a Policy Statement, *Reaffirming the Status of the FASB as a Designated Private-Sector Standard Setter*, which reaffirms its longstanding relationship with the FASB.

Additional information about the FASB and the FAF can be found in the 2010 Annual Report of the FAF, which is available on the FAF website.

### **FASB Activities**

One of the significant challenges facing our financial reporting system is the need to improve the transparency and overall usefulness of reported financial information to investors and other users of financial reports and reduce complexity. The FASB is addressing this challenge in a number of ways. First, the FASB has completed several projects to improve information provided in financial reports. Second, the FASB continues its work to improve accounting requirements in several areas, including its convergence projects to improve U.S. GAAP and International Financial Reporting Standards (IFRS) and narrow the differences between the two. Third, the FASB has made numerous process changes to improve its ability to understand and act upon private company concerns and the not-for-profit sector. Fourth, the FASB is working on a disclosure framework project intended to increase the utility of information disclosed in the financial statements. Lastly, the FASB continues to enhance the *FASB Accounting Standards Codification*<sup>®</sup> (Codification), which is the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities, and the XBRL (eXtensible Business Reporting Language) U.S. GAAP financial reporting taxonomy.

## Recently Completed Standard-Setting Activities

The FASB recently completed a number of amendments to U.S. GAAP through the issuance of Accounting Standards Updates (Updates) to improve accounting and disclosure requirements. Some of the changes affect how companies recognize and present certain transactions in their financial statements and other changes enhance footnote disclosures.

1. **Participation in multiemployer plans to be disclosed.** Previous accounting guidance required a company to disclose only its historical contributions made to multiemployer pension plans. The FASB introduced new disclosure requirements to increase awareness of a company's commitments and risks involved with participating in multiemployer pension plans.<sup>1</sup> The new disclosures improve transparency into how a company's future cash flows might be affected by its participation in a multiemployer pension plan.
2. **Qualitative assessment allowed for goodwill impairment test.** Goodwill impairment testing affects a large number of companies. Previous accounting guidance required companies to calculate the fair value of a business as part of a two-step goodwill impairment test. The FASB simplified the impairment test by introducing an initial qualitative assessment.<sup>2</sup> Under that simplified approach, a company is not required to calculate the fair value of the business unless that company determines that it is more likely than not that the fair value of the business is less than its carrying amount.
3. **Presentation of other comprehensive income (OCI) is enhanced.**<sup>3</sup> All companies that report items of OCI will be affected by this change. OCI items may no longer be presented in the statement of stockholders' equity. Instead, OCI will be presented after net income in either a single statement of comprehensive income or in two separate but consecutive statements.

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<sup>1</sup> FASB Accounting Standards Update No. 2011-09, Compensation—Retirement Benefits—Multiemployer Plans (Subtopic 715-80): Disclosures about an Employer's Participation in a Multiemployer Plan.

<sup>2</sup> FASB Accounting Standards Update No. 2011-08, Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment.

<sup>3</sup> FASB Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income.

4. **Amendments made to fair value measurement requirements.** The amendments result in common fair value definitions and disclosure requirements in U.S. GAAP and IFRS.<sup>4</sup> Among other things, the amendments clarify that a reporting entity should disclose quantitative information about inputs used in certain fair value measurements.
5. **Offsetting of derivatives, financial assets, and financial liabilities.**<sup>5</sup> To facilitate comparison between companies that use U.S. GAAP versus companies that use IFRS, the FASB and the International Accounting Standards Board (IASB) issued common disclosures about derivative contracts and other financial instruments. The new disclosures will require (a) both gross and net information about instruments and transactions eligible for offset in the balance sheet and (b) information about instruments and transactions subject to master netting arrangements or similar arrangements.
6. **Additional guidance about troubled debt restructurings.** Given the recent economic downturn, the volume of debt restructured by creditors has increased. The FASB issued additional guidance to help creditors to determine whether debt restructurings constitute troubled debt restructurings, which are subject to impairment guidance and supplemental disclosure requirements.<sup>6</sup>
7. **Insurance companies—change in the accounting for deferred acquisition costs.** Certain costs incurred by insurance entities qualify as deferred acquisition costs and can be capitalized in the acquisition of new and renewal insurance contracts rather than expensed when incurred. Under the amendments, fewer costs qualify as deferred acquisition costs; costs associated with the successful acquisition of a contract are now the only acquisition costs eligible for deferral.<sup>7</sup>
8. **Change in how effective control is determined for repurchase agreements.** Under previous guidance, a company had to consider the extent of collateral maintained in its assessment of whether a repurchase agreement should be accounted for as a sale or

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<sup>4</sup> FASB Accounting Standards Update No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*.

<sup>5</sup> FASB Accounting Standards Update No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*.

<sup>6</sup> FASB Accounting Standards Update No. 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*.

<sup>7</sup> FASB Accounting Standards Update No. 2010-26, *Financial Services—Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*.

secured borrowing. The FASB concluded that the criterion pertaining to an exchange of collateral should not be a determining factor when evaluating the accounting for a repurchase agreement. As a result, some repurchase transactions will be reported as secured borrowings rather than as sales.<sup>8</sup> That change will affect leverage and expense ratios.

A list of recent Updates issued by the FASB is provided as Attachment 2.

### **Ongoing Standard-Setting Activities**

The FASB has a number of ongoing projects to improve accounting and disclosure requirements in several areas, including its projects to improve U.S. GAAP and IFRS and narrow the differences between the two.

The current Technical Plan for all of the FASB projects underway (joint and standalone) is provided as Attachment 3.

### **Convergence Activities with the IASB**

The FASB has long supported the goal of developing high-quality, comparable global accounting standards based on the 2002 Norwalk Agreement and the 2006 Memorandum of Understanding (MOU) (as updated in 2008).

The MOU reflects the decision by the FASB and the IASB, with concurrence of the SEC and the European Commission, that their resources should focus on developing converged and improved standards in those areas in U.S. GAAP and IFRS that were most in need of improvement. To that end, the FASB and the IASB have substantially converged accounting standards in a number of areas including business combinations, noncontrolling interests, fair value measurements, borrowing costs, segment reporting, stock compensation, and nonmonetary exchanges.

However, significant differences remain, and the FASB and the IASB are working together and making progress on the four remaining priority projects (revenue recognition, leasing, financial

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<sup>8</sup> FASB Accounting Standards Update No. 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements*.

instruments, and insurance). In areas in which we have not yet reached converged solutions, we are reviewing the differences to see if further convergence can be achieved.

While the FASB is committed to working at a deliberate pace to develop improved, converged, and sustainable standards, it is equally committed to making sure that the standards result in improved financial information for investors and that companies and auditors understand the new requirements and can implement them in an orderly manner. Those proposed standards go to the core of a company's operating metrics, and the FASB is committed to ensuring that stakeholders have ample opportunities to comment on proposed changes and identify possible implementation issues before the standards are finalized. The four priority convergence projects are described below.

### ***Revenue Recognition***

In November 2011, the FASB and the IASB issued a revised Exposure Draft<sup>9</sup> of a comprehensive principle and application guidance for when and how to recognize revenue. The revised Exposure Draft reaffirms the principle for revenue recognition from the first Exposure Draft (issued June 2010) but, based on the feedback we received, we made changes that were aimed at reducing complexity and adding clarity to the basic concepts. The Boards decided to reexpose the revised proposal for public comment as a quality control measure because revenue is such an important indicator of performance for virtually every company around the world.

The FASB has taken a number of steps to inform stakeholders about the revised proposal. The FASB website contains a webcast explaining the major provisions, a webcast answering frequently asked questions, and a reference tool comparing current requirements with the proposed requirements and highlighting the industries that would be affected.

Since the issuance of the revised Exposure Draft, the FASB also has been conducting extensive outreach meetings with stakeholders around the globe to help them understand the proposal and the changes that we intend to help them formulate their views. We have a number of roundtables planned in locations around the world to discuss feedback on the proposed changes. We also

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<sup>9</sup> Proposed FASB Accounting Standards Update, *Revenue Recognition (Topic 605): Revenue from Contracts with Customers*, and IASB Exposure Draft, *Revenue from Contracts with Customers*.

have a simple electronic feedback form on the website, which is ideal for targeted feedback on a narrow point or an overall statement in which you agree with the proposal or in which your previous concerns have been addressed.

The Boards expect to begin joint redeliberations in the second quarter, with a goal of completing those discussions by the end of the year. However, that timing depends on the nature of the feedback we receive and how long it takes to work it through. Based on the current plan, we expect to issue a converged new standard in the first quarter of 2013.

### *Leasing*

The Boards were urged to consider changes to existing accounting standards on leasing for a few reasons including (1) the feedback from investors that significant lease obligations were not being reported on the balance sheet, (2) the complexity of the existing guidance, and (3) to converge the guidance in U.S. GAAP and IFRS. In August 2010, the Boards issued an Exposure Draft<sup>10</sup> proposing that the rights and obligations relating to leases be reported on a company's balance sheet. For the last several months, the FASB and the IASB have been jointly considering the feedback we received on that original Exposure Draft. Based on that feedback, the Boards have already decided to make (a) numerous changes to the original proposal, which largely address issues relating to complexity, and (b) clarifications of the scope of the proposed standard. The Boards have reaffirmed their decision that the rights and obligations relating to leases belong on the balance sheet, which has been widely supported by investors.

However, the Boards have continued to receive feedback indicating concerns with the income statement effects resulting from the proposed right-of-use model. Many stakeholders, including preparers and some investors, do not view certain types of leases as being similar to a purchase and financing of part of an asset. Both Boards are trying to work through those concerns. The Boards have asked the staff to conduct outreach to evaluate the decision usefulness and operability of two alternative approaches before they decide how to proceed. Leasing is a very pervasive transaction, and we want to make sure that we have carefully considered the concerns that have been raised before we move forward with another Exposure Draft.

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<sup>10</sup> Proposed FASB Accounting Standards Update, *Leases (Topic 840)*, and IASB Exposure Draft, *Leases*.

On the lessor side, the Boards also have revisited the conclusions in the first Exposure Draft to address the concerns that had been raised. We decided to apply a proportionate sale model for all leases except leases of investment property, which would be excluded from the scope. However, given the potential changes being considered for lessees, the Boards asked the staff to explore whether there should be symmetrical accounting for lessors, which could have implications for the Board's previous decisions for lessors. The staff will gather input on those issues, and we expect to continue our discussions with the IASB in May 2012.

This additional analysis will extend the timetable on leasing by a few months. If the Boards reach a decision in May 2012, then we would expect to conclude our discussions in the second quarter, with a revised Exposure Draft in the third quarter of 2012. During the comment period, the Boards plan to conduct additional outreach with investors and a wide range of companies that lease property and equipment. The purpose of the outreach is to help people understand the revised proposal, gain an understanding of the expected costs of implementation, and to gather additional input from investors and other users of financial statements about whether the resulting information is useful in their decision making. At this point, we would anticipate a final standard in mid 2013.

### *Accounting for Financial Instruments*

The financial instruments project aims to provide a more timely and fulsome description of a company's involvement in financial instruments. The project addresses how to (1) classify and measure financial instruments, (2) account for impairments (loan loss provisioning), and (3) improve reporting of hedging activities. The Boards' overall objective is to simplify, improve, and converge the accounting for financial instruments. Differing timetables and priorities led the FASB and the IASB to develop separate proposals. The IASB issued final guidance on classification and measurement (IFRS 9, *Financial Instruments*) as well as separate proposals on impairment and hedging, while the FASB issued a comprehensive Exposure Draft in May 2010.<sup>11</sup>

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<sup>11</sup> Proposed FASB Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instrument and Hedging Activities—Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815)*.

## **Classification and measurement of financial instruments**

The May 2010 FASB Exposure Draft on financial instruments proposed a much greater use of fair value measurement for financial instruments than exists under current accounting guidance or under IFRS 9. The feedback that the FASB received on that proposal indicated that the vast majority of investors, reporting entities, and other stakeholders did not think that fair value was the most appropriate measurement attribute for some financial instruments in the balance sheet. They suggested various ways to enhance the information through a more robust impairment approach and expanded disclosures, particularly for loans. Based on that feedback, in its deliberations to date, the FASB has tentatively decided that at least some assets should qualify for cost accounting based on the characteristics of the instrument and the entity's business strategy in holding them.

In November 2011, the IASB decided to consider making limited modifications to IFRS 9. That decision gives the Boards an opportunity to try to narrow the differences with the tentative classification and measurement model that the FASB has been developing. The Boards began joint discussions at their February 2012 meeting, and plan to continue those joint discussions over the next few months.

## **Impairment of financial instruments**

The FASB and the IASB initially proposed different impairment models, but are now developing a joint approach to credit impairment based on variations of their previous proposals. This joint approach is based on expected losses and is more forward looking than the current incurred loss approach. Under this joint approach, companies would recognize losses as a loan deteriorates based on supportable information (for example, past events, current conditions, and reasonable and supportable forecasts) that is consistent with externally available information and considered relevant in measuring the credit impairment allowance. (Under current U.S. GAAP, an impairment loss is not recognized until it is *probable*.)

The joint staff team continues to perform extensive outreach to determine whether the approach is operational. The current plan is to complete joint deliberations on impairment in the second

quarter of 2012 and issue a converged Exposure Draft in the second half of 2012. Based on that timetable, we would expect to finalize the new impairment requirements in the first half of 2013.

### **Hedging**

The FASB plans to consider whether to expand its evaluation of hedge accounting issues following the joint discussions of classification and measurement issues.

### **Risk disclosures about financial instruments**

In response to significant investor feedback on the FASB's May 2010 Exposure Draft on financial instruments, the FASB has developed new disclosure requirements about liquidity and interest rate risk. The FASB plans to expose those proposed disclosure requirements in the second quarter of 2012.

### ***Repurchase Agreements***

Current accounting guidance and current transaction structures result in most repurchase agreements being accounted for as secured borrowing transactions with only certain types of transactions being accounted for as sale transactions. Those are repurchase agreements involving the return of a security that is different from the security originally transferred and repo-to-maturity transactions.

Concerns about the accounting for repo-to-maturity transactions had not been raised in the past, even when the FASB previously considered certain aspects of the accounting for repurchase agreements, as recently as 2010. However, in late December 2011, the FASB was made aware of concerns about the accounting for repo-to-maturity transactions. In January 2012, the staff in the SEC's Office of the Chief Accountant and the staff at the FASB began evaluating those concerns. The FASB staff commenced outreach activities with various stakeholders to better understand current practices related to repo-to-maturity agreements. Our outreach indicates that market practices have changed over the years since this accounting guidance was established (in 1996). For example, while historically, repurchase agreements involved mostly U.S. Treasury and agency securities, the range of debt instruments has broadened to include other types of debt securities, which may be less creditworthy and consequently affect how those transactions operate and how investors consider the risks associated with them.

Accordingly, on March 21, 2012, the FASB added a project to its agenda to reconsider the accounting and disclosure guidance for repurchase agreements and similar transactions. In keeping with our due process procedures, we will hold a series of public meetings to deliberate the issues raised and expose a proposed standard for public comment. Subject to nature of our deliberations and the feedback we receive, we expect that a final standard could be issued in 2012.

### ***Insurance***

The FASB and the IASB have been working together to develop a converged global standard on accounting for insurance contracts. In general, the Boards are developing a model that would reflect current estimates of the amount necessary to fulfill an insurance obligation. However, we have not reached consistent conclusions about several elements of the model. There is a strong desire for a global standard on insurance, and the Boards are undertaking an effort to gain a deeper understanding of the decisions taken by each Board to identify potential opportunities to resolve differences. Once we have worked through some of those issues, we will evaluate the prospects for further convergence and decide how to proceed.

The FASB and the IASB are at different points in the process on the insurance contracts project. The FASB is developing its first Exposure Draft, whereas the IASB has already issued an Exposure Draft, *Insurance Contracts*. We currently estimate that we will conclude our major technical discussions in the second quarter of 2012, with a FASB Exposure Draft in the second half of 2012. The IASB will determine whether to reexpose the changes they made during redeliberations.

### ***Further Convergence of International Standards***

Many stakeholders, including leaders of the G-20 nations and the SEC, have called for the FASB and the IASB to continue efforts to converge accounting standards in key areas. On May 26, 2011, the SEC Staff issued a paper titled, *Exploring a Possible Method of Incorporation* under the SEC's *Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers*. The SEC Staff Paper described an approach to incorporation colloquially referred to as "Condorsement". The FAF Board of

Trustees and the FASB Board members carefully considered the proposed approach and the comments made by U.S. stakeholders to the SEC about the approach. In November 2011, the Chairman of the FAF, on behalf of the Board of Trustees, submitted a letter to the SEC supporting an incorporation approach with some recommended modifications and clarifications intended to address the concerns that were raised by many who offered comments to the SEC Staff.<sup>12</sup>

### ***Private Company Accounting***

Privately held companies remain very important to the FASB in achieving its mission. The FASB recently has made numerous process changes to improve its ability to understand and act upon private company concerns. For example, the FASB did the following:

1. Welcomed the FAF's appointment of a Board member with a private company preparer background and another Board member with significant experience investing in and auditing private companies
2. Assigned private company liaisons to each project team to better provide input on how proposed changes to U.S. GAAP would affect private companies
3. Held roundtables comprised only of private company stakeholders to discuss proposed changes to U.S. GAAP
4. Increased participation in conferences targeting private company stakeholders
5. Developed an electronic feedback form to enable stakeholders to more easily respond to proposed changes to U.S. GAAP
6. Increased the use of webcasts and podcasts about proposed changes to U.S. GAAP to increase awareness of our activities and encourage participation.

In addition, the FASB has increased its face-to-face interactions with its nonpublic advisory groups, the Small Business Advisory Council (SBAC) and the Private Company Financial Reporting Committee (PCFRC). The SBAC focuses on increasing the opportunities for small business community members (both public and private) to share their ideas, knowledge, and

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<sup>12</sup>Brennan, John J., Letter to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, November 15, 2011. <http://www.sec.gov/comments/4-600/4600-158.pdf>.

experience with the FASB, as well as with the other group members. The PCFRC represents privately held business entities and focuses on how standard setting affects day-to-day technical activities and procedures from a cost/benefit perspective.

The FASB has taken these steps to make private company concerns an integral part of every standard-setting deliberation it undertakes. The process changes noted above have led to recent changes in accounting standards on goodwill impairment<sup>13</sup> and disclosures about multiemployer pension plans.<sup>14</sup> In addition, we have two projects underway that focus on private companies. The first is to ensure that we have a common understanding of when differences are appropriate for private companies versus public companies in U.S. GAAP. We have heard a wide range of views—at one end, the perspective that “significant changes are required” and at the other end, the view that “there should be no differences in recognition and measurement.”

To try to build consensus on this core issue, the FASB staff has been developing a decision-making framework that will describe a number of the distinguishing characteristics of private companies and then suggest how those characteristics might affect the various types of accounting and disclosure issues that we typically address. The staff has been working with a resource group of private company professionals to vet these ideas, and our plan is to issue a draft framework in the second quarter for public comment.

A related issue is the definition of a private company. The FASB recently added a project to clarify the definition for a few reasons. First, it will help establish which entities have specific attributes that would potentially warrant a difference in reporting. Second, we plan to address a number of practice issues that have emerged over the years, including some recent changes in legislation about filing requirements for various types of entities. And third, there are a number of existing definitions of a nonpublic entity in U.S. GAAP, and we see an opportunity to reduce complexity in that area.

In addition to the FASB’s efforts, the FAF Board of Trustees has taken a number of steps to address private company concerns. Most recently, the trustees developed a plan to establish a

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<sup>13</sup> Update 2011-08.

<sup>14</sup> Update 2011-09.

Private Company Standards Improvement Council (PCSIC).<sup>15</sup> The public comment period for the trustees' proposed plan ended on January 14, 2012. The trustees conducted four roundtables and other forms of outreach across the country this year and will make a final decision after reviewing and considering public input.

### *Not-for-Profit Accounting*

The FASB has a long-standing commitment to the not-for-profit sector as part of its standard-setting process for U.S. GAAP. Over the years, the FASB has addressed the accounting and reporting needs of the sector, both for transactions that are unique to the sector (for example, contributions received) and for transactions that it has in common with public and private business enterprises (for example, employee postretirement benefit obligations). The FASB has staff dedicated to advising the Board and other staff members on issues pertinent to the not-for-profit sector and communicating with members of the sector. To reinforce and broaden such consultation and communication, the FASB created a Not-for-Profit Advisory Committee (NAC) in 2009. The NAC serves as a standing resource for the FASB in obtaining input from the not-for-profit sector on existing guidance, current and proposed technical agenda projects, and longer term issues affecting those organizations.

With the help of the NAC, the FASB will reexamine existing standards to improve the way donor restrictions are considered in the presentation of net assets and to provide more relevant information about a nonprofit's liquidity, financial performance, and cash flows. The FASB plans to start discussing those issues in the second quarter of 2012. FASB staff also will be conducting research about best practices followed by nonprofits to "tell their story" about their financial health and the overall effectiveness of their organizations. The EITF also is currently working to address two accounting issues unique to the not-for-profit sector.

### *Disclosure Framework*

Stakeholders have expressed concerns about disclosure overload or, often, disclosure ineffectiveness. In response to those concerns, the FASB has added a disclosure framework

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<sup>15</sup> Financial Accounting Foundation, *Plan to Establish the Private Company Standards Improvement Council*, October 4, 2011. See Attachment 4.

project to its agenda. We have been working to develop a framework to identify what information is most informative to users of financial statements. The framework would guide the Board in future decisions about disclosure requirements, but it also would provide a guide for companies on how to exercise discretion, to make the information presented most relevant at any point in time.

The second objective is to seek ways to better integrate information provided in financial statements, Management Discussion & Analysis (MD&A), and other parts of a reporting entity's financial reporting package. The intention is to promote meaningful communication and avoid repetition wherever possible. The desired results are an increase in the utility of the information disclosed and a net reduction in volume.

The FASB is working cooperatively with a few European standard-setting bodies and with the assistance of a U.S.-based resource group. We currently expect to issue a discussion document for public commentary in mid 2012. We plan to review existing disclosure requirements as well, but will consider the feedback on the proposed framework first.

#### ***FASB Accounting Standards Codification®***

In 2009, the FASB officially launched the Codification as the source of authoritative nongovernmental U.S. GAAP. This was a milestone event for the FASB and the U.S. financial reporting system, ushering in a new era of modern accounting research to accounting and financial reporting professionals, as well as to analysts and investors. The Codification's launch culminated a multiyear effort to make the U.S. GAAP literature more accessible and user friendly. Instead of U.S. GAAP standards scattered among many pronouncements issued by various standard setters over the years, the Codification provides constituents with one topically organized, easily accessible online research system.

With the launch of the Codification, the FASB is no longer adding numbered Statements, Interpretations, FASB Staff Positions, and the like to U.S. GAAP but, rather, is issuing Updates that contain amendments to the relevant sections of the Codification.

The new system significantly reduces the amount of time and effort required to research accounting issues, mitigates the risk of noncompliance with standards through improved

usability of the literature, provides accurate information with real-time updates as new standards are released, and assists the FASB with the research efforts and literature amendments required during the standard-setting process.

To monitor the effectiveness of the Codification, the Codification system allows users to submit content feedback. In addition, the FASB meets with stakeholders to discuss concerns about the Codification and recently solicited feedback via a user survey. The FASB staff reviews feedback on the Codification in an ongoing manner and the Board periodically issues technical corrections to update the Codification to address feedback received.

### ***U.S. GAAP Financial Reporting Taxonomy***

The U.S. GAAP Financial Reporting Taxonomy is a list of computer-readable tags in XBRL that allows companies to label precisely the thousands of pieces of financial data that are included in typical long-form financial statements and related footnote disclosures. (XBRL is a standard for tagging business and financial reports to increase the transparency and accessibility of business information by using a uniform format.) The tags allow computers to automatically search for and assemble data so those data can be readily accessed and analyzed by investors, analysts, journalists, and the SEC staff. The FASB's development of the taxonomy is investor-focused and its use has increased substantially over the past few years. As a result, the FASB is continually striving to understand how the information is used by investors and other users and has initiated some mechanisms such as the FASB Taxonomy Advisory Group (made up of analysts, data aggregators, accounting firms, service providers, and preparers) to advise it on these matters. The FASB also launched an online review and comment system to make it easier for stakeholders to submit comments on the U.S. GAAP Financial Reporting Taxonomy.

### **Conclusion**

Thank you for the opportunity to provide a brief overview of the FASB and its many pending projects and initiatives. I would be pleased to answer any questions.

Attachments:

1. The FASB Chairman's Reports for 2011
2. List of ASUs issued by the FASB since January 1, 2011
3. Current Technical Plan for all of the FASB projects underway (joint and standalone)
4. Financial Accounting Foundation, *Plan to Establish the Private Company Standards Improvement Council*, October 4, 2011.

REPORT OF THE FASB CHAIRMAN  
TO THE FINANCIAL ACCOUNTING FOUNDATION  
January 1, 2011 through March 31, 2011

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**ITEM 1: TECHNICAL ACTIVITIES**

**BOARD AND STAFF ACTIVITIES**

- a. Final Document Issued:
1. Accounting Standards Update No. 2011-01, *Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20* (issued January 19, 2011).
- b. Exposure Documents Issued:
1. Proposed Accounting Standards Update, *Balance Sheet (Topic 210): Offsetting* (issued January 28, 2011). Comment deadline: April 28, 2011.
  2. Supplementary Document, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities—Impairment* (issued January 31, 2011). Comment deadline: April 1, 2011.
  3. Discussion Paper, Invitation to Comment—*Selected Issues about Hedge Accounting (including IASB Exposure Draft, Hedge Accounting)* (issued February 9, 2011). Comment deadline: April 25, 2011.
- c. From time to time, the FASB issues Accounting Standards Updates to amend the nonauthoritative portions of the *FASB Accounting Standards Codification*® (such as the nonauthoritative SEC content). No such Updates were issued this quarter.
- d. No new projects were added to the Technical Agenda.
- e. An agenda request to add a project to the Technical Agenda on the definition of a nonpublic entity was considered but declined.
- f. No projects were removed from the Technical Agenda.
- g. Outreach Activities—Public Roundtable Meetings. The FASB held the following public roundtable meetings:
1. Four public roundtable meetings were held to discuss the Exposure Draft on Leases. One of those roundtable meetings, held in Chicago, was composed solely of nonpublic company participants.
- h. Outreach Activities—Meetings of FASB Standing Advisory Groups:

1. Financial Accounting Standards Advisory Council (FASAC) meeting. Seven Board members and several FASB staff members met with FASAC in March to discuss the Board's projects on Accounting for Financial Instruments, Revenue Recognition, and Leases. Participants also discussed their views about issues that the FASB should consider in setting its future agenda, once it completes the current priority projects.
  2. Investors Technical Advisory Committee (ITAC) meeting. Five Board members and several FASB staff members met with ITAC in an open meeting in January to discuss the Board's projects on Leases and Accounting for Financial Instruments and the Discussion Paper on Effective Dates and Transition Methods. Participants also discussed the need for a potential future FASB project on the Accounting for Pensions.
  3. Not-for-Profit Advisory Committee (NAC) meeting. Two Board members and several staff members met with NAC members in an open meeting to discuss the definition of public and private entities, the reporting model for not-for-profit organizations, the Board's projects on Revenue Recognition and Leases, and other matters of interest.
- i. Outreach Activities—Other Consultations with Stakeholders:
1. National Association of College and University Business Officers (NACUBO). Five Board members and several staff members met in an open meeting with representatives of the NACUBO's Accounting Principles Council in January. Participants discussed what readers of higher education financial statement want to know, focusing on both public and nonpublic entities. Participants also discussed the Board's projects on Accounting for Financial Instruments, Revenue Recognition, and Leases, as well as feedback on the classification requirements for net asset by not-for-profit organizations.
  2. Chartered Financial Analysts Institute (CFA). Five Board members and several staff members met in an open meeting with representatives of the CFA's Corporate Disclosure Policy Committee in February. Participants discussed individual and cross-cutting issues on the priority projects. Participants also discussed the Board's projects on Disclosure Framework, Effective Dates and Transition Methods, Financial Statement Presentation, Loss Contingencies, and Investment Properties.
  3. Three FASB members met privately with representatives from the Campaign for Quality Construction (CQC) and the Mechanical Contractors Association of America (MCAA) to discuss the ongoing project on Disclosures about an Employer's Participation in a Multiemployer Plan.
  4. Two FASB members met privately with representatives from the National Council of Real Estate Investment Fiduciaries (NCREIF) to discuss the ongoing project on Investment Properties.

- j. Other significant project-specific outreach activities:
1. Offsetting financial assets and financial liabilities—representatives of the FASB participated in over 25 calls and other meetings with various groups of investors, preparers, and auditors.
  2. Revenue recognition—the project team continued their targeted outreach program to obtain feedback throughout the redeliberations process. The staff met with various companies and industry organizations including representatives from the entertainment and media, aerospace and defense, engineering and construction, technology, software, pharmaceutical and biotechnology, and financial services industries.
  3. Financial statement presentation—representatives of the FASB meet privately with the Investment Company Institute working group.
  4. Goodwill impairment—representatives of the FASB participated in calls with a number of preparers, users, and auditor groups.

#### COLLABORATION WITH THE INTERNATIONAL ACCOUNTING STANDARDS BOARD

- a. The FASB and the IASB held multi-day joint Board meetings in January, February, and March using their video-conferencing capabilities and a three-day face-to-face joint Board meeting in London in February and Norwalk in March.
- b. FASB staff participated in IASB Board meetings to discuss technical issues on the Boards' various joint projects.
- c. FASB members participated in joint Board advisor meetings on Revenue Recognition, and Insurance.
- d. The FASB and the IASB held joint education sessions on Revenue Recognition, Leases, and Insurance.
- e. Two FASB Board members and staff participated in a public meeting of the Leases Working Group (Norwalk).
- f. An FASB Board member and staff participated in a public meeting of the Leases Working Group (London).
- g. FASB staff participated with IASB staff in conducting outreach on the projects on Impairment and Offsetting Financial Assets and Financial Liabilities.
- h. The FASB and IASB directors met periodically to discuss technical and administrative matters.

## OTHER INTERNATIONAL ACTIVITIES

- a. Two FASB Board members, the technical director, and several staff members met with representatives of the Accounting Standards Board of Japan to discuss progress on their shared goal of convergence. The Boards also discussed the projects on Accounting for Financial Instruments, Revenue Recognition, Leases, and the issues surrounding the interest rate on the measurement of liabilities.
- b. The FASB sponsored the National Standard Setters two-day meeting and dinner in New York. The FASB chairman, an FASB Board member, and the FASB technical director participated in the meeting.
- c. The FASB chairman, the FAF chairman, and the FAF CEO met with representatives of the European Commission, EFRAG, the U.S. Treasury, and the U.S. Ambassador to the E.U. to discuss progress on the convergence projects and other matters of mutual interest.

## XBRL ACTIVITIES

The FAF is responsible for the ongoing maintenance of the taxonomy applicable to public issuers registered with the SEC. The FAF has delegated those maintenance responsibilities to the FASB.

- a. On January 18, 2011, we posted the 2011 U.S. GAAP Financial Reporting Taxonomy (UGT) to the FASB website. The SEC officially adopted the 2011 UGT on February 28, 2011, making it available for use by public issuers registered with the SEC.

## EDUCATIONAL WEBCASTS AND PODCASTS DELIVERED

1. 2011 Chairman's Outlook for the FASB (January webcast)
2. XBRL 2011 Taxonomy Overview (February webcast)
3. The FASB's Supplementary Document on Impairment (January podcast)

## SPEECHES DELIVERED

The following is a list of speeches delivered during the 1<sup>st</sup> quarter of 2011:

- AAA Financial Accounting & Reporting Section—Midyear Meeting
- CFA Institute—Cayman CFA Society
- CFA Institute
- Corporate Directors Forum
- CT Society of CPAs (CSCPA) Not-for-Profit Committee Meeting
- Deloitte Trueblood Seminar
- FEI Central Florida Chapter
- FEI Tampa Chapter

- FEI Philadelphia Chapter
- FEI Committee on Corporate Reporting
- Financial Services Roundtable
- Florida State University College of Business
- Investor Roadshow (CLSA sponsored)
- LTA Committee Conference
- National Association of Regulatory Utility Commissioners
- National Society of Accountants for Cooperatives Roundtable
- NCFE Legal, Tax & Accounting Conference & NSAC Conference
- New York State Society of CPAs (NYSSCPA) Higher Education Conference
- NYSSCPA Annual Not-for-Profit Conference
- Northwestern Law School's 38<sup>th</sup> Annual Securities Regulation Institute
- Pathways Commission
- Public Company Accounting Oversight Board (PCAOB) Annual Inspections Training
- Standard & Poor's Accounting Conference
- United States Chamber of Commerce, Center for Competitiveness
- University of Wisconsin, Arthur Andersen Center School of Business.

#### PROFESSIONAL DEVELOPMENT—FASB STAFF AND BOARD

- a. The following professional development sessions were presented to the Board and staff:
  1. Bank Regulatory Capital, presented by Steven P. Merriett, Assistant Director and Chief Accountant—Supervision for the Federal Reserve Board's Division of Banking Supervision and Regulation, and R. Ryan Richards, Senior Supervisory Financial Analyst for the Federal Reserve Board's Division of Banking Supervision and Regulation.
  2. XBRL in 2011, presented by Louis Matherne, FASB Chief of Taxonomy Development; Christine Tan, FASB XBRL Project Manager; Adrian Hong, FASB XBRL Technical Research Assistant; and David Shaw, FASB XBRL Technical Research Assistant.
  3. Conducting Interviews for Research, presented by Dean Mead, GASB Research Manager.
  4. Effective Writing, presented by Mary Huydic, FASB Editor.

#### ITEM 2: ADMINISTRATIVE MATTERS AND STRATEGIC ACTIVITIES

- a. All Board members attended the January FAF Trustees meeting.
- b. In March, the FASB launched live video-webcasting of its education sessions.

### **ITEM 3: WASHINGTON ACTIVITIES**

- a. Members of Congress, their staffs, and the Administration were informed about the activities of the FASB through various meetings and other forums, including:
  1. The FASB chairman and FASB staff and FAF staff provided the Treasury Assistant Secretary for International Markets & Development with a conference call update on convergence, offsetting, and hedging.
  2. An FASB Board member and FAF staff met with the PBGC Director and senior staff to brief them on the FASB's Multi-Employer Plan Disclosure Exposure Draft.
  3. An FASB Board member and FAF staff met with Senate HELP Committee and Senate Finance Committee staff to brief them on the FASB's Multi-Employer Plan Disclosure Exposure Draft. In addition, FASB and FAF staff conducted a conference call with Senate staff members of the HELP Committee to answer questions on the proposed disclosure requirements in the Multi-Employer Exposure Draft.

### **ITEM 4: ADDITIONAL COMMUNICATIONS ACTIVITIES**

- a. The FASB issued the following press releases/media advisories:
  1. 1-10-11: Susan M. Cospers Named Technical Director of the Financial Accounting Standards Board
  2. 1-14-11: Financial Accounting Foundation Appoints Daryl E. Buck and R. Harold Schroeder to the Financial Accounting Standards Board
  3. 1-14-11: MEDIA ADVISORY: FASB to Host January 25 Webcast, *2011 Chairman's Outlook on the FASB* with Leslie F. Seidman
  4. 1-19-11: MEDIA ADVISORY: Registration Is Now Open for January 25 Webcast, *2011 Chairman's Outlook on the FASB* with Leslie F. Seidman
  5. 1-28-11: IASB and FASB Propose to Align Balance Sheet Netting Requirements—*Differences in IFRS and US GAAP Offsetting Requirements to Be Eliminated*
  6. 1-31-11: IASB and FASB Propose Common Solution for Impairment Accounting—*Boards Jointly Address Fundamental Aspect of Financial Instruments Accounting*
  7. 2-9-11: FASB Discussion Paper Seeks Input on Issues about Hedge Accounting
  8. 2-11-11: Representatives of the Accounting Standards Board of Japan and the Financial Accounting Standards Board Meet to Discuss Global Convergence
  9. 2-14-11: FASB to Host February 24 Webcast, *XBRL 2011 Taxonomy Overview*
  10. 2-17-11: The Financial Accounting Foundation Reappoints Thomas J. Linsmeier to a Second Term on the FASB
  11. 2-22-11: MEDIA ADVISORY: Register Now for February 24 Webcast, *XBRL 2011 Taxonomy Overview*

12. 3-1-11: MEDIA ADVISORY: 2011 US GAAP Financial Reporting Taxonomy Adopted and Supported by SEC Effective February 28, 2011
  13. 3-7-11: Financial Accounting Foundation Announces Live Video Webcasting of FASB Education Sessions
  14. 3-17-11: Financial Accounting Standards Board Announces Joint FASB/IASB Public Roundtable Meetings on Proposed Standard on Offsetting
- b. The FASB issued “FASB in Focus” documents during the month of January for the Exposure Draft on Offsetting of Financial Assets and Liabilities and the Supplementary Document on Impairment of Financial Assets.
  - c. In January, Leslie Seidman was interviewed by Ellen Heffes of *Financial Executives Magazine* for an in-depth profile of the new FASB chairman.
  - d. On March 3, Leslie Seidman participated in an interview conducted by Matt Lamoreaux for the *Journal of Accountancy*. The interview covered a broad array of topics regarding the new chairman’s priorities for the FASB in 2011 and beyond.
  - e. The following student groups visited the FASB for tours:
    - a. Creighton University—January 5, 20 students
    - b. University of New Hampshire—March 10, 30 students
    - c. Texas A&M Fellows—March 16, 13 students
    - d. Champlain College—March 30, 15 students

#### **ITEM 5: GASB LIAISON ACTIVITIES**

- a. GASB meeting minutes were sent to the FASB directors.
- b. The GASB RTA director and the FASB P&S director held monthly meetings and met quarterly with the FASB and GASB chairmen.
- c. The GASB staff distributed a draft of the preliminary views document, *Recognition of Elements of Financial Statements and Measurement Approaches*, to the FASB for review.
- d. The FASB staff distributed the following drafts for GASB’s review:
  - Accounting Standards Update, *Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20*
  - Accounting Standards Update, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirement in U.S. GAAP and IFRS*
  - Accounting Standards Update, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*
  - Accounting Standards Update, *Receivables (Topic 310): Clarifications to Accounting for Troubled Debt Restructurings by Creditors*
  - Proposed Accounting Standards Update, *Balance Sheet (Topic 210): Offsetting*

- Proposed Accounting Standards Update, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment*.

REPORT OF THE FASB CHAIRMAN  
TO THE FINANCIAL ACCOUNTING FOUNDATION  
April 1, 2011 through June 30, 2011

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**ITEM 1: TECHNICAL ACTIVITIES**

**BOARD AND STAFF ACTIVITIES**

- a. Final Documents Issued:
1. Accounting Standards Update No. 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring* (issued April 5, 2011)
  2. Accounting Standards Update No. 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements* (issued April 29, 2011)
  3. Accounting Standards Update No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (issued May 12, 2011)
  4. Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* (issued June 15, 2011).
- b. Exposure Document Issued:
1. Proposed Accounting Standards Update, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment* (issued April 22, 2011). Comment deadline: June 6, 2011.
- c. From time to time, the FASB issues Accounting Standards Updates to amend the nonauthoritative portions of the *FASB Accounting Standards Codification*® (such as the nonauthoritative SEC content). No such Updates were issued this quarter.
- d. No new projects were added to the technical agenda.
- e. No projects were removed from the technical agenda.
- f. The FASB and the IASB decided to reexpose their revised proposals for a common revenue recognition standard.
- g. The FASB chairman, a Board member, and the FASB technical director met with representatives from the Clearing House to provide a technical update on current priority projects.
- h. The FASB technical director had periodic calls with the PCAOB and SEC in planning the financial reporting series.

- i. Outreach Activities—Meetings of FASB Standing Advisory Groups:
1. Financial Accounting Standards Advisory Council (FASAC). Seven Board members and several FASB staff members met with FASAC in a June public meeting to discuss critical aspects of standard-setting success in four areas: high-quality financial reporting standards, outreach to stakeholders during the standard-setting process, transition to forthcoming final accounting standards, and education about and implementation of forthcoming final accounting standards. Participants also discussed their views about cross-cutting issues related to accounting for acquisition costs and complexity in financial reporting.
  2. Investors Technical Advisory Committee (ITAC). Three Board members and several FASB staff members met with ITAC in an April closed meeting to discuss the projects on accounting for financial instruments, balance sheet—offsetting, leases, and revenue recognition. Participants also discussed potential risk disclosures related to an entity’s involvement in financial instruments and provided feedback about the information provided through the enhanced credit quality disclosure requirements that went into effect at the end of 2010.
  3. Small Business Advisory Committee (SBAC). Seven Board members and several staff members met with SBAC members in a May public meeting to discuss private company financial reporting, goodwill impairment assessments, education about forthcoming final standards, and key decisions in the projects on revenue recognition, leases, and accounting for financial instruments.
  4. Private Company Financial Reporting Committee (PCFRC). Six Board members and several staff members met with PCFRC members in a May public meeting to discuss projects on goodwill impairment, leases, accounting for financial instruments, hedge accounting, revenue recognition, investment properties, and the Board’s consideration of effective dates and transition methods.
  5. Each of the Not-for-Profit Advisory Committee (NAC) subgroups (Reporting Financial Performance, Telling the Story, and Liquidity and Financial Health) held a series of closed meetings to begin the development of proposals for discussion at the September 2011 meeting of the full NAC. Representatives of all three subgroups met in June to update each other on their progress and direction. Several FASB staff members participated in those closed subgroup meetings.
- j. Outreach Activities—Other Consultations with Stakeholders:
1. Financial Executives International Committee on Corporate Reporting (CCR). Seven Board members, the FASB technical director, the FAF chairman, the FAF president and CEO, and an FASB staff member met with CCR in June to discuss the Committee’s views on the SEC staff paper on IFRS, the status of the FASB-IASB Memorandum of Understanding, the FAF’s post implementation review, and the FASB’s projects on disclosure framework, accounting for financial instruments, leases, and revenue recognition.

2. ABA Accounting Committee. Two Board members met in a closed meeting with representatives of the ABA's Accounting Committee in May.
  3. Leaseurope and the US Equipment Leasing and Finance Association (ELFA). One Board member discussed lessor accounting in a May conference call with Leaseurope and ELFA members.
  4. The FASB chairman, the FAF chairman, and the FAF president and CEO met privately with ABA President Frank Keating to discuss matters of mutual interest.
- k. Other significant project-specific outreach activities:
1. Insurance Contracts—Representatives of the FASB met in closed meetings with over 60 users via small group roundtables or individual calls.
  2. Insurance contracts—A Board member and staff participated in a closed half-day Property/Casualty Insurance roundtable meeting sponsored by Deloitte & Touche and attended by approximately 15 property/casualty insurers.
  3. Insurance contracts—Three Board members participated in a closed FASB-sponsored workshop meeting with preparers (insurers, investment bankers, etc.) and audit firms regarding the accounting for various types of guarantees.
  4. Financial Guarantees Workshop—Three Board members and the FASB technical director participated in a closed workshop meeting with representatives from various companies to discuss the accounting for financial guarantees.

#### COLLABORATION WITH THE INTERNATIONAL ACCOUNTING STANDARDS BOARD

- a. The FASB and the IASB and staff held multi-day joint Board meetings using their video-conferencing capabilities and a three-day face-to-face joint Board meeting in London.
- b. Four FASB Board members and the FASB technical director attended an open meeting of the Leases Working Group in London.
- c. Three FASB Board members and the FASB technical director attended an open meeting of the Insurance Working Group in London.
- d. The FASB and the IASB held public roundtable meetings on balance sheet—offsetting in London, Singapore, and Norwalk.
- e. The FASB and the IASB held joint education sessions on revenue recognition and leases.
- f. The FASB and IASB directors met periodically to discuss technical and administrative matters.

## OTHER INTERNATIONAL ACTIVITIES

- a. The FASB chairman and another FASB Board member met with the European Financial Reporting Advisory Group (EFRAG) to discuss potential collaboration of their respective projects to develop a Disclosure Framework. Two FASB staff members attended the May 2011 EFRAG Technical Experts Group meeting in Brussels, Belgium, with the objective of collaborating with EFRAG to issue a discussion paper on a Disclosure Framework in the fall of 2011.

## XBRL ACTIVITIES

The FAF is responsible for the ongoing development and maintenance of the taxonomy applicable to public issuers registered with the SEC. The FAF has delegated these responsibilities to the FASB.

- a. On June 14, 2011, the FASB launched a new Taxonomy Online Review and Comment System. This new system provides greater transparency for users of eXtensible Business Reporting Language (XBRL) and makes it easier for stakeholders to submit comments on the U.S. GAAP Financial Reporting Taxonomy. The Taxonomy Online Review and Comment System allows Taxonomy users to review and provide direct input on the Development Taxonomy being updated and maintained by the FASB XBRL team.

## ITEM 2: EDUCATION AND COMMUNICATIONS

### EDUCATIONAL WEBCASTS AND PODCASTS DELIVERED

- a. The first two webcasts with CPE credit were held in June:
  1. IN FOCUS Webcast: FASB Update for Nonpublic Entities—June 17, 2011
  2. IN FOCUS Webcast: How to Use the XBRL 2011 US GAAP Financial Reporting Taxonomy—June 22, 2011.
- b. The FAF Post-Implementation Review Process—May 20, 2011. The FASB chairman participated in a live FAF webcast explaining its post-implementation review process.
- c. April 2011 podcast—The FASB chairman discussed the April 2011 Progress Report on FASB/IASB MOU projects.
- d. April 2011 podcast—An interview with the FASB chairman and the IASB chairman regarding the timeline for completing the convergence program.
- e. April 2011 podcast—An FASB Board member and staff discussed testing goodwill for impairment proposals.
- f. May 2011 podcast—An FASB Board member discussed FASB Accounting Standards Update No. 2011-04, *Fair Value Measurement (Topic 820): Amendments*

*to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.*

- g. June 2011 podcast—An FASB Board member discussed the just-issued final Accounting Standards Update on the presentation of comprehensive income.

#### SPEECHES DELIVERED

FASB Board members or staff delivered speeches during the 2<sup>nd</sup> quarter 2011 at the following conferences and events:

- American Council of Life Insurers
- AICPA National Conference on Employee Benefit Plans
- AICPA's NFP Expert Panel
- AICPA Webcast – MOU Update: A U.S. Perspective
- Appraisal Institute Investment Property Accounting Standards
- Baruch College 10th Annual Financial Reporting Conference
- CFO Magazine Core Concerns Conference
- CEASA/CARE Conference
- Chartis Global Finance Leadership Conference
- College of William & Mary, Mason School of Business, Excellence of Financial Reporting Conference
- Compliance Week Annual Conference
- Deloitte & Touche 2011 Professional Practice Directors Meeting
- Deloitte IFRS
- FICPA Accounting & Auditing Conference
- J. H. Cohn LLP – CFO Breakfast Roundtable Accounting Update
- Massachusetts Society of CPAs 42<sup>nd</sup> Annual Accounting & Auditing Conference
- Moody's Insurance Executives' Conference
- Morgan Stanley Insurance Conference –Accounting Controversies: Understanding the Divergent Views
- National Rural Utilities Cooperative Finance Corporation (NRUCFC or CFC) Workshop: Cooperative Accounting
- National Society of Accountants for Cooperatives
- NIRA Annual Conference
- Northern Lights Regional Council of the Institute of Management Accountants Annual Seminar
- OSCPA Not-for-Profit Conference
- PCIAA – PCI Global Financial Issues Seminar
- Practising Law Institute (PLI) Audit Committee Workshop 2011
- Property Casualty Insurers Association of America
- RC Knox Symposium at University of Hartford
- SEC Financial Reporting Institute Conference (USC)
- SEC Institute's 26<sup>th</sup> Midyear SEC Reporting Conference
- Southern Connecticut State University Accounting Society Annual Banquet
- Standard & Poor's 27<sup>th</sup> Annual Insurance Conference
- University of Tulsa, Collins College of Business
- University of Washington Eighth Annual Financial Reporting Conference

- XBRL International Conference, Brussels

### **ITEM 3: ADMINISTRATIVE, PROCEDURAL, AND STRATEGIC ACTIVITIES**

#### a. Administrative Matters:

1. In June, the FASB launched a series of live educational webcasts that will provide CPE credit to qualifying participants.
2. All Board members attended the May FAF Trustees meeting.
3. The FASB launched the Nonpublic Entities portal on its website, designed to enable stakeholders to more easily find information on the FASB's activities.

#### b. Procedural Matters:

1. In connection with the goodwill impairment project, the FASB piloted a new electronic constituent feedback form that is intended to make it faster and easier for stakeholders to provide comments about proposals.

#### c. Professional Development—FASB Staff and Board

The following professional development sessions were presented to the Board and staff:

1. Analyzing Financial Statements of Insurance Companies presented by Doron Nissim, Ernst & Young Professor of Accounting & Finance, Columbia School of Business. This session described accounting issues in the insurance industry that users find particularly relevant.
2. Lunch and Learn: Seven Steps to Financial Fitness presented by Gillian Anderson, director of the Fairfield County Chapter of the Foundation for Personal Financial Education.
3. Successful Leaders in Today's Business Environment (the first of the FAF Leadership Series) presented by Jack Brennan, chairman of the Financial Accounting Foundation. The objective of this session was to provide the FAF, FASB, and GASB staff with a better understanding of what makes a good leader and how those traits can be used to find success outside the workplace.
4. Excel Workshop presented by Tracy Farr, FASB postgraduate technical assistant. This session covered how to reconfigure data, how to manipulate data, and advanced methods of using or combining formulas to analyze data. At the end of the session, participants were able to work more efficiently and effectively in Excel.
5. The Conceptual Framework Project: An Overview presented by Jim Leisenring, FASB senior advisor. In this session, Mr. Leisenring discussed the history of the

Conceptual Framework, including the issues it was intended to address and the reasons why early Board members thought establishing a framework was important.

- d. Professional staff attended the following external conferences:
1. The 10th Annual Financial Reporting Conference at the Robert Zicklin Center for Corporate Integrity, Baruch College, NY
  2. SEC Institute Mid-Year Reporting Forum.

#### **ITEM 4: WASHINGTON ACTIVITIES**

- a. An FASB Board member, the FASB technical director, and FAF staff met with the U.S. Department of Labor Assistant Secretary of Employee Benefits Security Administration (EBSA) and the EBSA Chief Accountant to provide an update on the FASB multi-employer proposal.
- b. Members of Congress, their staffs, and the Administration were informed about the activities of the FASB through various meetings and other forums, including:
  1. FASB and FAF staff presented updates on convergence and the leases project to the FEI Committee on Government Business.
  2. The FAF/FASB/GASB hosted the annual FAF Trustee reception and dinner in Washington, DC in May that was attended by several Members of Congress and senior Administration officials. The keynote speaker for the dinner was SEC Chairman Shapiro.
  3. The FASB chairman, FASB Board members, the FASB technical director, and FAF staff met in closed meetings with the Federal Reserve Board Chairman and Governors, members of the Senate Banking Committee and House Financial Services Committee, and Members of Congress (House and Senate) to update them on FASB initiatives, especially convergence.
  4. An FASB Board member, the FASB technical director, and certain FAF staff met with the Labor Assistant Secretary for EBSA and CFO for EBSA to update them on the multi-employer disclosure project.
  5. The FASB chairman appeared before the Senate Banking Committee, Subcommittee on Securities, Insurance & Investment to testify on the role of the accounting profession in preventing another financial crisis.

6. An FASB Board member, the FASB technical director, and certain FAF staff met with Congressman Sherman's Legislative Assistant to discuss present and past accounting requirements for research and development costs.
7. An FASB Board member, the FASB technical director, and FAF staff met with the U.S. Chamber of Commerce Leases Coalition to brief the coalition on status of the leases project.
8. The FASB chairman, the FASB technical director, the FAF president and CEO, and certain FAF staff met with Congressman Jim Himes to provide a briefing on key accounting projects and to answer questions on the status of convergence.
9. An FASB Board member and certain FAF staff met with the Chief Counsel-Pension Policy Director, Senate Committee on Health, Education, Labor & Pensions (HELP) to provide an update on the multi-employer disclosure project and to answer any questions about disclosure of withdrawal liabilities.
10. An FASB Board member and certain FAF staff met with the Deputy Assistant Secretary for International Monetary & Financial Policy, Department of Treasury to provide an update on FASB/IASB convergence projects including the schedule for completion.
11. An FASB Board member and certain FAF staff met with the Senate Banking Committee Majority Senior Counsel to provide an update on convergence projects and the multi-employer disclosure project.
12. The FASB staff developed and delivered in June an in-depth White Paper addressing the relevance of current accounting requirements for research and development costs for Congressman Brad Sherman of the House Financial Services Committee.
13. The FASB chairman, two FASB Board members, the FASB technical director, and an FAF staff member participated in quarterly meetings with staff members of the SEC's Office of the Chief Accountant and the Public Company Accounting Oversight Board.
14. The FASB chairman, an FASB Board member, the FASB technical director, and an FAF staff member attended the quarterly meeting with the bank regulators.

#### **ITEM 5: ADDITIONAL COMMUNICATIONS ACTIVITIES**

- a. The FASB issued the following press releases/media advisories:

1. 4-5-11: FASB Issues Accounting Standards Update to Improve Financial Reporting about Troubled Debt Restructurings
2. 4-21-11: IASB and FASB Report Substantial Progress toward Completion of Convergence Program
3. 4-22-11: FASB Issues Proposed Accounting Standards Update on Testing for Goodwill Impairment
4. 4-29-11: FASB Issues Accounting Standards Update to Improve Financial Reporting of Repurchase Agreements
5. 5-12-11: Financial Accounting Foundation to Discuss Next Steps in Post-Implementation Review Process in May 20 Webcast
6. 5-12-11: FASB and IASB Issue Common Fair Value Measurement and Disclosure Requirements
7. 6-1-11: Financial Accounting Standards Board Launches *IN FOCUS: WEBCAST* Educational Webcast Series with CPE Credit
8. 6-2-11: Media Advisory—Registration Is Now Open for June 17 Webcast, *IN FOCUS: FASB Update for Nonpublic Entities*
9. 2-14-11: Media Advisory—Registration Is Now Open for June 22 Webcast, *IN FOCUS: How to Use the XBRL 2011 US GAAP Financial Reporting Taxonomy*
10. 6-14-11: Financial Accounting Standards Board Launches New Taxonomy Online Review and Comment System
11. 6-15-11: IASB and FASB to Re-Expose Revenue Recognition Proposals
12. 6-16-11: FASB Issues Accounting Standards Update to Improve Presentation of Comprehensive Income.

b. The FASB issued “FASB in Focus” documents for the following:

- April 2011—Exposure Draft on Offsetting of Financial Assets and Liabilities and the Supplementary Document on Impairment of Financial Assets
- April 2011—Receivables: A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring
- April 2011—Transfers and Servicing: Reconsideration of Effective Control for Repurchase Agreements
- May 2011—Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs
- June 2011—Presentation of Comprehensive Income.

c. Interviews:

- March 2011—Matt Lamoreaux of Journal of Accountancy interviewed the FASB chairman.
- June 2011—The FASB chairman was interviewed by Adam Jones of the Financial Times.
- June 2011—The FASB chairman discussed convergence with Michael Rapoport of the Wall Street Journal.
- June 2011—Project manager Danielle Zeyher was interviewed by Barron’s on the leases project.

- d. New FASB members participated in media training in April.

#### **ITEM 6: GASB LIAISON ACTIVITIES**

- a. GASB meeting minutes were sent to the FASB directors.
- b. The GASB RTA director and the FASB P&S director held monthly meetings and met quarterly with the FASB and GASB chairmen.
- c. The GASB staff distributed the following drafts to the FASB for review:
- Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*
  - Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*
  - Exposure Draft, *Accounting and Financial Reporting for Pension Benefits by Employers and by Nonemployer Contributing Entities*
  - Exposure Draft, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*
  - Preliminary Views, *Recognition of Elements of Financial Statements and Measurement Approaches*.
- d. The FASB staff distributed the following drafts for GASB's review:
- Accounting Standards Update, *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements*
  - Accounting Standards Update, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*
  - Proposed Accounting Standards Update, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment*.
  - Proposed Accounting Standards Update, *Consolidation (Topic 810): Agent/Principal Analysis*
  - White Paper on Private Company Financial Reporting: Differential User Needs and Cost-Benefit Considerations.

REPORT OF THE FASB CHAIRMAN  
TO THE FINANCIAL ACCOUNTING FOUNDATION  
July 1, 2011 through September 30, 2011

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**ITEM 1: TECHNICAL ACTIVITIES**

**BOARD AND STAFF ACTIVITIES**

a. Final Documents Issued:

1. Accounting Standards Update No. 2011-06, *Other Expenses (Topic 720): Fees Paid to the Federal Government by Health Insurers* (a consensus of the FASB Emerging Issues Task Force) (issued July 21, 2011)
2. Accounting Standards Update No. 2011-07, *Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (a consensus of the FASB Emerging Issues Task Force) (issued July 25, 2011)
3. Accounting Standards Update No. 2011-08, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment* (issued September 15, 2011)
4. Accounting Standards Update No. 2011-09, *Compensation—Retirement Benefits—Multiemployer Plans (Subtopic 715-80): Disclosures about an Employer’s Participation in a Multiemployer Plan* (issued September 21, 2011).

b. Exposure Document Issued:

1. Proposed Accounting Standards Update, *Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate—a Scope Clarification* (a consensus of the Emerging Issues Task Force) (issued July 20, 2011). Comment deadline: October 3, 2011.

c. From time-to-time, the FASB issues Accounting Standards Updates to amend the nonauthoritative portions of the *FASB Accounting Standards Codification*® (such as the nonauthoritative SEC content). No such Updates were issued this quarter.

d. New projects added to the agenda:

1. EITF Issue No. 11-A, “Parent’s Accounting for the Cumulative Translation Adjustment upon the Sale or Transfer of a Group of Assets within a Foreign Subsidiary That Meets the Definition of a Business” (August 2011)
2. A project on impairment of indefinite-lived intangible assets, to consider whether to include a qualitative screen, similar to the recent Accounting Standards Update on goodwill impairment.
3. A research project to develop a framework for identifying and assessing the need for differential standards for private entities (July 2011).

- e. New projects considered but not added to the agenda:
  - 1. A proposal that the Board defer the effective date of Accounting Standards Update 2010-26 on accounting for costs associated with acquiring or renewing insurance contracts.
  - 2. A proposal that the Board provide guidance on the accounting for subsequent out-licensing of assets used in in-process research and develop projects acquired in a business combination.
  - 3. A proposal to reconsider the various different definitions of nonpublic entity as used in the FASB Accounting Standards Codification. The proposal will be considered in the FASB's research project to develop a framework for identifying and assessing the need for differential reporting standards for private entities.
  - 4. A proposal to provide guidance on the accounting for joint and several obligations within the standalone financial statements of a subsidiary under common control. The FASB chairman decided to conduct further research through the formation of a working group before deciding whether to add the potential issue to the EITF agenda.
  - 5. A proposal to provide guidance on the capitalization of interest related to bonds guaranteed by the federal government.
- f. No projects were removed from the technical agenda.
- g. The FASB and the IASB decided to reexpose their revised proposals for a common leases standard after their redeliberations of the original.
- h. Outreach Activities—Meetings of FASB Standing Advisory Groups:
  - 1. Investors Technical Advisory Committee (ITAC)
    - i. July 2011 meeting: Six Board members and several FASB staff members met and discussed with ITAC members the Board's projects on the accounting for financial instruments, leases, and multiemployer pension plans. Participants also discussed the SEC workplan on IFRS and provided feedback about the IASB's recent revisions to its pension accounting standard.
    - ii. September 2011 meeting: In two separate closed sessions, several Board members (less than a voting majority) and several FASB staff members discussed with ITAC members the projects on accounting for financial instruments, insurance, revenue recognition, leases, and disclosure framework. Committee members also discussed their views about the potential incorporation of IFRS in the U.S. and the SEC workplan on IFRS.
  - 2. Not-for-Profit Advisory Committee (NAC) meeting. Board members and several FASB staff members met with NAC members in a September public meeting to discuss ways to improve the financial reporting model for not-for-profit organizations. The NAC recommended several potential reporting improvements for agenda consideration by the FASB chairman, and educational efforts that could be carried out by the FASB staff, the NAC, or other organizations. The agenda requests will be considered by the chairman in the fourth quarter. NAC

participants also discussed recent developments in the not-for-profit sector that could have accounting implications; updates on the FASB's projects on leases, revenue recognition, and disclosure framework; and the applicability of the differential factors between public and private companies.

3. Private Company Financial Reporting Committee (PCFRC)

- i. July 2011 meeting: A Board member and several FASB staff members participated in the public meeting held in Minneapolis. The PCFRC discussed the Board's projects on consolidation: policies and procedures, consolidation: investment companies, investment properties, disclosures about an employer's participation in a multiemployer plan, accounting for financial instruments, revenue recognition, leases, disclosure framework, differential standard-setting framework for private companies, and goodwill impairment testing. Committee members also discussed the SEC staff Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers, recent activities of the IFRS for SMEs Implementation Group, and the FAF's post-implementation review process on the accounting for uncertainty in income taxes. Committee members also suggested improvements to the format and content of an Accounting Standards Update.
- ii. September 2011 meeting: A Board member and several FASB staff participated in the public meeting held in Las Vegas. The meeting agenda included discussion of the SEC's so-called condorsement approach to incorporated IFRS into the U.S. financial reporting system and updates on various FASB projects (revenue recognition, accounting for financial instruments, insurance contracts, investment companies, investment properties, leases, and disclosure framework). Committee members also discussed the FAF's private entity initiative and issues related to certain existing U.S. GAAP standards including accounting for variable interest entities, interest rate swaps, and level-three fair value measurements.

4. Private Company Resource Group (PCRG). In connection with staff research on a decision-making framework for private company standard setting, several FASB staff members discussed issues related to transition methods with the PCRG. That August teleconference meeting also included discussions about effective date considerations for the revenue recognition project.

i. Outreach Activities—Other Meetings with Industry or Other Representative Groups:

1. National Investor Relations Institute (NIRI). Two Board members and several FASB staff members met privately with NIRI in August.
2. Institute of Management Accountants (IMA): Six Board members met with the IMA's Financial Reporting Committee in a September public meeting. IMA representatives shared their general perspectives on the potential incorporation of IFRS in the U.S., the interpretive process for converged standards, and standard-

setting for nonpublic entities. They also discussed the Board's projects on accounting for financial instruments, revenue recognition, and leases.

3. AICPA Private Companies Practice Section Technical Issues Committee (TIC): Board members and several FASB staff members participated in a public meeting with TIC in September and discussed private company financial reporting issues, transition methods for private entities, and various ongoing FASB projects (investment properties, leases, revenue recognition, disclosure framework, and disclosures about risks and uncertainties and the liquidation basis of accounting.)
- j. Other significant project-specific outreach activities:
1. Accounting for financial instruments project: FASB staff conducted targeted outreach relating to the financial instruments project with a number of preparers and users of nonpublic entity financial statements.
  2. Impairment of indefinite-lived intangible assets: As part of its pre-agenda research activities, the FASB staff held a private workshop in August 2011 to discuss current standards with staff representatives of the SEC and PCAOB and preparer representatives of both public companies and private entities.
  3. Insurance contracts: The project was discussed in about a dozen conference calls with financial statements users and in various meetings with industry representative groups.
  4. Leases: The FASB staff discussed proposed accounting, presentation, and disclosure requirements with users of retail entity financial statements, participated in meetings and conferences with various industry representative groups, and conducted targeted outreach meetings with auditing firms. An FASB Board member and FAF staff met with the Executive Committee of the FEI Committee on Government Business to provide a briefing on the status of the leases project. Representatives of the FASB staff and the FAF staff met on two occasions with the U.S. Chamber of Commerce Leases Coalition.
  5. Revenue recognition: FASB staff discussed the project with various user groups, gave project update speeches at several conferences, and conducted targeted outreach activities with private company representatives.

#### COLLABORATION WITH THE INTERNATIONAL ACCOUNTING STANDARDS BOARD

- a. The FASB and the IASB held several multi-day joint video-conference Board meetings and three face-to-face joint Board meetings (London).
- b. An FASB Board member attended a meeting on impairment in London.

- c. The FASB and the IASB held small-group video-conference meetings on insurance, leases, and impairment.
- d. Representatives of the FASB and the IASB met privately with several stakeholder groups to obtain feedback on accounting for impairment.
- e. The FASB and the IASB directors met periodically to discuss technical and administrative matters.

#### OTHER INTERNATIONAL ACTIVITIES

- a. The FASB chairman and a Board member met with representatives of the Accounting Regulatory Department of the Ministry of Finance in Beijing.
- b. The FASB chairman and a Board member met with the Accounting Standards Board of Japan and representatives of Japan's Financial Services Agency in Tokyo.
- c. The FASB chairman, a Board member, and the technical director participated in the National Standard Setters meeting in Vienna, Austria.
- d. The FASB chairman, a Board member, and the technical director participated in the World Standard Setters meeting in London.
- e. Two FASB staff members participated in the September 2011 European Financial Reporting Advisory Group (EFRAG) Disclosure Framework Advisory Panel meeting in Paris.
- f. The FASB research director met with the chairman and senior staff members of the ANE (French Standard Setter) in Paris to discuss research efforts and other matters.
- g. The FASB chairman participated as an observer in the July 2011 SEC Roundtable on International Financial Reporting Standards.

#### XBRL ACTIVITIES

The FAF is responsible for the ongoing development and maintenance of the U.S. GAAP Financial Reporting Taxonomy applicable to public issuers registered with the SEC. The FAF has delegated these responsibilities to the FASB.

- a. On September 1, 2011, the FASB released the proposed 2012 Taxonomy for public review and comment. This proposed release includes changes from the 2011 Taxonomy for ASUs finalized since the last release, accommodation of common practices identified in SEC registrant XBRL Exhibits, and other adjustments to enhance usability. The deadline to submit written comments is October 31, 2011. This release is on time and in accordance with SEC expectation. The next milestone date is December 15, 2011, for delivery of the "candidate" release 2012 Taxonomy for final SEC review and acceptance.

## **ITEM 2: COMMUNICATIONS**

### **SPEECHES DELIVERED**

FASB Board members or staff delivered speeches at the following conferences and events:

- ACPEN Accounting and Auditing Update Broadcast
- AICPA National Conference on Banks & Savings Institutions
- AICPA/NAATS
- American Accounting Association Government & NFP Conference
- American Accounting Association Annual Meeting Panel on the Blue Ribbon Panel
- American Accounting Association Conference
- American Gas Association Accounting Principles Committee
- American Petroleum Institute Accounting Subcommittee
- California Society of CPAs CPE session and nonpublics discussion
- Center for Corporate Reporting & Governance at California State University Tenth Annual SEC Financial Reporting Conference
- Deloitte/Dewey & LeBoeuf/Standard & Poor's 3<sup>rd</sup> Annual Reactions North America Conference Risk and Capital Management Issues in 2011
- ELFA Lease and Finance Accountants Conference
- EY and University of Texas at Arlington
- Hudson Global Resources XBRL Filings Panel Discussion
- Illinois CPA Society 17<sup>th</sup> Annual Midwest Financial Reporting Symposium
- Kentucky Society of CPAs Annual Not-for-Profit Conference
- NAREIT Senior Financial Officer/Investment Relations Officer
- National Association of Independent Sureties
- National Association of Regulatory Utility Commissioners Conference
- National Association of Surety Bond Producers Update Call
- National Rural Electric Cooperative Association Annual Accounting, Finance & Tax Conference
- SEC Institute's Annual SEC Reporting and FASB Forum for Small Public Companies
- Surety Association of American FASB update call
- University of Texas McCombs School of Business Distinguished Speaker Lyceum

## **ITEM 3: ADMINISTRATIVE, PROCEDURAL, AND STRATEGIC ACTIVITIES**

a. Administrative Matters:

1. All Board members attended the August FAF Trustees meeting.

b. Professional Development—FASB Board and Staff

1. The following professional development sessions were presented to the Board and staff:

- a. Successful Leaders in Today's Business Environment (The second of the FAF Leadership Series), James H. Quigley, former chief executive officer for Deloitte Touche Tohmatsu and former member of the FAF Board of Trustees shared his insights on what makes a good leader; how good leaders inspire, motivate, and coach others to work together for a common objective; and what he believes are the challenges and obstacles to good leadership.
  - b. Dr. Sam L. Savage, Author of *The Flaw of Averages: Why We Underestimate Risk in the Face of Uncertainty* (Wiley 2009), Chairman and Chief Scientist of Vector Economics, and Consulting Professor in Management Science and Engineering at Stanford University, shared his views on the flaw of the practice of forecasting business conditions with single “average” outcomes.
  - c. Lunch and Learn: Marking Financial Decisions in Challenging Times, Anne Wilkins, CRPC®, CFP®, Chapter Coordinator of the Fairfield County Chapter of the Foundation for Personal Financial Education, presented a thorough review of the retirement planning process and the obstacles that can keep us from reaching our goals.
  - d. Video Presentation of *Inside Job*, produced, written, and directed by Charles Ferguson, and Discussion about the Financial Crisis of 2008, Christopher Roberge, FASB Project Manager. This session included a viewing of the documentary *Inside Job*, which is the first film to expose the shocking truth behind the economic crisis of 2008, followed by a discussion about the film, the lessons learned from the crisis, and related accounting issues.
- c. Professional staff attended the following external conferences:
1. AICPA NAAATs Annual Conference
  2. AICPA Not for Profit Conference Industry Conference.

#### **ITEM 4: GOVERNMENT AND REGULATORY LIAISON ACTIVITIES**

- a. Members of Congress, their staffs, and the Administration were informed about the activities of the FASB through various meetings and other forums, including:
  1. A briefing of Senate Committee Banking Staff by an FASB Board member, FASB technical director, and FAF staff about FASB activities.

2. A briefing of Senate Permanent Subcommittee members on the accounting for income taxes on foreign earnings by an FASB Board member, FASB technical director, and FAF staff.
3. A briefing on convergence and emerging issues was provided to the Senior Minority Counsel for the House Financial Services Committee by an FASB Board member, FASB technical director, and FAF staff.
4. Quarterly briefing of bank regulators provided by the FASB chairman, FASB Board members, FASB technical director, and FAF staff.

#### **ITEM 5: OTHER COMMUNICATIONS ACTIVITIES**

- a. The FASB announced the following significant events through press releases, media advisories, or tweets:
  1. The FASB and the IASB decision to re-expose their leasing proposals
  2. The issuance of final standards covering:
    - Enhanced disclosures by employers about their participation in multiemployer pension plans
    - Simplified requirements for testing goodwill for impairment.
  3. The announcement of public roundtable meetings with users, preparers, and auditors of financial statements about their concerns about private entity reporting standards.
  4. The availability of the U.S. GAAP Financial Reporting Taxonomy for Public Review and Comment.
  5. The decision to hold an educational webcast entitled *IN FOCUS: Summary of Changes for the Proposed 2012 Taxonomy and Using XBRL Tables*.
- b. The FASB issued “FASB in Focus” documents for the following:
  1. Private Companies: The Path to a Differential Standard-Setting Framework (July 11, 2011)
  2. FASB Completes Redeliberations on Multiemployer Pension Plan Disclosure Project (Subtopic 715-80) (July 28, 2011)
  3. FASB Simplifies Guidance for Testing Goodwill for Impairment (August 12, 2011)
  4. FASB Completes Project on Multiemployer Pension Plan Disclosures (Subtopic 715-80) (September 21, 2011)
- c. Podcasts:
  - In July we posted a podcast in which the FASB chairman discussed the FASB’s work on a differential framework for private company standard setting.
- d. Media Outreach:
  - During the quarter ended September 30, 2011, members of the FASB or its staff participated in numerous interviews with media.

- The FASB chairman and staff met with representatives from Accounting Today & Compliance week to discuss private-company and international issues.

#### **ITEM 6: GASB LIAISON ACTIVITIES**

- a. GASB meeting minutes were sent to the FASB directors.
- b. The GASB RTA director and the FASB P&S director held monthly meetings and met quarterly with the FASB and GASB chairmen.
- c. The GASB staff distributed the following draft to the FASB for review:
  - Exposure Draft, *Reporting Balances Previously Recognized as Assets and Liabilities*.
- d. The FASB staff distributed the following drafts for GASB's review:
  - Accounting Standards Update, *Other Expenses (Topic 720): Fees Paid to the Federal Government by Health Insurers—a consensus of the FASB Emerging Issues Task Force*
  - Accounting Standards Update, *Health Care Entities (Topic 954): Presentation and Disclosure of Certain Net Patient Service Revenue, Provisions for Bad Debts, and the Allowance for Doubtful Accounts—a consensus of the FASB Emerging Issues Task Force*
  - Accounting Standards Update, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment*
  - Accounting Standards Update, *Compensation—Retirement Benefits—Multiemployer Plans (Subtopic 715-80): Disclosure about an Employer's Participation in a Multiemployer Plan*
  - Proposed Accounting Standards Update, *Property, Plant, and Equipment (Topic 360): Accounting for Derecognition of in Substance Real Estate—a Scope Clarification—a consensus of the FASB Emerging Issues Task Force*
  - Proposed Accounting Standards Update, *Technical Corrections*
  - Proposed Accounting Standards Update, *Revenue Recognition (Topic 605): Revenue from Contracts with Customers*
  - Proposed Accounting Standards Update, *Real Estate—Investment Property Entities (Topic 973): Accounting and Reporting by Investment Property Entities*
  - Proposed Accounting Standards Update, *Financial Services (Topic 946): Investment Companies*
  - Proposed Accounting Standards Update, *Consolidations (Topic 810): Agent versus Principal Analysis*.

REPORT OF THE FASB CHAIRMAN  
TO THE FINANCIAL ACCOUNTING FOUNDATION  
October 1, 2011 through December 31, 2011

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**ITEM 1: TECHNICAL ACTIVITIES**

**BOARD AND STAFF ACTIVITIES**

a. Final Documents Issued:

1. Accounting Standards Update No. 2011-10, *Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate—a Scope Clarification* (a consensus of the FASB Emerging Issues Task Force) (issued December 14, 2011)
2. Accounting Standards Update No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities* (issued December 16, 2011)
3. Accounting Standards Update No. 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* (issued December 23, 2011).

b. Exposure Documents Issued:

1. Proposed Accounting Standards Update, *Technical Corrections* (issued October 14, 2011). Comment deadline: December 13, 2011.
2. Proposed Accounting Standards Update, *Real Estate—Investment Property Entities (Topic 973)* (issued October 21, 2011). Revised comment deadline: February 15, 2012.
3. Proposed Accounting Standards Update, *Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements* (issued October 21, 2011). Revised comment deadline: February 15, 2012.
4. Proposed Accounting Standards Update, *Consolidation (Topic 810): Principal versus Agent Analysis* (issued November 3, 2011). Revised comment deadline: February 15, 2012.
5. Proposed Accounting Standards Update, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* (issued November 8, 2011). Comment deadline: November 23, 2011.

6. Proposed Accounting Standards Update (Revised)—*Revenue Recognition (Topic 605): Revenue from Contracts with Customers* (issued November 14, 2011). Comment deadline: March 13, 2012.
  7. Proposed Accounting Standards Update, *Consolidation (Topic 810): Parent's Accounting for the Cumulative Translation Adjustment upon the Sale or Transfer of a Group of Assets That Is a Nonprofit Activity or a Business within a Consolidated Foreign Entity* (a consensus of the FASB Emerging Issues Task Force) (issued December 8, 2011). Comment deadline February 6, 2012.
- c. From time-to-time, the FASB issues Accounting Standards Updates to amend the nonauthoritative portions of the *FASB Accounting Standards Codification*® (such as the nonauthoritative SEC content). No such Updates were issued this quarter.
- d. New projects added to the agenda:
1. Presentation of Other Comprehensive Income (October 2011). The objective of this standards-setting project is to reconsider how entities are required to present items reclassified out of accumulated comprehensive income, in response to stakeholder concerns about the operability of new requirements published in Accounting Standards Update 2011-12.
  2. Not-for-Profit Financial Reporting: Financial Statements (November 2011). The objective of this standards-setting project is to reexamine existing standards for financial statement presentation by not-for-profit organizations, focusing on improving net asset classification requirements and information organizations provide about liquidity, financial performance, and cash flows. The FASB's Not-for-Profit Advisory Committee had identified those areas as in need of examination.
  3. Not-for-Profit Financial Reporting: Other Financial Communication—a research project (November 2011). The objective of this research project is to study how not-for-profit organizations use written communications, other than financial statements, to communicate their financial story. At the conclusion of this research effort, the Board expects to consider whether educational or standards-setting efforts can contribute to promoting such communications.
  4. Nonpublic Entity Fair Value Measurement Disclosures (November 2011). The objective of this project is to evaluate whether nonpublic entities should be exempt from some or all required disclosures about Level 3 fair value measurements, in light of stakeholder concerns about the costs of preparing and providing those disclosures.
  5. Application of Asset- or Entity-Based Guidance to Nonfinancial Assets Held in an Entity—a research project (November 2011).
- e. New projects considered but not added to the agenda:
1. A proposal that the Board address a lender's accounting for in substance real estate when a borrower ceases to have a controlling financial interest in an in substance real estate subsidiary as a result of default by the subsidiary on its nonrecourse debt. The FASB chairman decided not to add this narrow project,

but rather, to research whether a more fundamental change would solve a wider set of issues and provide a more durable solution. (See #d (5) above).

2. The Board considered several proposals relating to private companies and directed the staff to address these issues as follows:
    - a. To explore ways to clarify and provide examples about how private companies should apply consolidation guidance for variable interest entities.
    - b. To explore a request to exempt nonpublic entities from recognition and measurement of intangible assets acquired in a business combination.
    - c. To explore a request to permit private companies to disclose the terms of “plain vanilla” interest rate swap agreements and the fair value of the asset or liability positions of the swaps in the notes as a proxy for swap agreement’s current termination value.
  3. A proposal to address the scope of the exception allowed for measuring the fair value of a portfolio of financial instruments in paragraph 820-10-35-18D of Topic 820, as amended by Accounting Standards Update 2011-04. We will address this as part of our 2012 annual technical corrections project.
- f. No projects were removed from the technical agenda.
  - g. At the November 30, 2011 Board meeting, the Board ratified the consensus-for-exposure reached by the Task Force on Issue No. 11-A. The comment period for the Proposed Accounting Standards Update posted to the FASB website will end on February 6, 2012 (see Exposure Documents Issued above).
  - h. At the November 30, 2011 Board meeting, the Board ratified the final consensus reached by the Task Force on Issue No. 10-E (see Final Documents Issued above).
  - i. All seven Board members participated in the November 3, 2011 EITF meeting.
  - j. Outreach Activities—Meetings of FASB Standing Advisory Groups:
    1. Financial Accounting Standards Advisory Council (FASAC):
      - a. October 2011 meeting: All Board members and several staff members participated in the October meeting of the FASAC. Council members discussed a variety of topics, including the FAF Trustees’ plan for private company standard-setting, areas of difference between U.S. GAAP and IFRS (accounting for inventories; contingencies; impairment of nonfinancial assets; and property, plant, and equipment), disclosure framework, and risks and uncertainties.
      - b. December 2011 meeting: Six Board members and several staff members participated in the December meeting of the FASAC. Council members participated in an FASB webcast on the Revised Exposure Draft for Revenue Recognition and discussed various aspects of the proposed model, including identifying and satisfying performance obligations,

transaction price and allocation, onerous performance obligations, interim disclosures, and transfers of nonfinancial assets. Council members discussed a variety of other topics, including other comprehensive income.

2. Investors Technical Advisory Committee (ITAC): Three Board members and several staff members met with the ITAC in November 2011 in a closed meeting to discuss a variety of topics, including the use of IFRSs in the U.S. (including two SEC papers: *An Analysis of IFRS in Practice* and *A Comparison of US GAAP and IFRS*), financial instruments: impairment and risk and liquidity disclosures, hedge accounting research, European debt disclosures, the revenue recognition proposal, and two Proposed Accounting Standards Updates: Investment Property Entities and Investment Companies.
  3. Small Business Advisory Committee (SBAC): Six Board members and several staff members participated in the November 2011 meeting of the SBAC. The FAF president and CEO provided an overview of the FAF Board of Trustees' *Plan to Establish the Private Company Standards Improvement Council*. Committee members discussed the proposed plan and a variety of FASB projects, including the project to develop a decision-making framework for private companies, leases, disclosures about risks and uncertainties and the liquidation basis of accounting, and financial instruments: liquidity risk and interest rate risk disclosures.
  4. Private Company Financial Reporting Committee (PCFRC): The PCFRC met in Norwalk for 1 ½ days in November. A Board member and several staff members participated in the closed session held on the first day. Six Board members and several staff members participated in the public session on the second day. During the meeting, the FAF president and CEO discussed the FAF's *Plan to Establish the Private Company Standards Improvement Council*. Committee members discussed the proposed plan and a variety of FASB projects, including the project to develop a decision-making framework for private companies, leases (including related-party leases), investment property entities, disclosures about risks and uncertainties, revenue recognition, long-lived intangibles, and consolidations.
- k. General Outreach Activities—Meetings with Industry or Other Representative Groups:
1. October 2011 activities:
    - a. Edison Electric Institute (EEI) and American Gas Association (AGA). Two Board members and several staff members met with EEI and AGA in a closed meeting.

- b. Corporate Reporting Users Forum (CRUF). A Board member met with representatives of CRUF (closed meeting).
  - c. National Association of Corporate Directors (NACD). A Board member met with representatives of NACD in a (closed meeting).
  - d. Group of North American Insurance Enterprises (GNAIE). Two Board members and several staff members met with GNAIE representatives and several insurance company CEOs (closed meeting).
  - e. Committee on Bank Accounting and Reporting. A Board member and the FASB technical director participated via teleconference in a closed meeting with the association of large banks.
  - f. American Coalition of Stock Plan Administrators. A Board member and the FASB technical director met privately with members of the American Coalition of Stock Plan Administrators (closed meeting).
  - g. Small Business Financial & Regulatory Affairs Committee of the Institute of Management Accountants. A Board member discussed via teleconference various projects that may affect small businesses (closed meeting).
  - h. AICPA Auditing Standards Board (Audit Issues Task Force Members). A Board member and some staff met with members of the Audit Issues Task Force (closed meeting).
  - i. Representatives of large public accounting firms. Two Board members and the FASB technical director met with representatives from the national offices of several large public accounting firms (closed meeting).
2. November/December 2011 activities:
- a. Committee on Corporate Reporting of Financial Executives Institute. A Board member discussed via teleconference various projects of interest to the committee (closed meeting).
  - b. Independent Community Bankers of America (ICBA). Three Board members and several staff met with the ICBA (closed meeting).
  - c. Business Accounting Council (BAC) within the Financial Services Agency of Japan. Two Board members, the FAF chairman, and the FAF president and CEO met with the BAC (closed meeting).
  - d. Academic outreach: A Board member participated in a roundtable of research academics and a meeting of the American Accounting Association.
1. Project-Specific Outreach Activities. Summaries of outreach activities on priority projects follow.
- 1. Accounting for financial instruments: Board and staff members obtained user perspectives on the FASB's and IASB's hedge accounting proposals

through more than a dozen calls with financial analysts from more than 10 organizations. Staff and/or Board members also discussed with various investors the usefulness of proposed disclosures for impaired financial assets. The staff met with representatives of eight different corporations, primarily financial institutions, and the major accounting firms to learn about the operability of the FASB's tentative classification and measurement approach. Staff members discussed the so-called three-bucket approach to impairment with representatives of the American Bankers Association, the International Bankers Federation, and the major accounting firms. Staff also discussed the Board's proposals related to the accounting for impairment of debt securities with companies and representatives of industry groups that would be significantly affected by those proposals.

2. Leases: Board and staff members discussed the leases project at six conferences and at three FASB standing advisory group meetings (FASAC, SBAC, and PCFRC). Staff and/or Board members also discussed the project with six different investor/user groups, several industry representative groups (National Association of Investment Real Estate Trusts and Aviation Working group), a major accounting firm, and an accounting firm focused primarily on the nonpublic entity sector.
3. Revenue recognition: The Board and staff raised awareness through participation in revenue recognition webcasts sponsored by two major accounting firms and discussions of the project with two FASB advisory groups (FASAC and ITAC). To gather information about the operability of the approach, staff and/or Board members have begun extensive outreach with stakeholders, including targeting specific industries that will be particularly affected by the proposals. The staff and Board members have discussed the Board's proposals with well over a dozen various preparer groups and two of the four major accounting firms. To obtain the perspectives of nonpublic entities, the project was discussed at meetings of the FASB's SBAC and PCFRC. In addition, staff or Board members presented information at approximately a dozen different conferences focused on the nonpublic sector including private companies and not-for-profit entities. Targeted outreach also was performed with private companies primarily in the construction industry, which included industry groups and associations.
4. Insurance contracts: Staff or Board members discussed the project with 8 different user groups and 18 different insurance companies or insurance industry representative groups.

5. Consolidation of investment companies and investment property entities: The project was discussed at a meeting of the FASB's ITAC and four other groups of investors and other users (these groups consisted of approximately 15 user organizations). Board or staff members gathered input and reactions on the proposal through meetings with five different preparer/auditor groups (these groups consisted of more than 25 organizations) and the FASB's PCFRC. Significant user outreach and additional preparer/auditor outreach for these proposals is planned to be completed in the first quarter of 2012 (to align with the comment period deadline).
6. Risks and uncertainties (formerly going concern): The project was discussed at meetings of the FASB's advisory groups (FASAC, SBAC, and PCFRC). To gather information about the needs of users, the staff discussed the project with members of ITAC and another group that represents users. The staff gathered information about a possible going concern assessment by management and held discussions and other correspondence with various preparers and accounting firms.
7. Reporting comprehensive income: The staff discussed various application issues with several stakeholders.
8. Private company issues roundtables. Three Board members and some staff participated in a roundtable in Chicago, and three other Board members and some staff participated in a roundtable in San Francisco.

#### COLLABORATION WITH THE INTERNATIONAL ACCOUNTING STANDARDS BOARD

- a. The FASB and the IASB held several multi-day joint video-conference Board meetings and two face-to-face joint Board meetings (Norwalk and London).
- b. The FASB and the IASB held an insurance working group meeting in London.
- c. An FASB Board member attended an IFRS Advisory Committee meeting in London.
- d. The FASB technical director attended the IASB Valuation Advisory Committee meeting.
- e. Two Board members attended the Deloitte/IFRS Summit in New York.
- f. The FASB and the IASB held small-group video-conference meetings on insurance, leases, and financial instruments classification and measurement.

- g. The FASB and the IASB directors met periodically to discuss technical and administrative matters.

#### OTHER INTERNATIONAL ACTIVITIES

- a. The FASB chairman attended the IFRS conference in Boston.
- b. One Board member, the FASB technical director, and the FAF president and CEO met privately with the Australian Financial Reporting Council (closed meeting).
- c. The FASB chairman, a Board member, and the FASB technical director participated in a conference call with EFRAG (closed meeting).
- d. An FASB Board member participated in the Financial Stability Board roundtable on risk disclosures in Basel, Switzerland (open meeting).
- e. An FASB Board member participated in a discussion about the joint insurance contracts project at the IFRS Advisory Council meeting (open meeting).
- f. Two Board members and the FASB technical director met with members of the China Ministry of Finance (closed meeting).
- g. The FASB research director attended a meeting of the EFRAG project team on disclosure framework and participated by phone in two meetings.

#### XBRL ACTIVITIES

The FAF is responsible for the ongoing development and maintenance of the U.S. GAAP Financial Reporting Taxonomy applicable to public issuers registered with the SEC. The FAF has delegated these responsibilities to the FASB.

- a. The FASB delivered the final US GAAP Financial Reporting Taxonomy (UGT) and all supporting collateral to the SEC as per the SEC MOU requirements dated February 4, 2010, to enable its final review of the UGT).
- b. The staff hosted a face-to-face meeting of the FASB Taxonomy Advisory Group (TAG). The TAG includes participants from preparers, CPA firms, service providers, data aggregators, and analysts. This advisory group provides valuable input on the changes and directions taken with each taxonomy release.
- c. An FASB Board member and staff visited with management of SNL Financial to solicit their feedback and provide guidance on using the UGT. SNL Financial collects, standardizes, and disseminates corporate, financial, market, and M&A data. This was an initial outreach for the purpose of understanding XBRL consumption issues and how those consumption issues affect UGT developments, and providing guidance on using the current XBRL formatted data.
- d. XBRL staff participated in several presentations at the XBRL International 23<sup>rd</sup> Conference held in Montreal.

- e. An FASB Board member represented the FASB at an SEC roundtable, hosted by Columbia University, which brought together representatives from the filer and analyst community to address XBRL document creation and consumption issues.
- f. XBRL staff participated in the IASB XAC and XQRT face-to-face meeting in London. These two groups provide input and guidance for the IFRS taxonomy effort.
- g. FASB hosted an IN FOCUS webinar, "Summary of Changes for the Proposed 2012 Taxonomy and Using XBRL Tables." In addition to providing an overview of the proposed 2012 Taxonomy, this was a technical session designed to help users with the more challenging aspects of using the Taxonomy. This was the 3rd XBRL webinar in 2011. These webinars continue to be very popular with over 1,000 live viewers participating in the latest session.

## **ITEM 2: EDUCATION AND COMMUNICATIONS**

### **EDUCATIONAL WEBCASTS AND PODCASTS DELIVERED**

- a. Webcasts (which averaged 850 participants for the live webcasts):
  1. IN FOCUS: Summary of Changes for the Proposed 2012 Taxonomy and Using XBRL
  2. The FAF's Plan to Improve Private Company Financial Reporting
  3. IN FOCUS: Understanding the FASB's Proposals for Investment Companies, Investment Property Entities, and Consolidations
  4. IN FOCUS: Understanding the FASB's Exposure Draft Revenue from Contracts with Customers
  5. IN FOCUS: FASB Update for Nonpublic Entities.
- b. Podcasts:
  1. November: Proposed Accounting Standard Update: Revenue Recognition from Contracts with Customers.

### **SPEECHES DELIVERED**

FASB Board members or staff delivered speeches at the following conferences and events:

- AICPA Annual Health Care Industry Conference
- AICPA Governmental & NFP Training Program
- AICPA/IFRS Conference on International Financial Standards (IFRS):  
The North American Perspective

- AICPA National Conference on Credit Unions
- AICPA National Conference on Current SEC and PCAOB Developments
- AICPA/SIFMA Financial Management Society National Conference on the Securities Industry
- Alabama Society of CPAs Educators Conference
- American Accounting Association Northeast Region Conference
- American Accounting Association 2011 Midwest Region AAA Meeting
- Assoc. General Contractors of America Financial Management Conference
- CalCPA Education Foundation 2011 Accounting and Auditing Conference
- COBAR Fall Meeting
- Connecticut Society of CPAs Not-for-Profit Organization Committee Session
- Deloitte & Touche IFRS Summit 2011
- Ernst & Young Financial Services Accounting Change Symposium
- FDIC Division of Finance and Corporate University 2011 Accounting & Auditing Conference
- FEI CFRI Conference
- FEI Central PA Chapter Meeting
- FEI Northeastern Wisconsin Chapter Monthly Meeting
- Financial Executives Networking Group
- Financial Stability Board Roundtable
- Financial Times and Credit Suisse Lex Forum Series
- Florida Institute of CPAs (FICPA) and the University of Florida Fisher School of Accounting Conference
- Geneva Association Insurance and Finance Seminar
- Georgia Society of CPAs A&A Conference
- Greater Washington Society of CPAs 23<sup>rd</sup> Annual GWSCPA Not-for-Profit Organizations Symposium
- Illinois CPA Society Accounting & Auditing Conference
- Investment Company Institute Conference
- Kennesaw State University Financial Reporting Roundtable
- KPMG Financial Reporting & Valuation Conference
- Michigan State University Postgraduate Technical Assistant Program Presentation
- Mortgage Bankers Association Accounting, Tax & Financial Management Conference
- NASBA Annual Meeting
- National Association of Real Estate Companies Annual Conference
- National Council for Public Private Partnerships Real Estate Forum
- NYSSCPA Rockland Chapter CPE Program
- NYSSCPA/FAE IFRS Conference
- NYSSCPA Banking Committee Breakfast
- NYSSCPA Annual SEC/FASB Conference
- Ohio Society of CPAs SEC Conference
- Oklahoma State University Financial Reporting Conference
- Padgett Stratemann 2011 Construction Conference
- Pennsylvania Institute of Certified Public Accountants Construction Industry Conference
- Pepsico Annual Conference

- PhRMA and Pharma/Biotech Companies Accounting and Reporting Annual Meeting
- PKF North American Summit
- PricewaterhouseCoopers 13<sup>th</sup> Annual Meet the Experts
- Professional Development Institute University of North Texas Accounting & Financial Reporting Update Conference
- RR Donnelly SEC Hot Topics Institute
- Society of Insurance Financial Management SIFM December Meeting
- South Carolina Association of CPAs 2011 Accounting & Auditing Conference
- Standard & Poor's Accounting Hot Topics Conference
- The Clearing House First Annual Business Meeting & Conference
- Washington Society of CPAs Annual NFP Conference
- Washington Society of CPAs Accounting & Auditing Update Conference
- William & Mary College Veris CPA Trek Program

### **ITEM 3: ADMINISTRATIVE, PROCEDURAL, AND STRATEGIC ACTIVITIES**

#### a. Administrative Matters:

1. All Board members attended the November FAF Trustees meeting.

#### b. Professional Development—FASB Board and Staff

1. The following professional development sessions were presented to the Board and staff:
  - a. Long-Term Health Care Planning, Owen Svalestad, Financial Representative with New England Financial Group—the facts and myths of long-term health care and the importance of proper planning. The presentation covered the cost of care and who pays the bills (what Medicare and Medicaid cover).
  - b. The Fiscal Policy Space and Condition of Cities, Christopher Hoene, Center Director, Research & Innovation, National League of Cities (NLC). The presentation provided an overview of the “fiscal policy space” of cities—the structures and attributes that determine the fiscal policy tools available to cities, including state rules and constraints, underlying economic drivers, variation in local service demands, and local political and institutional factors. The presentation also provided the latest assessment of the fiscal health of the nation’s cities, drawing on NLC’s release of “City Fiscal Conditions in 2011,” a report based on an annual survey of city finance officers and city budgets. Contemporary concerns about pension and health care costs, municipal default, and municipal bankruptcy also were addressed in the presentation.
  - c. Lunch and Learn: Real Estate Today, Patricia Rattray. Selling your home and finding qualified buyers can be extremely challenging in today’s real estate market, but it is absolutely possible. This workshop helped employees

avoid losing thousands of dollars in price reductions and provided a step-by-step process for adding 10 percent or more to the price of a sale.

- d. The Conceptual Framework Project: An Overview, Part 2—Current Issues, Ron Lott, FASB Research Director, and Jim Leisenring, FASB Senior Advisor. Messrs. Lott and Leisenring continued their discussion on the history of the Conceptual Framework, including the issues that were in process when work on the framework was suspended. At the conclusion of this presentation, participants were able to understand the difficulties that the Board will face when deliberations are resumed.
  - e. Reflections on My Time at the Securities and Exchange Commission, Wayne Carnall, Partner—PriceWaterhouseCoopers, Former Chief Accountant in the Division of Corporation Finance. Mr. Carnall discussed his experiences at the Securities and Exchange Commission and focused on discussing accounting and reporting issues in which the staff noted entities that had challenges complying with the accounting guidance and/or the staff had challenges enforcing compliance with the accounting guidance. He also shared his perspective on changes that can be made to improve financial reporting.
  - f. Successful Leaders in Today's Business Environment (the third of the FAF Leadership Series), Ursula Burns, Chief Executive Officer, Xerox Corporation. This session provided the staff with Ms. Burns' insights on what makes a good leader; how good leaders inspire, motivate, and coach others to work together for a common objective; and what she believes are the challenges and obstacles to good leadership. The objective of this session was to provide the staff with a better understanding of what makes a great leader and how those traits can be used to find success outside the workplace.
- c. Professional staff attended the following external conferences:
- 1. FEI 30<sup>th</sup> Annual Current Financial Reporting Issues Conference
  - 2. AICPA National Conference on Current SEC and PCAOB Developments
  - 3. 2011 FASB-IASB Financial Reporting Issues Conference.

#### **ITEM 4: GOVERNMENT AND REGULATORY LIAISON ACTIVITIES**

- a. Members of SEC, PCAOB, Congress, their staffs, and the Administration were informed about the activities of the FASB through various meetings and other forums, including:
  - 1. An FASB Board member participated in a meeting of the Financial Reporting Series, with the Chairman of the PCOAB, the SEC Chief Accountant, and

numerous external participants. The topic was measurement uncertainty. Several planning and follow-up calls were held.

2. An FASB Board member, the FAF president and CEO, and FAF staff conducted a conference call with U.S. Treasury Deputy Assistant Secretary for International Markets & Development to discuss the drafting of the G20 communiqué for accounting issues.
3. FASB Board members, FASB senior staff, and the FAF president and CEO participated in a monthly update conference call conducted by FAF staff on pending and emerging congressional activities and issues as well as Administration regulatory initiatives.
4. FASB Board members and FAF staff provided a quarterly briefing of emerging technical, and policy issues to the SEC and PCAOB leadership and senior staff, in addition to numerous telephone conversations about various matters.
5. The FASB chairman, an FASB Board member, and the FASB technical director met with a representative of FINRA to discuss matters of mutual interest.

#### **ITEM 5: OTHER COMMUNICATIONS ACTIVITIES**

- a. The FASB issued the following press releases/media advisories/Tweets:
  1. 10.3.11: FASB Not-for-Profit Advisory Committee Recommends Improvements to Financial Reporting
  2. 10.12.11: MEDIA ADVISORY: FASB Adds Agenda Project to Consider Deferring Certain Aspects of Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*
  3. 10.14.11: FASB Seeks Comments on Proposed Technical Corrections to Codification
  4. 10.21.11: FASB Seeks Comments on Proposal to Clarify Criteria for Investment Company Accounting
  5. 10.21.11: FASB Seeks Comments on Proposal on Accounting for Investment Property Entities
  6. 11.4.11: FASB Seeks Comments on Proposal for Improving Financial Reporting of Consolidations
  7. 11.9.11: FASB Chairman Adds Two Agenda Projects to Improve Financial Reporting by Not-for-Profit Organizations
  8. 11.14.11: IASB and FASB Publish Revised Proposal for Revenue Recognition
  9. 11.17.11: MEDIA ADVISORY: Registration Is Now Open for November 28 Webcast, *IN FOCUS: Understanding the FASB's Proposals for Investment Companies, Investment Property Entities, and Consolidations*
  10. 11.29.11: FASB Chairman Adds an Agenda Project on Fair Value Measurement Disclosures for Private Companies and Not-for-Profit Organizations
  11. 11.30.11: MEDIA ADVISORY: Registration Opens for December 20 Webcast, *IN FOCUS: FASB Update for Nonpublic Entities*
  12. 12.1.11: MEDIA ADVISORY: Registration Opens for December 8 Webcast, *IN FOCUS: Understanding the Exposure Draft, Revenue from Contracts with Customers*
  13. 12.16.11: IASB and FASB Issue Common Offsetting Disclosure Requirements

14. 12.21.11: The FASB Announces Public Roundtable Meetings to Solicit Input on Proposal to Improve Accounting for Investment Companies and Proposal on Investment Property Entities
  15. 12.23.11: FASB Defers Certain Aspects of Comprehensive Income Accounting Standards Update
- b. The FASB issued “FASB in Focus” documents for the following:
1. 11.18.11: Proposed Improvements to Criteria for Investment Company Accounting and Proposed Accounting Guidance for Investment Property Entities
  2. 11.23.11: FASB Issues Proposed Improvements to Consolidation Accounting
  3. 11.14.11: FASB and IASB Publish Revised Exposure Draft on Revenue from Contracts with Customers
  4. 12.19.11: FASB Issues Accounting Standards Update No. 2011-11: *Balance Sheet (Topic 21): Disclosures about Offsetting Assets and Liabilities*
  5. 12.23.11: FASB Defers Certain Aspects of Comprehensive Income Accounting Standards Update
- c. Media Outreach:
1. During the quarter ended December 31, 2011, members of the FASB or its staff participated in numerous interviews with media.

#### **ITEM 6: GASB LIAISON ACTIVITIES**

- a. GASB meeting minutes were sent to the FASB directors.
- b. The GASB and FASB directors met monthly to discuss their technical agenda projects and other matters of mutual interest. The FASB and GASB chairmen and their respective directors held their quarterly meeting to discuss technical issues and other matters of mutual interest.
- c. The GASB staff distributed the following draft to the FASB for review:
  - Exposure Draft, *Government Combinations*.
- d. The FASB staff distributed the following drafts for GASB’s review:
  - Accounting Standards Update, *Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate—a Scope Clarification* (a consensus of the FASB Emerging Issues Task Force)
  - Accounting Standards Update, *Balance Sheet (Topic 210): Offsetting Disclosures*
  - Accounting Standards Update, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items of Other Comprehensive Income in Accounting Standards Update No. 2011-05*

- Proposed Accounting Standards Update, *Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements*
- Proposed Accounting Standards Update, *Consolidation (Topic 810): Principal versus Agent Analysis*
- Proposed Accounting Standards Update, *Revenue Recognition (Topic 605): Revenue from Contracts with Customers*
- Proposed Accounting Standards Update, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items of Other Comprehensive Income in Accounting Standards Update No. 2011-05*
- Proposed Accounting Standards Update, *Consolidation (Topic 810): Parent's Accounting for the Cumulative Translation Adjustment upon the Sale or Transfer of a Group of Assets That Is a Nonprofit Activity or a Business within a Consolidated Foreign Entity* (a consensus of the FASB Emerging Issues Task Force)
- Proposed Accounting Standards Update, *Revenue Recognition (Topic 605): Revenue from Contracts with Customers—Proposed Amendments to the FASB Accounting Standards Codification®.*

## FASB Accounting Standards Updates

Effective July 1, 2009, changes to the source of authoritative U.S. GAAP, the *FASB Accounting Standards Codification*® (FASB Codification), are communicated through an Accounting Standards Update (Update). Updates will be published for all authoritative U.S. GAAP promulgated by the FASB, regardless of the form in which such guidance may have been issued prior to release of the FASB Codification (e.g., FASB Statements, EITF Abstracts, FASB Staff Positions, etc.). Updates also will be issued for amendments to the SEC content in the FASB Codification as well as for editorial changes.

An Update is a transient document that (1) summarizes the key provisions of the project that led to the Update, (2) details the specific amendments to the FASB Codification, and (3) explains the basis for the Board's decisions. Although ASUs will update the FASB Codification, the FASB does not consider Updates as authoritative in their own right.

Prior to the release of the FASB Codification as the single source of authoritative U.S. GAAP, the FASB amended pre-Codification standards and issued them in an "as amended" form. The FASB will not amend Updates. It will only amend the FASB Codification.

### FASB Accounting Standards Updates

- **Update No. 2011-12**—Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05
- **Update No. 2011-11**—Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities
- **Update No. 2011-10**—Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate—a Scope Clarification (a consensus of the FASB Emerging Issues Task Force)
- **Update No. 2011-09**—Compensation—Retirement Benefits—Multiemployer Plans (Subtopic 715-80): Disclosures about an Employer's Participation in a Multiemployer Plan
- **Update No. 2011-08**—Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment
- **Update No. 2011-07**—Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities (a consensus of the FASB Emerging Issues Task Force)
- **Update No. 2011-06**—Other Expenses (Topic 720): Fees Paid to the Federal Government by Health Insurers (a consensus of the FASB Emerging Issues Task Force)
- **Update No. 2011-05**—Comprehensive Income (Topic 220): Presentation of Comprehensive Income
- **Update No. 2011-04**—Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs
- **Update No. 2011-03**—Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements
- **Update No. 2011-02**—Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring
- **Update No. 2011-01**—Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20



**Current Technical Plan and Project Updates**

The FASB prepares a project plan to communicate information about its standards-setting activities to stakeholders. The project plan lists all agenda projects and includes:

Estimated publication dates through 2012 (Discussion Papers (D), Exposure Drafts (Es), and Final Accounting Standards Updates or Final Conceptual Framework chapters (Fs).)

Comment periods expected to close in the next 4 quarters (indicated by a C)

Roundtable meetings or other public forums planned (indicated by an R)

The FASB sets standards following established due process procedures that include extensive consultation. This project plan is subject to change as a result of those consultations or for other reasons.

The project plan includes links to staff prepared project summaries that describe Board decisions and provide other information. The decisions are tentative and do not change current accounting. Official positions of the FASB are determined only after extensive due process and deliberations.

Current Technical Plan	2012	
ACTIVE JOINT FASB/IASB PROJECTS:	1Q	2Q 2H
<b>Standards Projects:</b>		
<input checked="" type="checkbox"/> <b>Accounting for Financial Instruments</b> (Updated December 1, 2011)		
Liquidity and Interest Rate Risk Disclosures		E
<input checked="" type="checkbox"/> <b>Impairment</b> (Updated November 10, 2011)		E <sup>1</sup>
<input checked="" type="checkbox"/> <b>Classification and Measurement</b> (Updated November 10, 2011)		E <sup>1</sup>
<input checked="" type="checkbox"/> <b>Hedging</b> (Updated December 1, 2011)		
<input checked="" type="checkbox"/> <b>Consolidation: Policy and Procedures</b> (Updated December 13, 2011)		F
<input checked="" type="checkbox"/> <b>Investment Companies</b> (Updated March 21, 2012)	R	
<input checked="" type="checkbox"/> <b>Revenue Recognition</b> (Updated March 15, 2012)	R	
<input checked="" type="checkbox"/> <b>Leases</b> (Updated March 9, 2012)		E
<input checked="" type="checkbox"/> <b>Insurance Contracts</b> (Updated March 7, 2012)		E
<b>INACTIVE JOINT FASB/IASB PROJECTS:</b>		
The following joint projects were reassessed as lower priority projects. Further action is not expected in the near term.		
<input checked="" type="checkbox"/> <b>Emissions Trading Schemes</b> (Updated December 6, 2010)		
<input checked="" type="checkbox"/> <b>Financial Instruments with Characteristics of Equity</b> (Updated October 26, 2010)		

<input checked="" type="checkbox"/> <b>Financial Statement Presentation</b> (Updated May 3, 2011)			
<input checked="" type="checkbox"/> <b>Reporting Discontinued Operations</b> (Updated July 29, 2010)			
<b>Earnings per Share</b> (Updated May 7, 2009)			
<b>Income Taxes</b> (Updated November 6, 2009)			
<b>Postretirement Benefit Obligations including Pensions (Phase 2)</b> (Updated January 21, 2009)			
<input checked="" type="checkbox"/> <b>Conceptual Framework Project:</b> (Updated as of November 23, 2010)			
Reporting Entity			
Measurement			
Elements and Recognition			
			<b>2012</b>
<b>FASB PROJECTS:</b>			<b>1Q 2Q 2H</b>
<input checked="" type="checkbox"/> <b>Disclosures about Risks and Uncertainties and the Liquidation Basis of Accounting (formerly Going Concern)</b> (Updated February 24, 2012)			E
<input checked="" type="checkbox"/> <b>Investment Property Entities</b> (Updated March 20, 2012)			R
<input checked="" type="checkbox"/> <b>Codification Technical Corrections (including Certain Amendments to Various Codification Topics to Conform Terminology to Topic 820)</b> (Updated October 19, 2011)			F
<input checked="" type="checkbox"/> <b>Nonpublic Entity Fair Value Measurement Disclosures</b> (Updated November 29, 2011)			E
<input checked="" type="checkbox"/> <b>Disclosure Framework</b> (Updated February 15, 2012)			D
<input checked="" type="checkbox"/> <b>Impairment of Indefinite-Lived Intangible Assets</b> (Exposure Draft issued 01/25/12. Updated February 21, 2012)			C
<input checked="" type="checkbox"/> <b>Disclosure of Certain Loss Contingencies</b> (Updated October 24, 2011)			
<input checked="" type="checkbox"/> <b>Not-for-Profit Financial Reporting: Financial Statements</b> (Updated November 11, 2011)			
<input checked="" type="checkbox"/> <b>Presentation of Comprehensive Income: Reclassifications Out of Accumulated Other Comprehensive Income</b> (Updated January 5, 2012)			
<input checked="" type="checkbox"/> <b>Definition of a Nonpublic Entity</b> (Added to agenda March 2012. Updated March 7, 2012)			
Repurchase Agreements and Similar Transactions (Added to agenda March 2012)			
			<b>2012</b>
<b>FASB RESEARCH PROJECTS:</b>			<b>1Q 2Q 2H</b>
Application of Asset- or Entity-Based Guidance to Nonfinancial Assets Held in an Entity			E
<input checked="" type="checkbox"/> <b>Decision-Making Framework for Private Companies<sup>2</sup></b> (Updated October 18, 2011)			
<input checked="" type="checkbox"/>			

<b>Not-for-Profit Financial Reporting: Other Financial Communications</b> <i>(Updated November 11, 2011)</i>				
			<b>2012</b>	
<b>FASB EMERGING ISSUES TASK FORCE PROJECTS:</b>		<b>1Q</b>	<b>2Q</b>	<b>2H</b>
Parent's Accounting for the Cumulative Translation Adjustment upon the Sale or Transfer of a Group of Assets That Is a Nonprofit Activity or a Business within a Consolidated Foreign Entity (11-A)				F
Not-for-Profit Entities: Classification of Gifts of Securities Immediately Sold in the Statement of Cash Flows (12-A)				E
Not-for-Profit Entities: Contributed Services from an Affiliate (12-B)				
Subsequent Accounting for an Indemnification Asset Recognized as a Result of a Government-Assisted Acquisition of a Lending Institution (12-C)				E
Accounting for Joint and Several Liability for Which the Total Amount of the Obligation is Fixed (12-D)				
Accounting for Fair Value Information That Arises Subsequent to the Measurement Date and Its Inclusion in the Impairment Analysis of Unamortized Film Costs (12-E)				E
Accounting for Multiple Foreign Currency Exchange Rates (10-B) <i>(Inactive Issue)</i>				

<sup>1</sup>The FASB is continuing to redeliberate the issues in this project and once those redeliberations are completed, the Board likely will decide whether to reexpose those decisions for public comment. However, official positions are reached by the FASB only after extensive due process and deliberations. At a minimum, before issuing the final document, the FASB intends to expose for public comment the proposed amendments to the *FASB Accounting Standards Codification*<sup>®</sup> (as required by the FASB's Rules of Procedure).

<sup>2</sup>The timing of the Discussion Paper will be coordinated with the outcome of the FAF's *Plan to Establish the Private Company Standards Improvement Council (PCSIC)*.

**Codes:**

- C – Comment Deadline
- D – Discussion Paper
- E – Exposure Draft
- F – Final Document
- R – Roundtable Discussion

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# **The Financial Accounting Foundation Board of Trustees**

**Request for Comment**

***Plan to Establish the Private Company Standards  
Improvement Council***

**October 4, 2011**

**Norwalk, Connecticut**



**Financial Accounting Foundation**  
401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116  
[www.accountingfoundation.org](http://www.accountingfoundation.org)

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## **EXECUTIVE SUMMARY OF THE FAF BOARD OF TRUSTEES PLAN TO ESTABLISH THE PRIVATE COMPANY STANDARDS IMPROVEMENT COUNCIL**

As a result of outreach to external stakeholders, study, and deliberation, the Financial Accounting Foundation (FAF) Board of Trustees plans to establish a “Private Company Standards Improvement Council” (PCSIC) to improve the standard-setting process for private companies. The Trustees seek public comment on the plan, as outlined in this document, until January 14, 2012. The Trustees will make a final decision on the plan following the end of the comment period.

### ***Authority and Critical Responsibilities***

The PCSIC would determine whether exceptions or modifications to nongovernmental US Generally Accepted Accounting Principles (US GAAP) are required to address the needs of users of private company financial statements. Jointly with the Financial Accounting Standards Board (FASB), which sets accounting standards for public and private companies and not-for-profit organizations in the United States, the PCSIC would develop criteria for determining whether and when exceptions or modifications to US GAAP are warranted for private companies. Based on those criteria, the PCSIC would conduct a review of existing US GAAP and identify standards that require reconsideration and vote on possible exceptions or modifications for private companies. Any proposed changes to existing US GAAP would be subject to ratification by the FASB and undergo thorough due process, including public comment. The PCSIC would be overseen by the FAF Board of Trustees.

### ***Formation and Membership***

The PCSIC would comprise a chairman and 11 to 15 members. The PCSIC chairman, who would be selected and appointed by the Trustees, would be a FASB member with substantial experience with and exposure to private companies during his or her career. PCSIC members also would be selected and appointed by the Trustees. Members would include users, preparers, and practitioners who have significant experience using, preparing, and auditing (and/or compiling and reviewing) private company financial statements.

Nominations for membership on the PCSIC would be sought from a broad array of interested stakeholders and stakeholder groups. Members would be appointed for a three-year term and could be reappointed, based on input from the PCSIC chairman and FASB chairman, for up to two additional one-year terms (for a total of five years). Membership tenure would be staggered to assure appropriate continuity on the PCSIC. FASB staff would be assigned to support and work closely with the PCSIC on outreach and research projects to leverage the FASB’s resources and to avoid duplication of efforts.

### ***Meetings***

The PCSIC would meet four to six times per year. The meetings would be held at the FASB’s offices in Norwalk, Connecticut, with the intention that all FASB members would participate. PCSIC meetings would be webcast and open to the public, except for discussions of an administrative nature, which could be closed.

## *Oversight*

During the first three years of operations, the PCSIC would provide periodic in-person reports to a newly created, special-purpose Private Company Review Committee of the FAF Board of Trustees. The PCSIC also would provide quarterly written reports to the full FAF Board of Trustees. Following the three-year period, the oversight responsibilities of the Private Company Review Committee would be transferred to the existing Standard-Setting Process Oversight Committee of the Trustees. Quarterly written reports by the PCSIC to the Trustees also would continue following that transition. In addition to this oversight, the Trustees would conduct an overall assessment of the PCSIC at the end of the three-year period to determine whether its mission is being met and whether further changes to the standard-setting process for private companies would be warranted.

## **The planned PCSIC best addresses constituent concerns**

The FASB has made recent, substantive changes to the manner in which it engages with private company stakeholders, and has demonstrated a greater operational and structural commitment to further address these issues. However, constituents continue to express concerns about private company needs.

In addressing these concerns, the Trustees considered a range of options, including:

1. Creating a new, autonomous, and authoritative standard-setting board for private company issues, under the oversight of the FAF, as recommended by the Blue-Ribbon Panel on Standard Setting for Private Companies
2. Establishing a new body, under the oversight of the FAF, to identify standards that require modification and to vote on specific proposed exceptions or modifications that would then be subject to ratification by the FASB and submitted to the public for comment
3. Establishing a new committee on private company issues that would serve solely in an advisory role to the FASB
4. Continuing to monitor the FASB's existing and ongoing initiatives to better serve the needs and interests of private companies.

In deciding on the second option, the Trustees concluded that creating a separate standard-setting board for private companies would likely lead to the establishment of two separate sets of US accounting standards—a so-called “little GAAP” for private companies and a “big GAAP” for public companies, which is not a desired outcome.

Concerns communicated to the Trustees about the complexity and relevance of US GAAP to private companies appear to involve a small but key group of standards. The Trustees concluded that improvements should focus on those standards first.

In addition, the Trustees concluded that the FASB should address—and is committed to addressing—complexity, relevance, and cost-benefit issues more broadly, as other constituents, in addition to private companies, have expressed similar concerns.

# **Plan to Establish the Private Company Standards Improvement Council**

## **BACKGROUND**

Since it was created in 1972, the Financial Accounting Foundation (FAF) has committed itself to the challenging mission of balancing two critical, but sometimes conflicting, objectives:

- Ensuring that its standard-setting bodies (the Financial Accounting Standards Board and the Governmental Accounting Standards Board) develop high-quality accounting standards that provide investors, lenders, and other users of financial statements with clear, comparable, and decision-useful financial information about a wide variety of companies, not-for-profit organizations, governmental bodies, and other entities
- Ensuring that those standards also take into account the individual needs and circumstances of the constituents of the disparate entities that issue financial statements under US Generally Accepted Accounting Principles (US GAAP), specifically related to relevance, complexity, and costs versus benefits.

The ongoing effort to reconcile those two goals has continued for nearly 40 years. One of the greatest challenges has involved the needs of nonpublic entities, including privately held companies and not-for-profit organizations. Over the years, no fewer than 12 separate reports, studies, or formal recommendations on issues related to private companies were produced, with varying degrees of impact and success.

In the past ten years, as businesses and business transactions have become increasingly global and complex, some have argued that the needs of public company and private company users of financial statements have moved further apart, even as the demands of capital markets have made it more important to maintain the comparability of financial reporting among disparate companies and organizations.

### ***Focus on Private Company Issues***

In 2006, the Financial Accounting Standards Board (FASB) created the Private Company Financial Reporting Committee (PCFRC) in an effort to further improve its ability to incorporate the views of private company constituents in its standard-setting process. Comprised of a chairman and 12 members representing nonpublic business entities, regardless of size, the mission of the PCFRC was to provide recommendations to the FASB on issues related to standard setting for private companies and to focus on how standard setting affects day-to-day technical activities at private companies.

Three years later, the FAF Board of Trustees undertook a nationwide “listening tour,” during which groups of Trustees and senior FAF leadership met with diverse constituents to hear and

understand their views on the independent standard-setting process and key issues affecting financial reporting.

During the tour, the Trustees learned that many constituents continued to be concerned about the cost and complexity of standards for nonpublic entities and, frankly, were not satisfied with the results of the collaboration between the FASB and the PCFRC. Some constituents believed that in the PCFRC’s early years, the FASB did not participate fully in its processes or pay sufficient attention to its recommendations. In addition, they said the PCFRC was not initially effective in engaging with the FASB and advocating on behalf of its constituents. A major issue cited by constituents was that the FASB and the PCFRC did not develop and agree upon a framework for considering exceptions or modifications to US GAAP for private companies.

2006	2009	2010	2011 January	2011 March	2011 October
FASB creates Private Company Financial Reporting Committee	FAF undertakes nationwide “listening tour”	FAF works with AICPA and NASBA to create Blue-Ribbon Panel on Standard Setting for Private Companies	Blue-Ribbon Panel submits report to FAF Trustees	FAF creates Trustee Working Group to consider standard setting for nonpublic entities	FAF seeks public comment on plan to create Private Company Standards Improvement Council

***Blue-Ribbon Panel on Standard Setting for Private Companies***

As a result of these concerns, the Trustees collaborated with the American Institute of Certified Public Accountants (AICPA) and the National Association of State Boards of Accountancy (NASBA) to create the Blue-Ribbon Panel on Standard Setting for Private Companies. The panel was charged with studying the needs of users of private company financial statements and making recommendations to the Trustees about how the standard-setting process can best meet those needs.

Separately, the FASB took additional steps to improve the standard-setting process for private companies. The FASB, for example, assembled a team of professionals focused on formally representing and soliciting input from private companies; established a series of roundtables on private company issues; undertook efforts to develop a framework for identifying whether and

when differences in standards are warranted for private entities; increased education efforts to help private company constituents become informed about changes in US GAAP; created a dedicated electronic portal to make it easier for private company stakeholders to access information; developed an electronic feedback forum to enable private company stakeholders to more easily comment on the FASB proposals; and specifically addressed private company concerns in a series of standard-setting decisions related to goodwill impairment, revenue recognition, and financial instruments.

In January 2011, the Blue-Ribbon Panel submitted a report to the Trustees with its recommendations, including, among others, the creation of a new, separate, and authoritative standard-setting board (under the oversight of the Trustees) that would establish exceptions or modifications to US GAAP for private companies.

### ***The Working Group***

In March 2011, the FAF appointed several Trustees and senior FAF staff members to a “Working Group” to further consider standard setting for nonpublic entities.

The Working Group received significant input from users, practitioners, and preparers of private company and not-for-profit financial statements. The Working Group also reviewed the current process by which the FASB considers the concerns of private companies and not-for-profit organizations. Specifically, the Working Group conducted a series of meetings with stakeholders, including meetings with representatives of large, mid-market, and small CPA firms, all with significant practices serving private companies and not-for-profit organizations.

The Working Group also met with leading members of the academic community who have reviewed and, in some cases, undertaken significant research on issues relating to private company and not-for-profit financial reporting. Representatives of the Working Group also participated in discussions with the FASB’s advisory groups, including the Financial Accounting Standards Advisory Council (FASAC), the PCFRC, the Not-for-Profit Advisory Committee (NAC), and the Small Business Advisory Committee (SBAC).

Representatives of the Working Group had meetings with lenders, investors, regulators, donors, and others. Also, the Working Group considered the content of more than 2,800 unsolicited letters, most of which made similar points in support of the Blue-Ribbon Panel’s recommendation for a separate standard-setting board for private companies.

## **KEY CONCLUSIONS**

As a result of this outreach and their analysis of the Blue-Ribbon Panel’s report, the Trustees reached these key conclusions:

- Despite significant progress made in recent years by the FASB and the PCFRC in addressing the needs of the constituents of private company financial reporting in the standard-setting process,<sup>1</sup> their efforts stopped short of achieving all of their intended objectives. In other words, private company needs were not addressed as thoroughly or directly as had been intended.
- A new body with increased authority and scope—the Private Company Standards Improvement Council (PCSIC)—should replace the PCFRC (which would be disbanded) as part of a new structure to ensure that the needs of private companies are appropriately addressed in the standard-setting process.
- As an essential element in creating the new structure, the PCSIC, jointly with the FASB, should be responsible for developing specific criteria for determining whether and when exceptions or modifications to US GAAP for private companies are warranted. Those criteria would be subject to public comment.
- Using the new criteria, the PCSIC should develop, deliberate, and formally vote on specific exceptions or modifications to US GAAP. PCSIC meetings should be attended by all FASB members and the conclusions of PCSIC deliberations should be subject to FASB ratification. Those ratified exceptions or modifications should then be exposed for public comment. At the conclusion of the public comment process, the PCSIC should publicly redeliberate in meetings attended by the FASB the proposed exceptions or modifications, vote on final changes, and submit them to the FASB for final ratification.
- The FAF should create a special-purpose committee of Trustees, the Private Company Review Committee, to oversee the activities of the PCSIC and its interactions with the FASB during a three-year transition period. (Following the transition, that responsibility should be assumed by the FAF Standard-Setting Process Oversight Committee.)
- The Private Company Review Committee should hold both the PCSIC and the FASB accountable for achieving the objective of ensuring adequate consideration of private company issues and input in the standard-setting process. The Review Committee should be chaired by a Trustee, appointed by the Board of Trustees, who has had substantial experience with and exposure to private companies during his or her career. The Committee should include among its members Trustees who also have significant experience with private company accounting issues.
- The needs of the users of not-for-profit financial statements differ substantially from those of private company financial statements. In fact, not-for-profits have many characteristics that are more in common with publicly traded companies than with privately held companies, particularly related to the variety and diversity of their user constituents. Further, the FASB recently established an advisory group, the Not-for-Profit Advisory Committee (NAC) to consider issues specifically related to not-for-profit organizations. Accordingly, the Trustees have limited the current plan to addressing the concerns of private companies.

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<sup>1</sup>As described in detail in the appendix.

## **THE “PRIVATE COMPANY STANDARDS IMPROVEMENT COUNCIL”**

Because of the outreach and analysis outlined above, the Trustees plan to establish a Private Company Standards Improvement Council (PCSIC), under the oversight of the Trustees, to improve the standard-setting process for private companies. The plan, following a period of public comment, will be subject to further discussion and deliberation by the Trustees, including consideration of comments received, before it becomes final.

### ***Authority and Critical Responsibilities***

The PCSIC would determine whether exceptions or modifications to US GAAP are required to address the needs of the users of private company financial statements.

In that regard, the PCSIC will have the following critical responsibilities:

- The PCSIC, jointly with the FASB, would develop a set of specific criteria to determine whether and when exceptions or modifications to US GAAP are warranted for private companies.
- Based on those criteria, the PCSIC would identify aspects of existing US GAAP that its members believe require exceptions or modifications for private companies, based on the criteria it developed.
- For those areas of US GAAP identified through this process that are not already under active reconsideration on the FASB’s technical agenda, the PCSIC would obtain input from a broad array of constituents and then deliberate and vote, in meetings attended by FASB members, on specific modifications to those standards to ensure that they meet the needs of users of private company financial statements.
- Any proposed changes to existing US GAAP would be subject to ratification by the FASB and thorough due process, including public comment.
- Following the public comment period, the PCSIC would publicly redeliberate the proposed exceptions or modifications at meetings attended by the FASB members and then vote on final changes. Changes would have to be approved by a supermajority (two-thirds) of PCSIC members. Following an affirmative vote, the final changes would be forwarded to the FASB for final ratification.
- For items under active consideration on the FASB’s technical agenda, the PCSIC would serve as the primary source of advice on appropriate treatment for private companies by working actively and closely with FASB members and staff, and providing advice for consideration by the FASB members in their deliberations. In addition, the PCSIC would have the ability to vote to take a position on the appropriate treatment for private companies related to issues under active consideration by the FASB.

### ***Formation and Membership***

The chairman of the PCSIC, who would be selected and appointed by the Trustees, would be a FASB member with substantial experience with and exposure to private companies during his or her career. The Trustees believe that appointing a FASB member as chairman and having FASB members attend meetings of the PCSIC would establish a strong and direct link between the two bodies and ensure that private company issues raised by the PCSIC would receive a thorough, detailed, and considered hearing by the FASB. The PCSIC chairman would be a voting member of the Council; other FASB members would not vote but would be expected to add perspective to the issues being deliberated.

The PCSIC would comprise 11 to 15 members (in addition to the chairman), including users, preparers, and practitioners who have significant experience using, preparing, and auditing (and/or compiling and reviewing) private company financial statements.

Members of the PCSIC would be selected and appointed by the Trustees. Nominations for membership on the PCSIC would be sought from a broad array of interested constituents and stakeholder groups. Members would be appointed for a three-year term and may be reappointed, based on input from the PCSIC chairman and FASB chairman, for up to two additional one-year terms (for a total of five years). Membership tenure would be staggered to assure appropriate continuity on the PCSIC.

FASB staff will be assigned to support and work closely with the PCSIC on outreach and research projects in order to leverage the FASB's resources and to avoid duplication of efforts.

### ***Meetings***

PCSIC would schedule meetings four to six times per year. The meetings would be held at the FASB's offices in Norwalk, Connecticut, with the intention that all FASB members would attend and participate. Participation of FASB members would facilitate their understanding of PCSIC member views and enable a more efficient ratification process.

PCSIC meetings would be webcast and open to the public, except for discussions of an administrative nature, which could be closed.

### ***Oversight***

The PCSIC will provide periodic in-person reports to the FAF Private Company Review Committee during its first three years of operation, as well as quarterly written reports to the full Board of Trustees. Following the three-year transition, the PCSIC will provide in-person reports to the FAF Standard-Setting Process Oversight Committee and continue to provide quarterly written reports to the full Board of Trustees.

The FAF's post-implementation review (PIR) process, as currently designed, includes engagement with and input from private companies. The PIR process will be further enhanced to include the input of the PCSIC and the post-implementation evaluation of changes made to US GAAP as a result of the PCSIC's work. The objective of this evaluation is to consider whether the resulting standards are achieving the intended objectives. In addition to this oversight, the FAF Trustees will conduct an overall assessment of the PCSIC in three years to determine whether its mission is being met and whether further changes to the standard-setting process for private companies are warranted.

## CONSIDERATIONS

In developing this proposal, the Trustees considered a range of options, including:

1. Creating an autonomous, new, and authoritative standard-setting board for private company issues, under the oversight of the FAF, as recommended by the Blue-Ribbon Panel
2. Establishing a new body, under the oversight of the FAF, to identify standards that require modification and to vote on specific proposed modifications that would then be subject to ratification by the FASB and submitted to the public for comment
3. Establishing a new committee on private company issues that would serve solely in an advisory role to the FASB
4. Continuing to monitor the FASB's existing and ongoing initiatives to better serve the needs and interests of private companies.

In deciding on the second option, the Trustees observed the following:

- Establishing two sets of US GAAP (informally described as "big GAAP" and "little GAAP") is not a desired outcome. Creation of a separate standard-setting board would likely lead to that outcome over time.
- Concerns communicated to the Trustees about the complexity and relevance of US GAAP to private companies appear to involve a small but key group of standards. Therefore, improvements should focus on those standards first.
- The FASB should address—and is committed to addressing—complexity, relevance, and cost-benefit issues more broadly, as other constituents, in addition to private companies, have expressed similar concerns.
- The FASB has made recent, substantive changes to how it engages with private company constituents, and has demonstrated a greater operational and structural commitment to further address these issues.<sup>2</sup> The Trustees believe it is appropriate to allow a period of time for those efforts to mature and are monitoring those efforts closely.

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<sup>2</sup>As described in detail in the appendix.

- The PCFRC has not been wholly successful in achieving its mission, in part because in its early years, the FASB did not participate fully in its processes or pay sufficient attention to its recommendations. In addition, the PCFRC was not initially effective in engaging with the FASB and advocating on behalf of its constituents. Other factors contributing to the shortcomings of the partnership were: (1) the FASB and the PCFRC did not develop and agree upon a framework for considering exceptions or modifications and exceptions to US GAAP for private companies and (2) the two organizations did not integrate their administrative processes in support of their common objective. Based on their outreach and analysis, the Trustees believe that meaningful change in the standard-setting process for private companies can occur only if a common understanding of mutual objectives for the FASB and private company constituents is embedded in both the structure and processes of the FASB.

## **COMMON CONSTITUENT CONCERNS**

As noted above, the Working Group in the course of its outreach efforts received significant input from users, practitioners, and preparers of private company financial statements. That input was instrumental in helping the Working Group frame and consider many of the issues discussed in this paper.

Summarized below are the issues and concerns most commonly raised by constituents in meetings with Trustees and representatives of the Working Group during the outreach process:

- While some practitioners and preparers expressed support for the formation of a separate board as recommended by the Blue-Ribbon Panel, the view was not widely held. In fact, many of those who initially spoke in support of the creation of a new authoritative board, moved away from that view after hearing concerns of others. Such concerns included the likelihood of confusion, the lack of acceptance of new standards by banks and sureties who expect to see US GAAP financial statements, the establishment of a bifurcated profession, a recognition that the formation of a new board and the promulgation of new rules would take years, and a fear that financial statements prepared in accordance to “little GAAP” would be viewed as inferior to “big GAAP” financial statements.
- Many constituents noted that “complexity” in financial reporting is, in many ways, the real problem that concerns the private company community. Complexity, however, affects all entities whether public or private, large or small. There is a general belief that the FASB does not do a sufficient job undertaking a cost-benefit analysis before issuing standards. Nor has the FASB performed systematic post-implementation reviews to determine whether the standards have achieved their goals. There is a concern that GAAP financial statements sometimes do not properly capture the economics of transactions and the standards are not “faithful to the transaction” and do not reflect the “real economic situation.” Nonetheless, there was an acknowledgement that complex financial transactions often require complex accounting.
- A number of constituents believe that the FASB historically has not been attentive to concerns of private companies. Yet, there also was a recognition that private company

constituents do not actively participate in the standard-setting process. Several participants suggested that the FASB should develop methods to more easily facilitate private company input (recognizing that preparing comment letters can be difficult and time consuming for resource-constrained enterprises).

- Despite these criticisms, most participants believe that recent changes at the FASB demonstrate a significant move in the right direction. There are concerns, however, about whether this improvement is sustainable and permanent or dependent on the current board and its interests. To address these concerns, the Trustees will continue to monitor the FASB's efforts and will hold both the FASB and the PCSIC accountable for ensuring that the concerns of private company stakeholders are addressed.
- There also is consensus that between six and ten current standards cause most, if not all, of the problems for private companies.
- When speaking with users of private company financial statements, representatives of the Working Group heard that US GAAP financial statements provide a useful and sound starting point for underwriting and investment decision making. In fact, some said that they are "critical." But, since lenders and investors have significant access to management and outside accountants, financial statements are neither the only nor the best source of information.

The Trustees also acknowledge receipt of more than 2,800 unsolicited letters, most of which made similar points in support of the Blue-Ribbon Panel's recommendation for a separate standard-setting board for private companies.

## **REQUEST FOR COMMENTS**

The FAF Board of Trustees invites individuals and organizations to send written comments on the "Plan to Establish the Private Company Standards Improvement Council."

The Trustees request that responses from those wishing to comment on the plan be received in writing by January 14, 2012. Interested parties should submit their comments by email to [PrivateCompanyPlan@f-a-f.org](mailto:PrivateCompanyPlan@f-a-f.org). Those without email should send their comments to "Private Company Plan," FAF, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116. Please do not send responses by fax.

All comments received constitute part of the FAF's public file. The FAF will make all comments publicly available by posting them to the FAF website.

An electronic copy of this plan is available on the FAF's website.

## **PUBLIC ROUNDTABLE MEETINGS**

The FAF Board of Trustees plans to hold public roundtable meetings after the end of the comment period to hear the views of, and obtain information from, interested parties regarding the “Plan to Establish the Private Company Standards Improvement Council.” The Trustees plan to seek participants for the meetings that represent a wide variety of constituents (including users, preparers, auditors, and others) to ensure that it receives broad input. The schedule, location, and other details of the process for participating in these roundtables will be announced in the coming weeks by the Trustees on the FAF website ([www.accountingfoundation.org](http://www.accountingfoundation.org)).

## **APPENDIX: FASB INITIATIVES TO IMPROVE THE STANDARD-SETTING PROCESS FOR PRIVATE COMPANIES**

As noted earlier, the Trustees concluded that the FASB has made considerable progress in addressing private company concerns in the standard-setting process, a view that was confirmed by many of the constituents with whom members of the Working Group spoke. Some constituents, however, were concerned that this improvement may not prove to be sustainable and permanent, depending on the composition of future boards and their members' interests. To address these concerns, the Trustees will continue to monitor the FASB's efforts and will hold both the FASB and the PCSIC accountable for ensuring that the concerns of private company stakeholders are addressed.

The following appendix outlines the manner in which the FASB is addressing private company issues:

### ***The FASB has increased its effort to understand and address the needs of the users and preparers of private company financial statements.***

- The FASB released an initial staff analysis (*FASB in Focus*—July 11, 2011) identifying six specific ways in which use of financial statements for private companies differs from that of public companies.
- FASB staff is working closely with its Private Company Resource Group (PCRG), a working group, to make recommendations on developing a set of criteria that will assist the FASB in deciding whether and when to adopt exceptions or modifications to US GAAP for private companies.
- While efforts to develop these criteria are proceeding, FASB staff is working to evaluate potential exceptions or modifications for private companies for the FASB's consideration, in current standard-setting projects.

### ***The FASB has put in place the infrastructure and processes required to develop, field test, and implement accounting standards for private companies.***

- The FASB has built a team of professionals dedicated to soliciting the input of private company stakeholders in all standard-setting projects.
- The FASB's due process incorporates feedback and opinions from these constituents.

### ***The FASB has been increasingly responsive to criticism of the manner in which the FASB handled private company issues in the past.***

- The FASB has established a series of roundtables during which private company stakeholders share their views directly with FASB members.
- For major standard-setting projects, the FASB has created issue-specific roundtables for private company stakeholders.
- FASB members now regularly attend meetings of the PCFRC.

- The FASB created a dedicated electronic portal to make it easier for private company stakeholders to access information that pertains to their needs.
- The FASB developed the Electronic Constituent Feedback Forum to make it easier for private company stakeholders to offer comments on the FASB proposals.
- FASB staff has developed a resource list of private company contacts that can be consulted on an ad hoc basis.
- The FASB has increased the transparency of its decision-making process on US GAAP related to private companies, including increased use of video webcasting of its meetings.

***The FASB is increasingly willing to take action on private company concerns as part of the standard-setting process. For example:***

- In response to recommendations from private company financial statement preparers, the Board completed a project (Testing Goodwill for Impairment) to reduce the cost and complexity of testing goodwill for impairment.
- In its revenue recognition project, the FASB has tentatively decided to exempt private companies from certain new disclosure requirements.
- In its financial instruments projects, the FASB has proposed a measurement exemption for nonmarketable equity securities.
- For many recent projects, the FASB instituted one-year deferrals for nonpublic entities to enable them to implement new standards more effectively and efficiently.

***The FASB has undertaken a series of new educational efforts intended to provide more information to stakeholders about their private company initiatives and issues.***

- In June 2011, the FASB held its first FASB Update webcast geared specifically to nonpublic entities—including private companies—for CPE credit and has scheduled the next semiannual webcast for December 2011.
- The FASB provides plain-English executive summaries (*FASB in Focus* documents) and brief podcasts for all new proposed and final ASUs, as well as educational webcasts for major projects.
- FASB Board and staff members participate, as presenters and panelists, in many educational conferences and meetings geared primarily toward the private company sector, at both national and local levels.