



FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL

FASB Offices
Norwalk, Connecticut

March 31, 2009

Agenda*

- 8:30 am** Introductory Remarks (Mr. Chookaszian)
- 8:35 (10 minutes) Report of FASAC's Strategy on Identifying Potential Future Standard Setting Issues
Session Objective: For FASAC members provide a brief report of FASAC's strategy to identify and bring potential future standard-setting issues to the Board on an ongoing basis
- 8:45 (45 minutes) Overview of the Financial Crisis Advisory Group (FCAG) and Related FASB Agenda Projects
Session Objective: To provide input on the financial crisis projects and the FASB's overall agenda and prioritization.
- 9:30 (45 minutes) Breakouts Group Discussions on Financial Instruments
Session Objective: To provide input on the objectives of a joint financial instruments project and the criteria/characteristics that should be used to determine how to measure financial instruments.
- 10:15 (15 minutes) **BREAK**
- 10:30 (40 minutes) Summary of Breakouts Group Discussions on Financial Instruments
Session Objective: To provide input on the objectives of a joint financial instruments project and the criteria/characteristics that should be used to determine how to measure financial instruments.
- 11:10 am (50 minutes) Quarterly Status Reports
- Report of the FASB Chairman (Mr. Herz)
 - Report of the SEC (Ms. Minke-Girard)
 - Report of the PCAOB (Mr. Scates)
- 12:00 (60 minutes) **LUNCH**
- 1:00 pm (90 minutes) FASB/FAF Response on IFRS Plan for U.S.
Session Objective: To inform FASAC members and to consider their questions about the views expressed in the FASB/FAF Response to the SEC on their Proposed Rule on IFRS

2:30 (30 minutes)

Practical Effects of the FASB's Codification

Session Objective: To provide input on the level of awareness about the FASB's Codification, how FASAC and its members can help in raising awareness, and the practical implications and effects of the Codification to users, preparers, auditors, academics and students, and others.

3:00 pm

ADJOURNMENT

*Times are approximate.



FASB CHAIRMAN'S REPORT

**Financial Accounting Standards Advisory Council
March 31, 2009**

- **TECHNICAL ACTIVITIES**

- **DC ACTIVITIES**

- **RESPONDING TO THE GLOBAL FINANCIAL CRISIS**
 - **WITH IASB**
 - **FASB ONLY**

**Addendum to the REPORT OF THE CHAIRMAN OF THE FASB
TO THE FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL**
Due Process Documents Expected for Issuance: 1Q 2009 and 2Q 2009
(As of March 17, 2009) Source: www.fasb.org

	2009		Estimated Issuance of Final Document
	1Q	2Q	
JOINT FASB/IASB PROJECTS: *			
<u>Conceptual Framework Project:</u> <i>(Updated as of February 17, 2009)</i> Objective and Qualitative Characteristics (Phase A)		F	2009
Standards Projects:			
<u>Leases</u> <i>(Updated January 30, 2009)</i>	DP	C	2011
<u>FAS 144—Reporting Discontinued Operations</u> <i>(Updated October 7, 2008)</i>	C	F	2009
FASB PROJECTS:			
Credit Crisis Projects:			
<u>FAS 157—Determining When a Market for an Asset or a Liability is Active or Inactive and Determining When a Transaction Is Distressed</u> <i>(Added to agenda 2/18/09. Updated March 10, 2009)</i>	E	F	2009
Other-Than-Temporary-Impairment <i>(Added to the agenda 3/16/09)</i>	E	F	2009
<u>FAS 157—Measuring Liabilities under FAS 157</u> <i>(Updated March 12, 2009)</i>	F		2009
<u>FAS 107 and APB 28—Interim Disclosures about Fair Value of Financial Instruments</u> <i>(FSP FAS 107-b and APB 28-a issued 1/30/09. Updated March 13, 2009)</i>	E,C,F		2009
<u>FAS 133 Implementation C22—Embedded Credit Derivatives Scope Exception</u> <i>(Proposed Statement 133 Implementation Issue C22 issued 1/14/09. Updated March 12, 2009)</i>	E,C	F	2009
Other Projects:			
<u>Mergers and Acquisitions by a Not-for-Profit Organization (including amendments to Statement 142)</u> <i>(Updated March 11, 2009)</i>		F	2009
<u>Going Concern</u> <i>(Updated March 12, 2009)</i>	F		2009
<u>Subsequent Events</u> <i>(Updated March 12, 2009)</i>	F		2009

	2009		Estimated Issuance of Final Document
	1Q	2Q	
<u>FAS 141(R)—Assets & Liabilities Arising from Contingencies in a Business Combination</u> (Updated February 24, 2009)	C,F		2009
<u>FIN 48—Applicability for Private Entities</u> (Updated January 20, 2009)			
Pass-Through Entities & Amendments to Existing Disclosure Requirements (Phase 2)		E,F	2009
<u>Technical Corrections to FASB Statements and Other U.S. GAAP Literature</u> (Updated January 27, 2009)	E	F	2009
<u>Amend Statement 162, GAAP Hierarchy, and Approve FASB Accounting Standards Codification</u> (Updated January 23, 2009)	E	F	2009
<u>Disclosure of Certain Loss Contingencies</u> (Updated March 5, 2009)	R	F	2009
<u>Reconsideration of Interpretation 46(R)</u> (Updated February 18, 2009)		F	2009
<u>Statement 140 Implementation: Transfers of Financial Assets</u> (Updated March 6, 2009)		F	2009
<u>Loan Loss Disclosures</u> (Updated April 10, 2008)		E	2009
<u>Oil and Gas Disclosures</u> (Added to agenda 2/18/09. Updated February 20,2009)		E	2009

*The IASB will meet to discuss the timing of documents of various joint projects and the FASB technical plan will be updated accordingly.

Codes:

C – Comment Deadline
DP – Discussion Paper
E – Exposure Document
F – Final Document
R – Roundtable

REPORT OF THE CHAIRMAN OF THE FASB
TO THE FINANCIAL ACCOUNTING FOUNDATION
November 1, 2008 through January 31, 2009

ITEM 1: TECHNICAL ACTIVITIES

BOARD AND STAFF ACTIVITIES

a. Documents issued:

1. FSP FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities* (December 11, 2008).
2. FSP FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises* (December 30, 2008). (Proposed FSP FIN 48-c also issued.)
3. FSP FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* (December 30, 2008).
4. FSP EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20* (January 12, 2009). (Proposed FSP EITF 99-20-a also issued.)
5. Proposed FSP FAS 107-a, *Disclosures about Certain Financial Assets: An Amendment of FASB Statement No. 107*. The comment period ended January 15, 2009.
6. Proposed FSP FAS 141(R)-a, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*. The comment period ended January 15, 2009.
7. Proposed Statement 133 Implementation Issue No. C22, "Exception Related to Embedded Credit Derivatives." The comment period ends February 13, 2009.
8. Proposed FSP FAS 107-b and APB 28-a, *Interim Disclosures about Fair Value of Financial Instruments*. The comment period ends March 2, 2009.
9. Discussion Paper, *Preliminary Views on Revenue Recognition in Contracts with Customers*. The comment period ends June 19, 2009.

b. Projects Added to the Technical Agenda:

1. *Financial Instruments—Complexity in Existing Standards.* After considering input from constituents about the accounting for financial instruments in light of the global financial crisis, a joint project with the IASB was added to the Board's agenda to address the complexity in existing standards of accounting and reporting for financial instruments.
2. *Short-Term Financial Instruments Projects.* Four short-term projects were added to the Board's agenda to address current practice issues related to financial instruments. Those projects are:
 - a. Practice Issues with EITF Issue 99-20 (completed in January 2009)
 - b. Disclosures of Certain Financial Instruments
 - c. Clarification of the Embedded Credit Derivative Scope Exception in Paragraph 14B of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*
 - d. Recoveries of Other-Than-Temporary Impairments (Reversals).
3. *Amendments to Statement 162 and Approval of the FASB Accounting Standards Codification.* A project was added to the Board's agenda to approve the FASB Accounting Standards Codification as the single source of authoritative U.S. GAAP, effective July 1, 2009, and to make corresponding amendments to FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*.

c. Projects Removed from the Technical Agenda:

1. *Accounting for Trading Inventory.* This project was removed from the agenda after receiving mixed reviews on proposed FSP ARB 43-a, *Amendment of the Inventory Provisions of Chapter 4 of ARB No. 43*.
2. *IPR&D Acquired in an Asset Acquisition.* This project was removed from the Board's agenda and will now be addressed by the EITF.

d. Emerging Issues Task Force (EITF):

1. At the November 24, 2008 Board meeting, the Board ratified the consensuses reached at the November 13, 2008 EITF meeting on Issues No. 08-6, "Equity Method Investment Accounting Considerations," No. 08-7, "Accounting for Defensive Intangible Assets," and No. 08-8, "Accounting for an Instrument (or an Embedded Feature) with a Settlement Amount That Is Based on the Stock of an Entity's Consolidated Subsidiary."
2. The Board also ratified the consensuses-for-exposure reached by the Task Force on Issues No. 08-1, "Revenue Arrangements with Multiple Deliverables," and No. 08-10, "Selected Statement 160 Implementation Questions." The comment

- periods for the draft abstracts posted to the FASB website for each of those Issues ended on January 30, 2009, and December 26, 2008, respectively.
- e. Four Board members participated in the November EITF meeting.
 - f. The Board met in public meetings with representatives of the following organizations and discussed matters of mutual interest:
 - 1. AICPA PCPS Technical Issues Committee
 - 2. National Association of College and University Business Officers.
 - g. All Board members, the technical director, and several staff members hosted two roundtable meetings as part of our due process on the Statement 140 and Interpretation 46(R) projects.
 - h. All Board members, the technical director, and several staff members participated in the biannual meeting of the FASB's Small Business Advisory Committee. The main discussion topics included issues and responses related to the recent international financial crisis, international convergence and the future financial reporting for small and private entities, and the FASB's project on loss contingency disclosures.
 - i. All Board members, the technical director, and several staff members participated in the quarterly meeting of the Financial Accounting Standards Advisory Council. The main discussion topics included issues and responses related to the recent international financial crisis and risk management, measuring expected values for financial reporting, and the FASB's project on loss contingency disclosures.
 - j. Four Board members, the technical director, and a few staff members participated in a meeting with the Private Company Financial Reporting Committee (PCFRC). The main discussion topics included a review of the progress of the PCFRC since its inception and the working relationship between the FASB and the PCFRC, convergence and the roadmap for private companies, and the FASB's projects on private company accounting for uncertainty related to income taxes, special-purpose entities, financial statement presentation, and financial instruments with characteristics of equity.
 - k. Four Board members and several staff members participated in the November public meeting of the Investors Technical Advisory Committee (ITAC) in Norwalk. Two Board members and the several staff members also met in a closed session with ITAC on that same day. ITAC provided investor perspectives on a variety of topics including the governance of accounting standard-setting, government activities with respect to their funding of financial institutions and other organizations during the ongoing crisis, and international convergence. ITAC also provided input on four short-term and long-term financial reporting areas: other-than-temporary impairment; federal assistance, including TARP; fair value disclosure; and the FASB's proposed amendments to Statement 140 and Interpretation 46(R).

- l. All Board members and several staff members participated in the January public ITAC meeting in Norwalk. One Board member and the several staff members also met with ITAC in a closed meeting that same day. ITAC provided investor perspectives on a variety of topics including the content and due process associated with the FASB's proposed FSP EITF 99-20-a, *Amendments to the Impairment and Interest Income Measurement Guidance of EITF Issue No. 99-20*, as well as the FASB's project on the disclosure of certain loss contingencies.
- m. Two Board members and the technical director met with representatives from Fannie Mae to discuss the Interpretation 46(R) project.
- n. The technical director and staff met with representatives from the Center for Audit Quality regarding accounting for other-than-temporary impairment (OTTI) of investments.
- o. The technical director and staff met with representatives from the American Council of Life Insurers regarding OTTI.

INTERNATIONAL ACTIVITIES

- a. The chairman and Board members attended the roundtables with the IASB on the global financial crisis. The roundtables held in London, Tokyo, and Norwalk provided FASB and IASB members with the opportunity to hear from a wide range of stakeholders, including users, preparers, and auditors of financial statements, regulators, and others. The roundtables helped the Boards identify accounting issues that may require the urgent and immediate attention of the Boards to improve financial reporting and help enhance investor confidence in financial markets.
- b. The chairman, a Board member, and staff attended the first meeting of the Financial Crisis Advisory Group (jointly sponsored by the FASB and the IASB and comprising senior leaders with broad business/governmental experience) in London. The meeting featured a discussion of where financial reporting has and has not been helpful in identifying concerns during the global financial crisis.
- c. FASB staff participated in IASB Board meetings and discussed various technical issues on the Boards' joint projects on conceptual framework—measurement and reporting entity; derecognition; financial instruments with characteristics of liability; and leases.
- d. The chairman, two Board members, and staff held a joint strategy video conference meeting with representatives of the IASB to discuss planning matters relating to certain joint projects.
- e. The FASB and the IASB held a joint video conference meeting and resolved differences arising in their separate meetings relating to the joint project on leasing.
- f. A Board member attended various meetings of a working group sponsored by the Financial Stability Forum on issues relating to the global financial crisis in Paris.

- g. Two Board members and several staff members met with representatives of the Accounting Standards Board of Japan (ASBJ). The meeting was the sixth in a series of discussions between the ASBJ and the FASB designed to enhance dialogue between the two Boards in their shared pursuit of global convergence of accounting standards. As part of the meeting, representatives of the Boards discussed their respective strategies toward a single set of global standards. They also discussed standard-setters' responses to the recent international financial crisis. In addition, representatives of both Boards exchanged their views on the current status of their work on the following projects: conceptual framework; consolidation, including special-purpose entities, and derecognition; financial instruments with characteristics of equity; financial instruments—improvements to recognition and measurement; and financial statement presentation.
- h. The FASB and IASB directors continued their ongoing series of weekly conference calls to discuss technical and administrative matters.
- i. A staff member participated in the IASB's Insurance Working Group meeting in London.
- j. The Board met several times to discuss draft responses to the SEC's proposed roadmap.

OTHER ACTIVITIES

- a. The Board discussed whether it should change the comment period requirements in its Rules of Procedure to ensure its ability to respond timely to financial reporting emergencies. The IASB is considering similar changes. The Board will consider the outcome of the IASB discussions in developing our procedures in this area.
- b. The Board discussed a staff proposal for strengthening post-implementation review procedures, as recommended by the FAF Trustees and the CIFiR. The Board tentatively agreed on the review objectives, staff and Board responsibilities, and the nature and timing of likely review procedures.
- c. The following professional development sessions were presented to the Board and staff:
 - 1. Shan Nemeth, John Sarno, and Paul Beauchamp, Partners, Deloitte and Touche, LLP. The objective of this session was to understand the accounting under IFRS 2, *Share-based Payment*, and IAS 18, *Revenue*. These standards were applied to case studies and examples. The session helped participants understand the key differences between IFRS and U.S. GAAP in these areas.
 - 2. Kim Petrone, FASB Senior Project Manager; Regenia Cafini, FASB Project Manager; and Denise Gomez Soto, IASB Project Manager. The objective of this session was to provide an overview of the Discussion Paper on the presentation of information in the financial statements that was issued as part of a joint project of the IASB and the FASB in October 2008. The discussion focused on the

- presentation model proposed in the Discussion Paper, how the model addresses the objectives and principles of financial statement presentation, and the implications of the objectives and principles on each financial statement and the notes. In addition, there was a brief discussion of the field test that is currently in process.
3. Mike Morrissey, Stuart Moss, and Dan Murdock, Partners, Deloitte and Touche, LLP. The objective of this session was to understand the accounting under IFRS 3, *Business Combinations*, IAS 36, *Impairment of Assets*, and IAS 38, *Intangible Assets*. These standards were applied to case studies and examples. The session helped participants understand the key differences between IFRS and U.S. GAAP in these areas.
 4. Brenda Catugno, Financial Services Representative, Financial Planner, and Investment Specialist, Met Life. The objective of this session was to provide employees with valuable information about using trusts as an estate planning tool, learning how to minimize estate and income tax liability, and how to distribute your assets according to your desires. In addition, Ms. Catugno discussed how to understand your retirement income sources, how to turn your 403(b) balance into income, your risk of outliving your retirement income, and how to establish a retirement income strategy that you cannot outlive.
 5. Kevin P. Demshak, Certified Financial Planner, Fidelity Brokerage Services. The objective of this session was to provide employees with valuable information about how to allocate investments strategically, the characteristics of the three basic asset classes (stocks, bonds, and short-term), developing and implementing a plan for the future, and services available to help make investment decisions.
 6. Gregory Waymire, Professor, Emory University. This presentation covered the evolution of accounting as an economic institution over the period ranging from the first known use of accounting in the first human settlements in ancient Mesopotamia (ca. 8,000 BCE) through modern times. Specific topics covered included (a) the importance of basic accounting records, (b) the role of informal norms in influencing accounting practice, (c) the origins of income reporting and disclosure, and (d) the role of the human brain in shaping the broad contours of accounting principles. The session involved presentation with ample time for follow-up Q&A.
 7. Randall Sogoloff, Maria Davis, and Ignacio Perez, Partners, Deloitte and Touche, LLP. The objective of this session was to understand the accounting under IAS 16, *Property, Plant and Equipment*, and IAS 17, *Leases*. These standards were applied to case studies and examples. The session helped participants understand the key differences between IFRS and U.S. GAAP in these areas.
 8. FASB Practice Fellows Shea Malcolm, Jamie Mayer, Diane Inzano, Chad Bonn, Brad Homant, and Adrian Mills. They provided an update on the fellows' recent activities related to the EITF and to FSPs.

EXTERNAL CONFERENCES

- a. Staff members attended the following conferences:
 1. KPMG's 20th Annual Insurance Industry Conference in New York.
 2. FEI's Current Financial Reporting Issues Conference 2008 in New York.
 2. National Conference on Current SEC and PCAOB Developments in Washington, DC and New York.

ITEM 2: ADMINISTRATIVE AND STRATEGIC ACTIVITIES

- a. All Board members attended the November FAF Trustees meeting.

ITEM 3: WASHINGTON ACTIVITIES

- a. Staff members met in separate meetings with various staff of Congressional committees and representatives of Washington, DC-based trade associations to discuss the role of the FASB, various current projects, and other matters of mutual interest.
- b. The chairman, other Board members, and senior staff members held a number of meetings and discussions with the financial institution regulators about accounting and reporting issues emanating from the credit crisis.
- c. Staff members conferred with officials of the U.S. Department of the Treasury regarding implementation of the Emergency Economic Stabilization Act of 2008.
- d. The chairman, two Board members, the technical director, the director of planning and support, and a staff member held quarterly meetings with the SEC and the PCAOB to discuss current FASB activities and other matters of mutual interest.
- e. The chairman, the Financial Accounting Foundation President, and FAF staff met with Representative Jim Himes (D-CT).

ITEM 4: SPEECHES DELIVERED

Principal platforms addressed by the Board and staff members during the November 2008 through January 2009 period include:

- AICPA 2008 Not-for-Profit Financial Executive Forum
- AICPA National Banks and Savings Institutions Conference
- AICPA Conference on SEC and PCAOB Developments
- American Accounting Association FARS
- Associated General Contractors of America—Tax and Fiscal Affairs Committee
- Bermuda Insurance Club
- CFA Institute
- Current Financial Reporting Issues Conference

- Executive Enterprise Institute (EEI), FASB/SEC Accounting Institute
- FEI 2008 Current Financial Reporting Issues Conference
- Harvard Law School International Finance Seminar
- Illinois State Society of CPAs
- Institute of International Finance—Three Way Dialog
- Joint AICPA & ASA Business Valuation Conference
- Knowledge Congress Webcast
- MIT CFO Summit
- Moore Stephens North America Audit & Accounting Conference (MSNA)
- National Federation of Municipal Analysts (NFMA)
- NYSSA Annual Conference
- Oklahoma State University Financial Reporting Conference
- Ohio Society of Certified Public Accountants
- SEC Institute Conference
- SEC/FASB 2009 Conference—NYSSCPA/FAE
- Stamford CFA Society Annual Forecast Conference
- Stamford CPA Society
- The Hildebrandt Institute
- University of Southern Florida
- Washington Society of CPAs

ITEM 5: ADDITIONAL COMMUNICATIONS ACTIVITIES

- a. The FASB Communications Department issued the following press releases:
 1. IASB and FASB to Hold First Round Table on Global Financial Crisis in London on 14 November 2008 (*joint press release with IASB*);
 2. ASB and FASB Announce Dates for US and Asian Round-Tables on Global Financial Crisis (*joint press release with IASB*);
 3. Hans Hoogervorst and Harvey Goldschmid to Co-Chair Advisory Group Considering Financial Reporting Issues Arising from Global Economic Crisis (*joint press release with IASB*);
 4. FASB to Issue FSP FAS 140-4 and FIN 46(R)-8, *Disclosures about Transfers of Financial Assets and Interests in Variable Interest Entities*, by December 15, 2008;
 5. Accounting Standards Board of Japan Meets with Financial Accounting Standards Board to Discuss Global Convergence;
 6. FASB Accounting Standards Codification Expected to Officially Launch on July 1, 2009;
 7. FASB Issues FSP FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities*;
 8. FASB Issues Proposed FASB Staff Position FAS 141(R)-a, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*;

9. IASB and FASB Propose Joint Approach for Revenue Recognition (*joint press release with IASB*);
 10. FASB Issues First of Two Proposed Staff Positions to Improve the Financial Reporting for Financial Instruments;
 11. FASB Issues Proposed Staff Position to Improve the Financial Reporting for Financial Instruments;
 12. IASB and FASB Announce Membership of Financial Crisis Advisory Group (*joint press release with IASB*);
 13. FASB Issues Staff Position FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*.
- b. Media interviews were conducted with Dan Fried of thestreet.com (11.13.08, off-balance-sheet vehicles discussion with Pat Donoghue); Steven Mintz of CFO.com (11.21.09, Statement 142 write-offs discussion with Kristofer Anderson); Glenn Cheney of *Accounting Today* (12.17.08, FSP FAS 140-4 and FIN 46R-8 discussion with Pat Donoghue); Leela Parker of *Total Securitization News* (12.22.08, discussion about FSP EITF 99-20-a with FASB fellow Adrian Mills); and John Hintze of *Asset Securitization Report* (1.05.09, FSP EITF 99-20—a discussion with Adrian Mills). Other interviews were conducted with Bloomberg, the *New York Times*, the *Wall Street Journal*, and other national publications about FASB standards concerning changes to financial instruments and treatments for off-balance-sheet vehicles.
 - c. The Communications Department distributed the *FASB Report* in December 2008. Articles focused on the July 1, 2009 launch of the official FASB Codification; Financial Statement Presentation Discussion Paper; appointment of Marc Siegel to the FASB; and listing of upcoming speaking engagements.
 - d. The department assisted FASB member Marc Siegel with a column in *Accounting Today—Making Financial Statements Better: FASB and IASB seek input on proposal for major changes to financial statement presentation*, which will appear in an upcoming issue.
 - e. The department arranged a one-on-one informational interview for Jennifer Hughes, accountancy reporter for *Financial Times*, and Robert Herz.
 - f. Neal McGarity joined Ned Regan for a breakfast event featuring David Reilly of *The Wall Street Journal* and Sir David Tweedie of the International Accounting Standards Board.
 - g. The department worked with the FASB’s Financial Statement Presentation project team on a webcast designed to encourage constituents to review and weigh in on the proposed changes to financial statement presentation contained in the FASB/IASB discussion paper. Moderated by FASB member Marc Siegel, the webcast featured panelists Kim Petrone (FASB), Peter Bridgman (PepsiCo), Greg Jonas (Moody’s) and Joe Joseph (Putnam Investments).

- h. The department worked with Alicia Posta, Executive Director, FASB Advisory Groups, FASB project manager Paul Glotzer, and Mitchell Slepian and Robert Durak of the AICPA to create a press kit for PCFRC.
- i. The department worked with the Washington team to refine messaging regarding the credit crisis and related political pressures directed at accounting standards.
- j. The department began working with its consultants on the 2008 FAF Annual Report, reviewing and editing the preliminary draft of the Chairman's letter as submitted by consultant David Dann. The department also worked with Inergy on preliminary book designs.
- k. The department resumed its work with FASB project manager Paul Glotzer and Mitchell Slepian and Robert Durak of the AICPA to put finishing touches on a press kit for PCFRC.
- l. The department worked with Tom Hoey, Larry Smith, and Ron Guerrette to complete an informational Q and A document designed to raise awareness of July 1, 2009, as the date the FASB Codification is expected to go "live." The document is now posted on the Codification website.
- m. The department met with Marion Abercrombie of Business Wire to discuss continued use of the wire service in 2009.
- n. Joanna Romersa conducted a number of student tours:
 - 1. Professor Kim Smith and several other faculty members along with 51 of their Master of Accounting Students from the College of William & Mary visited the FASB. Since there was no meeting scheduled, we coordinated a presentation which included Meghan Clark (PTA) giving an overview of the FASB, and a talk by Ray Pfeiffer on IFRS. Tom Linsmeier ended with a Q&A.
 - 2. Professor Tom Shimerda of Creighton University made his annual visit to the FASB with 11 of his undergraduate students. They observed a short Board meeting, followed by a 15-minute education session, and then Tom Linsmeier did a brief Q&A for them.

ITEM 6: GASB LIAISON ACTIVITIES

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

- d. The FASB staff distributed the following drafts to the GASB for review:
- Final FSP FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities*
 - Final FSP FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*
 - Final FSP EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*
 - Proposed FSP FAS 141(R)-a, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*
 - Proposed FSP FAS 07-a, *Disclosures about Certain Financial Assets: An Amendment of FASB Statement No. 107*
 - Proposed FSP FAS 107-b and APB 28-a, *Interim Disclosures about Fair Value of Financial Instruments*
 - Proposed Statement 133 Implementation Issue, "Exception Related to Embedded Credit Derivatives."
- e. The FASB staff received the following GASB drafts for review:
- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*
 - GASB Implementation Guide for GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.



THE FINANCIAL CRISIS ADVISORY GROUP AND RELATED FASB AGENDA PROJECTS

Financial Accounting Standards Advisory Council
March 31, 2009

Session Overview and Objectives

At the upcoming meeting, we plan to divide the discussion on these topics into three parts:

- Part I will be a full group session. We will begin with an update about the Financial Crisis Advisory Group and recent FASB decisions and discussions on both long- and short-term projects. The focus of the remainder of the session will be on financial crisis projects and the FASB's overall agenda and prioritization.
- Part II will be breakout sessions. FASAC will be divided into two groups—a financial institution perspective and a general business perspective. Each group will discuss the objectives of a joint financial instruments project and the criteria/characteristics that should be used to determine how to measure financial instruments.
- Part III will be a full group session. We will ask each breakout group to briefly summarize their input and then discuss the similarities and differences between the groups.

Background Materials

The background materials below provide a summary of:

1. The role of the Financial Crisis Advisory Group and discussions and tentative conclusions reached
2. SEC Report on Fair Value
3. Related projects on the FASB's current agenda (short and long term)
4. Problems associated with financial instruments and issues arising from different measurement approaches.

Discussion questions for Part I and II are included on the last page.

Note: These materials are provided to facilitate understanding of the issues to be addressed at the March 31, 2009 FASAC meeting. These materials are presented for discussion purposes only; they are not intended to reflect the views of the FASB or its staff. Official positions of the FASB are determined only after extensive due process and deliberations.

1. Financial Crisis Advisory Group (FCAG) Activities

Overview and Charge

The International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) have a long-standing commitment to work together in an internationally coordinated manner on improving financial reporting standards. As part of that commitment, accounting issues emerging from the global crisis will be considered by both Boards. The Boards established an advisory group comprised of senior leaders with broad international experience with financial markets to assist in that important process.

The primary function of the advisory group is to advise the Boards about standard-setting implications of (1) the global financial crisis and (2) potential changes to the global regulatory environment. The group will conclude its activities within approximately six months and will conduct advisory meetings during that time.

The advisory group will consider how improvements in financial reporting could help enhance investor confidence in financial markets. The advisory group also will help identify significant accounting issues that require urgent and immediate attention of the Boards, as well as issues for longer-term consideration.

In providing that advice, the advisory group will draw upon work already underway in a number of jurisdictions on accounting and the credit crisis, as well as information gathered from the public roundtables in November and December 2008.

The Potential Issues

The FCAG is invited to discuss, among other issues, the following:

- Areas in which financial reporting helped identify issues of concern, or may have created unnecessary concerns, during to credit crisis
- Areas in which financial reporting standards could have provided more transparency to help either anticipate the crisis or respond to the crisis more quickly
- Whether priorities for the IASB and the FASB should be reconsidered in light of the credit crisis
- Potential areas that require future attention of the IASB and the FASB to avoid future market disruption
- The implications of the credit crisis for the interaction between general purpose financial reporting requirements for capital markets and regulatory reporting, particularly for financial institutions
- The relationship between fair value and off-balance-sheet accounting and the current crisis, both during and leading up to the crisis
- The findings and relevance of conclusions of various studies underway, including the U.S. Securities and Exchange Commission (SEC) study under the Emergency Economic Stabilization Act of 2008
- The need for due process for accounting standard setters and its implications on resolving emergency issues on a timely and inclusive basis

- The independence of accounting standard setters and governmental actions to the global financial crisis.

The Progress and Tentative Conclusions

The group held advisory meetings on January 20, February 13, and March 5, 2009.

At the January 20 meeting, the FCAG co-chairman, Mr Hoogervorst, summarized the position of the group in January is as follows:

- Accounting rules are not at the heart of the credit crisis and fair value did not contribute significantly to the downward cycle
- There were no calls to do away with fair value measurement
- Some areas need to be examined in the accounting; for example, better consolidation and derecognition rules would have been helpful
- More guidance and simplification is required for fair value measurement in complex situations
- Some acceptance that accounting has to be neutral and even reflect 'crazy' market positions; however, not everyone is comfortable with this view. Some are concerned that fair value accounting does contribute to procyclicality.
- Governments, finance ministers and prudential supervisors need to take into account pro-cyclicality in their work; however, this does not necessarily have to be recognized through the accounting.

At the February 13 meeting, the FCAG discussed a number of specific questions. Below are the questions and a summary of the general themes of members' responses.

Question 1 - At whom should general purpose financial statements be primarily aimed and why?

General themes in the discussion

- In general the group agreed that general purpose financial statements should be aimed at investors and a broad range of users, not just investors in a narrow sense. Both the FASB's and the IASB's existing conceptual frameworks indicate that primacy is given to the informational needs of investors. It was pointed out that "investors," as used in the conceptual framework, has a very broad definition, and it essentially includes all resource providers (e.g., investors, lenders, suppliers and other trade creditors).
- There was general agreement that accounting needs to be focused on those that work with finances provided by others.

Question 2 - Should general purpose financial statements have a financial stability objective? Why or why not?

General themes in the discussion

- There was general consensus in the group that financial statements should not directly have a financial stability objective, but, rather, that they should present the economic reality of a company and be as neutral and free from bias as possible. A number of members did state that the financial stability objective and the presentation of economic reality were not mutually

exclusive and that by presenting economic reality, financial statements could lead to more informed decision making and therefore support financial stability even if that is not the primary aim.

- There was also general consensus that financial stability is an objective for prudential regulators. It was stated that the financial statements should provide information for the prudential regulator even if they do not necessarily need to be meet the regulatory objective.
- There was some discussion on the issue of the analysis of risk and the role of accounting in the potential assessment of the future position and the distinction between risk and uncertainty. There was some agreement that measuring risk is difficult and possibly not a role for accountants. Accountants should be primarily concerned with reflecting transactions and the assets and liabilities as they are at a particular point in time. There also was a comment stating that recognizing income in good times without recognizing that the risk is accumulating may not be reflecting a true economic position.

Questions 3 and 4

With specific reference to fair value, should financial stability or pro-cyclicality be considered even if a loss of transparency of information would result?

For whole loans, should we (a) retain the current accounting model based on amortized cost and “incurred losses” but stress the permitted use of sound judgment in provisioning or (b) move to a different approach, for example, to fair value or to a method based on “dynamic provisioning”?

[These two questions are linked and the discussions by the group covered both questions.]

General themes in the discussion

- There was a general consensus that it makes sense for banks to withhold reserves, or increase capital in good economic times that may be available in poor economic times. There also is consensus that the prudential regulator has a key role in determining the amount of capital (undistributable reserves) to be retained in the business, and that it is the responsibility of standard setters to determine the basis for management’s judgment on the loan impairments (at present an incurred losses model).
- There was less agreement on whether any movements in the regulatory reserve should be within comprehensive income or equity, and also whether management should have the discretion to increase the amount of the loan loss impairment provision to any amount deemed necessary. There were strong objections raised by a number of members to giving management discretion to make provisions above the level required by accounting standards or regulators due to the possibility for earnings management.
- There was no clear conclusion on how any provision or regulatory capital amount should be set; however, there was some consensus that judgment and experience will be necessary for whatever method is used. It also was agreed that transparency was paramount in the financial statements and that any change in accounting should enhance transparency.

- There was consensus that if any amount of capital is required to be retained in the business by the regulator, it should be made non-distributable for both dividends and stock buy-backs.

Question 5 - What principles should determine when financial instruments are carried at fair value and when changes in fair value should be included in profit or loss (earnings)?

General themes in the discussion

- There was general consensus that the current model for measuring financial instruments was in need of simplification and a 'clean up,' and that the group would support moves by the Boards in this regard, with convergence a desirable goal.
- There was some support for the principle that fair value was probably the best measurement basis available, in particular, for assets in deep and liquid markets.
- There was far less agreement that fair value was appropriate in illiquid markets and in situations in which management had no intent to sell the instrument.

2. SEC Fair Value Study

On December 30, the SEC delivered a [report](#) to Congress that was mandated by the Emergency Economic Stabilization Act of 2009. The 211-page report recommends against the suspension of fair value accounting standards. It also recommends improvements to existing practice, including reconsidering the accounting for impairments and the development of additional guidance for determining fair value of investments in inactive markets, including situations where market prices are not readily available.

As described in the [SEC Press Release](#), *Congressionally-Mandated Study Says Improve, Do Not Suspend, Fair Value Accounting Standards:*

Among key findings, the report notes that investors generally believe fair value accounting increases financial reporting transparency and facilitates better investment decision-making. The report also observes that fair value accounting did not appear to play a meaningful role in the bank failures that occurred in 2008. Rather, the report indicated that bank failures in the U.S. appeared to be the result of growing probable credit losses, concerns about asset quality, and in certain cases, eroding lender and investor confidence.

While the report does not recommend suspending existing fair value standards, it makes eight recommendations to improve their application, including:

- Development of additional guidance and other tools for determining fair value when relevant market information is not available in illiquid or

inactive markets, including consideration of the need for guidance to assist companies and auditors in addressing:

- How to determine when markets become inactive and whether a transaction or group of transactions are forced or distressed
 - How the impact of a change in credit risk on the value of an asset or liability should be estimated
 - When should observable market information be supplemented with and/or reliance placed on unobservable information in the form of management estimates
 - How to confirm that assumptions utilized are those that would be used by market participants and not just a specific entity
- Enhancement of existing disclosure and presentation requirements related to the effect of fair value in the financial statements.
 - Educational efforts, including those to reinforce the need for management judgment in the determination of fair value estimates.
 - Examination by the FASB of the impact of liquidity in the measurement of fair value, including whether additional application and/or disclosure guidance is warranted.
 - Assessment by the FASB of whether the incorporation of credit risk in the measurement of liabilities provides useful information to investors, including whether sufficient transparency is provided currently in practice.

The report also recommends that FASB reassess current impairment accounting models for financial instruments, including consideration of narrowing the number of models under U.S. GAAP. The report finds that under existing accounting requirements, information about impairments is calculated, recognized and reported on basis that often differs by asset type. The report recommends improvements, including: reducing the number of models utilized for determining and reporting impairments, considering whether the utility of information available to investors would be improved by providing additional information about whether current declines in value are consistent with management expectations of the underlying credit quality, and reconsidering current restrictions on the ability to record increases in value (when market prices recover).

In conducting the study, data was obtained and analyzed from a broad-based population that included a cross-section of financial institutions. In addition to empirical analysis, the SEC staff obtained valuable input from a broad cross section of market participants through a public comment letter process and by hosting a series of three public roundtables to obtain a wide range of views and perspective from all parties.

3. Related Financial Reporting Projects (Short and Long Term)

Below are brief summaries of FASB (and joint) projects underway.

FAS 157—Determining When a Market for an Asset or a Liability Is Active or Inactive and Determining When a Transaction Is Distressed

The objective of this project is to provide application guidance addressing the determination of (a) when a market for an asset or a liability is active or inactive and (b) when a particular transaction is distressed. This project was one of the projects added in response to recommendations contained in the SEC's recent study on mark-to-market accounting, as well as input provided by the FASB's Valuation Resource Group (VRG), a group of valuation and accounting professionals who provide the FASB Board and staff with information on implementation issues surrounding fair value measurements used for financial statement reporting purposes. On March 17, 2009, the Board issued proposed FSP FAS 157-e. Statement 157 provides a framework for measuring fair value and a definition of fair value that contemplates an orderly transaction between market participants, not a forced or distressed sale. In the current economic crisis, many constituents have requested additional authoritative guidance to assist them in determining whether a market is active or inactive and whether a transaction is distressed. This project would provide that application guidance. The proposed FSP has a 15-day comment period. If approved, the FSP would be effective for interim and annual periods ending after March 15, 2009.

Other-Than-Temporary Impairments

The objective of this project is to provide additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. On March 17, 2009, the Board issued proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b on other-than-temporary impairments (OTTI). That proposed FSP is intended to provide greater clarity to investors about the credit and noncredit component of an OTTI event and to more effectively communicate when an OTTI event has occurred. As proposed, the FSP would apply to both debt and equity securities. The proposed FSP requires separate display of losses related to credit deterioration and losses related to other market factors on the income statement. Market-related losses would be recorded in other comprehensive income if it is not likely that the investor will have to sell the security prior to recovery. The proposed FSP has a 15-day comment period. If approved, the FSP would be effective for interim and annual periods ending after March 15, 2009.

FAS 157—Measurement of Liabilities

The objective of this project is to provide guidance on the measurement of liabilities in accordance with Statement 157. At the February 25, 2009 meeting, the Board decided that the final FSP will require that practitioners generally use the same approach to valuing a liability under Statement 157 as used for an asset. The exception is that restrictions on the transfer of a liability will not affect the fair value measurement of that liability, whereas restrictions on an asset are considered when determining the fair value of that asset. The Board decided to reexpose the proposed FSP for an additional 30-day period. The proposed guidance would be effective for periods beginning after July 1, 2009.

Interim Disclosures about Fair Value of Financial Instruments

The objective of this project is to increase the frequency of disclosures about fair value of financial instruments, both assets and liabilities recognized and not recognized in the statement of financial position subject to the scope of FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*. On January 30, 2009, the Board issued proposed FSP FAS 107-b and APB 28-a, *Interim Disclosures about Fair Value of Financial Instruments*. The comment period ended on March 2, 2009.

Embedded Credit Derivatives Scope Exception

The objective of this project is to resolve some potential ambiguity about the embedded credit derivative scope exception in paragraph 14B of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This project will amend the accounting and reporting requirements of paragraph 14B of Statement 133 to provide clarifying language regarding when embedded credit derivative features, including those in collateralized debt obligations (CDOs) and synthetic CDOs, are not considered embedded derivatives subject to potential bifurcation and separate accounting. On January 14, 2009, the Board issued proposed Statement 133 Implementation Issue No. C22, "Exception Related to Embedded Credit Derivatives," with a 30-day comment period ending on February 13, 2009. The Board began its redeliberations on this issue on March 4, 2009.

Recoveries of Other-Than-Temporary Impairments (Reversals)

The objective of this project is to consider allowing an entity to recover, through earnings, a previously recognized other-than-temporary impairment loss on certain financial instruments when evidence exists that an impairment loss has reversed. Another objective of this project is to converge with IFRS with regard to the accounting for recoveries of other-than-temporary impairments. The FASB staff will coordinate with the IASB and continue deliberations with the Board in the first quarter of 2009.

FAS 157—Improving Disclosures about Fair Value Measurements

The objective of this project is to improve disclosures about fair value measurements. This project may consider additional disclosures, such as (a) the sensitivity of fair value measurements to changes in assumptions and (b) transfers between the three levels of the fair value hierarchy. This project was one of the projects added in response to recommendations contained in the SEC's recent study on mark-to-market accounting, as well as input provided by the FASB's VRG. The FASB anticipates completing the project on improving disclosures in time for year-end financial reporting.

FAS 157—Applying Fair Value to Interests in Alternative Investments

The objective of this project is to address the application of Statement 157 to interests in alternative investments, such as hedge funds and private equity funds. This project was one of the projects added in response to recommendations contained in the SEC's recent study on mark-to-market accounting, as well as input provided by the FASB's VRG. The FASB anticipates completing the project by the end of the second quarter of 2009.

Financial Instruments: Improvements to Recognition and Measurement

The objective of this project is to consider, on a comprehensive basis, improvements to the recognition and measurement of financial instruments. This project will:

- a. Reconsider the recognition and measurement of financial instruments
- b. Address issues related to impairment of financial instruments and hedge accounting
- c. Increase convergence in accounting for financial instruments.

In addition to considering the potential for short-term responses to the credit crisis, both Boards emphasized their commitment to developing common solutions aimed at providing greater transparency and reducing complexity in the accounting of financial instruments. As starting points for this longer term objective, the Boards will consider the comments received in response to the Discussion Paper on reducing complexity and the Exposure Draft on hedging, the deliberations of the Financial Crisis Advisory Group advisory group, and input received at the round tables. The Boards also will reconsider the composition of the existing IASB Financial Instruments Working Group to ensure that the working group provides appropriate and balanced advice to both Boards.

At the October 2008 joint FASB/IASB meeting, the FASB and IASB staffs presented summaries of the comments received on both the Discussion Paper on reducing complexity and the Exposure Draft on hedging.

- A majority of respondents to the Discussion Paper supported a significant change in the current requirements for reporting financial instruments. In addition, many of the user respondents expressed support for the Boards' working together on a project to simplify the accounting for hedging activities, provided that the simplification would reduce the complexity of financial statement interpretation.
- A majority of respondents to the Exposure Draft were concerned that many of the proposed amendments would create further divergence between hedge accounting under U.S. GAAP and under IFRS; many of these respondents urged the Boards to work together on a joint project to improve hedge accounting, noting that the FASB's hedge accounting project could be incorporated into the Boards' research projects on reducing complexity.

The FASB staff will coordinate with the IASB and continue deliberations with the FASB in the first quarter of 2009.

Transfers of Financial Assets

The objective of this project is to simplify the guidance on accounting for transfers of financial assets in FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, to improve consistency and transparency in financial reporting. This project is being performed in conjunction with the separate **project** on the reconsideration of FASB Interpretation No. 46 (revised

December 2003), *Consolidation of Variable Interest Entities*. On September 15, 2008, the Board issued a revised Exposure Draft, *Accounting for Transfers of Financial Assets*, for a 60-day comment period. The Board is currently in the process of redeliberating certain issues in the revised Exposure Draft and expects to finalize a final revised statement in the second quarter of 2009.

Reconsideration of FIN 46(R) Consolidation of Variable Interest Entities

The objective of this project is to reconsider the guidance in FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, for determining which enterprise with a variable interest in a variable interest entity, if any, shall consolidate the entity. The project will address the effect of the proposed elimination of the qualifying special-purpose entity concept. The Interpretation 46(R) project also will address concerns raised about Interpretation 46(R) as a result of recent market events. Key areas that will be addressed include the guidance on reconsidering if an entity is a variable interest entity, reconsidering which enterprise, if any, consolidates the entity (the primary beneficiary), the process for determining which enterprise, if any, is the primary beneficiary in a variable interest entity and disclosures. On September 15, 2008, the Board issued an Exposure Draft, *Amendments to FASB Interpretation No. 46(R)*, for a 60-day comment period. The Board is currently in the process of redeliberating certain issues in the Exposure Draft and expects to finalize a final revised interpretation in the second quarter of 2009.

Financial Instruments: Derecognition – Long Term Research Project

In April 2005, the IASB and the FASB directed the staff to begin a research project to develop a new approach to derecognition with an initial focus on financial assets that would be an improvement to both IAS 39, *Financial Instruments: Recognition and Measurement*, and Statement 140. The Boards also directed the staff to consider as a part of that research project the feasibility of developing a broader derecognition standard that would apply to all types of assets. In July 2008, the IASB moved this project from its research agenda to its active agenda. It is currently deliberating an Exposure Draft that it plans to publish in March or April 2009. Currently, the FASB staff is monitoring the progress of the IASB project on derecognition and considering comments received on its proposal.

Consolidations: Policy and Procedure – Long Term Research Project

The Board's technical agenda includes a long-term project to develop comprehensive guidance on accounting for affiliations between entities, including reconsideration of ARB No. 51, *Consolidated Financial Statements*. The IASB also has an active project on its agenda to reconsider its guidance in this area. In April 2004, the IASB and the FASB agreed that an objective of both their projects is to develop a common, high-quality standard on consolidation policy. The objective of the Board's research project, which began in 2005, is to identify and develop plans for the next steps in achieving its long-term objectives, including plans for coordinating the activities of the FASB with those of the IASB. In September 2008, the Board published an **Exposure Draft**, *Amendments to FASB Interpretation 46(R)*, as part of its project to improve financial reporting by enterprises involved with variable interest entities. The IASB also published

an **Exposure Draft**, *ED 10 Consolidated Financial Statements*, in December 2008. Currently, the FASB staff is monitoring the progress of the IASB project on consolidations and considering comments received on its proposal.

4. Problems Associated with Financial Instruments and Issues Arising from Different Measurement Approaches

Today there are many different ways of measuring and accounting for financial instruments. For example, under IAS 39 there are at least 20 ways in which final classification is determined taking into account measurement choices (including accounting for impairment). Such choices create significant complexity for users of financial statements, and impair usefulness and comparability of the information. The IASB and FASB have a joint project on their agenda to address recognition and measurement of financial instruments. One possible objective for the project might be a significant improvement in the usefulness, understandability and comparability of information provided to users of financial statements.

In meeting the project objective, one (or more) measurement models for financial instruments could be pursued, including:

- a. Fair value, as defined by Statement 157.
- b. Other remeasurement approaches using discounted cash flow. Instruments would be recognized at the present value of an instrument's expected cash flows discounted at a determined rate. Those approaches would require further development.
- c. Amortized cost with impairment. Instruments would be recognized at cost adjusted for amortization of items such as premiums, discounts, and transaction costs; instruments also would be tested for impairment.

Many think that measuring all financial instruments at fair value would more appropriately reflect the underlying economics of an entity's business than other measurement models. Those people think that not measuring all financial instruments at fair value leads users of financial statements, specifically investors, to make irrational judgments based on insufficient or an inaccurate understanding of an entity's economic condition.

Those people also think that using fair value as the only measurement method reduces the overall complexity of accounting for financial instruments, and increases the understandability of information provided. In addition, no rules for impairment or

reclassifications of financial assets are needed. Those people also believe that measuring complex financial instruments traded in illiquid markets at fair value, while difficult, is not a new challenge, as the most complex financial instruments (e.g., derivatives) are currently measured using fair value.

Other people think that requiring financial instruments to be reported at fair value may not reflect the entity's use of the instrument and remeasuring fair value each reporting period creates "noise" in financial statements that may lead to instability in the market place. Those people also think that recognizing all instruments at fair value may be costly without providing significant benefits to users of financial statements. They also have concerns about the reliability of fair value measurements when they are not based on observable market data. In their view, the significant judgments required in determining many fair values undermine comparability (that is, fair value may result in only a perceived comparability, but not actual comparability).

Those people think that other measurement models, such as other remeasurement approaches using discounted cash flows or amortized cost may provide more useful information to users of financial statements.

However, as with fair value, there are numerous issues that need to be addressed with those other measurement models. For example, issues that would need to be addressed with an amortized cost model include when and how to measure impairment of financial assets, classification and reclassification, tainting, implications of hedging and potentially the fair value option. Issues that would need to be addressed with other remeasurement approaches using discounted cash flows would include, among other things, what discount rate should be used and how risk and uncertainty would be included in the calculation.

Issues for Discussion

Some of the issues of interest for discussion are:

For Part I:

Question 1: Are there financial crisis-related issues that the FASB has indicated they will be addressing that you believe are better addressed in combination with, or alternatively by, other organizations? If so, which issues and why, and which organizations?

Question 2: Are there other financial crisis-related issues that should be added to or removed from the Board's agenda?

Question 3: What are the pros/cons of adding projects that are 'repairs and maintenance' solutions versus 'overhaul' solutions and what criteria should the Board consider in balancing its overall technical plan?

For Part II:

Question 1: What information do users of financial statements need about a company's financial instruments? For example, information about the instrument and its expected cash flows, information about how an entity plans to use the instrument in its investment strategy or operations, etc.

Question 2: Based on those information needs, what should be the objectives of the project? For example, transparent, comparable, understandable information, simplify model, convergent, etc. How should different objectives be weighted?

Question 3: What criteria or characteristics should be used to select the appropriate measures for financial instruments? How should the different criteria or characteristics be weighted? For example, criteria or characteristics for determining how to measure financial instruments may include the following:

1. Characteristics related to the financial instrument:
 - variability of future cash flows (for example, fixed future cash flows vs. highly variable future cash flows)
 - does the entity have the ability to impact the timing of cash flows either received or paid on the instrument
2. Characteristics related to management's intended use of the asset or the entity itself:
 - if the entity intends to actively market and trade the security
 - ability and intent to hold to maturity
 - intent to match financial assets and financial liabilities
3. Other:
 - market liquidity (e.g., traded in an active market)
 - difficulty in valuing the instrument
 - comparability between entities in different industries.



FASB/FAF RESPONSE ON IFRS PLAN FOR U.S.

Financial Accounting Standards Advisory Council
March 31, 2009

Objective

To inform FASAC members and to consider their questions about the views expressed in the FASB/FAF Response to the SEC on their Proposed Rule on IFRS.

Background

On Friday, November 14, the SEC released a proposed rule entitled "[Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers.](#)" A new Chairman of the U.S. SEC, Mary L. Schapiro, was appointed and confirmed in January 2009. In February 2009, in response to requests for additional time, the SEC extended the deadline on its comment period for the proposed rule to April 20, 2009.

At our FASAC meeting in December, the SEC Observer (Jim Kroeker) provided an overview of the proposed Roadmap, its milestones, and the option for early adoption by certain U.S. registrants. Views expressed by some FASAC members in that meeting follow:

- The cost estimates for adopting IFRS included in the Roadmap seem significant. The magnitude of the costs is concerning and the estimates provided were surprising and could actually be significantly higher (as with the estimates provided for Section 404 of Sarbanes Oxley).
- The SEC's 90-day comment period does not provide companies adequate time to develop sound estimates of expected costs of adoption.
- Few, if any, companies are likely to elect early application of IFRS out of a disinclination to incur the significant costs of adoption in the absence of a firm commitment to adopt IFRS in the U.S.

Note: These materials are provided to facilitate understanding of the issues to be addressed at the March 31, 2009 FASAC meeting. These materials are presented for discussion purposes only; they are not intended to reflect the views of the FASB or its staff. Official positions of the FASB are determined only after extensive due process and deliberations.

The FAF/FASB Response to the SEC on their Proposed Rule on IFRS

The Financial Accounting Foundation (FAF) and Financial Accounting Standards Board submitted a comment letter on March 11, 2009 (attached). The key views set forth in that letter follow:

- FAF/FASB strongly support the ultimate goal of a single set of high-quality global accounting standards as part of a global financial reporting system. Investors need high-quality, internationally comparable financial information that is useful for decision-making in global capital markets.
- FAF/FASB believe that the U.S. must be an active participant in the international effort to achieve this goal.
- FAF/FASB encourage the SEC to undertake and complete expeditiously the study as called for in the Roadmap. The objective of that study should be to consider the many complex issues involved, providing a timely and well-supported conclusion about the most advantageous approach the U.S. should take in moving toward a single set of high-quality international standards.
- FAF/FASB recommended a broad-based Advisory Committee be formed to provide one source of valuable input to that study.

The FAF and FASB have continued to enhance their understanding of the many complex aspects of this important issue since their response letter in 2007 to the SEC Concept Release. The following have added to that understanding:

- Input from participants at our convergence forum held in June 2008 that brought together the many diverse parties with a stake in U.S. financial reporting;
- Ongoing discussions with established FASB advisory groups such as the Financial Accounting Standards Advisory Council (FASAC), the Investors Technical Advisory Committee (ITAC), the Small Business Advisory Committee (SBAC), the Private Company Financial Reporting Committee (PCFRC) and others about the future of financial reporting in the U.S.; and
- The significant effects of the global financial crisis on capital market participants over the past year, which, in our view, reinforce the importance of developing appropriate global solutions to global problems, including those arising in financial reporting.

In addition, to help the FASB and FAF to further develop their thinking about the nature and scope of issues involved in a potential use of international financial reporting

standards in the U.S., they engaged two independent consultants to provide an objective analyses of the economic and policy considerations that they felt were most salient to a potential U.S. decision to adopt IFRS. James Bothwell, who was one of the consultants, is a new member of FASAC. The two reports are attached to their letter as Appendix A.

A summary of the FASB and FAF views and recommendations in the letter (pages 4 - 7) are:

1. **An expeditious study is needed.** The FAF/FASB support the Roadmap's call for a study by the Office of the Chief Accountant on the implications for investors and other market participants of implementing IFRS for U.S. issuers. The study also should fully examine and evaluate the strengths, weaknesses, costs, and benefits of that approach compared with other possible approaches.
2. **A broad-based Advisory Committee should be formed.** The FAF/FASB recommend that the SEC form a broad-based Advisory Committee to provide one source of valuable input to the study. That group would be charged with identifying the implications of possible changes in the U.S. financial reporting system and (if the SEC supports a change in the U.S. financial reporting system) with developing and implementing a transition plan.
3. **Before mandating the use of IFRS, the SEC should consider the improvements made to IFRS.** Among the milestones identified is the continued improvement of accounting standards. The FASB and the IASB are working together on projects identified in the Memorandum of Understanding (MoU) that are aimed at improving both sets of standards in critical areas. However, the MoU does not comprehensively address all existing differences between the sets of standards, nor does it address certain areas of practice where IFRS provides limited guidance. Also, there are several aspects of current IFRS might be difficult to apply in the U.S. Accordingly, the FAF/FASB believe that, as noted in the Roadmap, if the SEC considers mandating the use of IFRS by U.S. issuers, it should consider whether those accounting standards are high quality, sufficiently comprehensive, and workable for the U.S. environment.
4. **There are specific considerations that should be at the forefront of any future SEC evaluation of the accountability and funding of the global standard setter.** With respect to the milestone addressing the accountability and funding of the global standard setter, the FAF/FASB believe that realizing the benefits of a possible move to global accounting standards requires a sufficiently robust, sustainable, and independent standard-setting structure. Both the FAF/FASB 2007 letter and the Roadmap note the importance of ongoing efforts to improve the oversight, accountability, and independence of the IASB, as well as its funding mechanism. The FAF/FASB believe that those considerations as well as the others outlined in their 2009 letter should be at the forefront of any SEC evaluation of the adequacy and appropriateness of the structural design, role, and responsibilities of any private-sector standard setter.

5. **The SEC should not permit an option for the limited early use of IFRS unless and until there is a mandate for all U.S. public companies to adopt IFRS.** The FAF/FASB believe that permitting choice before that decision would create the potential for a two-GAAP system for an extended period of time, resulting in unnecessary complexity and additional costs for investors and other capital market participants. Furthermore, the introduction of additional complexity into the U.S. financial reporting system at this time, without clear identification of the benefits, would be contrary to the efforts currently under way by the SEC, the Public Company Accounting Oversight Board, the FASB, and others to reduce complexity in the system.
6. **More clarity and certainty about the future is needed as expeditiously as possible, with sufficient lead time for any significant changes.** While the Roadmap has helped to stimulate debate about the potential use of IFRS by U.S. issuers, it has also contributed to significant uncertainty for all participants in the U.S. financial reporting system about whether, when, and how U.S. financial reporting might change. Once the SEC has completed the study and gained sufficient clarity about the best path forward, any potential decision to require U.S. issuers to adopt IFRS should provide sufficient lead time for an orderly transition for all key elements of the U.S. financial reporting system. The FAF/FASB do not believe that the timeframe as proposed in the Roadmap constitutes adequate lead time.

Questions for Discussion

- Question 1: Do you have any questions about the positions and recommendations in the FAF/FASB letter? About the studies?
- Question 2: What is your reaction to the FAF/FASB letter? To the studies?
- Question 3: How (if at all) have your views about the adoption of global accounting standards in the U.S. changed since December?
- Question 4: Do you have other information that might be relevant in the continued consideration of the issues or any of the major findings in the studies? (page 3 of the letter lists some of the major findings in the studies)



PRACTICAL EFFECTS OF THE FASB'S CODIFICATION

Financial Accounting Standards Advisory Council
March 31, 2009

Objective

To provide input on the level of awareness about the FASB's Codification, how FASAC and its members can help in raising awareness, and the practical implications and effects of the Codification to users, preparers, auditors, academics and students, and others.

Recent Developments

The FASB expects to formally approve the FASB *Accounting Standards Codification*TM on July 1, 2009 as the single source of authoritative U.S. accounting and reporting standards, other than guidance issued by the Securities and Exchange Commission (SEC). At that time, the Codification would supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification would become nonauthoritative.

Following the FASB's approval of the Codification, the FASB would no longer consider new standards as authoritative in their own right. Instead, new standards would serve to provide background information about the issue, to update the Codification, and to provide the basis for conclusions regarding the change in the Codification.

The Board expects the Codification to reduce the amount of time and effort required to research an accounting issue, to mitigate the risk of noncompliance with standards through improved usability of the literature, to provide accurate information with real-time updates as new standards are released, and to assist the Board with the research efforts required during the standards-setting process. A basic view of the Codification Topics will be accessible free of charge. The FASB plans to issue the Codification in

Note: These materials are provided to facilitate understanding of the issues to be addressed at the March 31, 2009 FASAC meeting. These materials are presented for discussion purposes only; they are not intended to reflect the views of the FASB or its staff. Official positions of the FASB are determined only after extensive due process and deliberations.

print and will evaluate whether to print future editions of the Codification based on the demand for the printed version.

In light of these developments, the FASB is in the process of proposing amendments that would result in the replacement of FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. Statement 162 currently:

- Identifies the sources of accounting principles and the framework for selecting the principles used in preparing the financial statements of nongovernmental entities that are presented in conformity with U.S. generally accepted accounting principles (GAAP).
- Arranges these sources of GAAP in a hierarchy for financial statement preparers to apply.

Once the Codification is in effect, all of its content would carry the same level of authority. The future changes to the GAAP hierarchy in Statement 162 would propose to modify that hierarchy to include only two levels of GAAP: authoritative and nonauthoritative.

History of the Codification

In 2004, the FASB committed to creating the Codification to become the single source of authoritative nongovernmental GAAP. Before the Codification, there were a large number of standards issued by various standard setters in different forms. Additionally, there was no defined organization within each standard to assist in retrieval, which made it difficult to locate appropriate GAAP guidance. Due to the dispersed nature of the current literature, many users of that guidance did not feel that they had accessed all relevant material during their research. As a result, individuals may have inadvertently relied on one standard when another standard may have been more relevant.

The Codification project was launched to organize and simplify authoritative GAAP literature. The Codification reorganizes GAAP pronouncements into roughly 90 accounting topics and displays all topics using a consistent structure. The Codification is a tool that is meant to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. Its purpose is not to create new accounting and reporting guidance. It is organized in an easily accessible,

user-friendly online research system. To increase the utility of the Codification for public companies, relevant portions of authoritative content issued by the SEC and selected SEC Staff Interpretations and administrative guidance have been included for reference in the Codification, such as Regulation S-X, Financial Reporting Releases, Accounting Series Releases, Interpretive Releases, and SEC staff guidance in Staff Accounting Bulletins, EITF D-Topics, and SEC Staff Observer comments. It is important to note that the SEC Sections of the Codification contain SEC content related to matters within the basic financial statements, but the Codification does not contain the entire population of SEC rules, regulations, interpretive releases, and staff guidance. For example, the Codification does not include content related to matters outside of the basic financial statements, such as Management's Discussion and Analysis, or to auditing or independence matters.

On January 15, 2008, the Board launched a one-year verification phase of the Codification. This time period gave potential users of the guidance a chance to verify whether the Codification accurately captures the accounting and reporting guidance surrounding any topic before it becomes authoritative and to become familiar with the structure and functionality of the Codification. During the one-year verification phase of the Codification, over 45,000 constituents registered at the FASB's Codification website. Overall, most comments received during the verification phase were supportive of the Codification. This is consistent with FASB surveys conducted in 2004 that showed an overwhelming majority of constituents in favor of a codification to make U.S. accounting and reporting guidance less complex and more streamlined.

Issues for Discussion

Some of the issues of interest for discussion are:

Question 1: What are the practical implications of using the Codification for investors, preparers, auditors, educators, and others?

Question 2: What is the current level of general awareness about the FASB's Codification? How can FASAC and its members help in further raising the general level of awareness?