Financial Accounting Standards Board

No. 291 April 2007

Financial Accounting Series

# THE FASB REPORT

## Technical Plan—April 1, 2007 through September 30, 2007

## HIGHLIGHTS OF THE FIRST QUARTER OF 2007

### Documents Issued

1. FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (February 2007).

2. Invitation to Comment, *Valuation Guidance for Financial Reporting* (January 15, 2007). The deadline for comment was April 15, 2007.

### FASB Staff Positions (FSPs) and Statement 133 Implementation Guidance Issued

1. Final FSP FAS 158-1, "Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88, and No. 106 and to the Related Staff Implementation Guides" (February 21, 2007).

2. Final Statement 133 Implementation Issue No. G26, "Hedging Interest Cash Flows on Variable-Rate Assets and Liabilities That Are Not Based on a Benchmark Interest Rate" (January 8, 2007).

3. Final Statement 133 Implementation Issue No. B40, "Application of Paragraph 13(b) to Securitized Interests in Prepayable Financial Assets" (January 17, 2007).

4. Proposed FSP FAS 128-a, "Computational Guidance for Computing Diluted EPS under the Two-Class Method" (January 26, 2007). The deadline for comment was March 27, 2007.

5. Proposed FSP FIN 48-a, "Definition of *Settlement* in FASB Interpretation No. 48" (February 27, 2007). The deadline for comment was March 28, 2007.

6. Proposed FSP FAS 154-a, "Considering the Effects of Prior-Year Misstatements When Quantifying Misstatements in Current-Year Financial Statements" (March 13, 2007). The deadline for comments is April 30, 2007.

### Agenda Decisions

*Computational guidance for computing diluted earnings per share under the two-class method.* The Board added to its agenda a project to provide computational guidance for diluted earnings per share (EPS) when applying the two-class method pursuant to FASB Statement No. 128, *Earnings per Share*. The project provides constituents with guidance on the computation of diluted EPS under the two-class method in situations in which an entity's capital structure includes common stock, participating securities, and potential common stock. The Board issued a proposed FSP on January 26, 2007.

At its March 28, 2007 meeting, the Board agreed to codify the guidance in the proposed FSP into Statement 128 through its ***Earnings per Share*** project (page 7) rather than that guidance being issued in the form of a final FSP.

*Implementation Guidance for Interpretation 48.* The Board added to its agenda a project relating to FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes.* The project provides implementation guidance for the phrase *the tax matter is ultimately settled through negotiation or litigation* in paragraph 10(b) of Interpretation 48. The Board issued a proposed FSP on February 27, 2007.

*Loan Disclosures.* The Board added to its agenda a project on allowance for credit losses related to loans and finance leases (financing receivables). The project will provide new disclosures and enhance current disclosures related to the allowance for credit losses. These new disclosures will include, but not be limited to, information about credit quality in an entity's portfolio, credit risk exposures, and potentially more transparency relating to an entity's accounting policies.

*Emission Allowances.* The Board added to its agenda a project to provide comprehensive guidance for participants in emission allowance programs. The project will provide guidance for emission allowances as well as liability recognition and measurement as a result of an entity emitting pollutants.

*Valuation of Commodity Inventory and Emission Allowances That Are Acquired for Resale.* The Board added to its agenda a project to provide guidance on whether ARB No. 43, *Restatement and Revision of Accounting Research Bulletins,* should be amended to require certain nonfinancial physical assets with readily determinable fair values that are held in trading inventory to be accounted for at fair value.

*Continued on page 2>*

## *Board Projects* as of April 1, 2007

| | 2007 | | | 2008 | |
|---|---|---|---|---|---|
| | 2Q | 3Q | 4Q | 1Q | 2Q |
| **JOINT FASB/IASB PROJECTS** | | | | | |
| **Conceptual Framework Project:** (page 4) | | | | | |
| Objectives and Qualitative Characteristics (Phase A) | | E | | | |
| Elements and Recognition (Phase B) | | | | | PV |
| Measurement (Phase C) | | | | | |
| Reporting Entity (Phase D) | PV | | | | |
| Presentation and Disclosure, Including Financial Reporting Boundaries (Phase E) | | | | | |
| Framework Purpose and Status in GAAP Hierarchy (Phase F) | | | | | |
| Applicability to the Not-for-Profit Sector (Phase G) | | | | | |
| Entire Framework (Phase H) | | | | | |
| **Standards Projects:** | | | | | |
| Business Combinations: (page 5) | | | | | |
| Applying the Acquisition Method | | F | | | |
| Noncontrolling Interests | | F | | | |
| Financial Instruments: Liabilities and Equity (page 5) | | PV | | | |
| Financial Statement Presentation (page 6) | | | PV | | |
| Accounting for Leases (page 6) | | | | | PV |
| Revenue Recognition (page 6) | | | PV | | |
| Earnings per Share (page 7) | E | | | | |
| Income Taxes (page 7) | | | E | | |
| Research and Development (page 7) | | | | | |
| **Research Projects:** | | | | | |
| Accounting for Insurance Contracts (page 13) | I | | | | |
| Financial Instruments (page 13) | | | I | | |

**Codes: E** - *Exposure Document* **F** - *Final Document* **I** - *Initial Discussion Document* **PV** - *Preliminary Views*

## HIGHLIGHTS OF THE FIRST QUARTER OF 2007 *(continued from page 1)*

### *Agenda Decisions* (continued)

*Useful Life and Amortization of Renewable Intangible Assets.* The Board added to its agenda a project to provide guidance on how subparagraph 11(d) of FASB Statement No. 142, *Goodwill and Other Intangible Assets,* should be evaluated in determining the useful life of renewable intangible assets.

*Statement 133 Implementation Issue—Hedging Foreign Exchange Risk for a Forecasted Foreign-Currency-Denominated Debt Issuance.* The Board will not issue final guidance on Statement 133 Implementation Issue No. H17 and has decided to remove the project from its agenda. In the second quarter, the Board will address the application of cash flow hedging and other issues when it considers an agenda decision on a broader derivatives project.

### *Topics Added to the Technical Application and Implementation (TA&I) Research Agenda*

*Impact of a Transfer of Receivables on Profit Recognition under FASB Statement No. 66.* The TA&I Committee is addressing providing guidance on the impact of a transfer of receivables on profit recognition under FASB Statement No. 66, *Accounting for Sales of Real Estate*. Specifically, the project will address the impact on an entity's subsequent evaluation of the initial and continuing investment tests under Statement 66 when the entity either (1) transfers a note receivable with recourse in a transaction that qualifies as a sale under FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* or (2) transfers a note receivable in a transaction that does not qualify as a sale under Statement 140. In the second quarter, the Board will decide whether to issue a proposed FSP.

*Going Concern and the Liquidation Basis of Accounting*. The TA&I Committee is considering guidance that would clarify existing accounting and auditing guidance on an entity's assessment of its ability to continue as a going concern and the liquidation basis of accounting. Specifically, the project would

*Continued on page 16>*

## ***Board Projects*** **as of April 1, 2007**

| | 2007 2Q | 2007 3Q | 2007 4Q | 2008 1Q | 2008 2Q |
|---|---|---|---|---|---|
| **FASB PROJECTS** | | | | | |
| **Standards Projects:** | | | | | |
| Mergers and Acquisitions by a Not-for-Profit Organization:* (page 8) | | | | | |
| Mergers and Acquisitions | | | | | |
| Goodwill and Other Intangible Assets Acquired in a Merger or Acquisition | | | | | |
| Postretirement Benefit Obligations Including Pensions (page 8) | | | | | |
| Derivatives Disclosures (page 9) | | F | | | |
| Fair Value Option (Phase 2) (page 9) | | | E | | |
| Financial Guarantee Insurance (page 9) | E | F | | | |
| GAAP Hierarchy (page 10) | | | | | |
| Subsequent Events (page 10) | | | E | | |
| **Implementation Projects:** | | | | | |
| Statement 140—Transfers of Financial Assets (page 10) | | | E | | |
| Insurance Risk Transfer (page 11) | | E | | | |
| Loan Disclosures (page 11) | | E | | F | |
| Emission Allowances (page 11) | | E | F | | |
| FASB Staff Positions: (page 11) | | | | | |
| Application of FIN 46(R) to Investment Companies | F | | | | |
| Amendment of FIN 39 | F | | | | |
| Classifying and Accounting for a Depreciable Asset as Held-for-Sale When an Equity Method Investment Is Obtained | F | | | | |
| Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities | F | | | | |
| Effects of Prior-Year Misstatements When Quantifying Misstatements in Current-Year Financial Statements | F | | | | |
| Implementation Guidance for FIN 48 | F | | | | |
| Useful Life and Amortization of Renewable Intangible Assets | | E | F | | |
| Valuation of Commodity Inventory and Emission Allowances That Are Acquired for Resale | | E | F | | |
| Asset Retirement Obligations to Be Settled in a Foreign Currency | E | F | | | |
| Impact of a Transfer of Receivables on Profit Recognition under FAS 66 | E | F | | | |
| Going Concern and Liquidation Basis of Accounting | | | E | | |
| Statement 133 Implementation Issue—Clarification of the Application of the Shortcut Method | E | F | | | |
| Statement 133 Implementation Issue—Convertible Debt with Foreign Exchange Risk | E | F | | | |
| **OTHER ACTIVITIES** | | | | | |
| Valuation Standards for Financial Reporting (page 14) | R | | | | |

*The Board is in the process of developing a plan for redeliberations.

**Codes:** **E** - *Exposure Document* **F** - *Final Document* **R** - *Roundtable Discussion*

# BOARD PROJECTS

***The project summaries in this semiannual technical plan are provided for the information and convenience of constituents who follow the Board's deliberations. The summaries describe the objective of each project, the activities planned for the six-month period ending September 30, 2007, and the expected timing of due process documents. A complete history of each project, including all tentative decisions made to date, is available on the FASB website.***

## JOINT FASB/IASB CONCEPTUAL FRAMEWORK PROJECT

***Objective.*** The FASB's and the IASB's objective in undertaking this joint project is to develop a common conceptual framework that is both complete and internally consistent. Such a framework will provide a sound foundation for developing future accounting standards and is essential to fulfilling the Board's goal of developing standards that are principles-based, internally consistent, and internationally converged and that lead to financial reporting that provides the information needed for investment, credit, and similar decisions.

***Conduct of the project.*** The FASB and the IASB plan to achieve their objective by building on their existing frameworks—refining, updating, completing, and converging them into a common framework. The common framework will deal with a wide range of issues, and the plan is to conduct the project in eight phases. Each of the first seven phases will begin with planning, research, and initial deliberations on a major aspect of the frameworks, resulting in an initial document that seeks comments on the tentative conclusions for that phase. The FASB and the IASB will then redeliberate those tentative conclusions in the light of constituents' comments. In the final phase, both Boards will address any remaining issues.

***Plans for the next six months:***

*Phase A—Objectives and Qualitative Characteristics*

In February 2007, the Boards discussed comments received on the July 2006 Preliminary Views, *Conceptual Framework for Financial Reporting: Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information,* and their plans for redeliberating the issues raised. The Boards expect to redeliberate the issues and issue an Exposure Draft late in the third quarter of 2007.

*Phase B—Elements and Recognition*

The Board plans to discuss the following issues:

1. Definitions of certain existing elements of financial statements (for example, assets, liabilities, equity, revenue, and expenses) and perhaps the identification and definition of certain missing elements (for example, cash inflows and cash outflows)

2. The effect of uncertainty about the existence of assets and liabilities, which will include consideration of the comments received from constituents on the FASB Invitation to Comment, *Selected Issues Relating to Assets and Liabilities with Uncertainties*

3. Unit of account or recognition and derecognition, or perhaps both.

The Board plans to issue a Preliminary Views/Discussion Paper[1] document, in the second half of 2008.

*Phase C—Measurement*

In March 2007, the Boards discussed the comments of participants at the January and February measurement roundtables (held in Hong Kong, London, and Norwalk) and plans for addressing the roundtable comments. In April, the staff intends to discuss a refined measurement basis inventory with the Boards. The staff plans to post the summary to the Boards' websites by the end of the second quarter. From June through September 2007, the staff plans to discuss three topics with the Boards: (1) scientific measurement concepts and principles, (2) capital maintenance, and (3) relevance and decision usefulness.

*Phase D—Reporting Entity*

The staff is currently drafting material for a Preliminary Views on the concept of a reporting entity that articulates the relevant issues, various viewpoints on those issues, and the rationale for supporting particular viewpoints. That Preliminary Views, which may be in the form of preliminary views or alternative views, is tentatively scheduled for issuance near the end of the second quarter of 2007.

***Expected timing of due process documents.*** The Boards' near-term goals are to publish:

1. A Preliminary Views on the concept of a reporting entity in the second quarter of 2007

[1]The FASB and the IASB use different terms to refer to the same type of due process document. The FASB uses the term Preliminary Views and the IASB uses the term Discussion Paper.

2. An Exposure Draft on the objective of financial reporting and qualitative characteristics of decision-useful financial reporting information in late third quarter of 2007

3. A Preliminary Views on elements of financial statements (including their recognition and derecognition) in the second half of 2008.

## JOINT FASB/IASB STANDARDS PROJECTS

### Business Combinations: Applying the Acquisition Method and Noncontrolling Interests

*Applying the Acquisition Method*

**Objective.** The primary objective of this joint project is to develop a single high-quality standard of accounting for business combinations that can be used for both domestic and cross-border financial reporting. The goal is to develop a standard that includes a common set of principles and related guidance that produces decision-useful information and minimizes exceptions to those principles. The Statement should improve the completeness, relevance, and comparability of financial information about business combinations by:

1. Clarifying which assets and liabilities should be recognized in the initial accounting for the business combination

2. Requiring that most assets acquired and the liabilities assumed be consistently measured at fair value

3. Defining the scope of the standard to ensure the same method of accounting applies to economically similar transactions.

*Noncontrolling Interests*

**Objective.** This project relates to the FASB's and the IASB's joint project on business combinations. The objective of the project is to converge International Financial Reporting Standards (IFRS) and U.S. generally accepted accounting principles (GAAP) and, in doing so, improve the comparability and representational faithfulness of financial information. The Statement produced by this project clarifies:

1. The classification of noncontrolling (minority) interests in consolidated statements of financial position. (IASB standards classify such interests in equity while U.S. GAAP does not.)

2. The accounting for and reporting of transactions between the parent and holders of such noncontrolling interests that is consistent with the classification in the statement of financial position.

The FASB and the IASB decided to address those issues concurrently through deliberations led by the business combinations team. Certain Board decisions reached in this project affirm or modify tentative conclusions that the Board proposed and exposed for comment in its October 2000 Exposure Draft, *Accounting for Financial Instruments with Characteristics of Liabilities, Equity, or Both.*

**Plans for the next six months and expected timing of due process document.** The FASB and the IASB plan to complete redeliberations and to issue final Statements on business combinations and noncontrolling interests early in the third quarter of 2007.

### Financial Instruments: Liabilities and Equity

**Objective.** This project is one part of the Board's broader initiative to improve the accounting for financial instruments. The objective is to develop a comprehensive standard of accounting for and reporting of financial instruments with characteristics of equity and of liabilities, assets, or both. Such a standard will improve financial reporting by providing a more complete and representationally faithful depiction of those financial instruments in the statement of financial position. The improved classification, measurement, and presentation guidance provided by the standard, when combined with required disclosures in notes to financial statements, is intended to provide users of financial statements with decision-useful information about an entity's obligation to transfer assets or issue shares.

Consistent with the FASB's broader convergence goals, the Board plans to use this project to further convergence with accounting standards developed by the IASB. The FASB and the IASB are conducting this project under a "modified joint approach." Under that approach, the FASB will issue for comment a Preliminary Views containing the Board's tentative conclusions. The IASB plans to issue that document for comment by its constituents. The FASB and the IASB will use the input received on those initial due process documents as the basis for a joint project to develop a common standard of financial accounting and reporting. In that joint project, the two Boards would jointly develop a proposed Statement to be followed by joint redeliberations and development of a common final Statement.

*Continued on page 6>*

## Financial Instruments: Liabilities and Equity *(continued from page 5)*

***Plans for the next six months and expected timing of due process document.*** The Board will compare and contrast the three approaches it has developed (ownership-settlement, ownership, and reassessed expected outcomes) as a basis for possibly agreeing on a single approach as the preliminary view of the Board. The Board will then discuss remaining technical issues, such as determining substantive features for constructive obligations and interaction with other accounting literature, for example, FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities.* The Board expects to issue a Preliminary Views in the third quarter of 2007.

## Financial Statement Presentation

***Objective.*** This joint FASB/IASB project was undertaken to establish a common, high-quality standard for presentation of information in the financial statements, including the classification and display of line items and the aggregation of line items into subtotals and totals. The objective of that standard is to present information in the individual financial statements (and among the financial statements) in ways that improve the ability of investors, creditors, and other financial statement users to:

1. Understand an entity's present and past financial position

2. Understand the past operating, financing, and other activities that caused an entity's financial position to change and the components of those changes

3. Use that financial statement information (along with information from other sources) to assess the amounts, timing, and uncertainty of an entity's future cash flows.

***Plans for the next six months.*** The FASB and the IASB will continue discussing application of the project's working principles to each of the financial statements in the second quarter. They plan to complete those discussions in June. The staff will begin drafting the initial discussion document on issues in the second quarter of 2007.

In the third quarter, the staff plans to meet with (1) preparers to discuss application of the Boards' preliminary views to their financial statements and (2) users of financial statements to discuss the benefits of the potential changes to the financial statements based on the Boards' preliminary views.

In addition, the staff will review drafts of the final standard that will amend IAS 1, *Presentation of Financial Statements: A Revised Presentation*. The IASB plans to issue that final standard in the second quarter.

***Expected timing of due process document.*** The FASB and the IASB plan to issue a Preliminary Views in the fourth quarter of 2007.

## Accounting for Leases

***Objective.*** In this project the Board will comprehensively reconsider the guidance in FASB Statement No. 13, *Accounting for Leases,* together with its subsequent amendments and interpretations. This project is being undertaken as a joint project with the IASB. The Boards' objective is to develop a common, high-quality standard that provides investors and other users of financial statements with useful, transparent, and complete information about leasing transactions.

***Plans for the next six months and expected timing of due process document.*** The FASB and the IASB will deliberate lease accounting issues over the next six months with a goal of issuing a Preliminary Views for public comment that describes the preliminary views of both Boards. The Boards plan to issue that Preliminary Views in 2008.

## Revenue Recognition

***Objective.*** The objective of this project is to develop conceptual guidance for revenue recognition and a comprehensive Statement on revenue recognition that would be based on those concepts. In particular, the project is intended to improve financial reporting by:

1. Eliminating inconsistencies in the existing conceptual guidance on revenues in certain FASB Concepts Statements

2. Providing conceptual guidance that would be useful in addressing revenue recognition issues that may arise in the future

3. Eliminating inconsistencies in the existing standards-level authoritative literature and accepted practices

4. Filling voids that have emerged in revenue recognition guidance in recent years.

Concurrent with the goal of improving the quality of financial reporting in the United States, the FASB also is seeking to promote the international convergence of accounting standards by conducting this project jointly with the IASB.

The comprehensive Statement that will result from this project is initially planned to apply to business entities generally; however, the FASB may conclude that certain transactions or industries requiring additional study should be excluded from the scope of the initial standards-level guidance and addressed separately.

**Plans for the next six months.** The FASB and the IASB will deliberate the two revenue models that are under development by the staff and small groups of Board members. These two models, along with examples of their application, will become the primary content of the Preliminary Views. The Boards will need to reach conclusions on these two models as well as other aspects of the Preliminary Views in the next six months in order for the document to be published by year-end.

**Expected timing of due process document.** The Board's goal is to issue a Preliminary Views in the fourth quarter of 2007.

## Earnings per Share

**Objective.** The Board seeks to improve the reporting of earnings per share while eliminating differences between U.S. GAAP and comparable IFRS. Specific differences to be addressed include the computation of incremental shares under the treasury stock method, the earnings per share effect of mandatorily convertible securities, and the earnings per share effect of instruments that may be settled in cash or shares. The Board issued a revised FASB Exposure Draft, *Earnings per Share,* on September 30, 2005, with a comment period of 60 days. In March 2007, the FASB and the IASB completed redeliberations on the remaining convergence differences.

**Plans for the next six months and expected timing of due process document.** The FASB and the IASB both plan to issue Exposure Drafts of proposed amendments that would converge their standards, in the second quarter of 2007.

## Income Taxes

**Objective.** The objective of this convergence project is to improve the accounting for income taxes while reducing the existing differences between FASB Statement No. 109, *Accounting for Income Taxes,* and IAS 12, *Income Taxes.* Statement 109 and IAS 12 are based on similar principles, but there are differences in the standards that produce noncomparability in the financial information reported internationally. The FASB and the IASB are jointly deliberating the issues in this project.

**Plans for the next six months and expected timing of due process document.** The Board expects to complete deliberation of remaining issues in the third quarter of 2007. The more significant of those issues include (1) how the decision to measure deferred taxes at the undistributed rate would affect certain entities such as real estate investment trusts, cooperatives, and other similar types of entities and (2) whether to adopt proposals of the IASB relating to the definition of and accounting for special deductions. The Board plans to issue an Exposure Draft for public comment early in the fourth quarter of 2007.

## Research and Development

**Objective.** This convergence project is focused on narrowing differences between U.S. GAAP and IFRS standards of accounting for research and development costs. The project is focused on the following three differences:

1. *Accounting for assets acquired in a business combination to be used in research and development.* Under U.S. GAAP, an acquirer immediately writes off assets acquired in a business combination if those assets are to be used in research and development activities and have no alternative future use. IFRS does not have a similar requirement (the acquired assets are recognized as assets). The FASB decided to eliminate this difference by converging to the IFRS approach as part of the joint business combinations project (see page 5).

2. *Accounting for research and development assets acquired in a transaction other than a business combination.* Under FASB Statement No. 2, *Accounting for Research and Development Costs,* an entity also is required to recognize as an expense the cost of any asset acquired for use in research and development if it has no alternative future use. IFRS does not have a similar requirement. The FASB decided to eliminate that difference by converging with IFRS. The Board has yet to determine the timing of an Exposure Draft for that proposed change.

3. *Accounting for research and development costs.* Statement 2 requires research and development costs to be expensed when incurred. IAS 38, *Intangible Assets—Advertising and Promotional Costs,* requires that **research** costs be expensed as incurred and requires that certain **development** costs be capitalized as assets. The FASB may decide to add to its agenda a project to eliminate differences in the accounting for development costs. At the same time, the IASB is considering whether IAS 38 could be improved by incorporating aspects of U.S. GAAP, in particular, aspects of FASB Statement No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed.* In April 2007, the FASB and IASB will discuss a proposal for a possible comprehensive project on the accounting for intangible assets. Such a project, if undertaken, may reduce the need for this narrower convergence effort.

**Plans for the next six months and expected timing of due process document.** A final standard on the Boards' project on business combinations is expected in the third quarter of 2007.

## FASB STANDARDS PROJECTS

### Mergers and Acquisitions by a Not-for-Profit Organization

***Objective.*** This project is another phase of the Board's overall project on business combinations. The Board's objective is to develop standards of accounting and reporting for a merger or acquisition by a not-for-profit (NFP) organization. It would apply to a merger of a NFP organization's net assets with those of one or more organizations and to an acquisition of a business or nonprofit activity by purchase, contribution, or other means. In developing those standards, the Board expects to improve the completeness, relevance, and comparability of financial information about such acquisitions reported in the financial statements of NFP organizations. For example, the Board plans to address the perceived noncomparability that results from existing accounting standards that permit economically similar combinations to be accounted for using different methods (pooling-of-interests method or purchase method) that produce dramatically different financial information. In addition, this project will provide guidance that assists NFP organizations in the application of FASB Statement No. 142, *Goodwill and Other Intangible Assets,* and the proposed Statement on accounting and reporting of noncontrolling interests in consolidated subsidiaries.

At the inception of this project, the Board affirmed its longstanding view that similar transactions and circumstances should be accounted for similarly. The Board concluded that acquisitions by NFP organizations are similar in many respects to acquisitions made by business entities. Thus, the overall approach in this project is to presume that the standards in Statement 141 (as they would be amended by the ***Business Combinations: Applying the Acquisition Method*** project), should be applied in accounting for acquisitions by NFP organizations unless a difference is identified that justifies a different accounting treatment.

In October 2006, the Board issued two Exposure Drafts intended to improve the accounting and disclosures for mergers and acquisitions by not-for-profit organizations: *Not-for-Profit Organizations: Mergers and Acquisitions* and *Not-for-Profit Organizations: Goodwill and Other Intangible Assets Acquired in a Merger or Acquisition*. In March 2007, the Board held a public roundtable to listen to the views of, and obtain information from, interested constituents about the two Exposure Drafts.

***Plans for the next six months and expected timing of due process document.*** The Board plans to consider the comment letters received on the Exposure Drafts and input provided at the March 2007 roundtable meeting. Over the next six months, the Board will begin redeliberations, focusing initially on key issues identified by respondents. Those include whether (1) the acquisition method should be required for "true mergers," (2) an option to use the historical cost pooling method of accounting should be retained for "small not-for-profit organizations" that do not have public debt, and (3) to affirm the proposed accounting for donor-related intangible assets and goodwill acquired in a merger or acquisition. Because of the relationship between this project and the Board's project on business combinations, issues considered during the Board's redeliberations on business combinations also will be considered in this project. No due process documents are expected during the next six months for this project.

### Postretirement Benefit Obligations Including Pensions

***Objective.*** The objective of this project is to comprehensively reconsider employers' accounting for defined benefit postretirement plans, including issues related to measurement of the benefit obligation, recognition of the cost of providing postretirement benefits, and disclosure. The project would amend, revise, or replace the following FASB Statements:

1. No. 87, *Employers' Accounting for Pensions*

2. No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*

3. No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*

4. No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*

5. No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.*

The project is being conducted in phases. The objective of the first phase was to improve the completeness of the reported statement of financial position by requiring a sponsoring employer to recognize the full overfunded or underfunded positions of its defined benefit postretirement benefit plans. The first phase was completed with the issuance of Statement 158 in September 2006 and FSP FAS 158-1, "Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88, and No. 106 and to the Related Staff Implementation Guides."

The next phase or phases will reconsider issues such as (1) how to recognize the costs of providing postretirement benefits in earnings and other comprehensive income, (2) how to measure the benefit obligation, including for plans with lump-sum benefits payable upon an employee's termination, (3) whether benefit trusts should be consolidated, (4) reporting an employer's obligations associated with multiemployer plans, and (5) international convergence.

***Plans for the next six months and expected timing of due process document.*** During the next six months the Board will discuss the scope and objectives of the second phase of the project. The Board expects to meet in the second quarter to establish the scope and objectives of phase 2. The staff will begin its research and analysis of phase 2 issues immediately thereafter.

## Derivatives Disclosures

***Objective.*** The objective of this project is to provide guidance on enhanced disclosure requirements related to derivatives accounted for in accordance with Statement 133. Additionally, the project is expected to consider the relevance and applicability of the existing disclosure requirements in Statement 133.

***Plans for the next six months and expected timing of due process document.*** The comment period on the December 2006 Exposure Draft, *Disclosures about Derivative Instruments and Hedging Activities,* ended on March 2, 2007. The Board will begin redeliberations in April, with the plan to issue a final Statement in the third quarter of 2007.

## Fair Value Option (Phase 2)

***Objective.*** In this project, the Board is considering whether to permit entities a one-time election to report certain financial and nonfinancial instruments at fair value with the changes in fair value included in earnings. The fundamental objectives of this project are as follows:

1. To mitigate problems in determining reported earnings caused by the mixed-attribute model (that is, problems related to some assets or liabilities being reported at the fair value measurement attribute, but other related liabilities and assets being reported at another measurement attribute, such as amortized cost)

2. To enable entities to achieve an offset accounting effect for the changes in the fair values of related assets and liabilities without having to apply more complex hedge accounting provisions, thereby providing some potential simplicity in the application of the accounting guidance for this area

3. To achieve further convergence with the IASB, which has incorporated a fair value option for financial instruments in its IAS 39, *Financial Instruments: Recognition and Measurement,* and for investment properties in its IAS 40, *Investment Properties*

4. To expand the use of the fair value measurement attribute.

In previous deliberations, the Board confirmed that the project will focus only on the use of the fair value measurement attribute. The Board rejected a suggestion to expand this project to permit entities to elect to recognize in earnings the change in an asset's or liability's fair value **attributable to only certain selected risks** (rather than the total change in fair value).

The fair value option project has two phases. Phase 1 concluded with the issuance of FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities,* in February 2007 and phase 2 considers permitting the fair value option for certain nonfinancial assets and nonfinancial liabilities and the deposit liabilities of depository institutions, which were excluded from the scope of Statement 159.

***Plans for the next six months and expected timing of due process document.*** Deliberations on phase 2 are expected to begin in the third quarter 2007. The scope of phase 2 will likely be affected by the scope and outcome of the Board's project on ***Valuation of Commodity Inventory and Emission Allowances That Are Acquired for Resale*** (page 12), which addresses whether certain inventory should be required to be reported at fair value with the changes in earnings. The Board expects to issue an Exposure Draft in the fourth quarter of 2007.

## Financial Guarantee Insurance

***Objective.*** A financial guarantee insurance contract guarantees the holder of an insured financial obligation the full and timely payment of principal and interest when due and is typically issued in conjunction with municipal bond offerings and certain structured finance transactions. Currently, there is diversity in the accounting for financial guarantee insurance contracts by insurance enterprises under FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises.* To address this diversity, this project will establish a separate accounting model for financial guarantee insurance contracts, thereby enabling users to better understand and more readily compare insurance companies' financial statements. That accounting model clarifies the accounting for premium revenue and claim liabilities. This project also will expand disclosures about financial guarantee insurance contracts.

***Plans for the next six months and expected timing of due process document.*** The Board plans to issue an Exposure Draft of a proposed Statement in the second quarter of 2007 with a 60-day comment period. Based on the comment letters, the Board will redeliberate the issues as deemed necessary. The Board expects to issue a final Statement in the third quarter of 2007.

## GAAP Hierarchy

***Objective.*** The Board identified a number of initiatives aimed at improving the quality and transparency of standards and the standard-setting process in the July 2004 *FASB Response to SEC Study on the Adoption of a Principles-Based Accounting System*. In that document, the Board stated that creating two levels of literature (authoritative and nonauthoritative) and elevating the conceptual framework within the GAAP hierarchy are key elements of the Board's goal of improving the quality of the GAAP hierarchy and, therefore, the quality and transparency of standards and the standard-setting process. The first steps toward improving the GAAP hierarchy are to move the hierarchy from the auditing literature to the accounting literature and to define the meaning of *authoritative literature*.

The objectives of this project are to move the GAAP hierarchy from the AICPA Statement on Auditing Standards No. 69, *The Meaning of* Present Fairly in Conformity With Generally Accepted Accounting Principles, to FASB literature and to define the meaning of *authoritative literature*. This project also provides insight into the Board's future goals associated with improving the GAAP hierarchy.

***Expected timing of due process document.*** The Board has completed its redeliberations and will coordinate the issuance of a final Statement with the issuance of related pronouncements by the AICPA and PCAOB.

## Subsequent Events

***Objective.*** The Board's objective in undertaking this project is to issue a general standard on accounting for, and reporting of, events that occur subsequent to the balance sheet date. That standard would reflect the principles underpinning the existing accounting and auditing standards that address subsequent events. The Board decided that a related objective is to eliminate or minimize differences between U.S. GAAP and the corresponding international financial reporting standard, IAS 10, *Events after the Balance Sheet Date,* except for the following differences that will be addressed in their joint project on ***Financial Statement Presentation*** (page 6):

1. Refinancing of short-term obligations

2. Curing breaches of borrowing covenants.

***Plans for the next six months and expected timing of due process document.*** The Board plans to issue an Exposure Draft of a proposed Statement in the fourth quarter of 2007 with a 60-day comment period. However, issuance of a final Statement is contingent upon the issuance of related due process documents by the AICPA and PCAOB.

# FASB IMPLEMENTATION PROJECTS

## Statement 140: Accounting for Transfers of Financial Assets

***Objective.*** The objectives of this project are to simplify and clarify the guidance in Statement 140 in the short term to address certain practice issues that have arisen since Statement 140 was issued and to consider whether fair value should be the measurement attribute for interests that continue to be held by a transferor. In 2006, the Board concluded that the Statement 140 model for derecognition of financial assets is unsatisfactory and that a long-term project is required to (1) develop a conceptual framework for derecognition of assets and (2) develop a new standard for derecognition of financial assets. Because convergence with international standards is a fundamental objective of the Board, it is likely that the effort to develop a derecognition concept and a new accounting standard would be done in conjunction with the IASB.

The Board decided in 2006 to continue the short-term project to address Statement 140 practice issues, to redeliberate its decisions reflected in the 2005 Exposure Draft, *Accounting for Transfers of Financial Assets,* and to expand the scope of the project to address practice issues related to the permitted activities of a qualifying special-purpose entity and repurchase financing transactions.

***Plans for the next six months and expected timing of due process documents.*** The Board will continue redeliberations on key issues in the second and third quarters of 2006 in two separate phases:

1. *Qualifying special-purpose issues*. The staff is developing a proposal for the Board to consider whether to remove the scope exception in FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities,* for qualifying special-purpose entities and to essentially remove qualifying special-purpose entities as an accounting concept and to permit the use of a linked presentation for transfers of financial assets under certain circumstances. If this model is workable, the issues involving the permitted assets and activities of a qualifying special-purpose entity would be moot.

2. *Isolation and measurement*. The Board would continue redeliberations on isolation and measurement issues in the second quarter of 2007. An Exposure Draft is planned for early in the fourth quarter of 2007.

## Insurance Risk Transfer

***Objective.*** The objective of this project is to clarify what constitutes the transfer of significant insurance risk in insurance and reinsurance contracts. Transfer of significant insurance risk is required for contracts to be considered insurance or reinsurance and accounted for as such. The project is intended to improve the representational faithfulness of accounting for insurance and reinsurance contracts by more clearly defining which contracts or portions thereof should be accounted for as insurance and which should be accounted for as deposits (loans or financing). The resulting increased transparency in accounting and reporting by insurance contract policyholders, insurers, and reinsurers should help users of financial statements better understand the economic impact of those contracts. The project will address the accounting for both buyers and sellers of insurance and reinsurance contracts.

***Plans for the next six months and expected timing of due process document.*** The project currently is focused on (1) drafting editorial changes to the current insurance risk transfer guidance to clarify the minimum level of insurance risk transfer required for a contract to be accounted for as reinsurance; (2) drafting changes to the insurance guidance to clarify that noninsurance company policyholders also must evaluate whether contracts they hold transfer significant insurance risk; and (3) developing improved insurance and reinsurance disclosure requirements. The Board plans to issue an Exposure Draft in the third quarter of 2007.

## Loan Disclosures

***Objective.*** The objective of this project is to address disclosures related to the allowance for loan losses for financing receivables (loans and finance leases pursuant to FASB Statement No. 13, *Accounting for Leases*).

***Plans for the next six months.*** The Board directed the staff to develop new disclosures and enhance current disclosures related to the allowance for credit losses including, but not limited to, information about credit quality in an entity's portfolio, credit risk exposures, and potentially more transparency relating to an entity's accounting policies.

***Expected timing of due process document.*** Although the Board had not yet begun its deliberations following its decision to undertake this project, it expects to issue an Exposure Draft in the third quarter of 2007.

## Emission Allowances

***Objective.*** The objective of this project is to provide comprehensive accounting guidance for participants in emission allowance programs. The project will provide guidance for emission allowances as well as liability recognition and measurement as a result of an entity emitting pollutants. Guidance for the accounting of emission allowances acquired for resale will be considered within the scope of the Board's project on ***Valuation of Commodity Inventory and Emission Allowances That Are Acquired for Resale*** (page 12).

***Plans for the next six months and expected timing of due process documents.*** The Board will discuss the various issues related to the accounting for emission allowance programs. The Board expects to issue an exposure document in the third quarter of 2007 and a final document to be issued in the fourth quarter of 2007.

## FASB Staff Positions, Research, and Other Activities

***Application of Interpretation 46(R) to Investment Companies.*** Proposed FSP FIN 46(R)-d, "Application of FASB Interpretation No. 46(R) to Investment Companies," addresses the temporary deferral of the effective date of Interpretation 46(R) for unregistered investment companies. The Board will consider whether to make the deferral permanent or to eliminate it, thereby making Interpretation 46(R) applicable to investment companies.

The final FSP is expected to be issued in the second quarter of 2007, pending issuance of AICPA SOP 07-1.

***Amendment of Interpretation 39.*** Proposed FSP FIN 39-a, "Amendment of FASB Interpretation No. 39," provides guidance on (1) the type of contracts that may be subject to the exception in paragraph 10 of FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts,* and (2) whether the receivable or payable recognized upon payment or receipt of cash collateral in a master netting arrangement may be offset against fair value amounts recognized for derivative instruments that have been offset in the same master netting arrangement in accordance to paragraph 10.

The final FSP is expected to be issued in the second quarter of 2007.

***Classifying and Accounting for a Depreciable Asset as Held-for-Sale When an Equity Method Investment Is Obtained.*** Proposed FSP FAS 144-c, "Classifying and Accounting for a Depreciable Asset as Held-for-Sale When an Equity Method Investment Is Obtained," addresses whether an entity should continue to

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## FASB Staff Positions, Research, and Other Activities *(continued from page 11)*

depreciate long-lived assets classified as held for sale when the entity plans to account for its direct or indirect interest in the long-lived asset as an equity method investment once the asset is sold.

The final FSP is expected to be issued in the second quarter of 2007.

***Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities.*** Proposed FSP EITF 03-6-a, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities," provides guidance on whether to include unvested share-based payment awards that participate in undistributed earnings in the computation of basic earnings per share using the two-class method.

The final FSP is expected to be issued in the second quarter of 2007.

***Effects of Prior-Year Misstatements When Quantifying Misstatements in Current-Year Financial Statements.*** Proposed FSP FAS 154-a, "Considering the Effects of Prior-Year Misstatements When Quantifying Misstatements in Current-Year Financial Statements," addresses how nonpublic entities including not-for-profit organizations should quantify the effects of prior-year uncorrected misstatements in current-year financial statements for purposes of evaluating materiality. The proposed FSP also addresses how to account for the correction of those misstatements when initially applying the FSP.

The final FSP is expected to be issued in the second quarter of 2007.

***Implementation Guidance for Interpretation 48.*** Proposed FSP FIN 48-a, "Definition of *Settlement* in FASB Interpretation No. 48," would amend FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes,* to state that a tax position is considered to be effectively settled through examination when all of the following conditions have been satisfied:

1. The taxing authority has completed its examination.

2. The enterprise does not intend to appeal or litigate any aspect of a particular tax position for the completed examination.

3. Based on a taxing authority's widely understood policy, the enterprise considers it highly unlikely the taxing authority would subsequently examine or reexamine any of the positions once the examination process is completed.

A tax position does not need to be specifically reviewed or examined by the taxing authority to be considered effectively settled.

The final FSP is expected to be issued in the second quarter of 2007.

***Useful Life and Amortization of Renewable Intangible Assets.*** This potential FSP will provide guidance on the determination of the useful life and methods of amortization and impairment of renewable intangible assets in accordance with Statement 142.

The proposed FSP is expected to be issued for comment in the third quarter of 2007.

***Valuation of Commodity Inventory and Emission Allowances That Are Acquired for Resale.*** This potential FSP will provide guidance on whether ARB 43 should be amended to require fair value accounting for certain nonfinancial assets with readily determinable fair values that are held in trading inventory, including traded emissions allowances.

The proposed FSP is expected to be issued for comment in the third quarter of 2007.

***Asset Retirement Obligations to Be Settled in a Foreign Currency.*** This potential FSP will provide guidance on how to account for a change in the estimated fair value of an asset retirement obligation (ARO) that results from a change in foreign currency exchange rates when the ARO is denominated in a currency other than the functional currency. This FSP will address whether:

1. The ARO should be considered a monetary liability and accounted for in accordance with paragraph 15 of FASB Statement No. 52, *Foreign Currency Translation*.

2. The ARO is a nonmonetary liability and accounted for in accordance with paragraph 15 of FASB Statement No. 143, *Accounting for Asset Retirement Obligations.*

The proposed FSP is expected to be issued for comment in the second quarter of 2007.

***Impact of a Transfer of Receivables on Profit Recognition under Statement 66.*** This potential FSP will provide guidance on the impact of a transfer of receivables on profit recognition under Statement 66. Specifically, the FSP will address the impact on an entity's subsequent evaluation of the initial and continuing investment tests under Statement 66 when the entity either (1) transfers a note receivable with recourse in a transaction that qualifies as a sale under Statement 140 or (2) transfers a note receivable in a transaction that does not qualify as a sale under Statement 140.

The proposed FSP is expected to be issued for comment in the second quarter of 2007.

***Going Concern and Liquidation Basis of Accounting.*** This potential FSP will provide guidance that would clarify existing accounting and auditing guidance on an entity's assessment of its ability to continue as a going concern and the liquidation basis of accounting. Specifically, the project would include guidance on (1) management's responsibility for assessing an entity's ability to continue as a going concern, (2) what evidence should be considered in making the going-concern assessment, (3) when it is appropriate to present financial statements using the liquidation basis of accounting, (4) the form and content of financial statements when an entity has adopted a liquidation basis, and (5) related disclosure requirements.

The proposed FSP is expected to be issued for comment in the fourth quarter of 2007.

***Statement 133 Implementation Issue—Clarification of the Application of the Shortcut Method.*** This proposed implementation issue will provide clarifying guidance on the shortcut method described in paragraph 68 of Statement 133. This specific issue primarily relates to the appropriateness of using the shortcut method in the following circumstances:

1. The hedged item has a fair value that is not equal to its par value at the inception of the hedging relationship.

2. The hedged item is subject to principal pay-downs prior to maturity.

The proposed Statement 133 Implementation Issue is expected to be issued for comment in the second quarter of 2007.

***Statement 133 Implementation Issue—Convertible Debt with Foreign Exchange Risk.*** This proposed implementation issue will provide guidance on determining whether convertible debt with elements of foreign exchange risk qualifies for the scope exception provided in paragraph 11(a) of Statement 133.

The proposed Statement 133 Implementation Issue is expected to be issued for comment in the second quarter of 2007.

## RESEARCH PROJECTS

*In addition to the joint, standards, and implementation projects discussed above, the Board has research projects on its agenda. Through research projects, technical issues are studied for the purpose of developing the nature and scope of potential projects. Current research projects are discussed below.*

### Accounting for Insurance Contracts

The IASB has on its agenda a project to provide guidance on the accounting for insurance contracts. That project will address accounting for both insurers and policyholders. The FASB considers the IASB's project on accounting for insurance contracts a modified joint project. Under that approach, the FASB will issue an Invitation to Comment that will include the IASB's initial Discussion Paper that will seek views on those preliminary views. The FASB Invitation to Comment will seek its constituents' views on whether the FASB should add to its agenda a joint project with the IASB to develop a comprehensive standard on accounting for insurance contracts. The FASB will consider input received on the Invitation to Comment in making its agenda decision. The IASB expects to issue its Discussion Paper on the accounting by insurers in the second quarter of 2007. The FASB expects to issue its Invitation to Comment shortly thereafter.

### Financial Instruments

At joint meetings held in April 2005 and October 2005, the FASB and the IASB agreed to long-term objectives to improve, simplify, and converge financial reporting requirements for financial instruments. The long-term objectives for simplifying and improving the accounting for financial instruments, assuming that technical and practical hurdles can be overcome, are to:

1. Require that all financial instruments be measured at fair value with realized and unrealized gains and losses recognized in the period in which they occur

2. Simplify or eliminate the need for special hedge accounting requirements for transactions involving financial instruments

3. Develop a new standard for the derecognition of financial instruments.

Neither Board has added projects reflecting those three objectives to its active agenda because the Boards must first remove some impediments to attaining them. That is, the Boards

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## *Financial Instruments*

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must first address difficult technical and practical issues existing today that will likely take time to resolve. The Boards are addressing some of those impediments in various active projects. Through issuance of FASB Statement No. 157, *Fair Value Measurements,* the FASB addressed certain conceptual and practical issues relating to measurement. Through its project on ***Financial Instruments: Liabilities and Equity*** (page 5), the Board expects to resolve several issues relating to the accounting for financial instruments with characteristics of liabilities, equity, or both. Lastly, through its project on ***Financial Statement Presentation*** (page 6), the Board will address how information about financial instruments carried at fair value would be reported in financial statements. The Boards expect those active projects to achieve short-term improvements in financial reporting, as well as to remove impediments to achieving the long-term objectives. In addition, a research project is being undertaken to consider presentation and display of changes in fair values of financial instruments and scope issues.

At the joint meeting in April 2006, the FASB and the IASB agreed to undertake an effort to issue a due process document addressing issues related to many aspects of accounting for financial instruments. Some of those issues include how fair value measurement for financial instruments will ultimately be implemented, which financial instrument would be affected by such a requirement, and what changes, if any, need to be made to current standards in the period before a fair value requirement is established. The document, which is planned for issuance in late 2007, will include the preliminary views of the Boards on issues on which the Boards are able to agree in the time available and will include neutral discussions of other issues.

The staff also has begun research aimed at developing an improved and converged standard on derecognition of financial instruments. That work is in the very early stages, and the Boards have not yet established a timetable for issuing a due process document.

## *Consolidations: Policy and Procedure*

The Board has on its agenda 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 the development of a common, high-quality standard on consolidation policy. The objective of this research project is to identify and develop plans for the next steps in achieving the Board's long-term objectives, including plans for coordinating the activities of the FASB with those of the IASB. The Board began those staff research and planning activities in late 2005. Currently, the FASB staff is monitoring the progress of the IASB project on consolidations. The IASB project is expected to yield a Discussion Paper in the third quarter of 2007, at which time the FASB will consider whether to issue an Invitation to Comment based on the IASB document.

## *Share-Based Payment*

The Board has on its agenda a long-term project to develop comprehensive guidance on the accounting for share-based payment arrangements. The first phase of that project, which focused primarily on the accounting for certain share-based payment transactions with employees, concluded with the December 2004 issuance of FASB Statement No. 123 (revised 2004), *Share-Based Payment.* Future phases of the project will reconsider the accounting for employee stock ownership plans in AICPA Statement of Position 93-6, *Employers' Accounting for Employee Stock Ownership Plans,* and the accounting for share-based payment transactions with nonemployees in Statement 123(R). The Board does not expect to commence this phase until it completes (or makes substantial progress toward completing) its project on ***Financial Instruments: Liabilities and Equity*** (page 5).

# OTHER ACTIVITIES

*The FASB also is involved in other activities that may help to expand our understanding of financial reporting issues and may indirectly affect our formal agenda. Some of the activities currently under way are discussed below.*

## *Valuation Standards for Financial Reporting*

In step with its mission to improve and enhance the quality, consistency, and comparability of financial statements, the FASB issued an Invitation to Comment, *Valuation Guidance for Financial Reporting,* in January 2007. That Invitation to Comment seeks constituent perspective on the topic of valuation guidance in financial reporting. The FASB is asking constituents to provide views on whether additional and more specific valuation guidance is needed in financial reporting as well as the process for developing that guidance. The Invitation to Comment also asks for constituent perspectives about the extent to which the FASB or other organizations should be responsible for developing guidance on valuation issues that translate into financial reporting matters.

***Expected timing of due process document.*** The deadline for comment on the Invitation to Comment was April 15, 2007. The Board will hold a public roundtable meeting on April 30, 2007, to discuss the Invitation to Comment.

## *Private Company Financial Reporting*

The purpose of this initiative is to evaluate and improve the standard-setting process for GAAP for private company financial reporting. In recent years, the FASB and its staff have implemented a number of changes to the FASB's standard-setting process to consider and improve the amount of input it receives from all constituents but specifically from those representing smaller public and private companies. These changes include:

1. The establishment of the Small Business Advisory Committee

2. Ensuring representation from small businesses on the Financial Accounting Foundation, the User Advisory Council, the Financial Accounting Standards Advisory Council, the EITF, and other project task forces and working groups

3. Participating in liaison meetings with representatives of private businesses

4. Recruiting staff with a private financial accounting and reporting background.

Based on responses to the jointly issued June 2006 AICPA and FASB Invitation to Comment, *Enhancing the Financial Accounting and Reporting Standard-Setting Process for Private Companies,* the Private Company Financial Reporting Committee (PCFRC) was formed comprising 12 members and a chairperson. The members represent preparers, auditors, and users of private company financial statements. The PCFRC's primary objective is to provide recommendations to the FASB based on agreed-upon criteria, primarily cost-benefit analyses, for specific differences in prospective and existing accounting standards for private companies.

***Plans for the next six months.*** The PCFRC will hold its inaugural meeting in May 2007 to set priorities and operating procedures. A second meeting is scheduled for the second quarter of 2007. The meetings will be open to the public. Time will be set aside at each meeting to allow the public to participate.

## *Codification*

The objective of the codification is to integrate and topically organize all relevant accounting guidance issued by the U.S. standard setters (FASB, AICPA, EITF, and SEC). The Board will issue the codification draft (which is not expected until late 2007) to constituents for an extended verification period. The objective of the verification process is to ensure that the codification accurately reflects existing U.S. GAAP. Once the Board addresses constituent comments, the codification will become the single authoritative source of U.S. GAAP and will supersede all existing standards.

## *XBRL*

During 2006, the FASB and the Financial Accounting Foundation (FAF) served as the incubator for a complete overhaul of the U.S. GAAP XBRL taxonomy. Initially building financial community support, the FASB/FAF participated in the initial startup prior to handing the project over to XBRL US, the United States jurisdiction of XBRL International. The current role of the FASB/FAF, together with the SEC, will be to ensure that the resulting XBRL taxonomies produce financial information that is consistent with financial reports that are prepared in accordance with U.S. GAAP.

# THE EMERGING ISSUES TASK FORCE

A summary of EITF Issues and their resolutions or other status is published in an FASB loose-leaf subscription service, *EITF Abstracts,* which summarizes the Task Force proceedings. The service includes a summary of each Issue discussed by the Task Force and any conclusions reached, along with a comprehensive topical index. Full text of all abstracts for effective EITF Issues also are available now on the FASB website.

The FASB website also provides brief descriptions and status updates of recently discussed EITF Issues and other Issues currently on the agenda under the EITF section, "Description and Status of Current Issues." In addition, Issue summaries and related attachments, as well as minutes of EITF meetings, may be downloaded without charge from the EITF section, "EITF Meeting Materials and Minutes." Materials for Issues prepared prior to June/July 2004, and minutes for meetings held prior to November 2003, are available individually from the FASB Order Department at 1-800-748-0659.

***EITF meeting schedule for 2007:***
June 13–14, 2007
September 10–11, 2007
November 28–29, 2007.

## HIGHLIGHTS OF THE FIRST QUARTER OF 2007 *(continued from page 2)*

### *Topics Added to the Technical Application and Implementation (TA&I) Research Agenda* *(continued)*

include guidance on (1) management's responsibility for assessing an entity's ability to continue as a going concern, (2) what evidence should be considered in making the going concern assessment, (3) when it is appropriate to present financial statements using the liquidation basis of accounting, (4) the form and content of financial statements when an entity has adopted a liquidation basis, and (5) related disclosure requirements. In the second quarter, the staff plans to ask the Board whether to issue a proposed FSP.

### *Emerging Issues Task Force (EITF)*

The Board ratified the consensus reached by the Task Force at the March 15 EITF meeting on Issue No. 06-10, "Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements." (That consensus is based on tentative conclusions that were reached at an earlier meeting, exposed for comment, and redeliberated at the March EITF meeting.)

The Board also ratified the tentative conclusion reached by the Task Force at the March 15 EITF meeting on Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities," and approved the issuance of a draft abstract for a public comment period that will close on May 3, 2007.

## *The FASB Report*

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