No. 231-A   April 19, 2002
(The FABB Report No. 347)

THE ***FASB*** *REPORT*

Technical Plan

First Quarter Action

Project-Related Activities

Rescission of Statement 4. *On February 14, 2002, we issued a limited revised Exposure Draft,* Rescission of FASB Statements No. 4, 44, and 64 and Technical Corrections—Amendment of FASB Statement No. 13. *We requested comments by March 18. The Exposure Draft was distributed primarily through the FASB website* *(see page x)**.*

Liabilities and Revenues. *We requested comments by March 29, 2002, on a proposal for a potential project on issues related to the recognition of revenues and liabilities. That proposal was distributed primarily through the FASB website* *(see page x)**.*

Financial Performance Reporting by Business Enterprises. *In February 2002, members of the Board and staff completed a series of interviews of 56 individuals who use financial statements. Those individuals were investors, creditors, and their advisors (equity and credit analysts). A summary of the findings resulting from those interviews is available on the FASB website. On February 26, the Board discussed the results of its user interviews with its project task force as well as their implications for the issues to be addressed by the project* *(see page x)**.*

Agenda Decisions. *The Board added the following two projects to its technical agenda:*

- ***Disclosures about Intangible Assets.*** *On January 9, 2002, the Board added a project on disclosure of information about intangible assets not recognized in financial statements (see page x).*

- ***Guarantor's Accounting and Disclosure Requirements for Guarantees.*** *On February 13, 2002, the Board added a project to address guarantor's accounting and disclosure requirements for guarantees (see page x).*

Other Activities

Emerging Issues Task Force (EITF). *The Task Force met twice and discussed 14 issues. The next EITF meeting is scheduled for June 19 and 20, 2002. That one-and-one-half day June meeting replaces both the May and July meetings (see page x).*

Liaison Meeting. *In March 2002, the Board met with representatives of the Executive Committee of Financial Executives International.*

FASB Website. *We post detailed summaries of most of the Board agenda projects and other Board activities on the FASB website at www.fasb.org. We update those summaries often, and we encourage constituents to visit our website for timely and detailed information concerning Board decisions on specific projects.*

IASB News

The International Accounting Standards Board (IASB) has completed deliberations on a number of its initial agenda projects and is expected to issue for public comment several Exposure Drafts in the second quarter. Those Exposure Drafts relate to the following topics:

- *First-time application of International Financial Reporting Standards (IFRS)*
- *Improvements to existing IFRS (amendments to 13 existing standards)*
- *Amendments to IAS 39,* Financial Instruments: Recognition and Measurement, *and IAS 32,* Financial Instruments: Disclosure and Presentation
- *Business combinations, Phase I.*

The IASB will post its Exposure Drafts to its website (www.iasb.org.uk). Those interested in commenting on the IASB's proposals can download them as they become available or contact the IASB for more information.

Board Agenda Projects

	2002			2003
As of April 1, 2002	**2Q**	**3Q**	**4Q**	**1Q**
Business Combinations: (page x)				
Purchase Method Procedures (page x)*			**E**	
Combinations of Not-for-Profit Organizations (page x)*			**E**	
Combinations of Mutual Enterprises (page x)*		**E**		
Fresh-Start (New Basis) Issues (page x) *See Discussion**				
Reconsideration of Statement 72 (page x)*	**E**			
Certain Costs and Activities Related to Property, Plant, and Equipment (page x) *See Discussion*				
Consolidations and Related Matters: (page x)				
Interpretive Guidance for Certain Situations (page x)*	**E**			
Comprehensive Policy Guidance (page x) *See Discussion**				
Procedures (page x) *See Discussion**				
Unconsolidated Entities (page x) *See Discussion*				
Disclosures about Intangible Assets (page x)*			**E**	
Financial Instruments: (page x)				
Measuring at Fair Value (page x) *See Discussion**				
Replacement of Statement 107 (page x) *See Discussion*				
Liabilities and Equity including Amendment to Concepts Statement 6 (page x)*			**F**	
Amendment to Statement 133 (page x)*	**E**			
Financial Performance Reporting by Business Enterprises (page x) *See Discussion**				
Guarantor's Accounting and Disclosure Requirements for Guarantees (page x)*	**E**			
Obligations Associated with Disposal Activities (page x)*		**F**		
Rescission of Statement 4 (page x)	**F**			

Potential Agenda Projects and Other Potential Initiatives

Liabilities and Revenues (page x) *See Discussion*

Codes: E - *Exposure Document* **F -** *Final Statement or Other Final Document*
**Current updates of these projects are maintained on the FASB website, www.fasb.org.*

Discussion of Board Projects Agenda

The project summaries in this quarterly technical plan are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions are included in an Exposure Draft for formal comment only after a formal written ballot. Decisions in an Exposure Draft may be (and often are) changed in redeliberations based on information provided to the Board in comment letters, at public hearings, and through other communication channels. Decisions become final only after a formal written ballot to issue a final Statement or Interpretation.

Business Combinations

Background. In June 2001, the Board issued FASB Statements No. 141, *Business Combinations,* and No. 142, *Goodwill and Other Intangible Assets.* The Board currently has on its agenda four projects related to the business combinations project. Those projects include (1) purchase method procedures, (2) combinations of not-for-profit (NFP) organizations and combinations of mutual enterprises, (3) fresh-start (new basis) issues, and (4) a limited-scope project to reconsider the accounting requirements of FASB Statement No. 72, *Accounting for Certain Acquisitions of Banking or Thrift Institutions.*

Purchase Method Procedures

Background and recent developments. In September 2001, the FASB and the International Accounting Standards Board (IASB) agreed to work together to address issues related to the application of the purchase method of accounting for business combinations. In October 2001, the staffs of the FASB and the IASB met to discuss plans for coordinating their approach to the joint project.

Additionally, the FASB and the IASB tentatively agreed to the following working principle for recording a business combination:

- The accounting for a business combination is based on the assumption that the transaction is an exchange of equal values; the total amount to be recognized should be measured based on the fair value of the consideration paid or the fair value of the net assets acquired, whichever is more clearly evident.

1. If the consideration paid is cash or other assets (or liabilities incurred) of the acquiring entity, the fair value of the consideration paid determines the total amount to be recognized in the financial statements of the acquiring entity.

2. If the consideration is in the form of equity instruments, the fair value of the equity instruments ordinarily is more clearly evident than the fair value of the net assets acquired and, thus, will determine the total amount to be recognized by the acquiring entity.

- In a business combination, the acquiring entity obtains control over the acquired entity and therefore is responsible for the assets and liabilities of the acquired entity. An amount equal to the fair value, on the date control is obtained, should be assigned to the identifiable assets acquired and liabilities assumed.

1. If the total fair value exchanged in the purchase transaction exceeds the amounts recognized for identifiable net assets, that amount is the implied fair value of goodwill.

2. If the total fair value exchanged in the purchase transaction is less than the amounts recognized for identifiable net assets, that amount should be recognized as a gain in the income statement.

At the end of the first quarter of 2002, the Board completed its deliberations on the working principle and preacquisition contingencies.

The Board also completed a substantial portion of its deliberations on measuring the value of a business combination. The Board reached the following decisions in the first quarter of 2002:

- The description of the acquisition date in Statement 141 would be modified to clarify that the acquisition date is the date that the acquirer gains control of the acquired entity.
- The fair value equity securities issued as consideration in a business combination would be measured on the acquisition date.
- Contingent consideration issued in a business combination is an obligation of the acquirer as of the acquisition date and, therefore, would be recognized as part of the

purchase price on that date. Consistent with the working principle, the initial measurement of contingent consideration should be at fair value.

- Some contingent consideration arrangements obligate the acquirer to deliver its equity securities if specified future events occur. Presuming that the Board issues a standard on accounting for financial instruments with the characteristics of liabilities, equity, or both prior to the issuance of guidance in this project, the guidance in that standard would apply to contingent consideration arrangements.
- The exception in paragraph 11(c) of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities,* would be eliminated so that contingent consideration arrangements that otherwise meet the definition of a derivative would be subject to the requirements of Statement 133.
- Subsequent remeasurement (after the acquisition date) of contingent consideration liabilities does not result in a change to the purchase price of the business combination. Those amounts therefore should be recognized in the income statement.

Immediate plans. In the second quarter of 2002, we expect to complete the issues of measuring the fair value of a business combination and begin drafting an Exposure Draft for the decisions reached to date. The FASB staff will begin work on issues related to the recognition of assets acquired and liabilities assumed. We expect to issue an Exposure Draft in the fourth quarter of 2002.

Combinations of Not-for-Profit Organizations

Background. In this project, the Board will develop guidance on the accounting for combinations between two or more NFP organizations and the accounting for the acquisition of a for-profit entity by an NFP organization. By early 2001, the Board had made decisions on several key issues, including the method of accounting for combinations of NFP organizations and the criteria to be used to identify the acquiring organization. Deliberations on this project were temporarily suspended in early 2001 while the Board completed its work on Statements 141 and 142. With the issuance of those Statements, the Board recommenced deliberations of the issues remaining in this project, reaching decisions on the (1) accounting for collection items acquired in a combination and (2) initial recognition of intangible assets acquired in a combination.

Decisions in current phase. The Board has made the following decisions to date in this project. A more detailed discussion of these decisions is available on the FASB website.

Project Approach

- The project approach presumes that Statement 141 (which supersedes Opinion 16) would apply to combinations of NFP organizations unless a circumstance unique to those combinations is identified that would justify a different accounting treatment.

Project Scope

- The definition of an NFP organization in FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made,* will be used for this project.
- The project's scope includes the accounting for (1) combinations between NFP organizations and (2) the acquisition of a for-profit business enterprise by an NFP organization.

Method of Accounting for a Combination of NFP Organizations

- The facts and circumstances of each combination of two or more NFP organizations should be reviewed to determine the extent to which the combination is a contribution or a bargained exchange. The proposed Statement should include guidance describing the types of facts and circumstances that should be considered in making that determination. A combination of NFP organizations in which no consideration is exchanged should be presumed to be a nonreciprocal transfer and accounted for in a manner similar to a contribution under Statement 116. A combination that includes the exchange of consideration should be presumed to be a bargained exchange and accounted for in accordance with Statement 141. When the facts and circumstances provide evidence that the combination is in part an exchange and in part a contribution, the contribution inherent in that transaction should be recognized by the acquiring organization in accordance with Statement 116.
- If the acquired entity is an NFP organization, the contribution recognized by the acquiring organization would be measured as the excess of the sum of the fair values of the identifiable assets and the liabilities assumed over the fair value of the assets transferred as consideration (if any). In those rare cases in which the sum of the fair values of the liabilities assumed exceeds the sum of the fair values of the identifiable assets acquired, the acquiring NFP organization should initially recognize that excess as an unidentifiable intangible asset (goodwill). The Board has decided that it will reconsider this tentative decision.

- If the acquired entity is a business enterprise, the contribution inherent in a combination should be measured as the excess of the fair value of the acquired business enterprise over the cost of that business enterprise.
- Communities neither own nor control NFP organizations and, therefore, a community's relationship with an NFP organization has no effect on the accounting for a combination of NFP organizations.

Consideration Exchanged in a Combination of NFP Organizations

- Generally, assets transferred (or liabilities incurred or assumed) by the acquiring organization as a requirement of a combination should be accounted for as consideration paid for the acquired entity, even if the asset transfer is a requirement imposed by a regulatory body. If the acquiring organization retains control over the future economic benefits of the transferred assets, however, the asset transfer should be reported by the acquiring organization as an asset-for-asset exchange. The proposed Statement should provide examples of the types of conditions that indicate that the acquiring organization has retained control over the future economic benefit of the transferred assets.
- Contingent consideration in a combination of NFP organizations should be accounted for in accordance with the guidance in Statement 141.

Identifying the Acquirer in a Combination of NFP Organizations

- In determining the acquiring organization, all pertinent facts and circumstances surrounding the combination should be considered, in particular whether one of the combining organizations has the ability to dominate the process of selecting a voting majority of the combined organization's governing body. Implementation guidance should be provided that would include a list of factors that should be considered when determining the identity of the acquiring organization.

Collection Acquired in a Combination of NFP Organizations

- The Board decided that when the assets acquired in a combination include collection items (as defined in Statement 116), the acquirer should follow the guidance in Statement 116 to account for the collection items acquired.

Identification of Intangible Assets

- The criteria in paragraph 39 of Statement 141 for recognizing identifiable intangible assets should be applied in the recording of combinations of NFP organizations.

Recent developments and immediate plans. The Board decided that it would revisit its tentative decision that in a combination of NFP organizations, any excess of the fair value of liabilities assumed over the fair value of assets acquired should be considered goodwill. The Board also decided to consider the recognition of goodwill separately for combinations of NFP organizations and combinations of mutual enterprises. The Board will continue its deliberations in the second quarter. We expect to issue an Exposure Draft in the fourth quarter of 2002.

Combinations of Mutual Enterprises

Background. The effective date of Statements 141 and 142 is deferred for combinations between two or more mutual enterprises to allow the Board time to consider whether there are any unique attributes of mutual enterprises to justify an accounting treatment different from that provided in those Statements.

Decisions in current phase. The Board has made the following decisions to date in this project. A more detailed discussion of the Board's decisions is available on the FASB website.

Approach and Scope

- The project approach presumes that Statement 141 (which supersedes Opinion 16) would apply to combinations of mutual enterprises unless a circumstance unique to those combinations is identified that would justify a different accounting treatment.
- The project's scope includes the accounting for combinations between two or more mutual enterprises.

Method of Accounting for a Combination of Mutual Enterprises

- The criteria in Statement 141 should be used to identify the acquiring enterprise in a combination of mutual enterprises.
- The criteria in paragraph 39 of Statement 141 should be used to recognize identifiable intangible assets acquired in a combination of mutual enterprises.

Recent developments and immediate plans. The combinations of mutual enterprises project likely will become a joint effort between the Canadian Institute of Chartered Accountants Accounting Standards Board (AcSB) and the FASB. The FASB staff intends to accelerate FASB's consideration of the issues associated with combinations of mutual enterprises in an effort to converge with the AcSB project, which has already deliberated several issues that the FASB has not addressed. Based on potential convergence, the FASB intends to issue an Exposure Draft on this project in the third quarter of 2002.

Fresh-Start (New Basis) Issues

Background. The fresh-start (new basis) project is a joint project of the IASB and the FASB. This project focuses on those situations in which fresh-start (a new basis at fair value) recognition and measurement of all of an entity's assets and liabilities would be appropriate. One commonly identified candidate for application of this approach would be a multiparty business combination or other new entity formation in which no single preexisting entity obtains majority ownership and control of the resulting new entity. Similarly, joint venture formations also are candidates for this accounting treatment. Related issues include the recognition and measurement of goodwill and other intangible assets in combinations or other transactions accounted for by the fresh-start method.

In September 2000, prior to this project being designated as a potential IASB-FASB joint project, the Board approved a draft working principle to be utilized in determining the appropriateness of recognizing a new basis of accounting. The Board also decided that the scope of the project should include the issue of gain recognition in the financial statements of an entity that has transferred control over net assets to a joint venture.

During the fourth quarter of 2000, the Board discussed recognition of fresh-start accounting in connection with the formation of a joint venture. The Board decided that a change in control over net assets from unilateral control by one entity to joint or shared control by that entity and one or more other entities should result in fresh-start accounting for those net assets in the financial statements of the jointly controlled entity. The Board also discussed gain recognition, as of the date of formation of a joint venture in the financial statements of an investor that transfers an appreciated (or previously unrecognized) asset to the joint venture. The Board decided that an entity that exchanges appreciated (or previously unrecognized) assets for an equity interest in a joint venture should recognize a gain on the assets exchanged.

Immediate plans. The FASB staff has had initial discussions with the IASB staff principally concerning the background of the project and preliminary development of a joint scope for the project. Because of the pressures of other priorities for both Boards, this project temporarily is on hold.

Reconsideration of Statement 72

Background. Paragraphs 5–7 of Statement 72, which apply only to certain acquisitions of financial institutions (or branches thereof), require that the excess of the fair value of the liabilities assumed over the fair value of tangible and identifiable intangible assets acquired ("the excess") be recognized as an unidentifiable intangible asset. Statement 72 also requires that the unidentifiable intangible asset be amortized over a specified period. Following the issuance of Statement 142, constituents asked the Board to consider whether the unidentifiable intangible asset should be accounted for differently than goodwill. In response to those questions, the Board decided in the fourth quarter of 2001 to undertake a limited scope project to reconsider the guidance in paragraphs 5–7 of Statement 72.

Decisions in current phase and recent developments. The Board decided to reconsider application of the guidance in Statement 72 to combinations between mutual enterprises as part of its separate project addressing those transactions (page x). With respect to the acquisition of a stockholder-owned financial institution (or a branch(es) thereof) that are business combinations (as defined in Statement 141), the Board decided that the amount of the excess should be recognized as goodwill and accounted for in accordance with Statement 142. The Board decided that acquisitions that do not meet the definition of a business combination should be accounted for as asset acquisitions as described in paragraph 9 of Statement 142.

The Board also decided that the scope of FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* should be amended to include long-term customer relationship intangible assets of financial institutions (including depositor relationship assets, sometimes referred to as core deposit intangible assets, and credit cardholder intangible assets). That means that those intangible assets will be subject to the same undiscounted cash flow recoverability tests and impairment loss recognition and measurement provisions that Statement 144 requires for long-term tangible assets and other finite-lived intangible assets held and used.

With respect to transition, the Board decided that the unidentifiable intangible asset recognized in past transactions should continue to be amortized unless all of the following conditions are met: (1) the unidentifiable intangible asset was initially recognized in connection with a business combination, (2) when the business combination was initially recorded, the acquiring enterprise recognized the acquired customer relationship intangible assets separately from goodwill, and (3) subsequent to their initial recognition, the customer relationship intangible assets were accounted for separately from goodwill. The Board decided that when those three conditions are met, the carrying amount of the unidentifiable intangible asset would be reclassified as goodwill at the effective date of the proposed Statement, and subsequently accounted for in accordance with the provisions of Statement 142.

Immediate plans. We plan to issue an Exposure Draft in April 2002 with a 45-day comment period. That Exposure Draft will be distributed primarily through the FASB website.

Project chronology. Added to agenda—August 1996. Special Report—June 1997. *Methods of Accounting for Business Combinations: Recommendations of the G4+1 for Achieving Convergence:* Invitation to Comment—December 1998. *Business Combinations:* Statement 141—June 2001. *Goodwill and Other Intangible Assets:* Statement 142—June 2001.

Consolidations and Related Matters

Background. This group of related projects is intended to cover all aspects of accounting for affiliations between entities along with several other matters that raise similar or potentially related issues about financial statements. The Board is reconsidering issues relating to Accounting Research Bulletin No. 51, *Consolidated Financial Statements,* and APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock.* The project on consolidation policy and procedures is considering both business enterprises and not-for-profit organizations and presently is focusing on the area of consolidation policy. The unconsolidated entities project is intended to address presentation in the investor's financial statements and other issues related to investments in noncontrolled corporations and partnerships, including joint ventures and undivided interests.

Comprehensive Policy Guidance

Background. In February 1999, we issued a revised FASB Exposure Draft, *Consolidated Financial Statements: Purpose and Policy.* We received comments from 113 respondents. The proposed Statement would require business enterprises and not-for-profit organizations that control other entities to include those subsidiaries in their consolidated financial statements. *Control* would be defined as the nonshared decision-making ability of one entity to direct the policies and management that guide the ongoing activities of another entity so as to increase its benefits and limit its losses from that other entity's activities. In July 1999, the Board began a series of meetings to consider comments received on the Exposure Draft and to redeliberate conclusions reached in the Exposure Draft.

In January 2001, the Board determined that there was not sufficient Board member support to proceed to a final Statement on consolidation policy. The Board is concerned about the appropriateness of determining that nonshared decision-making ability can exist based on the anticipated nonaction by other holders of voting rights. The Board also is concerned about the effectiveness of the proposed treatment of convertible and option instruments that give the ability to obtain voting rights as well as the operationality of certain other provisions. However, the Board believes its effort to deal with consolidation policy issues should continue. Those efforts should include the need to develop effective guidance for special-purpose entities (SPEs), to deal with situations where control exists but is not apparent based on the form of the arrangement, and to provide guidance on partnership and other noncorporate structures. It also believes that the work to define *control* has been useful and that this effort should continue.

Interpretive Guidance for Certain Situations

Background and plans. In November 2001, the Board discussed its assessment of the consolidation project and how to proceed with it. The Board decided to first concentrate on developing guidance for dealing with the following situations under the current consolidation approach:

- So-called strawman situations
- Entities that lack sufficient independent economic substance
- Convertible instruments and other contractual arrangements that involve latent control
- The distinction between participating rights and protective rights.

Effective guidance for those situations would resolve many problems encountered in present practice including some of the ones related to SPEs. We plan to issue an Exposure Draft of proposed guidance for dealing with entities that lack sufficient economic substance in the second quarter of 2002 and the other situations thereafter. The Board then will continue its consideration of the proposals in the 1999 Exposure Draft.

Decisions in current phase. In the first quarter of 2002, the Board discussed and resolved most aspects of a draft of the first of those Exposure Drafts of a proposed Interpretation of FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries,* and ARB 51. The Board decided that an SPE should be consolidated by its Primary Beneficiary when the SPE lacks sufficient independent economic substance. An SPE is an entity that supports the activities of a Primary Beneficiary. A Primary Beneficiary is the entity that retains or obtains principal economic benefits and risks that arise from the activities of the SPE. An SPE has sufficient independent economic substance if, at all times during its life, it has the ability to fund or finance its operations without assistance from or reliance on the Primary Beneficiary or a related party of the Primary Beneficiary. An SPE is considered to have that ability if its owner(s) is an independent third party that has:

- A substantive equity investment at risk in the SPE
- Substantive risks of variable returns that are generally characteristics of equity ownership
- The ability to make decisions about and manage the SPE's activities to the extent those decisions have not been predetermined for the SPE.

In March, the Board decided that the proposed Interpretation should provide guidance for identification of and accounting by the Primary Beneficiary of multi-seller/multi-lease conduits. The guidance for those conduits would include a provision for separation into separate SPEs if the transferors or lessees have the same risks and rewards they would have had if they were dealing with a single seller/lease SPE. Additionally, the proposed Interpretation would provide guidance for identification of and accounting by the Primary Beneficiary for other conduit structures.

Procedures

Certain issues related to consolidation procedures are being addressed in the projects on ***Business Combinations—Purchase Method Procedures*** (page x) and ***Financial Instruments—Liabilities and Equity*** (page x). The Board will consider resuming its discussions of other consolidation procedures issues after completion of its work on consolidation policy.

Unconsolidated Entities

We participated with the G4+1 to develop a Special Report, *Reporting Interests in Joint Ventures and Similar Arrangements.* That Special Report was issued in September 1999. The project is currently inactive.

Consolidations projects chronology. Projects added to agenda—January 1982. *Consolidation of All Majority-Owned Subsidiaries:* Statement 94—October 1987. *Consolidation Policy and Procedures:* Discussion Memorandum—September 1991. *New Basis Accounting*: Discussion Memorandum—December 1991. Completed consideration of issues related to disaggregated disclosures (segments)—June 1994. *Consolidation Policy:* Preliminary Views—August 1994. *Consolidated Financial Statements: Policy and Procedures:* Exposure Draft—October 16, 1995. Discontinued consideration of new basis issues as part of project—August 1996. *Disclosures about Segments of an Enterprise and Related Information:* Statement 131—June 1997. *Consolidated Financial Statements: Purpose and Policy:* Revised Exposure Draft—February 23, 1999.

Certain Costs and Activities Related to Property, Plant, and Equipment

Background. In April 2001, the Board agreed to issue an Exposure Draft of a proposed Statement that would amend certain APB Opinions and FASB Statements to incorporate changes that would result from issuance of a final AICPA Statement of Position (SOP), *Accounting for Certain Costs and Activities Related to Property, Plant, and Equipment.* The Board also agreed that the Exposure Draft would propose to amend APB Opinion No. 28, *Interim Financial Reporting,* so that the provisions of the proposed SOP that would require certain costs to be charged to expense as incurred would apply also to interim periods. In June 2001, the Board approved for issuance FASB Exposure Draft, *Accounting in Interim and Annual Financial Statements for Certain Costs and Activities Related to Property, Plant, and Equipment,* which was issued contemporaneously with the issuance of the proposed SOP by AcSEC. We requested comments on the Exposure Draft by November 15, 2001. Similarly, the AICPA requested comments on the proposed SOP by November 15, 2001.

Plans. In the second quarter, AcSEC will begin to address the comment letters received on its Exposure Draft. The timing of the FASB's final document is dependent on the timing of AcSEC's final document, which is uncertain at this time.

Project chronology. Added to agenda—April 2001. Exposure Draft—June 29, 2001.

Disclosures about Intangible Assets

Background. On January 9, 2002, the Board added to its agenda this project on disclosure of information about intangible assets. That decision was the result of a process including significant input from constituents, including 63 letters commenting on a proposal issued in August, 2001, and consideration of the available research findings and the resources needed for this and other present and proposed FASB projects.

Today, intangible assets that are generated internally, and some acquired intangible assets (those that are written off immediately) are not recognized in financial statements. This project aims to establish standards that will improve disclosure of information about those intangible assets. Intangible assets include brand names, customer relationships, artistic works, advantageous contracts, and patent rights, among others.

For many entities, the amounts of intangible assets not reflected in financial statements are very large. In a recent article in *Financial Executive* (March/April 2002, p. 35), a prominent researcher indicated that "in the late 1990s, the annual U.S. investment in intangible assets—R&D, business processes and software, brand enhancement, employee training, etc.—was roughly $1.0 trillion, almost equal to the $1.2 trillion total investment of the manufacturing sector in physical assets. Further, intangible capital currently constitutes between one-half and two-thirds of corporate market value." Generally, there is very little information—quantitative or qualitative—about those intangible assets in financial reports. This project would expand that information.

Decisions in current phase and recent developments. The Board refined the project scope initially established as part of the agenda decision. The refined scope calls for disclosure about intangible assets that would have been recognized if acquired in a business combination under Statement 141. That decision limits the scope to intangible assets that are either grounded in contracts or other legal rights or are separable from the enterprise. The scope also includes in-process research and development assets that, under FASB Interpretation No. 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method,* are written off to expense on the day they are acquired. That scope has the important practical advantage of relying on the definitions and scope recently set forth in Statements 141 and 142 and on the implementation guidance and practice that are being developed for those Statements. For constituents, this scope will result in one set of definitional standards and guidance to apply and learn to use, not two.

The Board also decided that the qualitative and quantitative information still to be specified in later meetings should be reported by classes determined using the principles of Statement 142. Statement 142 calls for disclosures about recognized intangible assets subdivided by intangible asset class, defined therein as “a group of intangible assets that are similar, either by their nature or by their use in the operations of an entity.” The Board also decided to work toward required disclosures about intangible assets, rather than voluntary disclosures.

The Board began its consideration of whether to call for quantitative disclosures about intangible assets and, if so, what kind of quantitative information to call for. The Board considered several fair-value-based and cost-based approaches to disclosing quantitative information. Pending additional information, the Board decided to narrow the project’s focus to possible disclosure of (1) the fair values of all intangible assets (both recognized and unrecognized that fall within the scope) at the end of the current year(s), (2) disclosing expenditures in the current year(s) without distinguishing successful from unsuccessful efforts, or (3) both.

Immediate plans. The Board and staff are gathering additional information from constituents before making a final decision about which, if any, quantitative disclosures to require. The staff also is continuing to research, with the assistance of a working group of constituents, what other "qualitative" disclosures to consider. The Board plans to resolve those and other remaining issues at meetings during the second and third quarters and to issue an Exposure Draft in the fourth quarter of 2002.

Project chronology. Added to agenda—January 9, 2002.

Financial Instruments

The Board added this group of projects to its agenda in 1986 at the request of many constituents, including the auditing profession, the SEC, bank regulators, and some preparers. Those constituents expressed concerns about the lack of accounting guidance and the resulting inconsistencies in practice in accounting for financial instruments and transactions, especially for innovative and complex financial instruments, created during the preceding decade. Since 1986, the Board has completed several of the financial instruments projects. In later years, other projects were added to the group of financial instrument projects and are still active. Those active projects on measuring at fair value, liabilities and equity, and amending Statement 133 are discussed below.

Measuring All Financial Assets and Liabilities at Fair Value

Background. The objective of this project is to provide guidance for reporting financial assets and liabilities at fair value. The Board has made a fundamental decision that fair value is the most relevant attribute for financial instruments. That decision was incorporated into FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities,* which states in paragraph 334:

> *The Board is committed to work diligently toward resolving, in a timely manner, the conceptual and practical issues related to determining the fair values of financial instruments and portfolios of financial instruments. Techniques for refining the measurement of the fair values of all financial instruments continue to develop at a rapid pace, and the Board believes that all financial instruments should be carried in the statement of financial position at fair value when the conceptual and measurement issues are resolved.*

Although measurement at fair value has conceptual advantages, not all issues have been resolved, and the Board has not yet decided when, if ever, it will be feasible to require essentially all financial instruments to be reported at fair value in the basic financial statements. Constituents have suggested several means of providing information about fair values of financial instruments other than recognition and measurement in the basic financial statements. One alternative is to require presentation of a separate set of fair value financial statements. Another possibility is to enhance the disclosures currently required in notes to the financial statements.

The Board also participated in an international effort to develop a set of standards for reporting financial instruments at fair value. That effort was undertaken by an ad hoc international group called the Financial Instruments Joint Working Group of standard setters (JWG). In December 2000, we published the Draft Standard, Application Supplement, and Basis for Conclusions prepared by the JWG in the form of an FASB Special Report, *Financial Instruments and Similar Items.* The FASB and standard setters in other jurisdictions represented by JWG members have shared the comments each received, and each will use those comments in its own separate project on financial instruments.

Decisions in current phase and recent developments. We issued an FASB Preliminary Views, *Reporting Financial Instruments and Certain Related Assets and Liabilities at Fair Value,* on December 14, 1999. That Preliminary Views discusses the following three questions:

- What should be reported at fair value?
- What does fair value mean?
- How should changes in fair value be reported?

The Preliminary Views also requested comments on two other issues—whether to include in the project scope items that are similar to financial instruments and how to determine fair value if observable market prices include compensation for expected cash flows that are not contractually required.

The Board reaffirmed its ultimate goal of requiring essentially all financial instruments to be measured at fair value in the basic financial statements. The Board also reaffirmed the intermediate objective it established in February 2001, which is to work toward an Exposure Draft that would replace FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments.* The intention is to provide more specific guidance on how to determine fair value for financial instruments, improve the form of the disclosures (possibly by requiring a financial statement format), and to add information about the changes in fair values.

In the first quarter of 2002, the Board continued to discuss measurement issues and made decisions about how to measure fair value for financial instruments.

Plans for the replacement of Statement 107. When the Board continues its redeliberations of the planned replacement for Statement 107, it will begin discussing the scope of the proposed Statement. The scope issues include:

- The definition of financial instruments
- Nonfinancial instruments that may be included in the scope
- Financial instruments that may be excluded from the scope
- Contracts that are very similar to specific financial instruments.
- Other issues that will be addressed in the proposed Exposure Draft are:
- Form and content of the required disclosure including presentation of changes in fair value
- Disclosure of other matters, for example, risk exposures, measurement sensitivity, and valuation policies and methods.

Liabilities and Equity

Background. In 1997, the Board decided to resume deliberations on issues raised in the 1990 FASB Discussion Memorandum, *Distinguishing between Liability and Equity Instruments and Accounting for Instruments with Characteristics of Both.* The objective of the project is to improve the transparency of the accounting for financial instruments that contain characteristics of liabilities, equity, or both.

Decisions in current phase and recent developments. In December 2001, the Board began redeliberations of issues in the FASB Exposure Drafts, *Accounting for Financial*

Instruments with Characteristics of Liabilities, Equity, or Both, and Proposed Amendment to FASB Concepts Statement No. 6 to Revise the Definition of Liabilities. (Copies of both Exposure Drafts are available from the FASB website.) The Board discussed certain questions relating to the issue of separating a compound financial instrument with characteristics of liabilities and equity. The Board decided that an entity that issues a financial instrument that contains characteristics of both liabilities and equity should identify and report those components separately. That decision reaffirms the guidance in the Exposure Draft requiring separation of financial instruments with characteristics of liabilities and equity and represents a change from current generally accepted accounting principles that require classification of the entire instrument based on the governing-characteristics approach. The Board also decided that an issuer of a financial instrument that contains components that, if freestanding, would be classified as assets should not report the asset component separately. In February 2002, the Board decided that the with-and-without method should be used for measuring components under certain models.

Immediate plans. Below is a list of major issues that the Board will redeliberate and resolve. Those issues were addressed by respondents to the two Exposure Drafts. The redeliberation of some of the issues listed is dependent upon the conclusions reached by the Board on preceding issues. A more detailed discussion of the Board's redeliberation plan is available on the FASB website.

- Separating a compound financial instrument with characteristics of liabilities and equity into its individual liability and equity components
- The framework for the classification of financial instruments with characteristics of liabilities, equity, or both (definition of liability)

- Disclosures
- Earnings per share
- Transition and effective date
- Balance sheet classification of the noncontrolling interest in a consolidated subsidiary.

The Board will continue redeliberations of those issues in the second quarter of 2002 with a goal of issuing a final Statement in the fourth quarter of 2002.

Amendment to Statement 133—Beneficial Interests Arising from Securitization Transactions

Background. This project is considering various approaches for resolving questions raised in Statement 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets," which addresses the application of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities,* to beneficial interests issued in securitization transactions subject to FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.* In addition, it also is considering the application of Statement 133 to instruments involving leverage. The staff is working with a task force of individuals associated with the Derivatives Implementation Group.

Decisions in current phase and recent developments. In the first quarter, the Board took the following actions:

- Discussed comments received on the guidance included in the following five implementation issues, which were initially posted for comment in October 2001, regarding Statement 133:

Issue A20	Application of Paragraph 6(b) Regarding Initial Net Investment
Issue B12	Embedded Derivatives in Beneficial Interests Issued by Qualifying Special-Purpose Entities

Issue C17 Application of the Exception in Paragraph 14 to Beneficial Interests That Arise in a Securitization

Issue D2 Applying Statement 133 to Beneficial Interests in Securitized Financial Assets

Issue E21 Continuing the Shortcut Method after a Purchase Business Combination.

- Decided to proceed with the issuance of an Exposure Draft to amend Statement 133 that would incorporate amendments arising from various Statement 133 Implementation Issues.
- Did not object to the staff's posting on the FASB website, concurrent with the Exposure Draft, the five related Statement 133 Implementation Issues noted above, as well as new Statement 133 Implementation Issue No. BX, "Bifurcation of Embedded Credit Derivatives."
- Did not object to the staff's posting the draft questions and answers related to the application of certain provisions of Statement 140 on the FASB website.

Effective Date

- Decided that the final Statement to amend Statement 133 should be effective beginning on the first day of the first fiscal quarter beginning after November 15, 2002, except in the following situations:

1. Entities should continue to apply the amendments that resulted from the Derivatives Implementation Group process in accordance with their respective effective dates.

2. Qualifying SPEs that are not grandfathered or newly created structures that issue beneficial interests after the issuance of the amendment to Statement 133 must apply the provisions related to the amended definition of a derivative and related bifurcation guidance upon issuance of the final Statement.

Transition

- Decided to require that entities that had not accounted for a contract as a derivative in its entirety or that had not bifurcated an embedded derivative but would be required to do so under the proposed Statement should account for the effects of initially complying with the proposed Statement prospectively for all existing contracts as of the effective date of the proposed Statement and for all future transactions. Also, entities that had previously accounted for a contract as a derivative instrument that would not be accounted for as a derivative instrument under the proposed Statement would not be required to change that accounting treatment.

Disclosures

- Decided to require that SPEs that are considered qualifying under Statement 140 that would no longer be qualifying after applying Statement 133 disclose in financial statements issued after the issuance of the amendment to Statement 133 the amount of assets and liabilities that are currently off-balance-sheet in those structures that would not qualify as qualifying SPEs if both Statements 133 and 140 were applied absent the grandfathering provision.

Immediate plans. We plan to issue an Exposure Draft, primarily through the FASB website, early in the second quarter of 2002 for a 60-day comment period.

Financial instruments projects chronology. Initial project added to agenda—May 1986. Liabilities and equity project separated as next phase—April 1989. *Distinguishing between Liability and Equity Instruments and Accounting for Instruments with Characteristics of Both:* Discussion Memorandum—August 1990. *Recognition and Measurement of Financial Instruments*: Discussion Memorandum—November 1991. Measuring at fair value project separated as next phase—April 1989. *Reporting Financial Instruments and Certain Related Assets and Liabilities at Fair Value:* Preliminary Views—December 14, 1999. *Accounting for Financial Instruments with Characteristics of Liabilities, Equity, or Both:* Exposure Draft—October 27, 2000. *Proposed Amendment to FASB Concepts Statement No. 6 to Revise the Definition of Liabilities:* Exposure Draft—October 27, 2000. Amendment of Statement 133 project added to the agenda—September 2001.

Financial Performance Reporting by Business Enterprises

Background. On October 24, 2001, the Board considered constituents' comments in response to an August 17, 2001 proposal for a potential agenda project on reporting information about the financial performance of business enterprises. The Board decided, consistent with suggestions of its constituents, to add the project to its agenda with the objective and scope described in that proposal.

The primary objective of the project is to (1) improve the quality of information displayed in financial statements so that investors, creditors, and others can better evaluate an enterprise's financial performance and (2) ascertain that sufficient information is contained in the financial statements to permit calculation of key financial measures used by investors and creditors. Several of the respondents to the August proposal suggested that this project, although limited to the display of items and measures in financial statements, is especially timely because the proliferation of alternative and inconsistent financial performance measures is undermining high-quality financial reporting, which is essential to well-informed investment decisions and efficient capital markets.

The project will focus on form and content, classification and aggregation, and display of specified items and summarized amounts on the face of all basic financial statements, interim as well as annual. That includes determining whether to require the display of certain items determined to be key measures or necessary for the calculation of key measures (for example, depreciation and amortization, research and development expense, and income taxes). The project will not address management discussion and analysis or the reporting of so-called pro forma earnings in press releases or other communications outside financial statements and does not include segment information or matters of recognition or measurement of items in financial statements.

The project plan contemplates coordinating, to the extent feasible, the FASB activities and approach for this project with the activities of a similar project being conducted jointly by the IASB and the U.K.'s Accounting Standards Board. That coordination and cooperation with other standard setters is directed at seeking opportunities to resolve issues in ways that also increase convergence of standards worldwide.

Recent developments and immediate plans. In February 2002, members of the FASB and its staff completed a series of interviews of 56 individuals who use financial statements—investors, creditors, and their advisors (equity and credit analysts) to assist the FASB in identifying key financial measures that they use in evaluating the performance of an enterprise. A summary of the findings resulting from those interviews is available on the FASB website. On February 26, the Board discussed the results of its user interviews with its project task force as well as the implications of those results for the project's objectives, plans, and the issues to be addressed. Several task force members suggested that the Board consider addressing certain specific issues on a faster track while the project proceeds with its comprehensive undertaking of the issues.

The Board discussed the project plans, scope, and approach. The Board affirmed the project scope and approved revising the project plan to move to Board deliberations leading to an Exposure Draft of a proposed Statement, rather than a neutral discussion document. The Board also began discussions about addressing certain specific issues on a faster track and sought further advice from members of its advisory council, on March 26, and from other constituents about specific issues for which a fast-track effort might be both desirable and feasible. Those discussions are continuing. The Board plans to begin its discussions of the project issues during the second quarter.

Project chronology. Added to agenda—October 2001.

Guarantor's Accounting and Disclosure Requirements for Guarantees

Background and recent developments. The Board's decision to undertake this project was made in conjunction with its discussion of interpretive consolidation guidance related to identifying and accounting for SPEs. Although guarantees are commonly found in SPE situations, they also are found in non-SPE situations. Accordingly, the Board decided in February 2002 that a separate project is warranted to provide interpretive guidance for the reporting of guarantees by guarantors.

The issuance of a guarantee imposes on the guarantor the following two obligations:

- An obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur
- A contingent obligation to make a future sacrifice (such as future payments) if those triggering events or conditions occur.

The Board decided that at the time a guarantor issues a guarantee, it should recognize a liability at fair value for its obligation to stand ready to perform under the guarantee. However, a guarantor would continue to recognize a liability for its contingent obligation to make a future sacrifice under FASB Statement No. 5, *Accounting for Contingencies.* The Board also decided to require the guarantor to make the following disclosures, even if it is probable that the guarantor will not need to make any payments under the guarantee:

- The nature of the guarantee, including how the guarantee arose and the events or circumstances that would require the guarantor to perform under the guarantee.
- The maximum potential amount of loss under the guarantee (that is, the excess of (1) the maximum amount of future cash payments the guarantor could be required to make over (2) the current carrying amount of the liability for the guarantor's obligations under the guarantee). That maximum potential amount of loss should not be reduced by the effect of any amounts that may possibly be recovered under recourse or collateralization provisions in the guarantee.
- The nature of (1) any recourse provisions that would enable the guarantor to recover from third parties any of the amounts paid under the guarantee and (2) the nature of any

assets held either as collateral or by third parties that, upon the occurrence of any triggering event or condition under the guarantee, the guarantor can obtain and liquidate to recover any of the amounts paid under the guarantee. The guarantor should indicate the approximate extent to which the proceeds from liquidation of those assets would be expected to cover the maximum potential amount of loss under the guarantee.

Regarding the scope of the proposed Interpretation, the Board decided that contracts that meet any of the four following characteristics would be included in the scope of the proposed Interpretation and would be subject to its disclosure requirements and initial recognition and measurement provisions:

- Contracts that contingently require the guarantor to make payments (either in cash or in kind) to the guaranteed party based on changes in an underlying that is related to an asset or liability of the guaranteed party
- Contracts (performance guarantees) that contingently require the guarantor to make payments (either in cash or in kind, including services) to the guaranteed party based on another entity's failure to perform under an obligating agreement
- Indemnification agreements (contracts) that contingently require the indemnifying party (guarantor) to make payments to the indemnified party based on the occurrence of a specified event or circumstance
- Contracts that are indirect guarantees of the indebtedness of others, as that phrase is used in FASB Interpretation No. 34, *Disclosure of Indirect Guarantees of Indebtedness of Others,* even though the payment to the guaranteed party is not based on changes in an underlying that is related to an asset or liability of the guaranteed party.

However, the Board decided that the following three types of guarantees should be excluded from being subject to the proposed Interpretation even though they meet the characteristic-based scope above:

- Product warranties, including separately priced extended warranties and product maintenance contracts
- A guarantee or indemnification contract that is issued by either an insurance company or a reinsurance company and is accounted for under the specialized accounting principles for those companies
- A lessee's guarantee of the residual value of the leased property at the expiration of the lease term, provided the lease is accounted for by the lessee as a capital lease.

Furthermore, the Board decided that guarantees that are accounted for as derivatives and obligations arising from a business combination to pay contingent consideration would be subject only to the disclosure requirements in the proposed Interpretation.

The Board decided that (1) the disclosure requirements in the proposed Interpretation should be effective for financial statements of quarterly or annual periods ending after September 30, 2002, and (2) the initial recognition and initial measurement provisions of the Interpretation should be applied to existing guarantees in the first fiscal year beginning after September 15, 2002, with a cumulative-effect-type adjustment reported in the first interim period of that fiscal year.

Immediate plans. We expect to issue early in the second quarter, primarily through the FASB website, an Exposure Draft of a proposed Interpretation for a 30-day comment period.

Project chronology. Added to agenda—February 13, 2002.

Obligations Associated with Disposal Activities

Background. In August 2001, the Board approved for issuance FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* The Exposure Draft that preceded Statement 144 included issues on the accounting for costs associated with a disposal activity, but in completing Statement 144, the Board decided to deal with those issues separately. The current phase of the project focuses on the accounting for costs associated with a disposal activity. The Board believes that this phase of the project is necessary principally because some liabilities for costs associated with a disposal activity are recognized under current accounting pronouncements, in particular, EITF Issue No.

94-3, “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring),” that do not meet the definition of liabilities in the Conceptual Framework.

Decisions in current phase. The Board began redeliberations of issues on the accounting for costs associated with a disposal activity during the fourth quarter of 2001. The Board has made the following tentative decisions to date in this phase of the project. A more detailed discussion of the Board’s tentative decisions is available on the FASB website.

Scope

- The Board decided to expand the scope of the Exposure Draft to include costs to terminate an obligation under a contract that existed prior to an entity’s commitment to a disposal plan and that is not an operating lease. Thus, the project will reconsider all of the guidance in Issue 94-3 as it relates to a disposal activity. A *disposal activity* refers to (1) an exit (restructuring) activity that does not arise from a business combination, (2) the disposal of a long-lived asset or a component of an entity that is a discontinued operation covered by Statement 144, or (3) the termination of employees.

Recognition and Measurement

- The Board reconsidered its decision that a liability for a cost associated with a disposal activity should be recognized and measured based on its fair value when the likelihood of future settlement is *probable,* as that term is used in Statement 5. The Board decided that because the liability is measured based on its fair value, in most cases, the liability should be recognized when it is incurred. Thus, in determining whether to recognize and in measuring the fair value of a liability for a cost associated with a disposal activity, the guidance in Statement 5 and FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss,* does not apply. The Board affirmed that a liability is incurred when the definition of a liability is met, thereby eliminating the exit cost notion in Issue 94-3.

- The Board modified the recognition requirements for one-time termination benefits. If the benefit arrangement requires employees to render future service beyond a “minimum retention period,” a liability should be recognized as employees render service over the future service period, even if the benefit formula used to calculate an employee’s termination benefit is based on length of service. If the benefit arrangement does not require employees to render future service beyond a “minimum retention period,” a liability should be recognized at the communication date. The minimum retention period would be based on the legal notification period, or if there is no such requirement, 60 days.

- The Board reconsidered the approach for recognition of costs to terminate an obligation under an operating lease that existed prior to an entity's commitment to a disposal plan. The Board concluded that, conceptually, the liability for those lease termination costs is incurred at the inception of the lease. However, the Board decided for practical rather than conceptual reasons that the liability should be recognized when the leased property ceases to be used in operations, not at the date of an entity's commitment to a disposal plan, as under Issue 94-3. The Board decided that the same approach should apply for other contract termination costs.

Immediate plans. The Board plans to substantially complete its redeliberations of issues addressed in the Exposure Draft during the second quarter of 2002. We expect to issue a final Statement in the third quarter.

Project chronology. Added to agenda—August 1996. Exposure Draft—June 30, 2000. *Accounting for the Impairment or Disposal of Long-Lived Assets:* Statement 144—August 2001.

Rescission of Statement 4

Background. In August 2001, at the request of several constituents, the Board added a project to its agenda to rescind FASB Statement No. 4, *Reporting Gains and Losses from Extinguishment of Debt.* When Statement 4 was issued in 1975, the Board indicated that the accounting it would require represented a practical solution and was intended to be temporary. Recently constituents expressed concern that automatically classifying gains and losses associated with the extinguishment of debt as extraordinary items could be misleading to users of financial statements because debt extinguishment is a regular part of their strategy for managing interest rate risk in their debt portfolio. In October 2001, the Board completed its deliberations on the proposed Statement to rescind Statement 4 and FASB Statement No. 44, *Accounting for Intangible Assets of Motor Carriers,* and Statement No. 64, *Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements,* and to make various technical corrections to existing authoritative accounting pronouncements. On November 15, 2001, the Board issued the Exposure Draft*,* *Rescission of FASB Statements No. 4, 44, and 64 and Technical Corrections.*

Recent developments and immediate plans. In February 2002, the Board redeliberated the provisions of the Exposure Draft, and in light of comments received it decided to add a substantive amendment of FASB Statement No. 13, *Accounting for Leases,* to the project. On February 14, 2002, the Board issued a limited revised Exposure Draft through the FASB website to seek comments on that change. We requested comments by March 18, 2002, and we received nine comment letters. We plan to issue a final Statement early in the second quarter of 2002.

Project chronology. Added to agenda—August 2001. Exposure Draft—November 15, 2001. Revised Exposure Draft—February 14, 2002. (Comment deadline—March 18, 2002.)

Other Technical Research Activities

In addition to the formal agenda of technical projects, we have a number of other technical issues that we are studying and developing. Some of these will be developed into future projects for the Board. Others may help us to expand our understanding of financial reporting issues and may affect formal agenda projects indirectly in various ways. Issues currently under consideration are discussed below.

Pre-Agenda Proposal Research—Liabilities and Revenues. At its meeting on January 9, 2002, the Board discussed the objective and scope of a potential major project on the recognition of revenues and liabilities in financial statements. The need for that proposed agenda project arose from difficulties that the Board encountered in addressing issues involving liabilities in three projects (asset impairment and disposal issues, asset retirement obligations, and financial instruments—liabilities and equity) and that the EITF and SEC staff encountered in addressing a variety of issues involving revenues. Because matters of revenue recognition can conflict with liability recognition, that project would lead to a new accounting standard on revenue recognition generally, and it also would involve amending the related guidance on revenues and liabilities in certain of the Board's Concepts Statements. The Board issued that project proposal primarily through the FASB website, for public comment with a 60-day comment period. We requested comments by March 29, 2002. After discussing the letters received, the Board will decide whether to add the project to its agenda. That decision is expected to be made in May.

Codification and Simplification. In January, the Board agreed to undertake the following actions in response to concerns raised by constituents about the quantity, complexity, and lack of easy retrievability of the body of U.S. accounting literature including guidance issued by the EITF, AICPA, and SEC. Recent staff activities on the actions are noted below:

Simplification

- Evaluate the feasibility of issuing standards that are less detailed and have few, if any, exceptions or alternatives to the underlying concepts. (This topic was discussed with FASAC at its March 2002 meeting.)
- Work with the EITF, AICPA, and SEC to more clearly define their roles in setting accounting standards with an eye toward streamlining certain activities.
- Improve the quality of the cost-benefit analyses prepared as part of the due process for new standards. (The staff is in the process of developing guidelines to be used in all FASB projects.)

Codification/Retrievability

- Explicitly address all related EITF, AICPA, and SEC literature in new standards. (The staff is in the process of developing guidelines to be used in developing all future FASB standards.)
- Include references to all of the applicable U.S. accounting literature in the FASB's *Current Text* (a compilation of all FASB accounting standards categorized by subject). (The staff currently is working on this effort and hopes to have it completed by the end of this year.)
- Partner with others in developing an online database that will include all of the U.S. accounting literature. (Our publications department is continuing its discussions on this effort.)

Disclosure Overload

- Provide support to the SEC on its initiative to modernize financial reporting and disclosure. (An FASB staff member has been assigned to assist the SEC staff on its initiatives.)

A more detailed discussion of those actions is available on the FASB website.

Financial Instruments—Derivatives Implementation Group (DIG). The objectives of the Implementation Group were to identify issues related to the implementation of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities,* and to develop recommendations to the Board on how to resolve those issues. The Implementation Group previously met every two or three months with members of the Board and staff to discuss implementation issues related to Statement 133.

We plan to continue working on the various unresolved issues and consulting with individual Board members and DIG members as appropriate. At this time we do not have specific plans for any future DIG meetings. As implementation issues arise, we will assess the alternatives available for resolution of those issues.

A total of 158 issues have been cleared by the Board to date for inclusion in a staff Implementation Guide in a question-and-answer format. Information about DIG issues is available on the FASB website.

Emerging Issues Task Force. The FASB's EITF assists the Board in the early identification of emerging issues affecting financial reporting and of problems in implementing authoritative pronouncements. Additionally, the Task Force's discussion of issues and the relevant accounting pronouncements help us better understand the emerging issues and, when a consensus is reached, may indicate that no immediate action by the FASB is needed because diversity in practice is not likely to evolve.

During the first quarter of 2002, the Task Force met twice and discussed 14 issues. The next EITF meeting is scheduled for June 19 and 20, 2002.

Descriptions of recently discussed EITF issues are posted on the FASB website. A summary of EITF issues and their resolution 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.

Issue summaries and related attachments, which are discussion materials distributed to each EITF member, and the official minutes of each EITF meeting also are available from the FASB order department at 1-800-748-0659.

International. The Board is active in many international accounting activities and participates in meetings of many international accounting organizations, such as the IASB. General information about FASB international activities can be obtained from the

FASB website. A detailed report on the FASB's specific recent international activities is reported in the Chairman's Report on the FASB website.

Information about how to order the FASB Report, *The IASC-U.S. Comparison Project: A Report on the Similarities and Differences between IASC Standards and U.S. GAAP,* is available on the FASB website. Copies of the FASB Report, *International Accounting Standard Setting: A Vision for the Future,* can be downloaded from the FASB website.

AICPA Documents. In the first quarter of 2002, the Board reviewed the following documents and took the action described below:

- Prospectus for a proposed SOP on accounting for risk transfer in mortgage reinsurance arrangements that involve participation of mortgage lenders. The Board did not clear the Prospectus and requested that AcSEC consider increasing the scope of the Prospectus to include the accounting for the arrangements by the mortgage lenders.
- Exposure Draft of a proposed AICPA Statement of Position (SOP), *Clarification of the Scope of Investment Companies Audit and Accounting Guide and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies.* The Board objected to issuance of the Exposure Draft and recommended that AcSEC consider certain changes. Further, the Board expressed its view that an investment company (other than a separate account of an insurance company as defined in the Investment Company Act of 1940) must be a separate legal entity to be within the scope of the Guide. Accordingly, the specialized accounting principles in the Guide should be applied to an investment made after March 27, 2002, only if the investment is held by an investment company that is a separate legal entity. Investments acquired prior to March 28, 2002, or those acquired after March 27, 2002, pursuant to an irrevocable binding commitment that existed prior to March 28, 2002, should continue to be accounted for in accordance with the entity's existing policy for such investments.
- Prospectus for a proposed SOP on reporting the costs of soliciting contributed services that do not meet the recognition criteria for contributions in FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made.* The Board objected to AcSEC's undertaking a project to address the reporting of costs of soliciting contributions of services that do not meet the criteria for recognition as contribution revenue in Statement 116. The Board believes a project is not necessary to clarify the existing GAAP that addresses this issue. The Board believes that paragraphs 26–28 of FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations,* require that information about expenses be reported by functional classification and that fund-raising activities include soliciting contributions of services from individuals, regardless

of whether those services meet the recognition criteria for contributions in Statement 116. The Board also observed that the definition of fund-raising activities in paragraph 13.35 of the AICPA Audit and Accounting Guide, *Not-for-Profit Organizations,* conforms to paragraphs 26–28 of Statement 117 and provides that costs of soliciting donors to contribute services (time) should be reported as fund-raising activities regardless of whether those services meet the recognition criteria for contributions in Statement 116. (That conclusion also is articulated in the March 2000 AICPA Technical Practice Aid No. 6140.11, *Costs of Soliciting Contributed Services and Time That Do Not Meet The Recognition Criteria in FASB Statement No. 116.*) The Board suggested that AcSEC consider how best to communicate the final resolution of this issue in the next edition of the Guide.

We expect to address the following documents in the second quarter of 2002:

- Proposed SOP, *Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations*
- Prospectus of a proposed SOP on accounting for purchase business combinations involving insurance enterprises including certain reinsurance transactions that are in substance business combinations
- Proposed SOP, *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts.*

Effective Dates

FAS 141, *Business Combinations,* effective for all business combinations initiated after June 30, 2001. The provisions also are applicable to all business combinations accounted for by the purchase method (regardless of the date initiated) for which the date of acquisition is July 1, 2001, or later. However, for combinations between two or more mutual enterprises, the effective date is deferred until interpretative guidance related to the application of the purchase method to those transactions is issued.

FAS 142, *Goodwill and Other Intangible Assets,* effective for fiscal years beginning after December 15, 2001, except for mutual enterprises and not-for-profit organizations. However, certain provisions are applicable to goodwill and intangible assets acquired in transactions completed after June 30, 2001.

FAS 143, *Accounting for Asset Retirement Obligations,* effective for financial statements issued for fiscal years beginning after June 15, 2002.

FAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years.

The FASB Report

The FASB welcomes feedback on *The* ***FASB*** *Report*
Technical Plan Editor: Jane Gabriele
E-mail: jvgabriele@fasb.org
Editor: Sheryl Thompson
E-mail: slthompson@f-a-f.org
Write: 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116
Telephone: (203) 847-0700, ext.268
FASB website address: www.fasb.org

Subscription address changes:
E-mail Barbara Diliberto, bldiliberto@f-a-f.org or
fax 203-847-6045