

THE FASB AND ACCOUNTING STANDARDS-SETTING

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The views expressed represent those of the presenter. Official positions of the FASB are reached only after extensive due process and deliberations.

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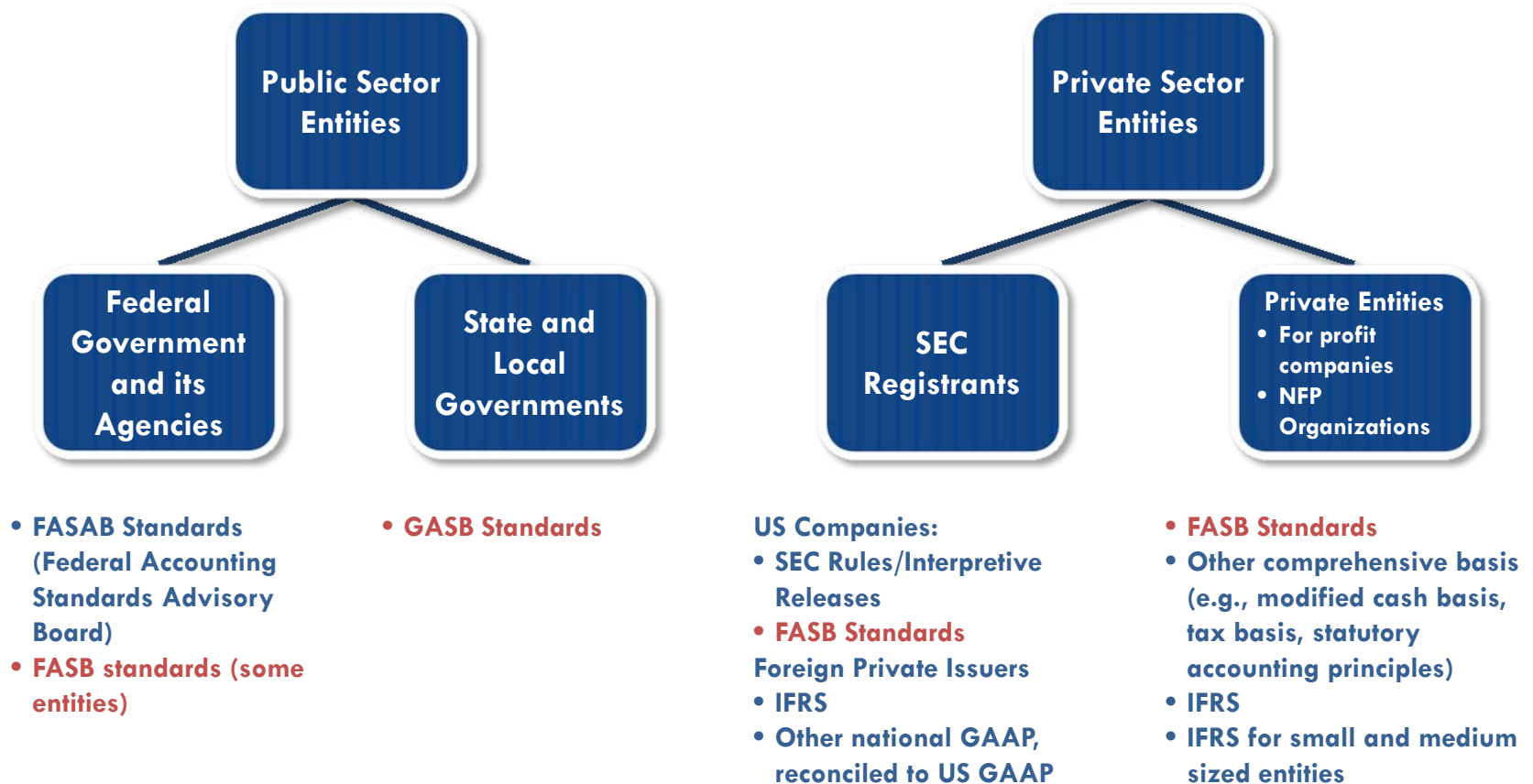
FASB Director of Planning and Support

2

- Responsible for planning & process matters, budgets, and special projects
- Leadership of the FASB's understandability initiative & oversight of process changes such as those recommended by
 - SEC Advisory Committee on Improving Financial Reporting
 - Financial Accounting Foundation Board of Trustees
- Was director of major projects & technical activities leading some of the most significant projects in FASB's history including
 - share-based payment
 - defined benefit pension & other postretirement plans
 - fair value measurement

US Financial Reporting Infrastructure

3



Elements of US Financial Reporting

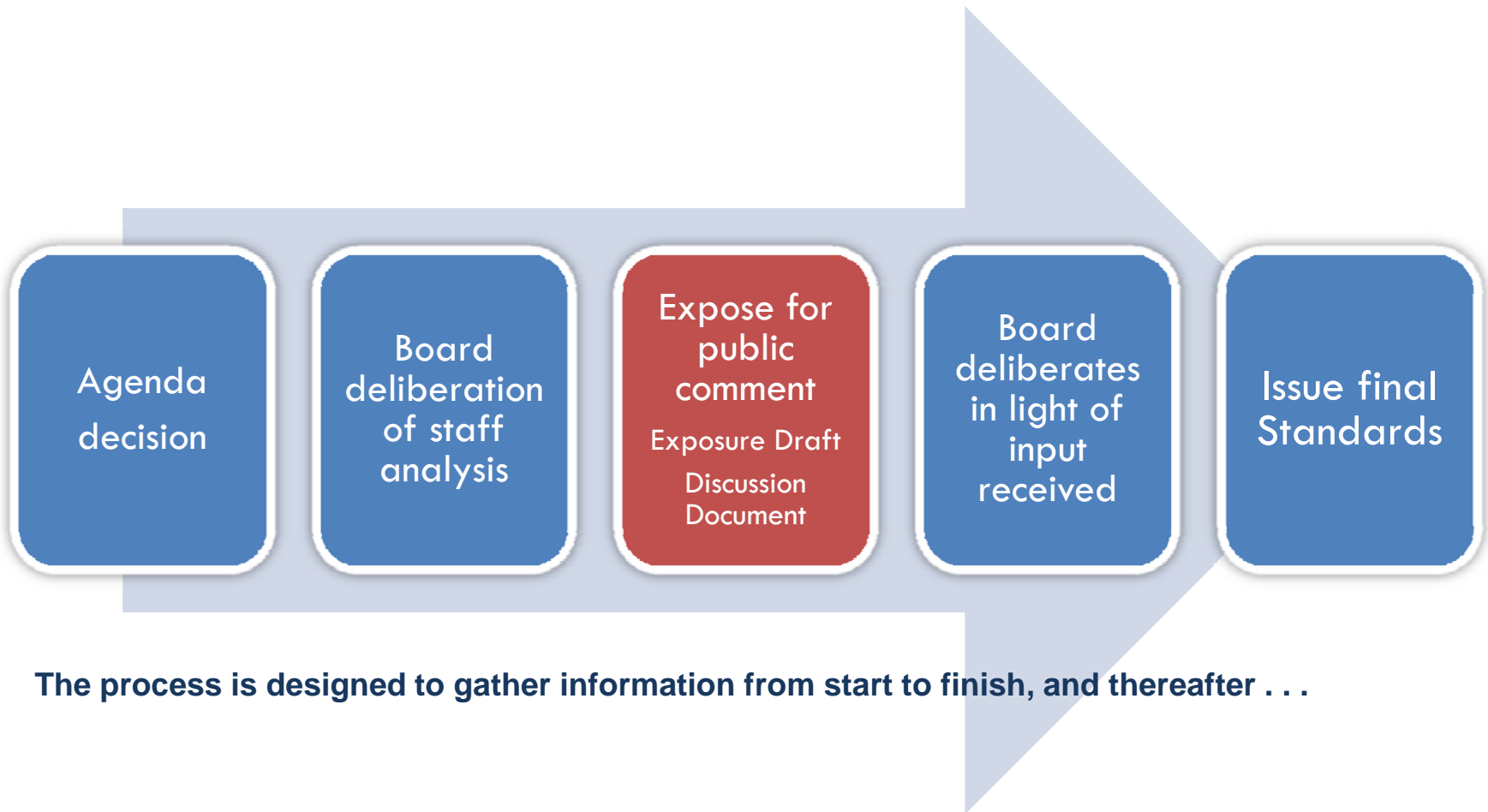
4

- Financial statements
 - FASB and SEC-issued standards determine form and content
- Annual report
 - Financial statements
 - Other information such as letters from management, MD&A, various voluntarily provided metrics, both financial and non-financial
- SEC-required filings (10K, 10Q, 8K, and so forth)
 - Financial statements
 - Other information as required by various SEC rules, such as management's discussion and analysis, information about the company, risk disclosures, etc.

Observation: Financial statements are only one type of information reported to shareholders and other users. There inherent limits on the type of information that can be reported in financial statements. Many believe financial statements cannot effectively capture the value drivers of a business; they strongly advocate the development and reporting of nonfinancial metrics (e.g., market share, products sold less than two years old, quality measures)

Standards-Setting: High Level Overview

5



The process is designed to gather information from start to finish, and thereafter . . .

Agenda Decisions

6

Agenda decisions are essentially resource allocation decisions. There are many, many worthwhile financial reporting improvement opportunities. The following factors are used to evaluate each potential project and weigh the relative merits of the various different proposals.

- Pervasiveness of the issue (how significant is it from a user, preparer, or auditor perspective?)
- Alternative solutions (are there alternative ways of meeting the information need?)
- Technical feasibility (how likely is it that we can develop an improved financial statement solution? Are there other projects that should be completed first?)
- Practical consequences
- Convergence opportunities (is this an opportunity to eliminate differences with IFRS, improve reporting internationally?)
- Resources (do the Board and staff have adequate time and resources to address the issue?)

Agenda Proposals

7

Anyone can submit an agenda proposal to the FASB for consideration. In doing so, they should explain:

- The nature of the issue and why they think the Board should take on a project to address it (how pervasive is it)
- How financial reporting should be changed to improve reporting (including conceptual and practical issues)
- Convergence considerations (whether this is an issue that should be address globally or in a US-reporting context only)
- Given the FASB's emphasis on the information needs of users, any available information about the importance of the issue to users and the value of the proposed reporting solution to users.

General Operating Matters

- Accounting standards are a judgment; those judgments are made exclusively by the 5-member FASB after extensive consultation and deliberation. A majority of the 5-member Board must approve a new standard.
- The FASB can, and sometimes will, commission other organizations to undertake research work on selected issues.
- The FASB encourages and welcomes research work undertaken voluntarily by others.
 - ▣ Financial Accounting Standards Research Initiative (FASRI)
 - ▣ National Standards Setters of other countries

Intangible Assets Accounting

– Some Recent History

9

- 1990s -- “New Economy”
 - Some criticized the accounting model as “outdated”
 - Fails to capture the most important assets of a business, the real “value-drivers”
 - (The significant difference between market caps and book values must be explained by these valuable and unreported assets)
 - Some advocated the required reporting of “KPIs” instead of traditional accounting measures
- Intangible asset initiatives
 - Business Combination Accounting (accounting for the purchase of one company by another)—some improved transparency
 - FASB Project to Improve Disclosures about Intangible Assets—initiative abandoned
 - 2007 intangible asset agenda proposal submitted by AASB—project not added, but research project encouraged
- Intangible asset accounting – why change is hard
 - Companies argue that it is very hard to reliably measure intangible assets and its expensive to do so (need to hire valuation experts)
 - Lack of sufficiently broad-based Investor interest/support
 - Cost-based information isn’t relevant, value information is feared (another step on the road to a fair value balance sheet)
 - More important to fix other aspects of financial reporting (off-balance sheet reporting, financial instrument accounting)

For MASB Consideration

What are the various ways of communicating marketing information, and how do they compare in terms of effectiveness, practicality, and cost?

- “Conventional” accounting methods (do marketing efforts create assets that should be reported on balance sheets)
- Disclosures in notes to financial statements (are existing disclosure as robust/informative/effective as possible?)
- Financial or Non-financial performance metrics (would the results of marketing efforts be better captured and monitored using KPIs? Could MASB develop standards for measuring those KPIs?)
- Qualitative/descriptive disclosures outside financial statements (should the SEC require enhanced disclosures in company information, MD&A, or in other ways?)



11

Questions and Answers