FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
November 15-16, 2006
Room 7C13
441 G Street NW
Washington, DC 20548

Wednesday, November 15, 2006

Administrative Matters

- **Attendance**

The following members were present throughout the meeting: Chairman Mosso, Messrs. Allen, Dacey, Farrell, Patton, Schumacher and Ms. Cohen. Mr. Marron attended Wednesday afternoon, November 15th and Thursday morning, November 16th. During Mr. Marron's absences, he was represented by Mr. Torregrosa. Mr. Werfel attended portions of Wednesday and Thursday afternoons. During Mr. Werfel's absences, he was represented by Ms. Hug. Mr. Reid was represented by Mr. Bell. The executive director, Ms. Comes, and general counsel, Mr. Jacobson, were also present throughout the meeting.

- **Approval of Minutes**

The minutes of the prior meeting were approved electronically in advance of the meeting.

Agenda Topics

- **Educational Session regarding Conflict of Interest Policies Applicable to Non-federal Members**

Mr. Jacobson provided an overview of ethics requirements for the non-federal members.

- **Items Held for Remanufacture**

U.S. Coast Guard comments

Staff distributed comments from the U.S. Coast Guard (USCG) that were received subsequent to the distribution of the briefing materials for the November Board meeting. Staff noted that the revised draft included a change prompted by the USCG comment that the exposure draft implied that for Operating Materials and Supplies (OM&S), only the historical cost method was acceptable. The revised draft made it clear that the allowance and direct methods were also acceptable valuation methods.

DoD and Other Comments Received:

Based upon comments received, staff recommended changes that addressed the need for judgment by management in determining a reasonable, consistent and cost-effective manner to classify processes for “repair” or “remanufacture.”

Staff also drafted language stating that the Interpretation is not intended to address the asset classification of spare parts for internal use (which are currently classified as Property, Plant and Equipment (PP&E) or as OM&S).

Usefulness of Interpretation

Mr. Farrell asked if an Interpretation would be sufficiently useful to DoD and other agencies. Staff replied that the Interpretation would clarify that: (1) Inventory Held for Remanufacture could reasonably be valued using the historical cost method, in addition to the allowance and direct methods, and (2) that the valuation methods allowed for Inventory could reasonably be applied to Operating Materials and Supplies.

Mr. Farrell asked if the DoD representative agreed with the Interpretation. The DoD representative at the meeting said that he agreed with the capitalization of repair costs, and understood that the controversy over whether spare parts should be categorized as PP&E and/or OM&S would need to be addressed in a separate project, because an Interpretation cannot set new standards.

Mr. Werfel and Mr. Farrell expressed concern about whether the proposed disclaimer language was enough to satisfy the concerns expressed in the DoD's comment letter. Staff agreed to further discuss the issue with the DoD's representative and noted that there were other interested parties, such as the U.S. Coast Guard, that wished to further discuss this issue with staff.

> **Conclusion**: Staff will confirm whether the revised draft sufficiently addresses the concerns of the DoD and the USCG. Once confirmed, staff will prepare a pre-ballot draft for review and circulate it to members.

- **Natural Resources**

Staff presented two papers to be discussed by the Board. One was a revised draft of an Exposure Draft (ED) entitled *Accounting for Federal Oil and Gas Resources.* The other was a discussion paper on Minerals Management Service (MMS) payments of royalty revenue to others. Staff explained the objectives for the meeting were to:

a. Review and discuss the draft ED.

b. Gain feedback from the Board on the existing ED.

c. Provide members with an understanding of the nature of the obligation to distribute royalties to others.

d. Determine whether the board would prefer to address the potential liability in the current draft ED on oil and gas resources or separately.

<u>Exposure Draft Discussions</u>

Staff summarized the major changes that were made to the ED based on comments from the last time the Board had reviewed and discussed it. The changes made include the following:

a. The value of natural gas plant liquids (NGPLs) were now proposed to be calculated separately from oil and lease condensate. In previous versions of the ED, it was proposed that NGPLs would be included in the calculation and valuation of oil and lease condensate.

b. Throughout the document, the terminology "proved oil and gas reserves" was replaced with the terminology "proved oil and lease condensate, natural gas plant liquids (NGPLs), and gas reserves" due to the decision to identify and calculate the value of estimated petroleum royalties for NGPLs separately from oil and lease condensate.

c. The pro forma transactions, the pro forma financial statements, and the illustrative disclosure and RSI presentations were revised due to the decision to identify and calculate the value of estimated petroleum royalties separately for NGPLs.

d. A clarification was made to use the "dry" gas price when calculating the value of estimated petroleum royalties for gas.

e. The terminology describing the Board's proposed method of measuring recoverable reserves was rephrased to indicate that the Board's proposal for measuring recoverable reserves was "to use a single best estimate."

Mr. Torregrosa suggested that, because reviewers of the ED may not be familiar with NGPLs, they should be defined and that examples be provided in the footnotes when NGPLs are discussed for the first time in the ED. Board members did not object to his suggestion.

Mr. Allen noted that the alternative view is presented at the end of the Basis for Conclusions (BfC) in the ED. He asked if the alternative view should be a part of the proposed standards or possibly presented somewhere earlier in the ED. Mr. Allen said in the Preliminary Views document for social insurance the alternative view was presented in the proposed accounting standards section of the document. Mr. Allen suggested there be a standardization or agreement for the placement of an alternative view in documents.

Ms. Comes, the Executive Director, said she had reviewed what the FASAB practices have been with respect to alternative views. She explained that what FASAB has done in the past was to have the Request for Comments call attention to an alternative view by having a specific question relating to the alternative view. In addition, she said the alternative view was always presented as the last portion of the BfC. She also noted that the FASAB press releases generally call attention to the fact that there is an alternative view. Ms. Comes suggested that the transmittal letter be revised to indicate that the ED has an alternative view. She also said that the question in the Request for Comments will be reviewed to ensure it clearly states it is a question relating to an alternative view and to ensure there is a reference to paragraph numbers where the alternative view is presented. In addition, she suggested that a reference to the alternative view be included in the Executive Summary of the document. For example, where the Executive Summary for the oil and gas ED describes the valuation of estimated petroleum royalties, indicate that one Board member has an alternative view relating to valuing estimated petroleum royalties and that the member proposes to use the fair value method.

Mr. Dacey suggested that the alternative view follow the proposed accounting standards section of the ED and before the Basis for Conclusions begins, or possibly to have the alternative view be a separate appendix. Ms Comes explained that the author of the alternative view may not always explain how the proposed standards would be altered by the proposed alternative view. She added that by presenting the alternative view at the end of the BfC it gives the author of the alternative view greater freedom in writing what they want. Ms. Comes again suggested that the transmittal letter, the question pertaining to the alternative view, and the Executive Summary be revised to call attention to the alternative view and to provide references to it in each of the three sections of the document. There were no objections.

Mr. Patton suggested the term “revenue” be changed to “collections” in paragraphs 2 and 17. Mr. Patton explained that he believes the collections described in those two paragraphs were prematurely being called revenue even before the recognition of an asset or the recognition of revenue was addressed in the document. There were no objections from other Board members. Staff indicated they would make the changes.

Mr. Allen noted that the proposed standards deal with the recognition of an asset or revenue at the component entity level. However, the proposed standards do not address these things at the government-wide level. He asked if it was a general rule in which everyone understands that everything from the component entities rolls up to the government-wide level. He added that there were some differences between the component entity and government-wide financial statements. For example, at the government-wide level, eliminations are taken into account. He suggested that a paragraph could possibly be added to address the government-wide level. Ms. Comes responded that she and staff will review other standards. She added, based on the review, staff would make changes to the proposed standards to make them consistent with existing standards.

Mr. Farrell asked if there was a way to disclose aging information about accounts receivable that were past due. Mr. Dacey suggested that the requirement to disclose aging information about past due receivables be done in a broader environment and not only for past due receivables for oil and gas collections. He added that the federal government has a number of challenges in relation to accounts receivable which could be addressed. For example, the Internal Revenue Service (IRS) has large outstanding accounts receivable. However, he did not believe the IRS was disclosing aging information about them. Board members agreed with Mr. Dacey’s suggestion.

Mr. Dacey and Mr. Schumacher asked if the funds collected and distributed to the states were considered to be a fiduciary activity. Ms. Comes responded that there were basically two types of collections that were distributed to the states. One type is the collections which come from activities on Federal land. By law a portion of the collections from activities on Federal land is distributed to the states and is not a fiduciary activity. The other type of collections is collections which come from activities on land owned by the states. Ms. Comes said she believes this type of collection would be a fiduciary activity. She added that staff will discuss this type of collection with representatives from the Department of the Interior.

Mr. Allen asked if the required supplementary information (RSI) for technically recoverable resources would include information about proved reserves. Staff responded that it would not include information for proved reserves. Mr. Allen suggested that the footnote pertaining to the RSI for technically recoverable resources be revised to clarify proved reserves are not a part of the information to be reported. Ms. Comes suggested that staff revise the footnote in conjunction with the terms used in Illustration 1, *Framework for Components of Federal Oil and Gas Resources*, which is presented in the proposed standards.

Mr. Allen asked if the words in paragraph 17 were repeated in paragraph 36. Staff responded that the two paragraphs were exactly the same. Staff explained that, while paragraph 17 provided the formulas to be used to calculate estimated petroleum royalties, it did not explain how the different calculations were to be made. The detailed explanation describing the calculations in the formulas were provided in the Valuation Guidance section of the document, i.e., paragraphs 36 through 44. Staff added, in transitioning to the detailed explanations of the formulas, the formulas were provided again so users of the document would not have to go back to paragraph 17 to review the formulas as they read the detailed explanations.

Mr. Allen noted in paragraphs 37 through 44 that each step of the formula is explained for each kind of asset. He said that, instead of explaining in detail the formula for each type of asset, couldn't it be stated there are three types of assets and to explain the formula which is used to calculate the value of each kind of asset only once. Mr. Allen commented that the ED was a large document and he was just trying to stream-line it. Staff explained the formula was repeated for each asset to ensure it was clear how the value of each asset should be calculated. Mr. Patton commented that, given the reactions the Board has had over time from different agencies trying to apply the standards, he believes the clarity will save resources in the long run. Mr. Mosso said he believes it helps to have the formula stated only once because if it is repeated the reader may think something has changed in the way the value of the asset is calculated. Mr. Patton stated repetition provides clarity. He added that because it is an ED, if reviewers complain about the repetitious paragraphs the Board can always revise them. The Board agreed to leave the paragraphs the way they are currently written.

Mr. Dacey asked Mr. Torregrosa if it was fair to say that the difference between the proposed standards and the alternative view is how reliable the estimated quantities are for other types of oil and gas resources besides proved reserves. Mr. Torregrosa explained that the difference is a trade-off between relevance and reliability. Estimates of proved reserves are more reliable than estimates of proved reserves plus unproved reserves plus possible reserves. However, it is CBO's position that estimates of proved reserves plus unproved reserves plus possible reserves are more relevant. He added that compared to the other Board members, the CBO believes more emphasis should be placed on the relevance of the estimates of oil and gas resources than on their reliability or accuracy.

Mr. Allen commented that he had asked staff to insert a question in the Request for Comments asking how people will use the regional information disclosed in the financial statements. Mr. Dacey agreed that this type of question should be added. He also suggested that some text should be added to the BfC addressing the concerns of providing information in the financial statements which may not be useful or beneficial to users of the financial statements. Mr. Mosso concurred and asked staff to insert a question addressing the regional disclosure information and to add text in the BfC addressing concerns regarding the proposed disclosures.

MMS Paper Discussions

Staff explained it was asked to develop a paper in regard to establishing a liability in conjunction with the recognition of an asset for the estimated petroleum royalties. Staff added that the objective of the discussions on the MMS paper was to determine whether the board would prefer to address the potential liability for payments of royalty revenue to others in the current draft ED on oil and gas resources or to address the potential liability separately. Staff provided a brief overview of the discussion paper on the MMS payments of royalty revenue to others. Staff explained changes to the pro forma transactions and resulting changes to the pro forma financial reports would be made to the ED if the Board decided to recognize the liability and wanted it incorporated into the existing oil and gas ED.

Mr. Allen stated that he believes the payments of royalty revenues to others is clearly a liability and is not a fiduciary activity. Mr. Allen asked staff if establishing a liability for the payments is the staff's recommendation. Staff explained that it did not make a formal recommendation in the paper. However, based on subsequent discussions regarding the paper with representatives from MMS and internal staff discussions, it would be staff's recommendation now.

Mr. Werfel asked staff to explain the difference in the amount of liabilities recognized on the two different balance sheets presented in the paper. Staff explained that the balance sheet with zero liabilities recognized is what was currently proposed in the ED. That is, recognition of a liability for the payments of royalty revenues to others was not proposed in the ED. The second balance sheet, which recognizes a liability amount, would be the result if the Board decided to establish a liability in conjunction with the recognition of an asset.

Board members agreed that a liability should be established for the obligation for payments of royalty revenue to others. Mr. Mosso asked staff to make the appropriate revisions to the ED incorporating the establishment of a liability.

> **Conclusion:** Staff will revise the draft ED based on decisions made during the Board meeting and present the ED for review and discussion at the January Board meeting.

Adjournment

The meeting adjourned at 4:00 PM.

Thursday, November 16, 2006

Agenda Topics

- **Administrative Matters**

Ms. Comes indicated that a change had been requested to the 2007 meeting calendar. She believes that December 5 and 6 is the best alternate date and asked members to let her know if they have conflicts. As a reminder, the revised date will be conveyed by e-mail after the meeting.

Ms. Comes was asked to relate the tentative decisions regarding social benefit obligations made at the recent International Public Sector Accounting Standards Board (IPSASB) meeting. The meeting also was attended by Tom Allen, Scott Bell and Robert Dacey. Ms. Comes explained that the IPASAB considered a draft exposure draft (ED) regarding accounting for social benefit obligations. One portion of the ED addressed cash transfers and included a rules based provision that would have resulted in recognition of a liability equivalent to the due and payable approach embodied in SFFAS 5. In attempting to craft principles-based provisions, many IPSASB members believed that such language would lead to recognition of a liability equivalent to amounts payable to current beneficiaries over their remaining life expectancy. IPSASB members concluded a phased approach was needed. Therefore, the IPSASB agreed that the ED would be silent with respect to recognition of liabilities arising from cash transfer programs. Disclosure of the amount that the entity has no realistic alternative but to settle as a result of satisfaction of the eligibility criteria would be required. Many IPSASB members indicated that the amount to be disclosed would be the amount payable to current recipients (those meeting the age requirements) from the reporting date through the recipients' remaining life.

Mr. Allen noted that the IPSASB also requested that staff include in the introductory material a full discussion of the challenges inherent in accounting for social benefit obligations worldwide. The text would explain that the IPSASB viewed the proposal as a first step regarding disclosure. Further steps may address recognition and sustainability reporting.

Mr. Dacey noted that at a prior IPSASB meeting many members had supported sustainability reporting. The majority viewed sustainability as a topic for another project and expressed support for sustainability in the context of the government as a whole rather than program by program (as our current Statement of Social Insurance does).

Mr. Allen indicated that the IPASAB's standard on non-exchange revenue was relevant as well. He did not have explicit language but recalled that the IPASAB expected to revise text related to contributory social benefit programs to allow for the possibility that some are exchange transactions.

Mr. Farrell commented that the discussion of the dire consequences of liability recognition reminded him of similar concerns regarding expensing of stock options. He noted that he had not heard of the dire consequences being realized in that case. Mr. Allen commented that the IPSASB had concerns about the "maturity of accrual accounting around the world" being a barrier to greater accruals.

Mr. Dacey noted that the group did not view programs such as Medicare as being similar to cash transfer programs such as Social Security. In the case of individual goods and services being provided, the IPSASB views the obligation as being to the service provider only after service is provided.

- **Fiduciary Activities**

Revised Timeline for Staff Implementation Guidance

Staff recommended that the draft timeline for the Staff Implementation Guidance (SIG) for reporting on Fiduciary Activities that was included in the November 2006 briefing memo should be modified to accommodate a Department of the Interior (DOI) request for more time to provide comments on the draft SIG, which is in a "Q&A" format. Staff said that, with Board approval, a revised timeline would be discussed with the DOI and the Office of Management and Budget. The revised timeline would allow an additional 4 to 6 weeks before issuing the SIG for public comment.

Letter to the Department of the Interior

Staff noted that the briefing materials included a letter that was sent to the Secretary of the Interior, signed by Messrs. Mosso, Dacey, Reid, and Werfel to meet an immediate need, as requested by the Department of the Interior, to clarify that the accrual accounting requirement for financial statement disclosure does not extend to other reports, such as the individual beneficiary statements.

Revisions to Draft Staff Implementation Guidance

Staff briefly reviewed each of the Q&A questions with recent revisions. The Board discussed editorial revisions to the description of materiality, with the understanding that agencies would have the opportunity to provide further comments on the document.

> **Conclusion:** Staff will discuss revised timeline with the Office of Management and Budget and with the Department of the Interior, and will retain the wording on materiality with editorial revisions. Mr. Dacey will discuss several other possible editorial revisions directly with staff.

- **Reporting Changes in Assumptions and Other Issues**

Staff presented the second iteration of an exposure draft (ED) on assumptions, discount rates, and other issues, re-titled *Reporting the Effect of Changes in Assumptions and Other Requirements for Accounting for Post-employment and Retirement Benefits*. Changes had been made to reflect the Board's decisions at its September meeting regarding display and the discount rate.

The Board discussed the scope of the proposed standard. Mr. Allen mentioned that the ED's scope paragraph (par. 5) stated that the standard applied to the programs the Board had been discussing – pensions, other retirement benefits, and other post-employment benefits. However, he preferred a general, default standard that would apply unless another standard provided otherwise.

Mr. Dacey said the common element in all the programs included in the proposed standard seemed to be discounted present value; therefore, that may be the common criteria. He added that he thought segregating those types of costs is a relevant issue, if they can be defined. He noted that typically a discounted present value model contains items like changes in assumptions, and in fact current financial reports disclose such items in tables in the notes. Mr. Dacey said he supported reporting them and his only concern is whether or not credit reform ought to be included, since it is a somewhat unique process where financial accounting mirrors budgetary accounting. However, he did not see why life insurance and other programs should not be subject to the standard.

The Board discussed the types of assumptions for which changes would be reported separately. Mr. Allen asked about the proposed standard's underlying principle regarding the things the Board wants to display separately and whether it was similar to the natural resources project that requires reserve revaluations to be identified separately.

Ms. Comes noted that, in the proposed natural resources standard, the gain/loss to be reported separately includes new leasing activity in addition to changes in assumptions. She added that current FASAB standards permit separate display on the statement of net cost (SNC) as "costs not assigned to programs." For example, the Energy Department displays changes in assumptions with respect to long-term environmental costs as costs not assigned to programs. She said the challenge is to write the rules that require separate display. She noted that the notion of broadening the scope of the display requirement would need further analysis to identify all the issues.

Chairman Mosso said the Board did not have enough information at this time to make a decision regarding display. He said the staff would provide more analysis on that issue. He asked the Board to consider expanding the scope of the discount rate application.

Mr. Torregrossa said a limited-scope standard with respect to the discount rate was all right, but that CBO might object to a broader standard if federal insurance programs or credit reform were included. He said the Treasury rate is not always the appropriate discount rate for programs that are subject to market risk.

Staff mentioned that the objective of the proposed standard is a risk-free rate that isolates the time value of money. Staff noted that, if the scope of the discount rate standard were expanded to make it a general, default standard, then an "unless otherwise provided' statement would have to be added.

Chairman Mosso asked staff to consider CBO's concern that in some cases additional risk factors might affect the choice of the discount rate.

Mr. Allen asked Mr. Torregrosa whether CBO was comfortable that the Treasury rate as specified in the proposed standard is the risk-free rate. Mr. Allen said he thought the objective is to provide a default rate so the Board does not have to specify it for each program. The rate would not be applied to everything but to certain circumstances where preparers would agree that the risk-free rate is applicable. He suggested that risks specific to a program would be dealt with in that program.

Mr. Torregrosa said CBO was comfortable that the proposed standard defines the risk-free rate but not with where it would be applied.

Chairman Mosso polled the members regarding their support for the proposed discount rate standard, especially regarding the expansion of the scope to make it a general, default standard and including an "unless otherwise provided" exception. All members agreed except for Mr. Torregrosa who said CBO might not support the standard depending on its effect on particular programs.

Chairman Mosso asked if the members were comfortable with the display standard, paragraphs 19-22.

Mr. Dacey asked whether the intent of the governmentwide display standard was to exclude gains/losses from changes in assumptions from total costs reported on the SNC in the Financial Report of the United States Government (FR).

Staff responded that the governmentwide display standard and pro forma example had been modified from the September ED iteration in response to a Treasury Department request in order to address differences between FR and component entity financial statements. The changes in assumptions line item now is shown on the FR's "statements of operations and changes in net position" instead of the FR's SNC.

Mr. Dacey said he supported a separate line item but is seriously concerned about excluding the gains/losses from FR's SNC's total cost line.

Staff said it would work with Treasury to address Mr. Dacey's concern.

Mr. Dacey also mentioned that the phrase “best available estimate” in the proposed standard was the same as used in the statement of social insurance (SOSI) standard, and that the phrase had caused some major issues in this the first year of an audited SOSI. For example, management might view an assumption as acceptable or reasonable or “best,” but arguably a better assumption could be developed with more time or effort. He asked what is meant by “best”? He noted that there is usually a range of acceptable assumptions management might choose. Questions arise regarding whether an assumption is the best, or what “best” means. He asked the staff to consider whether there is a way to clarify the meaning of “best estimate.”

> **Conclusion:** The proposed **discount rate standard** is approved in principle. The discount rate standard will be a general, default standard that will apply unless otherwise provided in another FASAB standard. The CBO might not support the standard depending on its effect on particular programs. Staff will explore the possibility of an exception regarding the discount rate in cases where the Treasury rate might not reflect the entity’s cost, for example, the PBGC. The text and illustrations in the proposed standard will be changed accordingly.
>
> Staff will provide more analysis regarding the effect of expanding the scope of the **display (and valuation date) standards**.
>
> Staff will work with Treasury to develop the **display** of total cost for the FR’s SNC.
>
> Staff will explore the possibility of clarifying the meaning of “best estimate.”

- **Conceptual Framework – The Financial Report**

Staff members have initiated Phase 3 of the Conceptual Framework Acceleration Plan. Phase 3 focuses on the financial report and its key components such as management’s discussion and analysis (MD&A), disclosures, required supplemental information (RSI) other than MD&A, and other accompanying information (OAI). During this phase, staff plans to develop a concepts statement that describes financial statements and states how the statements relate to achieving the financial reporting objectives. The concepts statement would also identify means of communicating information and provide guidance on when to use a particular means, such as when it is appropriate to use notes versus recognition on the face of the financial statements and how to report information not related to elements.

Staff presented an outline for the proposed concepts statement and noted that the outline would provide a framework for guiding the staff during the development of the statement. Staff plans to review the role and purpose of MD&A, financial statements, disclosures, and RSI other than MD&A and will research some key Board topics such as sustainability reporting and performance reporting. Staff informed the Board that the outline includes Required Supplementary Stewardship Information (RSSI) as a possible reporting method. The Board had initiated a project to review and reclassify information categorized as RSSI and, subsequently, the Board reclassified all elements of RSSI except stewardship investment information. As a result, stewardship investments information currently remains as the sole RSSI element.

Board members inquired whether staff plans to explore the possibility of new or enhanced financial statements during the project, and it was noted that the structure of the outline makes it appear that only the existing set of financial statements will be the product of staff's research. Staff clarified that identifying better ways to present information is a part of the project. Staff intends to review how well existing financial statements contribute to the financial reporting objectives and to identify financial reporting objectives not being addressed through statements. Thus, the modification of an existing statement or a new statement could be suggested during the project.

Staff plans to identify "means of communicating information" and describe when a means should be used. The means of communicating information refers to the components of the financial report (MD&A, financial statements, disclosure, RSI, and OAI) rather than the means of distributing (internet, printed document, etc.) the financial report, once it is completed. In addition, staff plans to review FASAB Statements of Federal Financial Accounting Standards and identify concepts relied upon but not incorporated in the concepts statements. Members believed that this would be a helpful approach.

Mr. Werfel noted that the proposed concept statement for this project would rescind Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, and expressed that the Office of Management and Budget (OMB) has an interest in providing agencies with guidance for determining when commercial GAAP is appropriate and what constitutes a component entity. Staff explained that the proposed concept statement would not rescind SFFAC 2 in its entirety. Instead, the proposed concept statement would replace a section of SFFAC 2 concerning Display. In addition, staff has initiated projects that concern the commercial GAAP and reporting entity topics.

Board members discussed the evolution of performance and accountability reports (PAR) and the role of the Board in enhancing the PARs' usefulness. Board members noted that the process of preparing financial statements and subjecting them to audit offers numerous benefits such as improved internal controls. While the Board has focused on ensuring that financial statements capture the appropriate elements, the Board has been monitoring the progress in presenting information in PARs and it was noted that many preparers are seeking guidance on how to improve the PARs to facilitate decision-making. A keen interest exists in linking the financial and performance information in the report.

Board members believed that the Board could begin to consider how to report performance information and this issue could be addressed as part of the Financial Report project. Chairman Mosso added that the staff's outline for a proposed concepts statement has an emerging issues section that indicates the topics that staff plans to consider during the project and the PARs and performance reporting were topics listed. Mr. Werfel acknowledged that the PARs and performance reporting were included in the topics to be considered, but noted that the issues need to be more focused. The OMB staff will work with FASAB staff to enhance the discussion.

Status of Sustainability Reporting

Staff discussed the status of the sustainability reporting project which will utilize a task force approach. Staff plans to finalize the list of task force members and provide the Board with a draft briefing package at the January 2007 Board meeting. The briefing package, which will provide the task force members with background information and discussion topics, will follow the outline recommended by staff and approved by the Board at the July 2006 Board meeting.

> **Conclusion:** Staff will incorporate Board comments and continue to develop the proposed concepts statement on the financial report.

- **Elements**

Ms. Wardlow presented two papers on issues related to the Elements Exposure Draft (ED). The first paper addressed whether consideration of the qualitative characteristics of information in financial reports should be required in determining whether an item meets the recognition criteria, as proposed by members with an alternative view in the ED. The ED position is that the qualitative characteristics are addressed in SFFAC 1, a reference to them is included in paragraph 1 of the ED, and to repeat the characteristics in the concepts statement is unnecessary and could be confusing. Ms. Wardlow reported that 12 respondents to the ED supported the ED position and 16 supported the alternative view. The reasons given were generally similar to those presented in the ED or the alternative view. However, some respondents who supported the ED position said that the qualitative characteristics established in SFFAC 1 apply to information in financial reports in general, and are not intended to apply to specific items or decisions. Also, some respondents who supported the alternative view appeared to believe that the qualitative characteristics would not apply to information generated in accordance with the Elements Concepts Statement. Mr. Dacey said that the alternative view did not intend to imply that the qualitative characteristics would not apply if they were not specifically mentioned in the Elements Concepts Statement. Rather, he thought that the proposed recognition criteria were insufficient without consideration of relevance, reliability and other qualitative characteristics and they should be mentioned in that context. Mr. Mosso said he thought the proposed recognition criteria were sufficient and appropriate.

The Board discussed the ED position and the alternative view, as well as suggestions made by members with the alternative view to amend the proposed Concepts Statement to require consideration of relevance, reliability, or all of the qualitative characteristics as part of recognition decisions. The suggestions were to add the requirement to paragraph 5, to paragraph 8, or to footnote 2, none of which received the general support of the Board. Mr. Mosso requested a vote on staff's recommendation that the Concepts Statement on Elements should not include a repeat of the qualitative characteristics or of their applicability to information in financial reports. All members except the three members who proposed the alternative view in the ED agreed with the staff recommendation.

The Board then considered a proposal by Ms. Comes that the words "qualitative characteristics" in paragraph 5 be printed in bold face type and explained in the glossary appended to the Concepts Statement, with a reference to or reproduction of paragraph 156 of SFFAC 1, which lists the qualitative characteristics. Also, the preamble to the Concepts Statement could be clarified or expanded to emphasize that this Concepts Statement is part of the Board's developing conceptual framework along with previously issued concepts statements, such as SFFAC 1 on financial reporting objectives and qualitative characteristics. There were no objections to Ms. Comes' proposal. The Board also agreed that the Basis for Conclusions to the final Concepts Statement would include the Board's reasons for not repeating the qualitative characteristics Concepts Statement or including a specific requirement to consider them when applying the recognition criteria.

The second paper presented by Ms. Wardlow addressed the applicability of current law when considering whether an item meets the definition of a liability. The ED position is that decisions concerning whether an item meets a definition should be based on existing conditions, including current law, because accounting and financial reporting are based on transactions or other events that have occurred. Members who expressed an alternative view in the ED believe that the government's power to modify the law to change or withdraw benefits related to non-exchange transactions could affect the existence of a present obligation and in some instances may preclude recognition of a liability. Ms. Wardlow reported that 19 respondents to the ED supported the ED position and 7 supported the alternative view. An additional five respondents partially supported each position or advocated note disclosure of both positions.

The Board discussed the two positions. Some members noted that the possibility or probability of a change in the law might be taken into account in measuring a liability and could be disclosed; however, it should not affect conclusions with respect to the existence of a liability. Mr. Jacobson noted that the alternative view refers to the government's power to change the law, rather than to the possibility or probability of change. Mr. Mosso requested a vote. All members except the three members who proposed the alternative view in the ED voted to retain the existing language in paragraph 44 of the ED, including the last sentence: "The government's power to change existing conditions does not preclude what otherwise would be a present obligation and recognized as a liability."

Ms. Comes presented a draft letter to the GASB in response to their suggestion that the chairmen, executive directors, and project staff meet to determine whether the Elements projects of the two Boards can be coordinated. FASAB members suggested some editorial changes but did not object to the letter.

Conclusion: Staff will add a reference to the qualitative characteristics of information in financial reports to the glossary in the Concepts Statement, with a reference to or reproduction of paragraph 156 of SFFAC 1, which lists the qualitative characteristics. Staff also will modify the preamble to the Concepts Statement to emphasize that the Concepts Statement is part of the Board's developing conceptual framework along with previously issued concepts statements, such as SFFAC 1 on financial reporting objectives and qualitative characteristics. The Basis for Conclusions to the final Concepts Statement would include the Board's reasons for not repeating the qualitative characteristics in the Statement itself or including a specific requirement to consider them when applying the recognition criteria. The Basis for Conclusions also would contain a brief discussion of the Board's reasoning in paragraph 44 concerning the applicability of current law when determining whether an item meets the definition of a liability. At the next meeting, staff will address the issue of whether probability should be specifically mentioned in the definitions and/or recognition criteria. Staff also will provide a list of the issues that remain to be discussed before drafting a final Concepts Statement on Elements.

- **Steering Committee Meeting**

The Steering Committee meeting was canceled.

Adjournment

The meeting adjourned at 2:20 PM. It was noted that the adjournment marked the conclusion of the final public meeting under Chairman Mosso's leadership. All present joined in a prolonged round of applause in recognition of his ten years of outstanding service to the profession.