

**FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD  
May 4 - 5, 2005  
Room 7C13  
441 G Street NW  
Washington, DC 20548**

*Wednesday, May 4, 2005*..... 1

**Administrative Matters** ..... 1

- Attendance ..... 1
- Approval of Minutes ..... 1
- Other Administrative Matters ..... 2

**Agenda Topics** ..... 2

- Social Insurance ..... 2
- Agenda Setting ..... 9
- Research into the Application of the Liability Definition ..... 10
- CFR Requirements Relief Project ..... 19
- Steering Committee Meeting ..... 22

**Adjournment** ..... 22

*Thursday, May 5, 2005* ..... 22

**Agenda Topics** ..... 22

- Fiduciary Activities ..... 22
- Stewardship Investments ..... 24

**Adjournment** ..... 25

***Wednesday, May 4, 2005***

**Administrative Matters**

- **Attendance**

The following members were present: Chairman Mosso, Messrs. Dacey, Farrell, Patton, Reid, Schumacher, Zavada, and Ms. Robinson. Ms. Cohen attended by phone.

The general counsel, Jeff Jacobson, and the executive director, Wendy Comes, were present.

- **Approval of Minutes**

The minutes for March were approved electronically before the meeting.

Draft Minutes on May 4 - 5, 2005

- **Other Administrative Matters**

Ms. Comes provided the calendar for 2006 and reminded members that the December 2005 meeting had been cancelled.

### **Agenda Topics**

- **Social Insurance**

**The staff presented three questions for the Board's consideration. The first question presented by staff is as follows:**

*Does the Board believe the draft language (pp. 5-6 of May memorandum) regarding program characteristics is a reasonable summary of the characteristics relevant to determining that a present obligation exists for Social Security in advance of the due and payable date?*

Mr. Reid said that the language was incomplete. He noted the language in the March staff memorandum about the participants' work in covered employment and the wages they earn therein determining the amount they and their employers pay and about how they and their employers reasonably expect and rely on the future benefits had been deleted. He said these concepts were significant. It separates Social Security from some other Government programs that involve eligibility.

Staff responded that this language described the building-up of an equitable interest and the staff was recommending that that argument be set aside. The members had struggled with language in the March Elements Projects memorandum regarding the failure to honor a present obligation resulting in such adverse social, political, or economic consequences for the entity that it may have no realistic alternative but to honor the obligation. The equitable notion is relevant only if the possibility that current law might be changed is relevant, and the staff was recommending that current law be considered dispositive.

Ms. Robinson said she would go in the opposite direction from Mr. Reid. For her the only characteristic that is important is eligibility. "Performance" as it is part of eligibility is one thing, but the language the staff was recommending regarding performance worried her because it talks about the way Social Security is administered as being part of the basis for conclusions.

Mr. Patton agreed with Ms. Robinson that eligibility is the key. One of the ways one becomes eligible is to do the things laid out in the law. Social Security is not a pension.

Mr. Dacey agreed with Ms. Robinson and Mr. Patton. He said eligibility should be the only determinant. His review of other programs supports this conclusion. The performance notion connotes an exchange and Social Security and Medicare are not

Draft Minutes on May 4 - 5, 2005

exchange transactions. He said “performance” is misleading because, if the liability is based on eligibility, then it is not based on whether or not someone contributes taxes or other payments. . He said he found it hard to draw a distinction for the purposes of liability determination based on whether the participant pays something or not.

Chairman Mosso said that in essence Mr. Dacey was relying on the exchange—non-exchange distinction. He was classifying Social Security and Medicare as non-exchange and therefore applying different criteria to it for liability recognition than he would to exchange transactions.

Mr. Dacey agreed that the Board had previously decided that an exchange was not necessary; but he said performance inherently gets to something that looks like an exchange, although perhaps it is not technically an exchange. He said that the Board’s conclusion would have to be applied broadly across Government and there will be other programs where performance is simply filing a form, i.e., not a substantive step. Eligibility is the key because that implies that the participant has done all that is necessary on the performance side.

Mr. Farrell said that, for other programs where performance is simply filing a form, the Government would not know it has a liability until someone comes forth and claims the benefit. Conversely, with Social Security the participants are identified and future benefits are calculable. He saw a difference, for example, in the food stamp program even though an estimate of future benefits would be calculable.

Chariman Mosso said that the accruing of benefits was what differentiated Social Security from some other programs.

Ms. Robinson asked whether the Board agreed that Social Security was different. She said there are other programs that have conditionality. She noted that some Agriculture Department programs require performance well in advance of the benefit, and sometimes one makes payments, e.g., crop insurance. She said Social Security is not different from other Government programs.

Ms. Cohen said that Social Security is different than programs like food stamps or some other programs where one simply shows up and claims the benefit. She did not want to lose sight of the fact that, if one needs to work, which most people do, paying Social Security tax is not optional; or that, while Social Security taxes have the characteristics of an ordinary tax, the way the program is constituted it is not an ordinary tax and it is not so presented to participants in the labor force. She said it was hard for her to view Social Security as not different.

Mr. Dacey asked whether the differences that the members had been discussing were substantive. He noted that both Social Security and Medicare Hospital Insurance involve “threshold eligibility” that extends for the rest of the participants’ lives. Some of the other programs involve more frequent eligibility requirements. He did not view that

as a substantive difference but rather as a different characteristic of the program. It would not be a factor in determining whether there is a liability but rather in deciding how much to accrue, how long a period to accrue for.

Mr. Reid said that some of these characteristics help him to think about the costs. Social Security is a program where the liability is incremented gradually, which he considers the asset-liability view. If he were to take the other view, the flow view, then he would ask: What is the cost in 2005, both paid out in cash and accrued. For this he would need to know more than cash outlays. The participants continue to earn benefits and increment last year's obligation by an annual portion that needs to be recognized in the year in which it was earned. Such costs become more significant when one attempts to calculate the cost in 2005 of all the Government programs. He noted the Board would be addressing where to put the offset to cost in a double-entry accounting system, whether the offset would be a liability or something else. But he said that from the flow standpoint – which tends not to be focused on –the current costs are not accurate.

Mr. Patton said that if there were a fundamental split on the Board regarding the basis for concluding that the liability definition is met at “threshold eligibility,” then it ought to be reflected in the Basis for Conclusions, particularly in the exposure draft stage.

Ms. Robinson asked whether these characteristics are necessary. Eligibility is the key and sufficient by itself. She worries that other people are saying, “Yeah, but I really need this other one, too, in order to record Social Security.” She sees that as a mixed signal.

Mr. Reid said the other characteristics provide the necessary context for the liability. Eligibility may be the key characteristic but the full context is also necessary.

Mr. Dacey said that the Board seemed to be saying that the essential characteristics for Social Security and all social insurance might not be a factor for programs other than social insurance. He had difficulty carving out a position for social insurance that would not be applied broadly to other types of benefit programs. He said if a characteristic is essential, it should be so for all benefit programs. He said he viewed benefit programs in a broad spectrum of non-exchange programs and would like to see a consistent theme. He added that there is something unique about benefit programs as opposed to typical exchange programs for which the Board normally does not have conceptual differences. He said he was looking for a common thread across benefit programs including those for which the participants do not pay taxes. Chairman Mosso noted that the liability definition would apply across the whole Government.

Mr. Reid said he had thought that the Social Insurance Project was looking for specifics with respect to these five programs, almost in standalone fashion, in light of the liability definition; or, possibly even use it to form the liability definition. He said that at present he sees the Board substituting the word “liability project” for social insurance. He didn't

Draft Minutes on May 4 - 5, 2005

think that's what the Board agreed to do. Mr. Dacey said he agreed with Mr. Reid's description of the plan.

Chairman Mosso said the liability project was separate but that the idea was to try to reach a definition of liability that would apply to all programs, including social insurance. He said Ms. Wardlow was working on that.

Ms. Robinson said the Board had been focusing on performance. She asked what performance meant in the Government context.

Ms. Comes noted that there was some confusion between the word "perform" and meeting eligibility conditions. She noted that in March the project on "Applying the Liability Definition" had presented a general definition of "perform" from the dictionary and it simply means to meet conditions. Conditions can be met passively by being born in the United States or being a citizen of the United States. So there can be some confusion in that some people emphasize more active performance by working. The staff intends to rely on the definition of "perform" as "meeting conditions."

Mr. Zavada asked if, in that case, performance meant eligibility. Ms. Comes said performance was linked to eligibility. There are events in the period, including meeting conditions, which cause future payments. For example, if the Government had a program that gave every child born in 2005 \$5,000 for college, then birth in 2005 would be the event that caused a payment. For Social Security, conditions are being met as work is performed in covered employment.

Mr. Reid said that perhaps the concept of eligibility could be broadened to include the notion that the conditions for eligibility can be met over time. It would therefore cover the spectrum of programs. He wanted to expand on the notion that meeting conditions can affect liability and cost recognition to include the earning notion. He would want to know how much of the benefit the participant has earned when he or she becomes eligible? For some programs the participant has not earned anything. For Social Security the participant has met the conditions for eligibility, payment will be due at some point in the future, and the Government has recorded zero costs. He said that helps differentiate the programs when you get to the measurement step. He said the notion of eligibility should be broad enough to cover everything and be clear that it does not mean just meeting the technical statutory language. Ms. Cohen strongly agreed with Mr. Reid.

Mr. Patton asked whether the point was that "performance" is one part of achieving eligibility. Mr. Reid said that for Social Security – the Board is going to say that eligibility is the essential criteria – one of the things the participant has to do to be eligible is to achieve the 40 quarters. Mr. Patton agreed, saying that that formulation promoted eligibility to where he thinks it belongs.

Chairman Mosso asked for a staff response. Staff said the language regarding program characteristics could be written to reflect the Board's position. Staff noted

Draft Minutes on May 4 - 5, 2005

there is still the question of when the liability definition is met. One could still say that the liability definition is met as the participants are achieving eligibility, in conjunction with 40 quarters.

Chairman Mosso questioned whether the eligibility notion alone would be sufficient. The participants are still not eligible for a payment at 40 quarters and some might argue for cash based accounting, which is the current standard.

**The second question presented by staff is as follows:**

*After reviewing Section II of the staff memorandum ("Threshold Eligibility as the Obligating Event," pp. 6-10), does the Board wish to discuss beginning work in covered employment as the obligating event?*

Staff explained that at the meeting in March the Board considered three obligating events for Social Security: (1) full eligibility, (2) "threshold eligibility," and (3) beginning work in covered employment and a majority favored "threshold eligibility." The majority of the Board favored the "threshold eligibility" obligating event for Social Security.

Staff noted that "threshold eligibility" is a notion similar to vesting. Staff noted the debate in the private sector and state and local governments about whether vesting provisions should be factored into pension accounting. Some have argued that only vested benefits qualify as liabilities, but that view has been rejected by both FASB and GASB. The staff concluded by saying that staff wanted to be sure the Board has had an opportunity to fully discuss this issue.

Mr. Dacey said he had a related point. The Board meeting materials, when discussing liabilities used the word "recognized" in terms of recognizing expense. He envisioned that once it got to the definition of a liability the Board would consider the criteria for recognizing and measuring a liability. He said he was concerned that the Board was moving ahead with the project without explicitly addressing those concepts.

The Chairman noted that Ms. Wardlow will be presenting these issues in June.

Mr. Reid said he was perplexed. If eligibility is the critical factor, then this issue is moot. Staff explained that the "beginning of work in covered employment" obligating event could be considered beginning to achieve eligibility and thus a past event for the purpose of meeting the liability definition. Mr. Reid said the Board had said in the earlier discussion that the participant had to meet all the eligibility requirements, one of which is 40 quarters. Chairman Mosso said one of which is working in covered employment. Mr. Dacey said the question was open.

Ms. Comes noted that federal pensions recorded cost and liability prior to vesting. Mr. Schumacher asked if participants are really vesting in Social Security. He noted that if they do not achieve 40 quarters they do not get anything. Mr. Reid added that the participant is either in or out. Ms. Robinson said that was also true for federal pensions.

Draft Minutes on May 4 - 5, 2005

Mr. Farrell said the majority of the Board liked 40 quarters but had never really said why it does not like “beginning of work in covered employment.” He thought the issue was one of measurement.

Mr. Dacey said the issues of definition, recognition and measurement are inter-related and could be developed at the next meeting. Chairman Mosso noted that Ms. Wardlow’s June paper will address some of these points, including terminology such as “required to settle.” He said that measurability is likely a recognition criterion if not the most important one.

Ms. Robinson said the OASDI is complicated, too, because of the DI component, which has not been discussed. The threshold is different for DI and for OASI. Staff explained that the requirements for DI were similar to OASI.

Chairman Mosso said Social Security and Medicare are “social insurance.” In a sense the participants are paying their premiums as they work.

Staff suggested postponing this discussion until the measurement phase. The staff asked for and the Board confirmed that it had not precluded the conclusion that the liability definition was met as the participants begin achieving eligibility, i.e., when they begin working in covered employment.

Mr. Patton said that if the Board was going to retain the notion that one could become eligible in chunks over time and allow for some sort of accrual, he wanted to add the possibility that the participants achieve eligibility only when all criteria are met, which would include reaching age 62. He said the votes regarding the obligating event showed there was support for other obligating events than “threshold eligibility.” He said that if “beginning of work” was going to be included in the analysis, then he would like to re-introduce “full eligibility” of reaching age 62 into the analysis because, for one thing, GASB seems to be going to the “all eligibility requirements” being met. The Board’s analysis of obligating event alternatives should explain why some were rejected. He said he would appreciate in the next version an inclusion of why reaching age 62 is not part of reaching eligibility.

**The third question presented by staff is as follows:**

*In Section III of the staff memorandum (“Applying Threshold Eligibility to Medicare,” pp. 11-14) the staff concludes that the “threshold eligibility” obligating event is applicable to Medicare Hospital Insurance and that the obligating event for Supplemental Medical Insurance should be the point when the participant decides to enroll. Does the Board agree?*

Staff noted that in some ways Medicare is similar to Social Security and in others ways it is not. The staff mentioned that Medicare was similar to OPEB and noted the differences between HI and SMI.

Draft Minutes on May 4 - 5, 2005

Ms. Robinson noted that the “take up rate” for SMI is very high because it is so heavily subsidized. Also, most private retiree health coverage requires employees to sign up for Medicare. She said SMI is an insurance program because participants are paying premiums; but it is not an insurance program in the sense that the premiums do not cover the cost. Premiums cover about 25 percent of the cost and the General Fund covers 75 percent. She concluded that the analogy to insurance, for her, fails on those two points. She added that she was not sure that the point at which benefits are paid is important for the Government-wide liability. She added that different recognition points for different elements of programs would be difficult for analysts to explain.

Mr. Schumacher said the employee retirement benefit programs that he was familiar with are subsidized by employers and he views the Medicare subsidy as similar to this. Thus, for him the insurance analogy was appropriate.

Mr. Farrell said the form was insurance but the substance was not. He said Medicare was like Social Security. The participant pays in a little bit of money and gets a lot more back. Regarding the analogy to a private companies’ OPEB, a company pays a third party provider who is setting a rate based on cost and profit. He did not think there is a third party provider with Medicare; he believes it is wholly governmental.

Mr. Reid said the thing that resonated with him about the insurance analogy is that there are individual events and single claims that are settled. Pensions on the other hand are a series of payments that continue as long as the participant lives.

Chairman Mosso said the insurance model was useful regarding many of these programs, particularly those being examined in the “Application of the Liability Definition” project. It is a contingency or an option model where you are accounting for uncertain events. Even in the absence of a premium he found this aspect of insurance accounting very helpful.

Mr. Patton asked whether the insurance model was compatible with what the Board has termed eligibility. Mr. Dacey said he thought they were. In his view the insurance model was applicable to Medicare. The monthly premiums are an eligibility requirement. Mr. Patton asked whether becoming sick was an eligibility requirement.

Mr. Reid said the SMI program appeared to be self-contained within a year. You have premiums that are paid, you have claims that are filed, and next year you have different events. With Social Security and the HI program you have 40 years worth of collections before you have cost with respect to an individual participant.

Chairman Mosso said that private insurers require participants to enroll in Medicare. That should be a factor in whether or not you have an obligation, and certainly a factor in measurement.

Mr. Dacey said with respect to the analogy with insurance that SMI is an optional program. Even though there is a high take up rate, one can elect not to take it. There are people who do not choose to take it and others who fail to keep up the premium and are dropped. Thus, there is an aspect of choice.



Draft Minutes on May 4 - 5, 2005

The Board did not object to the staff position that the “threshold eligibility” obligating event is applicable to Medicare Hospital Insurance and that the obligating event for Supplemental Medical Insurance is the point when the participant decides to enroll.

Chairman Mosso said he would like to reserve judgment on SMI. He said the Government has written an option with respect to SMI, is committed in advance, and options have value. He would like to think about recognition before enrollment. Otherwise he did not object.

## CONCLUSION

The staff will continue drafting language for a basis of conclusions about social insurance program characteristics. The language will reflect the Board’s position regarding eligibility and achieving eligibility as developed at the May meeting. The staff will explain why the “threshold eligibility” (40 quarters or equivalent) alternative is preferred and why “full eligibility” is not.

The Board did not object to the staff position that the Social Security “threshold eligibility” obligating event (i.e., 40 quarters of work in covered employment) is applicable to Medicare Hospital Insurance and that the obligating event for Supplemental Medical Insurance is the point when the participant decides to enroll. This is a tentative decision and could well be affected by future work.

The staff will continue developing measurement alternatives and display concepts.

The staff will update the Social Insurance Project Plan and propose an exposure document.

- **Agenda Setting**

The Board considered a draft invitation to comment on agenda setting. One potential project was discussed at length - conceptual framework acceleration. Some members suggested that the most important issue embodied in the project was how to enhance the reporting model with respect to reporting broadly on the issue of sustainability. The Board agreed that the invitation to comment should be modified to directly solicit comments on accelerating sustainability reporting issues and options.

CONCLUSION – Staff will revise the draft invitation to comment and circulate it for Board member comments as soon as possible.

The Board adjourned for lunch at 12:00 PM.

- **Research into the Application of the Liability Definition**

Ms. Ranagan summarized the events of the March meeting, reminding the board that the paper presented in March provided a discussion of alternative obligating events for the Supplemental Security Income (SSI) program. At that time, the board had discussed staff's recommendation of the point of eligibility determination as being a valid alternative obligating event, but deferred making any decisions until work on the liability definition project had progressed further. Ms. Ranagan indicated that she had been asked by the board to review and analyze one or two additional programs in order to give the board additional points of reference as they develop the liability definition. Ms. Ranagan indicated that she chose two farm support programs in response to suggestions from two board members, one that specifically recommended farm support programs and another that suggested that staff select a program that was more performance-based than SSI. Ms. Ranagan stated that she structured her analysis around the March discussion of the liability definition where several members were more comfortable with "casting a wide net" and capturing more programs in the definition phase that may be weeded out in the recognition and measurement phase.

Ms. Ranagan stated that she selected the Milk Income Loss Contract (MILC) program and the Feed Grains Direct and Counter-Cyclical Payment (DCP) program, two programs under the Farm Service Agency (FSA). Ms. Ranagan then briefly highlighted the two programs. The MILC Program financially compensates dairy producers when domestic milk prices fall below a specified level in two ways: (1) transition period payments – these are lump sum payments that are made once the producer signs the contract and cover the eligibility period from December 1, 2001 through the date the producer signs the contract, and (2) monthly contract payments – these are payments that are made each month when the Boston Class I Milk price falls below \$16.94 per hundredweight (cwt) and cover the period from when the producer signs the contract through September 30, 2005. The Feed Grains DCP program reduces financial risks and helps producers meet their cash flow needs in two ways: (1) direct payments – these are payments that are made based on a formula and payment rates set by the 2002 Farm Act and the historical base acres and payment yields established for the farm (based on plantings in crop years 1998 through 2002), regardless of market price, and (2) counter-cyclical payments – these are payments that are made when the effective price of the covered commodities falls below the target price set by the 2002 Farm Act and are based on a formula and the historical base acres and payment yield established for the farm. Ms. Ranagan pointed out that, unlike the MILC program, the producers under the DCP program do not have to actually produce anything to receive payments.

Ms. Ranagan noted that her analysis highlighted two of the objectives of financial reporting: operating performance and stewardship. She also included the three FASB characteristics of a liability as well as the two draft FASAB characteristics discussed by the Board at the March meeting. In addition, she included the staff discussion of a present obligation from the social insurance memo for the May meeting.

Draft Minutes on May 4 - 5, 2005

Ms. Ranagan noted the life cycle events of the MILC program presented on pages 5 and 6 of the staff paper, the discussion of alternative obligating events presented on pages 7 through 20, and the staff recommendation on page 21 that the submission of the MILC and documentation of supporting requirements be considered the obligating event for the MILC program.

Mr. Schumacher said he sees no “downside” to the program and questioned whether any milk producer would not sign up. Ms. Robinson said she thinks they all would. Ms. Ranagan said that one could consider it to be “free money” and she would imagine that most producers do sign up; however, at this time, the figures are not available from FSA to determine what percentage has actually applied.

Mr. Schumacher asked why a producer might wait to select a payment start month. Ms. Ranagan explained that large producers that will produce more than the cap of 2.4 million pounds per year might try to pick a month when the anticipated payment rate was higher in order to receive more payout per pound. It would not be advantageous for a smaller producer to wait for a later month if they do not expect to produce 2.4 million pounds during the year.

Ms. Robinson pointed out that the CCC language that staff included in the section on appropriations for both the MILC program and the Feed Grains DCP program implies that the CCC appropriation language provides budget authority for these two programs. She said she has talked a lot with USDA and her General Counsel and clarified that the CCC language allows a certain kind of transaction with Treasury and has nothing to do with the underlying budget authority for these two programs. She said there is no linkage between annual appropriations and these two programs.

Mr. Patton said the Boston Class I Milk price falling below \$16.94 per cwt is a critical event in creating the obligation on the part of the federal government because if the milk price never falls below \$16.94, no payment will ever be made.

Ms. Robinson asked if that would be a contingent liability. Mr. Mosso stated that is a contingent liability. Mr. Patton stated a contingent liability is not a liability, it is not recognized. Mr. Dacey said that it could be a contingent liability but not yet recognized.

Ms. Ranagan highlighted the excerpts from SFFAS 5 regarding contingent liabilities and the related staff discussion on pages 13 through 16. Ms. Ranagan noted that the MILC program could meet the criteria for a contingent liability but not meet the criteria to be recognized. She explained that, in preparing her analysis, she viewed the signing of the contract as the point in time where a type of risk is transferred, in that the government will take over if the price of milk falls below a certain amount and pay the producer based on the calculation that is set in law. She said the producer would probably be more likely to produce milk at times when the market price is low than they otherwise would without the government guarantee. She said that transfer of risk at the time the contract is signed would seem to have some sort of value that one could estimate. If it becomes too difficult to measure or too difficult to estimate, then it might not be

recognized, but she sees the contract as an event that has some sort of value to it, which may be \$0 if the market price never falls below \$16.94.

Mr. Patton said the role of the event in the contingency is to confirm the existence of an obligation that is already present but he feels there is no obligation present until the \$16.94 barrier is broken – the event of signing up does not create an obligating event.

Ms. Comes provided the example of loan guarantees, where none of the loans have defaulted at the point the guarantee is made, but an estimate of default is made for expected risk of the pool of guarantees.

Ms. Robinson noted that no one in the private sector gives money away like this and that is a fundamental difference between the government and the private sector. In the private sector, this program would be an insurance program and premiums would be charged. These premiums would then be reported on the private sector financial statements and show the transfer of value whereas, in government, that transfer of value is not recorded until the payment happens. She questioned when the government should be recording the transfer of value or risk.

Mr. Patton reiterated that he does not see an obligating event until the price falls below \$16.94. Mr. Mosso said, in his view, the government is obligated when it makes the guarantee. Mr. Farrell agreed but said that the obligation may not be measurable at that point. Mr. Patton said the guarantee obligates the government if something else down the road happens and that something else down the road is what creates the obligation. Mr. Mosso said the something else down the road is what creates the need to make a payment but the obligation starts when one enters the contract.

Mr. Schumacher said he believes the government should disclose in their financial statements that they have taken on an obligation should the price fall below \$16.94, but he tends to agree that the obligation the government took on occurred when the government made the program available and people signed up for the program, although that obligation may not be measurable until the price falls below \$16.94.

Mr. Patton said that the board keeps emphasizing current law and current circumstances and it seems to him that if the price of milk is \$20.00 when the individuals sign up, then there is no present obligation under current circumstances and existing law because nothing is owed. Ms. Robinson asked if part of current circumstances is not a volatile milk market? She said that is what the program was created to address.

Mr. Schumacher said that by creating the price guarantee, it seems to him that the government has created a potential obligation, depending on what happens to the price. Mr. Patton said a “potential” obligation is not a “present” obligation. Mr. Schumacher clarified that the government has created a “present obligation for a potential payment.”

Mr. Mosso said the obligation exists because you wrote the contract. For example, if you write a “put” option for a stock, you would have the obligation there to accept it when it is “put” to you. The obligation exists; it may or may not be exercised and it will be exercised if the price is favorable to the “puttee” and not if it is not.

Mr. Patton said, following the logic of what seems to be the majority of the board members, why isn't the passage of the bill authorizing the payments of the milk support enough to create a present obligation? Ms. Robinson said she was going to raise the same point. When you have a program that has such strong incentives to sign up for it and the government has no right to say that someone cannot sign up for the program, isn't the government obligated once it creates the program? She said it does not seem very voluntary once you pass the act setting the program up.

Ms. Ranagan said she has been approaching the liability with the view that there needs to be a second party to have a liability, as discussed in Ms. Wardlow's paper from the March meeting on liability definition.<sup>1</sup> Ms. Ranagan said the party does not need to be specifically identified but she feels that there needs to be some other party external to the government taking the first step towards accepting the conditions of the program, whether voluntarily or involuntarily (e.g., social security).

Mr. Patton said the members at the table seem to be willing to accept an actuarial probabilistic statement about the price going below \$16.94 so he thinks that the number of milk producers would be as actuarially predictable as the price of milk.

Mr. Dacey said the program is voluntary so the submission of the contract and documentation of supporting evidence would be a reasonable obligating event but he is not sure he would go back to the law unless members feel that you can measure how many people will apply, which he feels becomes more difficult and troublesome. However, he said he would select the acceptance of the contract as the obligating event if, at that point, there is some discretion on the part of the government to accept the contract and paperwork.

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<sup>1</sup> Paragraphs L9 through L11 of Penny Wardlow's February 17, 2005 memo presented at the March 2005 board meeting discuss the present obligation essential characteristic of a liability:

L9. For a present obligation to qualify as a liability, two separate entities must be involved, namely the federal entity that has the obligation and another federal or nonfederal entity (or entities) that is external to the obligated entity. Separate entities must be involved because the same entity cannot be both the recipient of settlement of a liability and the entity with the duty to settle. For example, a federal entity that operates machinery may have an obligation (duty or responsibility) to maintain it. However, the entity does not have a liability for maintenance; the entity cannot have a liability to itself. In contrast, if the entity contracts for maintenance from another entity, it may have a liability to that other entity for the price of the maintenance services it has received.

L10. It is important to distinguish between a present obligation, which may be a liability, and a future intent or commitment, which is not. For example, an entity may announce its intent to purchase assets in the future, or to provide financial assistance in the future to individuals that meet certain conditions. The announcement does not, of itself, create a present obligation. For a present obligation to be incurred requires the occurrence of an event that involves another entity, namely, in the examples, delivery of the purchased assets by the vendor or satisfaction of certain conditions by the potential recipients of financial assistance.

L11. Similarly, a federal entity may make general commitments by announcing future programs or the expansion of existing ones. Neither these commitments nor the subsequent establishment of the program or program expansion, by themselves, create present obligations, even if accompanied by proposed budgets. For a present obligation to exist, additional events must have occurred that involve the program beneficiaries, such as the qualification of specific program beneficiaries.

Draft Minutes on May 4 - 5, 2005

Ms. Robinson said the government cannot say no; acceptance of the contract is involuntary. She said the involuntary aspect seems important when you are looking for the critical event for the government.

Mr. Dacey said he may be viewing the liability from a measurement perspective, but he feels it is too early in the process to say that you have an obligating event with the creation of the law, even before an individual has stepped forward.

Ms. Robinson said that, from the government's point of view, there is a milk producer out there that can appear at your door at any moment and demand payment. Is that not a liability?

Mr. Dacey said that with respect to an insurance company, if people do not submit a claim, there is no present obligation. Therefore, even with an exchange transaction, people have to do something to receive the payment.

Mr. Schumacher said he looked at characteristic b – “under existing conditions, the federal government is required to settle the obligation at a specified or determinable date, when a specified event occurs, or on demand.” He said he felt that when the appropriation is approved, the government does not have a specified or determinable date and no one has demanded anything yet. Mr. Schumacher said he believes that the event occurs when the second party to the liability applies for the reimbursement.

Mr. Mosso said he was tilted in that direction too – that the agreement takes form when somebody has applied.

Mr. Schumacher said that if no one signed up for the program, there would not be an obligation, even though the money was appropriated.

Mr. Patton presented the case of unasserted claims where a company has done something illegal or breached a contract, for example. He said the company is supposed to measure the probability that the act will lead someone to submit a claim and win and then measure it at some dollar amount. He said the milk program could be very parallel to this. Mr. Patton said he would agree that there are measurement problems with this and you might not recognize it, but if you are going to go with the argument that there are actuarial probabilistic aspects related to the \$16.94, he does not see how one could stop before going all the way back to the start of the act that created the program.

Mr. Jacobson asked how Mr. Patton would view it if the act were passed before the effective date of when the program actually begins. Ms. Robinson said we could substitute the effective date of the law for the date the law was passed. Mr. Mosso said a case could be made for it.

Mr. Patton said his personal preference is to wait until the price falls below \$16.94 but he is trying to apply the logic that seems to be going around the table.

Draft Minutes on May 4 - 5, 2005

Mr. Mosso said the world seems to be going more and more towards recognizing the contingent things, starting with the Savings and Loans (S&L) where the S&Ls did not recognize the pre-payment option and the pre-payment option is what eventually put them under.

Mr. Patton said that would seem to expand the notion of liability quite a bit even if a lot of these things do not get recognized, that the effective date of a program creates the liability. Mr. Mosso said that is where some of the board members got to in March with the SSI program, thinking that the disabling event is the obligating event.

Mr. Dacey asked Mr. Patton if he thought one could conceptually have a liability but measure it at \$0 as opposed to some other amount. When the price falls below \$16.94, it would change the amount of the liability but not the basic liability to that party. Mr. Patton responded that, as a measurement issue, he does not have a problem with a \$0 liability – a liability of \$1.00 to be paid 100 years from now may be a liability but it rounds to \$0 – but conceptually he feels that the obligating event needs to have taken place.

Ms. Robinson said she thinks it comes down to what the board wants the objective of the financial statements to be. When you know the government is on the hook for an event that is highly likely to happen or is going to happen, do you want to quantify that and tell the taxpayer that or are you comfortable letting the events show up in the financial statements when they happen?

Mr. Patton responded that he thinks you either need to change the definition of a liability or create a new element for those things that are highly likely to happen but are not related to existing obligations. Mr. Mosso noted that the board currently does not have a final liability definition.

Ms. Robinson agreed that the board does not have a definition and said it is mind-bending when you are talking about paying someone 40 years from now for social security if they stay alive and hitting \$16.94 for the milk program – which is more likely to happen? She would say they are both equally likely.

Mr. Patton responded that he is in favor of waiting until someone turns 62 to record the liability for social security and waiting until \$16.94 to record the liability for the milk program. Ms. Robinson asked Mr. Patton to clarify if, once the price hit \$16.94, he would record the liability only for that month and not forever? Mr. Patton said he is focusing on the obligating event and believes that once the milk price hits below \$16.94, then it becomes the existing condition and would remain until the next qualifying event. Mr. Jacobson noted that would be the price set for the next month, and becomes like a due and payable. Ms. Ranagan clarified that \$16.94 is the due and payable point.

A brief discussion was held of the FASB Interpretation No. 45 (FIN 45), Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others, issued December 2002. It was noted that in requiring an estimate of loss for guarantees that are not probable, FIN 45 takes exception to the

Draft Minutes on May 4 - 5, 2005

general recognition of contingent liabilities in SFAS 5. Mr. Mosso noted that is consistent with what some of the board members are agreeing to with the milk program.

Mr. Fontenrose noted that GASB is taking a similar approach with its preliminary views (PV) on pollution remediation obligations where it is disregarding the SFAS 5 probability criteria and recording liabilities at an earlier date based on an analysis of future cash flows.

Mr. Mosso stated that the probable, possible, remote classification does not always work in practice and standard-setters seem to be getting away from that classification because, under such a classification system, the unrecognized items can always occur at a later date without any warning.

Ms. Comes said that staff could include copies of the FIN 45 and the GASB PV documents discussed at this meeting in the first distribution of the next binders with a cover sheet of applicability to the current project. Mr. Patton responded that would be helpful to him.

Mr. Farrell said it seems to him that the board is trying to get a definition that can be applied across programs. If we tried to apply the concept of eligibility from the social insurance liability project to this program, where would eligibility fit in? Mr. Farrell said he thinks it makes sense to get one definition so the board does not have to look at every milk, cheese, and egg program in the federal government. He said the board should establish the definition that includes the criteria that the agencies can then apply. The board could establish eligibility as that which is the important measurement tool and the Farm Service Agency can then interpret eligibility for the milk program as when the milk price falls below \$16.94. Mr. Farrell said he does not think the board can interpret eligibility for every government program.

Ms. Robinson said she believes the obligating event happens when the agency loses control of what is going to happen. For her, the minute the Farm Bill is enacted, the individual can show up for payment and the government cannot do anything about it. Mr. Farrell and Mr. Jacobson interjected that the producers have to produce milk and commercially market it. Ms. Robinson responded that there is a class of people out there and the government has absolutely no control over how many of them come forward; it becomes a measurement issue.

Mr. Schumacher said that he would agree that there might be an obligation at the point the act is passed, but the government is not required to settle it until somebody comes forward. Ms. Robinson reiterated that to her, that is a measurement issue. Mr. Reid said we could make the signed contract one of the eligibility criteria and therefore, the criteria would not be met until there was a signed contract. Mr. Robinson questioned why then are we using 40 quarters for social security when the government is not required to settle the obligation until 40 years from now? Mr. Schumacher said that if we use the characteristic that says "at a specified or determinable date," the date is determinable when the individual finishes their 40 quarters.



Ms. Robinson said to her, it is a very significant event when the government has enacted a major program like this and agreed to be on the hook for the next five years for approximately \$75 billion. She asked is that not what we want to tell the readers of the financial statements, that the government just did something really major?

Mr. Dacey said that there may be differences in the programs but for guaranteed loans, we do not estimate what the potential loss will be until we actually get a loan in-house that needs to be guaranteed; the government does not estimate an amount for loans just based on the law that was passed enabling an agency to do so. Mr. Dacey said looking at it from Ms. Robinson's point of view would change the dynamics of our current thinking unless she is saying that it is a liability but we will not recognize it until we have an actual loan to guarantee in-house because only then can we estimate what our cost will be. Mr. Dacey said there are a lot of programs that are under-subscribed in terms of what people thought would be the eligible population; he asked Ms. Robinson if she would say the whole thing is a liability but in recognition we will just estimate what the uptake is on those programs and use that as a measurement criteria? Ms. Robinson agreed.

Mr. Reid asked if it is useful to debate the difference between a liability of \$0 and a non-liability? Mr. Mosso said there could always be a non-zero potential outcome for a liability. Mr. Reid asked if it changed from a "non-zero whatever" to a "positive liability" would there be a difference? Mr. Mosso said that the difference is that if it is a liability valued at \$0, it should probably be disclosed and if it is a non-liability, there is no need to disclose.

Mr. Farrell said he feels that something different from the budget process of assigning a cost to the entire program for a specific period of time needs to happen in order to have a liability. Ms. Robinson responded that the question is what amount you recognize in the financial statement context versus the budget context. With respect to when the obligating event occurs, Ms. Robinson said that it seems to her that once the government loses control over what it can do, that is the inherent nature of an obligating event. Mr. Reid said that if you are trying to match the costs up with the program, you should have a cost applicable to that period. For example, if you are reporting costs for the milk program in July, did you have costs for that program in July? Otherwise you have not matched the costs properly and you have recorded something in that period that does not belong there. Mr. Farrell said he agrees; you have to be below the \$16.94 in that period to report costs for that period. Ms. Robinson said there is an insurance value in that period. Mr. Reid said there might be a value to the recipients but the cost for us to operate the program is in the periods when the milk price falls below \$16.94.

Mr. Mosso directed Ms. Ranagan to begin a discussion of the feed grains program. Ms. Ranagan began the discussion by highlighting the differences between the MILC and the Feed Grains DCP programs on pages 64 and 65 of the staff paper. Ms. Ranagan noted the life cycle events of the Feed Grains DCP program presented on pages 22 and 23, the discussion of alternative obligating events presented on pages 24 through 33, and the staff recommendation on page 34 that the submission of the DCP contract and

Draft Minutes on May 4 - 5, 2005

documentation of supporting requirements be considered the obligating event for the Feed Grains DCP program.

Ms. Ranagan pointed out that the counter-cyclical payments are projected at the beginning of the year based on the estimated monthly national average farm price, but the liability is not booked until the point of due and payable as each partial or final payment is made.

Ms. Robinson noted that the farmers are selling the rights to their counter-cyclical payments and are placing a value on these payments. The purchasers are taking on the risk that the prices will not fall as projected.

Mr. Mosso asked if the DCP program would raise the same question regarding whether the government has little or no discretion at the time of appropriation of a program. Ms. Ranagan said she would imagine so because direct payments are made to all producers that have established base acres and payment yields regardless of current year production and that class of individuals could be determined at the time of passage of the Farm Act.

Mr. Mosso said he sees two issues that need to be further addressed: (1) whether the appropriation is the point at which the liability arises versus the point of submission of the contract and documentation of supporting evidence; and (2) whether the government acceptance of the contract and documentation is a required event versus the earlier point of submission of the contract and documentation of supporting evidence.

Ms. Ranagan asked for the preliminary views of the board members on both issues:

- (1) The board did not have a clear majority on the issue of whether the appropriation is the point at which the liability arises versus the point of submission of the contract and documentation of supporting evidence. Mr. Mosso stated that more discussion is needed on the difference between a kind of appropriation that provides for essentially unconditional payments within a classified group versus the point at which there is an external party that has met the eligibility criteria to enable them to receive benefits.
- (2) Seven of the board members felt that the government's determination of eligibility could be considered a measurement issue versus a necessary step in determining whether or not a liability exists (one member was not present and two members did not submit a view one way or the other).

Amidst a lengthy discussion on when a liability arises for various government programs, Mr. Jacobson presented a question to the board that several members appeared to find helpful. He questioned whether two different concepts were being mixed up with respect to eligibility. The draft definition is the present obligation to make a future payment to someone else and, when you talk about eligibility, do you want to talk about whether the "someone else" has taken the steps to meet the criteria for eligibility without

Draft Minutes on May 4 - 5, 2005

regard to external factors? For example, in social security, the steps that person has taken are that he has worked in covered employment and reached 40 quarters. In contrast, in the farm program, the steps he has taken are that he is a farmer, he is growing his crops, and he has submitted his paperwork – what happens with the prices seems to be an external factor that is not under the control of either the farmer or the government. Mr. Jacobson asked whether the external factor of the prices would be more a question of measurement than eligibility. Over the life of the program, at any point in time, the government can look at changes in economic conditions, changes in capacity, etc, and make an assessment of the liability based on present conditions.

The board discussed next steps for the project and agreed that staff should provide an analysis of the views presented at the meeting and a presentation on the Corporation for National and Community Service's Service Award Liability, which is similar to social security in several aspects.

CONCLUSION: Staff will include copies of the FASB FIN 45 and the GASB PV documents discussed at this meeting in the first distribution of the next binders with a cover sheet of applicability to the current project. Staff will also provide the board with an analysis of the views presented at the meeting and a presentation on the Corporation for National and Community Service's Service Award Liability.

- **CFR Requirements Relief Project**

Allan Lund from Treasury's Financial Management Service led the discussion. Mr. Lund opened with a prepared statement:

"My name is Allan Lund and I'll be providing staff support for the CFR Requirements Relief Project. I work for Treasury's Financial Management Service (FMS) in the Office of the Assistant Commissioner for Government-wide Accounting. Jim Sturgill is the Assistant Commissioner for Government-wide Accounting. This Assistant Commissioner Area has the responsibility to prepare the Financial Report of the U. S. Government (the CFR).

I'm joined by Gary Ward who also works for FMS. For many years, Gary has been a key player in preparing the CFR. (At this point Treasury's board member Robert Reid emphasized the importance of Gary Ward in the preparation of the CFR.)

The materials for this topic are behind tab D

The materials consist of:

A transmittal memo that suggests objectives for today's discussion;

A questions and answers document that attempts to answer basic questions about this project;

Draft Minutes on May 4 - 5, 2005

An issues paper that suggests a project approach and presents the items identified for potential relief; and,

A crosswalk from the items presented to the Board last October and the items in the issues paper.

The objective of today's discussion is to address general issues associated with this project and to make preliminary decisions about a project approach – perhaps addressing a certain number of items until all items have been addressed.

This project is guided by SFFAC 4 “Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government.” Decisions should be made in accordance with the guidance contained in concepts statement 4. SFFAC 4 indicates that citizens and citizen intermediaries are the primary audiences for the CFR and understandability and timeliness are particularly fundamental to the usefulness of the CFR.

I have handed out copies of SFFAC 4 and Jim Patton's comments on the project transmitted to me by e-mail accompanied by my responses transmitted to Jim Patton by e-mail. Would it be OK to start with the issues Jim Patton raised?”

Mr. Mosso indicated it was OK to proceed with the issues raised by Mr. Patton.

1. Mr. Patton suggested a positive name for the project such as “Implementing SFFAC # 4”

Discussion: Mr. Lund suggested an expanded title such as “CFR Requirements Relief: Implementing SFFAC 4”.

Decision: Mr. Farrell proposed “CFR Requirements: Implementing SFFAC 4” and the Board agreed.

2. Mr. Patton indicated that most of the items in the list seem to be avoidable in the CFR based on materiality concerns. Some might ask if ‘materiality’ solves the problem, why do we need another standard?

Discussion: For Treasury, the assumption is that all of the relief items are material. We need another standard because the requirements that are under review were not written with the CFR in mind. We want FASAB to review such requirements with reference to the guidance contained in SFFAC 4. SFFAS 29 was written with the CFR very much in mind and the requirements at the CFR level and the agency level required by SFFAS 29 are dramatically different.

Mr. Dacey noted that there were existing requirements that were not being reported. If it could be demonstrated that they were not material, they could be left out. The auditors were looking for a demonstration that an effort was made

to show that amounts were not material. Mr. Reid said it was difficult to prove a negative.

Decision: There is no presumption that materiality considerations will resolve these issues.

3. Many of the 'requested modifications' indicate a "general reference to agency reports (no specific agency mentioned) for additional information about...." I wonder about the usefulness of such a vague allusion to other materials.

Decision: The proposed changes will include the requirement that "a general reference to agency reports (~~no specific agency mentioned~~) for with examples of agencies likely to be disclosing additional information about..."

4. Are you confident that you've identified all the important 'relief' you want? If we proceed with this project, we don't want to have to do it twice.

Decision: The Board elected to proceed with work on the currently identified changes.

Mr. Mosso indicated that he was ready to sign off on the changes since he did not want this to become a huge project. Mr. Farrell agreed with Mr. Mosso but noted that there were a lot of deletions that really seemed to be part of the summary of significant accounting policies. Mr. Lund indicated that no changes were intended for the Note 1 summary of significant accounting policies and that the marked text may be deceptive in that regard. The issue will be reviewed as the draft ED is prepared.

David Torregrosa of CBO (sitting in for Ms. Robinson) indicated that Ms. Robinson was ready to sign off on the changes.

Mr. Dacey prefaced his remarks by noting that he was not officially representing GAO. Mr. Dacey indicated that a number of items appeared germane and relevant such as the useful life of property, which is disclosed by major corporations as important information. He noted that assets have a significant amount of disclosures and that a principle is needed for determining which ones don't apply. Mr. Dacey opined that some of the disclosures are significant and he would find it helpful to see actual agency disclosures before deciding whether such disclosures were significant. Basic accounting policy requires some of these disclosures. Also, some items could be resolved in the report preparation off-season (e.g., developing report narratives).

Mr. Mosso noted that the CFR had been given relief in recent standards. With respect to PP&E, he said there is a lot of variation of useful lives in the federal government. Mr. Dacey noted that a focus on the major contributors – such as DoD for inventory -- would allow general statements. Mr. Farrell agreed that some things could be captured in general statements. Mr. Reid called the

## Draft Minutes on May 4 - 5, 2005

Board's attention to the inventory footnote on page 113 of the CFR that contained a lot of detail but lacked qualitative descriptions that are hard to summarize. Mr. Farrell approved noting that he just wanted to ensure that we are not deleting good information. Mr. Lund replied that the proposal would not change the disclosures currently included in the CFR.

Mr. Dacey asked if Treasury would be looking at the agency data annually to determine whether it should be reported in the CFR? Mr. Reid replied that the footnote data will be collected and if not disclosing something would result in misleading financial statements, the item would be disclosed – due diligence would still be required.

Mr. Schumacher asked whether Treasury would be deleting information that was currently in the CFR? Mr. Lund replied that Treasury would not be deleting such information.

Ms. Comes indicated that FASAB staff would review the items and determine whether there are compelling reasons to include the disclosures in the CFR.

Several members suggested proceeding to an exposure draft on all of the proposed items at once.

CONCLUSION: A draft exposure draft will be provided at the June meeting.

- **Steering Committee Meeting**

The Steering Committee members agreed to review a draft letter responding to the American Institute of CPAs transition team. The letter would provide the committee's position on each of the recommendations made by the 2004 Rule 203 review panel. The letter will be finalized via e-mail of drafts.

In closed session, the committee approved the candidate for a current staff vacancy.

### **Adjournment**

The meeting adjourned at 4:00 PM.

## ***Thursday, May 5, 2005***

### **Agenda Topics**

- **Fiduciary Activities**

#### Audit Coverage of Note Disclosures

Draft Minutes on May 4 - 5, 2005

Staff noted that the Board's briefing materials included a copy of a *Wall Street Journal* article of March 30, 2005, which reported on a study that found auditors to be more willing to tolerate errors in the notes than in the body of the principal financial statements. Staff asked the Board to discuss the implications of the finding for the proposed standard's placement of fiduciary information in a note rather than a separate principal financial statement.

Mr. Schumacher noted that in his experience in the private sector, the Sarbanes-Oxley Act (SOX) has resulted in greater audit scrutiny of the controls over information reported in notes. He said that in his experience, deficiencies in controls over information reported in the notes have been taken as seriously by auditors as controls over basic financial information, and that this represented a change from the past. He said that an incorrect amount in a note could very well constitute a material weakness.

Mr. Mosso asked how the provisions of SOX interact with the opinion on the financial statements. Mr. Schumacher replied that if the auditors decided that a misstatement in the footnotes indicated a material weakness it would impact the opinion related to internal controls, but not necessarily the opinion on the financial statements.

Mr. Mosso noted that an audit opinion addresses the reporting entity's principal financial statements; the fiduciary disclosures address information that is not recognized on the face of the financial statements. Executive Director Ms. Comes noted that the audit opinion might not directly address note disclosures that do not relate to any line items in any of the principal financial statements. It was noted that in prior years some financial statements included fiduciary note disclosures per SFFAS 7 and Interpretation 7 that were labeled "unaudited." While this practice has ended there is no direct evidence that the auditors believe the note affects fair presentation of the financial statements taken as a whole.

Mr. Dacey noted that by definition the notes are an integral part of the financial statements, and that the audit opinion is on the financial statements taken as a whole. A suggestion was made and discarded that the word "audited" be inserted before the words "note disclosure."

A majority of the Board approved changing the terminology to "notes to the financial statements" to clarify the placement of the fiduciary note disclosures. A majority of the Board agreed that it was sufficient to include in the ED the statement that "The notes are an integral part of the financial statements, essential for fair presentation in conformance with generally accepted accounting principles applicable to the Federal government," and decided to retain the current proposal in the draft Exposure Draft (ED), which requires note disclosure only.

Staff asked if the Board would consider excluding seized monetary instruments from the fiduciary reporting requirements, so that seized monetary instruments would continue to be recognized on the balance sheet – the current requirement per SFFAS 3 – as non-entity assets with an equal and offsetting liability. Some members commented that control would not be enhanced by recognition on the balance sheet and that it would be

Draft Minutes on May 4 - 5, 2005

cleaner to keep seized assets together (in the note disclosure). A majority of the Board members decided that seized monetary instruments should be included with all other fiduciary assets.

### Editorial Comments

Staff noted that Mr. Patton had pointed out the in the previous version of the ED, the term “fiduciary entity” was used to mean two different things: the Federal component entity acting in a fiduciary capacity, and the fiduciary fund itself (the assets, liabilities and transactions). Ms. Cohen noted that the additional wording in paragraphs 13 and 41-44 was confusing regarding whether the fiduciary entity referred to the activity of the Federal component entity carrying out its fiduciary responsibilities, or the activity of the non-Federal party. For example, in paragraph 13, it is the Federal entity that collects, invests, etc. on behalf of the non-Federal party. Ms. Comes said that staff would continue to work on clarifying the language of the ED.

Since the Board opted not to exclude seized monetary instruments, staff will draft conforming changes regarding the impact of the proposed standard upon reporting requirements for forfeited monetary instruments.

### Effective Date

The Board noted that the effective date of the proposed standard might be too close to the potential issuance date of the proposed standard. The Board decided to retain the proposed effective date, but to add a question for respondents regarding the proposed effective date.

### CONCLUSION:

Staff will incorporate recommended changes and send the Board members a preballot draft ED prior to the next Board meeting.

#### • **Stewardship Investments**

Staff member Ms. Loughan introduced the Stewardship Investments agenda item. Ms. Loughan explained that the Stewardship Investments Project relates to the reclassification of Stewardship Investments information (which includes Nonfederal Physical Property, Human Capital, and Research and Development) that is now currently classified as RSSI. She added that the project evolved as part of the Board’s overall project of reviewing and reclassifying the stewardship information to fit the categories within the traditional reporting model.

Several Board members believed that eliminating the information should be considered an option in the project because they believed the information was being reported for other requirements and may not be as useful as originally intended. However, other Board members were concerned with reversing the action of any prior Board without due process and deliberation but most members did not believe that dedicating



Draft Minutes on May 4 - 5, 2005

resources to this project now was a high priority and perhaps the Board should just maintain the status quo.

Chairman Mosso pointed out that he would be hesitant about eliminating the stewardship investment information because the information ties closely with the stewardship objective as this information is intended to provide information about the productive capacity and the long-term benefit of these costs. He added that he would prefer to maintain them until the Board has an opportunity to look at that objective in detail and make decisions at that point.

CONCLUSION: The Stewardship Investments Project has been placed on hold until the Board considers the stewardship objective in the Concepts project.

### **Adjournment**

The meeting adjourned at 11:45 AM.