

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
June 18-19, 2008
Room 7C13
441 G Street NW
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Wednesday, June 18, 2008

Administrative Matters

- **Attendance**

The following members were present throughout the meeting: Chairman Allen, Messrs. Dacey, Farrell, Jackson, Patton, Reid, Schumacher, and Steinberg. Mr. Werfel was present with the exception of Thursday morning during which time Ms. Hug represented OMB. Mr. Murphy was present with the exception of Thursday afternoon during which time Mr. Torregrosa represented CBO. The executive director, Ms. Payne, and general counsel, Mr. Dymond, were also present throughout the meeting.

- **Approval of Minutes**

The minutes were approved electronically in advance of the meeting.

- **Update – Federal Entity**

During the Administrative Session, staff member Ms. Loughan explained the Federal Entity project was not on the agenda for the June Board meeting. However, staff provided the Board with an update in the session to explain the status and provide an opportunity for members to discuss any issues or questions.

Staff explained that at the April 2007 meeting, the Board discussed the recommendations of the Federal Entity Task Force. The Board approved the recommendations and specifically, the Board approved distribution of a survey to the federal financial management community.

Staff explained that the Survey on Boundaries of Federal Reporting Entities to the financial management community was distributed to the CFOs and IGs in mid-May. The survey was included in the Binder materials for reference. Staff explained the survey seeks information on organizations considered questionable or unique when assessed in relation to the boundaries of the reporting entity and criteria used in the assessment. The survey also seeks feedback on certain aspects of SFFAC 2 as well as input on current proposals. Staff explained that approximately 8 responses had been received as of the meeting. [Staff notes surveys have continued to be received since the Board meeting.] The survey requested responses by June 30, 2008.

Staff also explained that staff developed and distributed a separate survey directly to (Federally Funded Research and Development Centers) FFRDCs on June 16, 2008. The survey seeks information to gain a better understanding of FFRDCs' perspective of how they view their relationship with the federal government. The survey seeks information on the relationship with the federal government, other organizations that may influence the FFRDC, and current financial reporting. The responses for this survey are due July 31, 2008.

Staff explained results from the surveys would be presented to the Board at the next meeting.

Agenda Topics

- **Fiscal Sustainability**

Mr. Allen opened the discussion by referencing the Treasury Department proposal in Tab B-1 of the briefing materials. He noted the Board's policy to consider staff proposals prior to any alternative proposals and explained that staff suggested that the Board consider Treasury's proposal before proceeding to staff proposals due to the magnitude of the Treasury proposal. He noted that at the end of the discussion, members would be asked whether the Board should (a) continue with the draft ED developed through Board deliberation ("draft ED"), (b) consider incorporating some aspects of Treasury's proposal into the draft ED, or (c) change direction to develop the Treasury proposal instead of the draft ED.

Project manager Ms. Parlow distributed a handout that indicated where the content of the Treasury proposal was consistent with the content of the draft ED, noting that an electronic copy had been sent to the members prior to the meeting.

Mr. Jackson noted that the handout did not indicate the considerable amount of material in the draft ED that did not appear in the Treasury proposal.

Mr. Allen noted that one paragraph of the Treasury proposal was the same as the draft ED but was placed in a different section of the document: paragraph 20 of the Treasury proposal was a portion of paragraph 6 in the draft ED, but it was placed in the Accounting Standard section of the Treasury proposal rather than the non-authoritative Introduction/Objectives section of the draft ED. Mr. Allen then asked Mr. Reid to speak to the Board regarding the Treasury proposal.

Mr. Reid said that he would like to see a standard that was more principle-based or conceptually-based than the draft ED. His goal was that the standard be applicable even beyond the point that problems with specific programs are fixed through policy changes. He said that he would also like to expand the amount of analysis that is required. He does not want the standard to result in simply compliance—he prefers that additional thought and analysis result from the standard. If a checklist results from the standard and we are in a grey area regarding sustainability, requirements in specific areas may not get us to a real answer. The emphasis should be on preparing something reasonable that reveals what level of risk we have with respect to sustainability. For example, assumptions may make a great deal of difference in the future—this is very different from the situation today where any reasonable assumptions reveal an unsustainable path.

Mr. Reid noted that there is a great deal of disagreement among the experts at Treasury regarding what should be presented. He said that the analysis should show decision-makers what they should focus on; he wants the preparer to focus on what's important and that may change with policy changes. He said that you need something that communicates to the reader "Is this sustainable?" He said that he would like to see the preparer do more analysis (broader and more conceptually based) and then choose the vehicle for communicating to the reader. Taking out requirements such as the primary summary display would allow the preparer to focus on things that people will and can read. Instead, require the preparer to do an analysis of sustainability and then communicate the results.

Mr. Jackson said that the draft ED would permit Treasury to do the kind of analysis that Mr. Reid described. He said that the draft ED allows flexibility in determining assumptions and time horizons. He asked Mr. Reid what the Treasury proposal would do in terms of those flexibilities that the draft ED does not do.

Mr. Reid said that the Treasury proposal would allow Treasury to totally eliminate either the finite or infinite horizon projection period from its reporting. He believes that some would prefer to break the analysis into different horizons such as one 40 year horizon and another longer horizon. Perhaps 3 25-year blocks would be useful and he would like the analysts to consider that option. He said that the proposal also does not require specific content or specific displays of information.

Mr. Steinberg said his understanding is that the Board's draft proposes a statement of fiscal sustainability—showing projected receipts and spending for a period of time. That statement would show that the difference is quite severe. He believes the Treasury proposal is that the preparer consider alternatives that would reduce the severity of that difference between receipts

and spending. Obviously, the preparer can choose to put that analysis in the report. In order to provide a report that shows reality, we need that financial statement. He asked if Treasury intended to require the analysis of policy options in addition to a financial statement.

Mr. Reid replied that he envisioned a table showing options that close the gap. For example, options might be changing the tax rate, adjusting the retirement age, raising the taxable payroll cap, and means testing. He wants to show what happens when you vary the features of the programs. In order for the report to mean something, you must relate the \$45 trillion shortfall to something that is meaningful such as changes in programs. This sort of analysis is already done by the Social Security actuaries and is available through websites. He believes we need to take this beyond the numbers view and have creative ways of showing the magnitude of change needed.

Mr. Farrell indicated his agreement with Mr. Reid's goals. However, he questions whether that is the role of a standard setter. For example, if a corporation were to report that unless the price changed for its products it would be bankrupt then you would not expect the standards to require that the corporation report how it would fix the problem. However, the owners would demand to know what the managers would do about it. He believes that the government should provide the sort of information Mr. Reid describes but not as the result of a standard.

Mr. Reid believes you would get more information out of a principles-based approach.

Mr. Dacey asked about the agency reporting requirements.

Mr. Reid replied that first the government-wide perspective must show if the situation is unsustainable. You then need to identify the problem programs. You then need a lever for Treasury and OMB to demand that program information be produced and audited at the agency level so that it can be consolidated into the government-wide. He believes that the program level information must be audited prior to consolidation.

Mr. Dacey noted that he was pleased that inter-generational equity is back. He asked how that might be portrayed.

Mr. Reid indicated that the Treasury staff believes the problem has serious lumps when viewed from an inter-generational perspective. Such issues exist today and may come up in other programs in the future. Some opportunity to show the burden by generation is needed.

Mr. Patton asked Mr. Reid if at a conceptual level sustainability is a government-wide issue. Mr. Reid indicated his belief that the agency level requirement should be the least onerous possible. By allowing the central agencies to identify specific programs, this lessens the burden on the agencies. His concern is a practical concern – program information is best prepared at the agencies and the audit assurance attained by agency audits is needed for consolidation. He has not concluded that sustainability must be assessed for every program.

Mr. Schumacher asked if Treasury wanted to compel the agencies to give it information or to compel that the information be in the agency audited financial statements. Mr. Reid indicated that they had access to information through the budget process. Instead, he was looking for the agency to go through the analysis and to produce audited information. Mr. Schumacher asked if Treasury is currently unable to obtain information needed. Mr. Reid said that he believes it would be helpful to have a requirement in the standard but that it may not be absolutely necessary. He said that there is a statute that necessary information must be provided to

Treasury. In some cases, Treasury may have limited leverage and that GAAP may be the only mechanism for some agencies (such as those not covered by the CFO Act).

Mr. Patton indicated that the draft ED provides for the information to be audited as basic in the future while the Treasury proposal leaves the information in RSI status. He asked for confirmation of and comment on that difference. Mr. Reid said he believes that the information would eventually be moved to audited status. A pilot report is being prepared and we might be able to consider audit status in the future. He does not know what the time frame would be and elected to defer making a decision until more experience is gained.

Ms. Parlow raised the issue of whether the Treasury draft addresses the issue of inter-generational equity in a way that the draft ED does not. She indicated that the only difference between the Treasury proposal and the draft ED in that respect was in two paragraphs:

- a) in paragraph 7, (objectives section of the draft ED) the Treasury draft inserts the phrase "(i.e. inter-generation equity)in the paragraph where the draft ED explains and addresses the concept of "inter-period" equity , and
- b) .the Treasury draft adds a broad requirement in the standards section (paragraph 20) that the narrative section should address the issue. The wording of Treasury's paragraph 20 is the same as paragraph 6 of the draft ED.

She asked if making edits per the above in the draft ED would resolve the issue. Mr. Reid thought it might.

Mr. Allen asked each Board member to state his views regarding the Treasury proposal.

Mr. Jackson stated that the proposal diminishes the importance of the information because it leaves everything to the preparer. He said that he does not agree with this approach and he believes that it is the role of standard-setting bodies to establish reporting requirements. He said that Treasury's proposal has stripped out most of what the Board has deliberated upon. Comments from the extraordinary professionals on the Task Force have been stripped out of the Treasury document. He also does not believe the Board's proposal would preclude any of the analysis that Treasury has discussed. Instead, the Board's proposal lays a foundation on which that sort of analysis would be built.

Mr. Jackson also said that the draft ED's requirement for presentation of the information as Required Supplementary Information (RSI) before it becomes basic allows for experimentation. He said that based upon his understanding of the definition of RSI in the Board's ED of March 26, 2008, "Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information" in paragraph 4B, he believes that that Treasury proposal appears to resemble Other Accompanying Information rather than RSI.

Mr. Jackson also delivered the following written statement, which he said should also be incorporated into the meeting minutes:

Comments on the Department of the Treasury's Proposed Alternative "Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government"

My thoughts on the Department of the Treasury proposed alternative standard:

FASAB Definition of Required Supplementary Information – "Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information" (March 26, 2008 Exposure Draft)

Paragraph 4.b. Required Supplementary Information: Information that a body that establishes GAAP requires to accompany basic information.

AU Section 558, AICPA Professional Standards, addresses the auditor's responsibility for this information.

Paragraph 558.06 provides that "...FASAB considers the information an essential part of financial reporting and **because authoritative guidelines for the measurement and presentation of the information have been established.**" (Emphasis added.)

My concern is that the Treasury alternative does not establish authoritative guidelines for the measurement and presentation of the information. Rather, it provides a "framework" and leaves the rest to Treasury and OMB, which are not part of the GAAP hierarchy.

On the other hand, the FASAB's proposal provides authoritative guidelines for assumptions, projection periods, primary summary display, and requirements for narrative and graphics.

In consideration of the foregoing, if the Board chooses to follow the alternative, the information would seem to be Other Accompanying Information.

The proposal simply states how the fiscal imbalance **may** be expressed. It does not appear to provide a measurement and presentation requirement as evidenced by the provision in paragraph 22 that “the Department of the Treasury and OMB will issue guidance on reporting formats and the minimum number and types of programs.” (Emphasis added.)

Mr. Farrell indicated that the Treasury proposal is not prescriptive enough. He would like to finalize the draft ED and explore folding concepts that Mr. Reid has into the draft ED.

Mr. Steinberg agreed with Mr. Farrell. He said that he likes the idea of presenting alternative solutions and inter-generational equity analysis. He said that he endorsed Mr. Jackson’s comments – he is not sure how a standard that allows the flexibility in the Treasury proposal would improve reporting.

Mr. Murphy acknowledged the importance of Mr. Reid’s goals. Showing the effects of alternatives is important and the preparer should present information, but he would be concerned if we did something that was so constraining that we had to change it in five years. He said that he supports the more prescriptive approach of the draft ED. He is concerned about the timeline for issuing the standard – April 2010. A great deal of time has been invested in SOSI and fiscal sustainability. He’s happy with the draft ED we have but he is open to working some of the Treasury ideas in to the draft ED. He joins the members who wish to continue to develop the draft ED.

Mr. Reid supported the Treasury proposal.

Mr. Allen indicated that his reaction was similar to earlier members’ views. The appeal of the proposal was the ability to include inter-generational equity information or at least encourage it. However, he is concerned about Mr. Jackson’s views on RSI – that is, the information must be called for by the standard-setter. Therefore, you can not add to RSI. It is solely for prescribed things. He would like to continue with the draft ED but try to preserve par. 20 and 23 of the Treasury proposal. He would like to see a proposal that suggests that the preparer at the government-wide level is encouraged to provide information about inter-generational equity. He wondered if the Board would need to work with the audit community on the issue of how auditors would address information that is encouraged rather than required.

Mr. Jackson noted that you address this issue by adding to the existing standard in the future. However, paragraph. 23 of the Treasury proposal has an open ended-ness that is disturbing. Mr. Allen said you would certainly have to make it permissive to prevent that.

Mr. Werfel indicated that he liked some aspects but not the entire Treasury proposal. The area of government-wide fiscal sustainability is a new area for the Board and it involves new terms and new concepts. He noted that there are many different potentially useful measures. By being too prescriptive, we run the risk of having a basic financial statement while the MD&A or highlights may feature information that is very different than the information provided in the basic financial statements. This could cause some confusion. For example, paragraph 28 says “assumptions may be based on but are not limited to... [a list of examples].” It is clear that the preparer is tied to a framework but it is a flexible framework. He would like to see similar language elsewhere – such as “the presentation should provide fiscal imbalance or fiscal gap or a similar measure.” Mandating a specific metric may restrict the report too much. The highlights may feature information that is more relevant than the basic information and this would be hard to justify.

Mr. Werfel indicated that he did not find it intuitive that a given program could be sustainable or not. It is clearer to consider sustainability from the government-wide level. He also would not rely too much on information from agencies – he does not wish to get too deep into the weeds in the “other government” area.

Mr. Werfel said that he fundamentally disagrees with the notion that potential policy changes be included in the financial report. Even if you attempt to be exhaustive and as fair and bi-partisan as possible in the selection of options, you are still expressing a kind of political judgment when you do that. For example, there are policy options you might miss and create the perception that you are making policy calls in a financial report. He said that the discussion of policy options is something for other bodies and other reports. He said that the financial statements should start the dialogue by laying out the foundation and let others discuss policy options. He said that the discussion of policy options in the financial statements is not something that was envisioned by the CFO Act.

Mr. Dacey supported a blend of more specific requirements with other requirements that are broad goals and support flexibility. He does not wish to preclude putting relevant information in the RSI section. He said that some kind of analysis will be necessary to help the reader understand the information in the financial statement. He prefers to go along the lines of the draft ED – require some specifics – but with additional broad requirements so that we do not preclude additional relevant information.

Mr. Jackson indicated that he is concerned about the lack of specificity in the Treasury proposal, and that he also strongly agrees with Mr. Werfel in that a discussion of policy options would be an unacceptable politicization of the accounting standards. He said that Treasury and others may certainly discuss policy options but that such a discussion is not the appropriate domain of accounting standard-setting. He also said he is not sure exactly what Mr. Dacey wishes to see regarding inter-generational equity.

Mr. Dacey said that inter-generational equity was just an example of areas where you could have broad requirements to facilitate the inclusion of information in RSI. He believes inter-generational equity is important and should be required at least at a high level, without indicating what information should be provided, but that he would leave it to the preparer to decide what information would address the issue.

Mr. Jackson asked if some specific information should be required rather than just leaving it open-ended.

Mr. Allen asked if the Board could first go around the table on the overall approach to the Treasury proposal before focusing on specific details.

Mr. Dacey indicated that he was concerned about the requirement for presentation of policy options.

Mr. Schumacher indicated agreement with much of what’s been said. He would like to accommodate some of Mr. Reid’s ideas and thoughts into the draft ED. However, a great deal of work has been done on the existing ED and he believes that a certain amount of prescription is necessary. He would like to pursue the existing draft ED. He would not include policy alternative requirements but he supports the idea of expanding the requirements regarding inter-generational equity.

Mr. Patton believes that the standard must be prescriptive while allowing some flexibility at the same time. He reminded the Board that this is an ED and responses can lead to changes before the standard is finalized.

Mr. Allen indicated that the consensus was to continue developing the draft ED but to be open to consideration of some of the ideas in the Treasury proposal. For example, paragraphs 20 (inter-generational equity) and 23 have been identified. He asked if there were any other parts of the Treasury proposal that the Board wished to consider.

Mr. Patton and Mr. Murphy asked what portion of the Treasury proposal Mr. Reid considers to be most critical. Mr. Reid and Mr. Werfel indicated that they would work with their staff in the evening to come up with specific suggestions. For example,

Mr. Werfel will bring back a list of paragraphs where there are opportunities to be less prescriptive. Mr. Allen said that he would adjust the agenda to make additional time available on the following day to discuss specific Treasury and OMB recommendations.

Ms. Parlow provided the members with a copy of an issue brief regarding inter-generational equity.¹ The brief was prepared by Treasury with respect to Social Security. She said that is an excellent example of reporting on inter-generational equity.

Mr. Allen inquired about the difference between the terms “inter-period equity” and “inter-generational equity.” He noted that both look at the trajectory of burdens but that inter-generational equity attempts to create blocks – representing generations – along that trajectory. He noted that the shows not only the increasing burden of programs from period to period but also how the burden is divided among generations (or birth cohorts).

Ms. Parlow noted that the generational analysis is logical for a program such as Social Security. She said that it is natural and fairly easy to report on the inter-generational equity for programs with dedicated funding and where benefits go directly to individuals. She explained that it is extraordinarily difficult – if not impossible – to report on “inter-generational equity” by attempting to allocate the benefits of general government programs such as infrastructure and national defense- to specific birth cohorts..

Mr. Allen agreed but noted that the simpler concept of “inter-period equity” could be reported for general government. He said that this is not the same as inter-generational equity, which as noted would apply to social insurance programs rather than general government programs.

Mr. Jackson noted that simplicity matters. Information must be conveyed in a simple and succinct way to taxpayers. He doubts whether taxpayers would understand much of what the Board has discussed today. He said that in order to get people to read and react to this information, it has to be understandable. He said that the Board is straying from the concept of “simple and understandable.” He said that if information is not conveyed soon and simply then the opportunity will be missed.

Mr. Allen agreed with the reminder, and said that staff emphasized the importance of reporting that is as simple and understandable as possible. Mr. Jackson agreed.

¹ *Issue Brief No. 3: Social Security Reform: Benchmarks for Assessing Fairness and Benefit Adequacy.* Available at http://www.treas.gov/press/releases/reports/ss_issuebrief_no.3.pdf

Mr. Werfel indicated that during the comment period, the Board ought to look at the citizen's guide and ask how it could be improved. He noted that the citizen's guide is more likely to be read by citizens than the financial report. He said that the Board should ask if the reporting standards upon which the financial statements are based are supporting or enhancing the citizen's guide or potentially disrupting it.

Mr. Jackson views the financial reports as foundational to the citizen's guide. He agreed that the Board needs to look at what information is imperative for citizens and then work backwards. The foundational information in the financial statements will make the citizen's report credible since it came from a reliable – audited – financial statement. He said that this is what the draft ED is all about.

Mr. Allen noted that the next issue relates to fiscal gap versus fiscal imbalance which includes consideration of Mr. Dacey's proposal regarding display of the fiscal gap. Mr. Dacey's proposal would affect the primary summary display by ending the statement with the net of receipts and spending. The information about fiscal imbalance or fiscal gap would be provided through graphs. The graphs would show the fiscal gap over a range of target debt to GDP.

Ms. Parlow explained that fiscal imbalance can be viewed as being the fiscal gap with an ending target debt level of zero. This may help in comprehending the relationship between fiscal gap and fiscal imbalance. Also, over the infinite horizon these measures are one and the same. The shorter the time period is the greater the difference between the gap and the imbalance is. Options are for the Board to adopt the staff recommendation, Mr. Dacey's proposal or some combination of the two.

Ms. Parlow noted that the similarities and differences between the two measures and the pros and cons of each measure were explained in the briefing memo, and summarized the staff recommendation:

- a) when an infinite horizon is presented, both measures are identical, so there is no need to select one or the other, and
- b) when a finite horizon is presented, a fiscal gap measure should be presented because a zero debt level is not a realistic (or some believe, even a desirable) target.

Ms. Parlow also noted that the two measures are not massively different; for example, estimated projections for a 75-year horizon indicate a difference between fiscal imbalance and fiscal gap that is less than 1% of GDP.

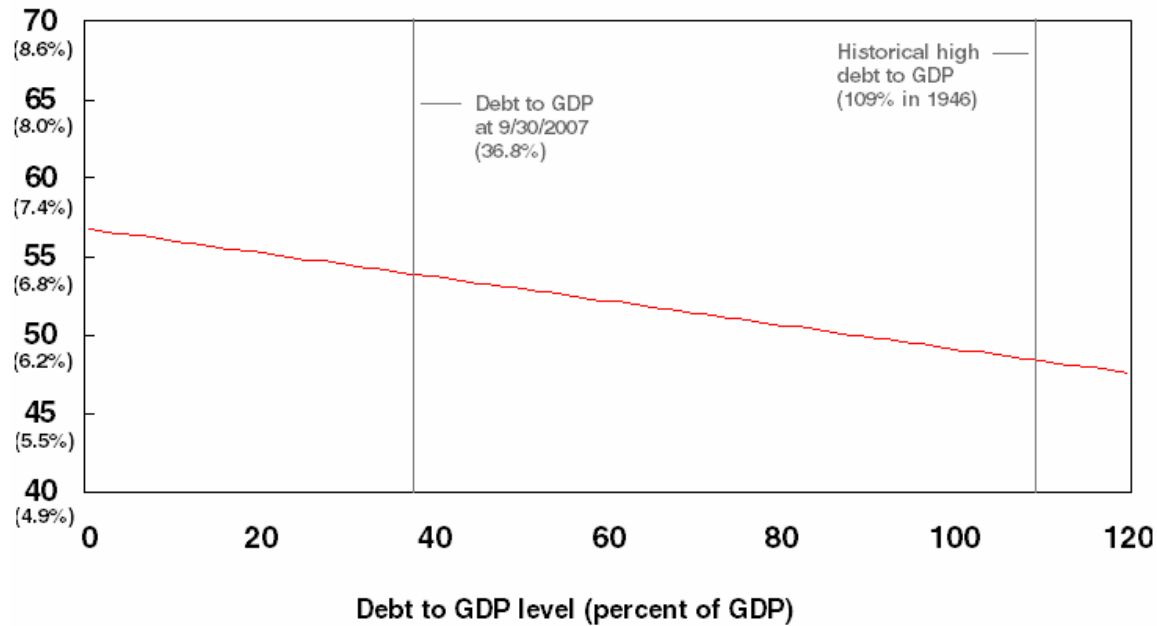
Mr. Dacey handed out a revised copy of his proposal (with highlights showing the changes) and a copy of the most recent GAO publication on the topic. The Board's desire to make a decision between fiscal imbalance and fiscal gap generated additional discussion among the GAO team. The projection of spending and receipts serves as a basis for analysis – you can look at summary present value amounts as well as time series information. A good first step is to look at the bottom line number of spending versus receipts. The GAO team suggests stopping at the bottom line of net spending in excess of receipts because this is an understandable concept and is a good jumping off point for analysis.

The next question is what does the excess spending mean. The debt to GDP ratio is shown as rising over time in order to finance the excess spending. Given a particular projection of receipts to spending, you can look at a trade off of how much debt you are willing to assume. Some readers may wish to go to zero debt (although some may argue that this is an unreasonable target) – with that target you have a larger fiscal gap than if you tolerate more

debt. With more debt you reduce the fiscal gap and the graph shows you the trade off between the gap that must be closed and the higher debt to GDP as you move to the right along the X axis (see Graph 1 below).

Graph 1: Fiscal Gap: Increase in Receipts or Decrease in Non-interest Spending Needed to Achieve a Range of Debt-to-GDP levels

**Fiscal gap –
in \$ trillions
(% of PV of GDP)**



— Fiscal gap (trillions of present value 2008 dollars)

Source: GAO's April 2008 Alternative simulation. Fiscal gap expressed in present value 2008 dollars.

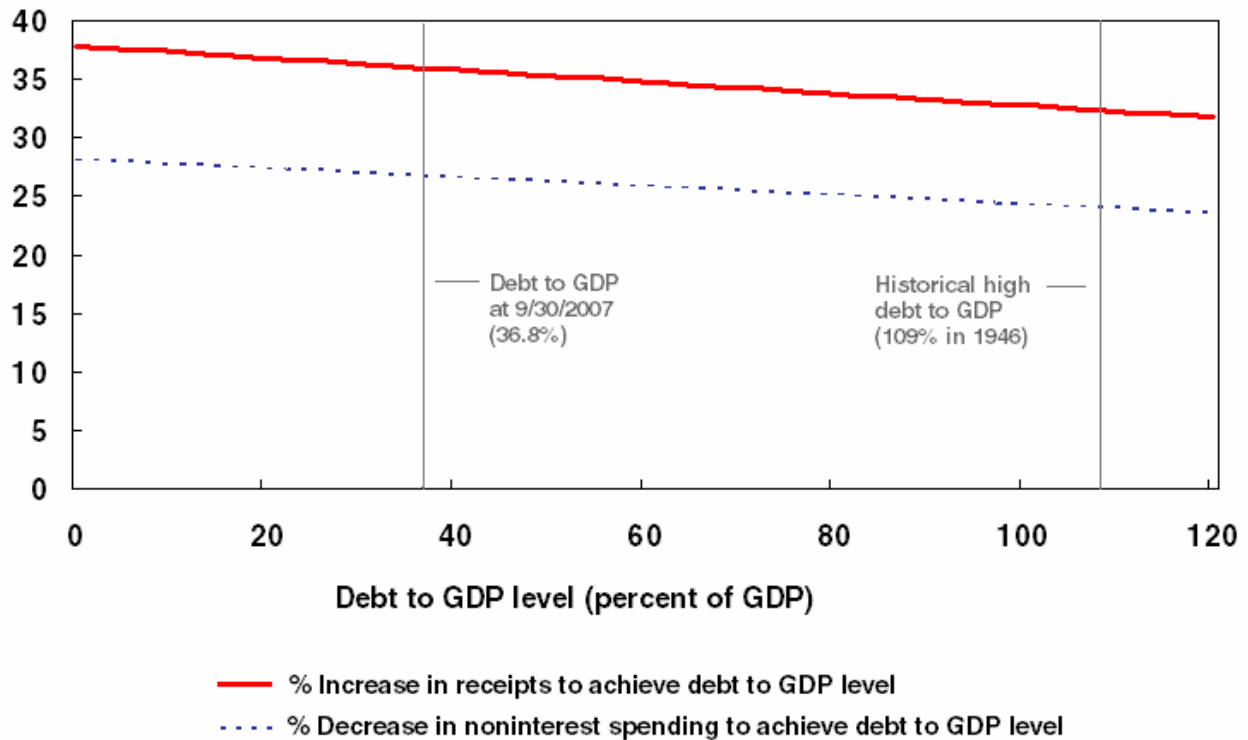
Mr. Reid indicated that one way to read the graph is to ask at what level of debt is the gap down to a manageable change. As he sees it, the graph shows that at 120% of debt to GDP the gap is only reduced to about 6% of GDP. He suggests that the debt to GDP scale needs to go out far enough to get the gap down to a manageable level. Mr. Dacey indicated that you would need to go out to 750% of debt to GDP and many would consider that unmanageable.

Mr. Dacey argued that by showing the range you allow the user to decide what his or her tolerance for debt is and that the line does not have a steep slope; meaning that significantly more debt does not significantly close the gap.

Mr. Dacey also explained that the second graph (Graph 2 below) may be just as useful since it shows the change in receipts or spending needed to achieve a certain debt-to-GDP level. This is not a new concept; instead it shows the whole range and allows the reader to decide what debt level to focus on. It also shows that since receipts are smaller than spending a greater change in receipts is needed to close the gap.

Graph 2: Percentage Increase in Receipts or Decrease in Non-interest Spending Needed to Achieve a Range of Debt-to-GDP levels

% increase in receipts/decrease in noninterest spending



Mr. Werfel indicated that the two graphs need to be read together – the smaller gap at 120% of debt-to-GDP explains why the smaller increase in receipts is needed at 120% of debt-to-GDP. The awareness that the tolerance for debt influences the size of the problem – or gap – is important.

Mr. Dacey said that his proposal was not to substantively change the draft ED but rather to avoid the necessity of having the Board select a specific target debt-to-GDP level. He noted that the graphs were illustrative and that he did not expect the standard to be prescriptive.

Mr. Patton indicated that he appreciated Mr. Dacey’s idea, but that he was not optimistic regarding the ability of citizens to understand the graphs. Mr. Allen agreed, but suggested that some narrative below the graphs would help. For example, if your tolerance for debt is X% of GDP then a cut of X% of spending or x% increase in receipts is needed to resolve the fiscal gap of X % of GDP. Mr. Patton said that presenting two graphs and a page of explanation would not achieve the desired level of simplicity that the Board is trying to achieve.

Mr., Anderson said that regardless of which measure is used, for any realistic level of debt, the changes needed in spending and/or revenues are very large, so in that sense Mr. Dacey’s

proposal does not add much to the reporting. He said that it would really get interesting if the lines crossed at some point, where there would be a range of choices including a tax cut. However, there are currently no projections that would produce such a result.

Mr. Allen asked members to indicate whether they wished to split the primary summary display as Mr. Dacey suggests, leaving the receipts and spending information on the primary summary display and presenting the debt and fiscal imbalance/gap information separately. (Paragraphs 37 and 38 would be revised in the draft ED. Revised language was provided in Mr. Dacey's paper.) A second question will be whether to show single point information or a range.

Mr. Steinberg emphasized the need to show the information for shorter time horizons or over different time periods. He believes that some readers may not be concerned about the end of a 75-year period. Mr. Dacey indicated that you could show the information for a shorter period of time.

Mr. Allen asked Ms. Parlow to comment on the difference between the staff proposal and Mr. Dacey's proposal.

Ms. Parlow noted that Mr. Dacey's proposal to take the debt and imbalance/gap information off the primary summary display allowed the Board to avoid the controversy of selecting between fiscal imbalance and fiscal gap displays or recommending a target level of debt to GDP for fiscal gap. However, she expressed the view that she did not believe the remedy of removing important information from the primary summary display was warranted. Staff's proposal is that for a finite projection period, both the fiscal imbalance and the fiscal gap be shown. For an infinite projection period, the measures are the same.

Mr. Jackson asked if both the fiscal imbalance and the fiscal gap could be displayed. Ms. Parlow said that both the fiscal imbalance and the fiscal gap were included in the draft ED up until February 2008, when the Board selected minimum requirements for the primary summary display and the list of essential items did not include fiscal gap. She said that a majority of members wanted fiscal imbalance but not fiscal gap.

Mr. Allen reminded the members that this is an exposure draft. The Board can illustrate both as well as have a preference between the two. In this case, we should include a question about which display is more meaningful. He asked the members to provide summary comments in preparation for a vote on the issue.

Mr. Patton indicated that he liked Mr. Dacey's approach in concept but that it needs refinement.

Mr. Schumacher prefers Mr. Dacey's approach since it gives you a continuum. However, it is also difficult to understand and needs improvement.

Mr. Dacey indicated that the explanation is needed in either case.

Mr. Werfel prefers Mr. Dacey's approach. He likes that you have both fiscal gap and imbalance in the graphs. However, he agreed with Mr. Patton and Mr. Schumacher that it needs work in order to make it understandable to readers. He suggested that perhaps putting GDP on the Y axis may make the graphs more understandable.

Mr. Allen agreed that conceptually Mr. Dacey's proposal is a good idea, but that the graphs were confusing. He said that if even the Board members struggled to understand the proposal, it needs a lot of work to make it understandable.

Mr. Dacey said that he will commit to doing more work on the proposal.

Mr. Murphy said that both fiscal imbalance and fiscal gap have weaknesses. He said that Mr. Dacey's proposal is a very sophisticated treatment of both measures. He said that he would support a combination of staff recommendation plus Mr. Dacey's proposal. In other words, he would like to see a bottom line fiscal imbalance/fiscal gap at the bottom of the primary summary display but also include Mr. Dacey's graphs and explanations to explain the significance of both measures.

Mr. Allen said that he would second Mr. Murphy's recommendation.

Mr. Reid said that he did not support Mr. Dacey's proposal because something much simpler would be needed in order to be understandable. In addition, trend information is very important and the two graphs show only a snapshot point in time, not a trend.

Mr. Steinberg said that he preferred Mr. Dacey's proposal. He suggested that the Debt Held by the Public chart be added.

Mr. Farrell said that he believes that Mr. Dacey's proposal is not understandable. He said that the proposal would not be helpful to readers, and accordingly he supports the staff recommendation.

Mr. Steinberg said that he would like to change his vote to a combination of Mr. Dacey's proposal plus staff recommendation, as Mr. Murphy had suggested.

Mr. Jackson said that he agrees with the concepts underlying Mr. Dacey's proposal. However, he is concerned about how the reader will be able to understand the charts.

Mr. Allen asked for a vote on Mr. Dacey's proposal.

Mr. Patton asked if there would be a way to trace the bottom line on the statement to a point on the graph. Mr. Dacey said that there was. Mr. Patton said that he would support Mr. Dacey's proposal under the condition that the graphs and explanation were made more understandable.

Ms. Parlow asked Mr. Patton if his vote indicated a change in the primary display to remove fiscal imbalance/fiscal gap. Mr. Patton said that he wants at least the fiscal imbalance to appear on the primary display.

Mr. Jackson said that inserting amounts into the primary display might require assumptions that perhaps should not be made. He said that perhaps something could be crafted to transition the reader from the primary display to Mr. Dacey's charts.

Mr. Allen asked a point of clarification. He asked if the fiscal gap number would indicate keeping the current ratio of debt to GDP into the future. Ms. Parlow replied that this would be a second question, because the concept of "fiscal gap" requires the selection of a target ending debt level. The current level is simply one of many options.

Mr. Allen said that if he understands Mr. Patton correctly, the primary display would stay the way it is but Mr. Dacey's charts and narrative would provide further explanation of the concepts. Mr. Patton said that perhaps this would be the best solution.

Mr. Werfel said that he preferred Mr. Dacey's proposed revision to the primary display (having the bottom line be simply the difference between projected spending and receipts). He said that prior to this project he had never heard of either fiscal imbalance or fiscal gap and believes that most readers are in the same situation.

Mr. Allen noted that Mr. Werfel had recapped Mr. Dacey's proposal and voted to support it. He asked if Messrs. Patton and Schumacher agreed with Mr. Werfel, and they indicated that they did.

Messrs. Reid, Steinberg, Farrell and Jackson said that they would go with Mr. Werfel's proposal.

Ms. Parlow asked if there were a distinction between Mr. Werfel's proposal and Mr. Dacey's proposal. Mr. Werfel said that he suggested that at the bottom of "part one" of the primary display, there should be a new table that walks the reader through from the simple "spending in excess of receipts" amount to the fiscal imbalance measures. Then, continuing on, you would have the explanation and analysis in Mr. Dacey's two graphs. He said that he and Mr. Dacey would provide a draft of this recommendation to be included in the draft ED. He said that Mr. Dacey's graphs would be included but with the condition that they need to be revised in order to simplify the presentation and make it more understandable.

Mr. Jackson said that the graphs titles could be improved to clarify what is being portrayed. He asked why fiscal gap is being emphasized over fiscal imbalance. Mr. Dacey replied that the fiscal imbalance is the fiscal gap at the "0" point of the debt level axis. Mr. Jackson and Mr. Werfel noted that this point is not clear in the graphs or narrative.

Mr. Allen asked if there were any additional suggested revisions for the ED.

Mr. Werfel said OMB is finalizing a list of paragraphs in the ED that could be made less prescriptive, and that the list could be discussed on the following day.

Mr. Allen noted that the project plan calls for the ED to be issued in July 2008, but that since there were significant changes he asked if the Board would prefer to see the ED again at the August Board meeting. Mr. Farrell referred to the milestone dates in Attachment 2 of the briefing memo, which indicated that if an ED is not issued in July, the public hearing would need to be postponed as much as four months due to the timing of the issuance of the year-end financial statements. Ms. Parlow explained that public hearings are held in conjunction with a Board meeting, and it would be a hardship to the preparers and auditors of the consolidated financial report of the U.S. Government (CFR) to testify at a public hearing at the December 2008 Board meeting, which would begin only two days after the issuance of the audited CFR.

Mr. Farrell said that he would prefer to resolve issues prior to the August Board meeting. He also questioned why four Board meetings would be needed to resolve issues from public comment on the ED.

Mr. Reid said that it is possible that Treasury can get a sense of what the Board is proposing and incorporate some of the requirements into the CFR even prior to the issuance of a standard.

Mr. Farrell noted that if a standard is not issued by June 2009, there will be two new Board members [due to the expiration of the terms of Messrs. Farrell and Patton].

Mr. Allen said that as a result of the proposed changes- which need to be further developed by Messrs. Dacey and Werfel- that the Board would like to see the ED again at the August Board meeting, with a goal of issuing an ED by the end of August. He asked how long the comment period would be, and Ms. Payne replied that staff is proposing 90 days. Mr. Allen said that if the public hearing would be scheduled for February the comment period could be longer, but that perhaps fewer than four Board meetings would be required to finalize a standard.

Ms. Parlow asked for a sense of the Board regarding the concept of "inter-generational equity," which can be directly related to social insurance programs but is problematic regarding general government activities. She noted that for this reason, the simpler concept of inter-period equity appears in the ED. Mr. Allen said that this could be discussed and clarified tomorrow. He asked if there were any additional issues for the following day's discussion; none were identified.

[Note: this concludes the agenda session on Wednesday, June 18, 2008. The discussion continued on Thursday, June 19]

Ms. Payne opened the discussion of revisions to the ED that had been drafted by the OMB the previous evening.

1. Paragraphs 26 and 27 – guidance on policy assumptions

OMB suggested deleting example (b) from paragraph 27, and then incorporating examples (a) and (c) into paragraph 26. Mr. Jackson said that paragraph 14 should be revised to be consistent with changes made to paragraphs 26 and 27. Ms. Parlow said that staff could check to see how extensively the term "current policy" is used in the ED. She said that the footnote to paragraph 14 contains an important footnote that explains that "current levels" does not mean current dollar amounts.

Mr. Allen asked if staff could evaluate each of the items in the OMB proposal as to whether it represents a substantive change. Ms. Parlow said that the suggested changes to paragraphs 26 and 27 would be substantive changes. For example, OMB was suggesting that paragraph 26 should state that the guiding principle for assumptions should be current law rather than current levels of federal benefits, services and taxation. Ms. Payne noted that the recommendation resulted in some inconsistencies in paragraph 26. Mr. Dacey said that he believes that changing "current policy" to "current law" changes the meaning of what was there, because most of the projections other than benefit formulas are not based on current law. He said that he prefers "current policy." He said that the proposed revisions also would likely exacerbate any preparer/auditor disagreements.

Mr. Werfel said that the revision was meant to convey that you start with current law and then make revisions to arrive at what the ED calls current policy. Mr. Dacey said that a focus on current law would be more prescriptive than a focus on current policy because current law is simply what's in the statutes; however, most of the projections are very different from current law. He noted that "starting point" is not necessarily the same as "guiding principle." He said the "current policy" provided the threshold of when to depart from current law, whereas OMB's suggested language of "adequate guidance" does not provide a threshold. Ms. Payne noted that both the technical and the communications

experts on the task force had emphasized the importance of projecting current levels of benefits, services and taxation rather than current law. She noted that paragraph 18 of the ED explains this goal in broad terms, but that paragraph 26 enunciates the guiding principle.

Mr. Werfel said that he found the terms “current policy” and “current law” to be confusing and was concerned that other readers might also be confused. Mr. Dacey said that perhaps revised wording could be drafted. Ms. Parlow noted that the language addressing assumptions is not a minor issue; the Board spent several Board meetings deliberating on assumptions and coming to a consensus on the language in the ED.

Mr. Farrell asked Mr. Werfel why he wants to delete example 27(b) (current law regarding the Alternative Minimum Tax (AMT)). Mr. Werfel said that this item is more controversial and political than the other examples. Mr. Allen agreed.

Mr. Torregrosa (sitting for Mr. Murphy) said that he would accept the deletion of the AMT example as long as there was some reference to tax codes. Mr. Dacey said that there are expiring provisions of the tax code that may or may not be continued.

Mr. Patton asked why examples are necessary at all. Messrs. Steinberg, Allen and Dacey indicated that it would be difficult to understand the broad guidelines without examples.

Mr. Patton asked what constitutes an acceptable example. Mr. Jackson referred to the language at the top of page 19 in the ED, which refers to instances where Congress has consistently changed the law. Mr. Patton said that he would be satisfied if there is a question for respondents regarding the adequacy of the guidance on assumptions regarding when to depart from current law.

Ms. Parlow said that the “guiding principle” language in paragraph 26 was inserted in order to clarify the Board’s intent that projections should reflect current levels in lieu of current law. In addition, the language that OMB marked for deletion was intended to assist the preparer and auditor in applying the guidance.² This language reflected the view of a majority of the Board. Ms. Parlow asked Mr. Werfel if the intent of the OMB recommendation was to substantively change the content of the ED. Mr. Werfel said that the intent was to clarify the language and not to change the substance of the content.

Mr. Allen said that the recommendation to delete the AMT example in paragraph 27(b) was reasonable and that no objections to that deletion had been raised. However, he would leave it to staff to develop acceptable language for changes to paragraphs 26 and 27. Ms. Parlow asked if Mr. Werfel would accept beginning the paragraph with a statement that the guiding principle is that current law does not always fully support current levels of benefits,

² “in some cases current law may expire almost immediately, or not fully support current levels of benefits or services, or produce levels of taxation that are significantly different from current levels of taxation. In these cases, the preparer should use judgment in applying the general guidelines presented below for selection policy assumptions that are consistent with current policies.”

services and taxation. She noted that the “guiding principle” paragraph had been inserted to reflect the consensus views of the Board.

Mr. Schumacher asked if the requirement to explain departures from current law (that OMB added to paragraph 26) was a new requirement. Ms. Parlow replied that this requirement was already included in paragraph 42 of the ED.

Mr. Allen indicated that staff should try to find a compromise with OMB.

2. Paragraphs 40 – 47 – required narrative and graphics

OMB suggested that the term “required narrative and graphics” be changed to “required disclosures” in the section title and “accompanying analysis” in the text of paragraphs 40, 45, 46 and 47. OMB also suggested that the specific requirement for a table showing a range of possible results for each line item in paragraph 45 should be more general and only require a variance analysis for variances that significantly impact the projections.

Mr. Jackson was troubled by the term “analysis.” He said that it implies an analytical process rather than providing data to facilitate analysis. Mr. Dacey agreed and said that perhaps they should be called “required disclosures.” Mr. Patton asked what problem is being fixed by OMB’s suggestion. Ms. Payne said that there is an issue about what to call categories of information that will begin as RSI but ultimately be basic information. She said that staff would not object to labeling this section “required disclosures” if the Board desires, which would reflect the fully phased-in implementation status of the requirements in this section.

A majority of the Board indicated that this section could be re-titled “Required Disclosures.”

3. Paragraph 43 – other reports on state and local government

OMB recommended that a requirement to direct the reader to other recent reports that address the long-term fiscal outlook for state and local government should be deleted. A majority of the Board indicated that this edit would be acceptable.

4. Paragraph 34 – disclosure of trends at the end of [finite] projection periods

OMB recommended the deletion of a requirement to explain that trends, in particular near the end of the projections period, are important to consider. Instead, OMB would insert “The report should include charts or tables to illustrate the evolution of the projections over time. This might include a chart showing the ratio of debt to GDP or a ratio of the deficit to GDP.” Staff asked OMB what the edit meant, since “evolution” did not necessarily indicate trend information. Mr. Werfel said that the intent was to make the standard less prescriptive. He said that the preparer and auditor should determine what should be emphasized. Ms. Parlow said that this requirement had been very strongly emphasized by the technical experts of the task force in order to mitigate the shortcomings of summary numbers. Mr. Reid said that he would prefer the OMB language but substitute “disclose the direction of trends over time” for “charts or tables to illustrate the evolution of the projections.” Mr. Dacey said that this paragraph belongs in the “required disclosures” section.

5. Paragraphs 42-44 – required disclosures

OMB made a general comment that this paragraph could be less prescriptive. Ms. Payne noted that paragraph 44 has a broad requirement that the narrative should explain the significance of the graphics and put the information into context. She asked if the objection was to the requirement or to the illustrations. Mr. Werfel said that the goal was to remove

content that appeared to be too specific. Ms. Parlow said that the communications experts believed that the most important recommendation that they made was the importance of putting the information into context so that it would be understandable and meaningful to the reader. She said that retaining only the first sentence of paragraph 44 without any examples or explanation would likely result in a lot of confusion and questions from respondents on what is meant by this requirement. She also noted that the examples were clearly illustrative, using the language “may include but are not limited to.”

Mr. Jackson expressed the view that the specific content in paragraph 42 and 43 regarding disclosure of assumptions and the lack of precision inherent in projections is absolutely necessary. He said it is like the summary of significant accounting policies and is critical information for the reader. Mr. Allen agreed with Mr. Jackson. He said that it might take considerable work to determine what is critical and what is not. Ms. Parlow indicated that the requirements in this section were the result of recommendations of the task force approved by members as well members’ views. For example, paragraphs 43(c) that the reporting is limited to the activity of the federal government and does not include activities of state and local governments, had been suggested by Hal Steinberg and approved by a majority of the Board.

Mr. Werfel said that OMB was looking for opportunities to streamline the document and lighten the load of the requirements. Mr. Steinberg agreed with Mr. Jackson that the requirements in this section are necessary so that readers would not misinterpret the information. Mr. Werfel said that the edits for this section were considered to be “pretty minor.” Ms. Payne and Ms. Parlow said that staff could look at these paragraphs for possible redundancies in the language. Mr. Allen said that staff action for these paragraphs would be to look for possible redundancies.

Mr. Patton said that he appreciated the timeliness of Mr. Werfel’s suggested edits and understood that the intent was to improve the document. Mr. Werfel said that this was the intent and that it would not be a problem if the Board rejected the proposed edits.

6. Paragraph 32- valuation date

Ms. Payne said that the valuation date requirement was intended to parallel the reporting to the Statement of Social Insurance (SOSI) and was intended to be permissive. Mr. Jackson reminded the Board that the normal presumption is that the information is “as of” the ending of the reporting period, and that a Technical Release had been necessary to allow a different valuation date for the SOSI. He said that omitting this provision would result in a similar issue. Mr. Werfel said that he was concerned about the logistics of preparation.

The Board’s consensus was to strike the words “and no more than one year prior to the end of the current year” from the end of the first sentence in paragraph 32.

7. Paragraph 31 – disaggregation of changes attributable to: valuation period, changes in legislation and changes in assumptions

Mr. Jackson said that this requirement is necessary. Ms. Payne noted that it aligns with the Board’s views on requirements for a statement of changes for the SOSI. She said that some of the technical experts on the task force believe that this disclosure is necessary if summary amounts are to be presented. For example, they believe that at a minimum the change resulting from the change in valuation period is critical information and must be disclosed to avoid misleading the reader. Mr. Reid asked if a table is necessary. Mr. Werfel asked if there might be implementation difficulties is disaggregating all of the changes into

the three categories. Mr. Jackson agreed that although the requirement might be relatively easy for the SOSI, it might be more difficult with reporting that addressed general government activities. Mr. Dacey said that the requirement could be made a bit broader and only cover significant changes in the three categories.

The Board's consensus was to make the requirement more generic so that it does not require the disaggregation of all changes into the three categories.

8. Paragraph 33 – projection periods

Ms. Payne noted that the requirements relating to projection periods were the result of Board consensus at previous meetings: to allow preparer discretion in selecting a finite or infinite projection period for the primary summary display, but to require disclosure of summary totals for the projection period not selected for the primary summary display. She asked if OMB and Treasury could explain what changes were being suggested.

Mr. Werfel said that a decision needs to be made about how prescriptive the requirement should be. Ms. Parlow said that the Board had previously deliberated upon the issue of the projection period and that paragraph 33 was the result of a majority vote. Ms. Parlow said that if Mr. Werfel wished to re-open the issue, that perhaps the briefing materials addressing the topic should be made available to the members prior to discussion. Ms. Payne suggested a middle ground- that the document being developed is an ED and the Board is expecting to receive a considerable number of comments from economists, the public and others. She suggested that the Board include the more restrictive approach in the ED and then take advantage of the comments received in this area.

Mr. Werfel agreed that this would be a reasonable solution, depending on how the question is worded. Ms. Parlow said that Q4 addresses projection periods and asked if there were any suggested changes to the language in the question. Mr. Allen reminded the Board that an ED should always go out with the most burdensome requirements and make the final standard less restrictive based upon comments and re-deliberations.

The consensus was to leave paragraph 33 and consider public comments on Q4.

Mr. Farrell asked if Q4 could specifically prompt a response on whether the disclosure on data for the horizon not selected should be required.

9. Paragraph 37 – line items for primary summary display

Mr. Jackson strongly objected to eliminating the categories of Medicare, Social Security and Medicaid for disaggregation in the primary summary display. Mr. Werfel said that those categories might be less significant in the future. Mr. Jackson said that standards can be amended at any time. Mr. Allen agreed with Mr. Jackson.

The consensus was to change the requirement to “major programs” and use Medicare, Social Security and Medicaid as examples.

10. Paragraph 45 – range of possible results

Mr. Dacey provided a draft revision of paragraph 45 that emphasized alternative sets of assumptions rather than high/low projections. There were no objections to the revised paragraph.

CONCLUSIONS

Regarding the Treasury proposal, the consensus was to continue developing the Board's draft ED ("staff draft") but to be open to consideration of some of the ideas in the Treasury proposal. For example, paragraphs 20 (inter-generational equity) and 23 were identified.

Messrs. Werfel and Dacey will provide a draft of a revised recommendation regarding fiscal imbalance/fiscal gap that staff will incorporate into the draft ED. Mr. Dacey will provide draft language on inter-generational equity.

Staff will implement the results of Board consensus on edits suggested by Mr. Werfel per items 1-10 above.

The Board will review a revised preballot draft ED at the August 2008 Board meeting.

- **Social Insurance**

The objective for the June meeting was to approve specific components of additional social insurance reporting as outlined in this memorandum, after which staff would develop an exposure draft.

Mr. Werfel asked if there is a precedent for the Board to put into a standard a specific highlights table or, assuming this is required supplementary information (RSI), to be this prescriptive with respect to an RSI presentation.

The staff explained that the RSI standard, SFFAS 15, is general but that the accompanying concepts statement, SFFAC 3, provided detail about what could be in the management's discussion and analysis (MD&A). The staff said however, that specifying a tabular format would be new. Staff said the objective is to be only as prescriptive as necessary to ensure display of certain line items and subtotals.

Mr. Werfel suggested that the standard could be flexible. For example, it could require the preparer to do a summary presentation that includes certain information, with the table being merely illustrative. He suggested requiring summary information in a way that does not set a precedent of defining the exact presentation. He was concerned that in the future the preparer would not have the ability to determine what information is most significant and report accordingly.

Regarding the precedent question, Ms. Payne noted that the stewardship reporting requirements did specify the components, number of years, etc. of RSI.

Mr. Steinberg said he could not think of any standard that specified formats. He said the standards specify the elements that should be included and it is up to the preparer to specify the format. He said even for basic information, the standards do not specify the format.

Mr. Werfel said that he would not necessarily object to the disclosure of the open and closed group numbers in the financial report, but if they are required in the summary presentation, in the "citizens' view," then the preparer would be painted into a corner. The preparer would not be able to respond to feedback from users that, for example, presenting both numbers is confusing. He noted that being responsive to the users might require additional reporting, which would be confusing. He said he had gotten feedback at OMB that having both the

open and closed group numbers is confusing. He noted that Treasury is already providing the summary table; and, although there was a danger that a future administration might discontinue it, the Board should act at that time. He said the Board should set standards when there is a real market failure, gap, or something not happening that needs to happen.

The staff said that specifying a table format would introduce constraints, but the benefits of a table are that the Board could specify new data to display as well as structure for the information, e.g., it would define “gross cost,” ensure that the totals foot, and that the subtotals communicate what the Board wants.

Mr. Allen asked the members to address the staff’s first question in the briefing memorandum regarding the highlights table.

Mr. Werfel said he was offering an alternative to the highlights table illustrated in the briefing memorandum, as a middle ground. He advocated providing basic parameters for summary data with which the preparer and auditor could work without being too prescriptive. He emphasized the importance of his example of the preparer being stuck with the closed and open group display when it would be better to discuss one or the other, not both.

Mr. Reid said Treasury explains the closed and open group measures in the CFR because it gets questions, too, regarding what they mean.

Mr. Werfel said the target audience for a summary display in a citizens’ guide does not care about the open or closed group; they want to understand the nature of the government’s fiscal health. The nuances of open and closed groups are not important to them. He said he was concerned about burdening the summary document. He said OMB, GAO, and Treasury spent a lot of time writing the citizen’s guide with a target audience of a 10th grade civics class, and he wanted to preserve the preparer’s ability to write to that level. He argued that this audience needs one number. He said the problem was two metrics rather than the terminology “open group” or “closed group.” He personally favored the open group over the closed group but would support a single metric even if it were the closed group. The presentation needed to be simple in order to get a measure across.

Mr. Allen said he agrees that simplicity is a goal but so is credibility, which follows from showing how things fit together, from articulation. He said the Board chose the closed group measure for the statement of SOSI changes because it is more measurable and consistent than the open group. He said he would not object strongly to dropping the open group measure. However, the closed group measure is needed because it articulates with the statement of SOSI changes.

Mr. Jackson said that Mr. Werfel has raised a larger question regarding whether the highlights table was something suitable for an RSI-type standard that deals with basic information. He said the solution might be that, first, the standard could require [several key items of] information in a highlights section, e.g., total cost, net position, assets, liabilities, the closed group, and the unified budget deficit; and, second, include a non-binding illustration.

Mr. Reid agreed.

Mr. Jackson said he had heard two things: first, that two numbers are used to speak to the same subject matter, which gets confusing; and, second, it is a bit too prescriptive to require

a certain format. He suggested requiring the content of the table in words and providing an illustration.

Mr. Allen said that that would be all right with him. He said he would argue for more than one number other than net cost. He said it was important to see the gross revenue and expense so the change can be seen. He said that that was part of making this meaningful.

Mr. Dacey said he had a concern about the degree of specificity. He said the MD&A standard and concepts statement seemed wholly different from the proposed highlights table. It was inconsistent with the current level of prescription. He said that if the Board wants summary selected financial information, there is an MD&A section for the discussion and analysis of the financial statements now. If the Board wanted a presentation of key financial information, the Board could update the MD&A standard, add the statement of social insurance, because it was not around when the standard was developed, and possibly add fiscal sustainability a little bit more clearly if a proposed standard is going to move forward in that area, too. He said the Board should be talking about amending the MD&A standard and using the same level of abstraction as in the current MD&A standard.

Messrs. Jackson and Steinberg agreed that amending the MD&A standard would be the best approach.

Mr. Schumacher said he did not have a problem being less prescriptive and in fact not showing a highlights statement as long as a minimum of information is required. He said his only fear is that if the Board is not prescriptive to a certain extent then at some point the preparer might decide to dispense with the closed group information.

Mr. Werfel said that that could be achieved by requiring “critical measures” from the balance sheet, statement of net cost, and other principal statements.

Mr. Dacey agreed.

Mr. Werfel added that if the preparer did not include some critical measure, e.g., SOSI information, the requirement would not be met. He said the standard could name the specific principal financial statements from which the critical measures are to be taken.

Mr. Jackson commented that a problem is that if you just say “critical measures” it becomes discretionary. He said that for RSI you have to be somewhat prescriptive.

Mr. Dacey said that that was why he said you work with the existing MD&A standard.

Mr. Reid suggested adding a section to the existing MD&A that would address summary information.

Mr. Dacey agreed, saying the objective would be selected summary financial information like that required of private entities.

Mr. Steinberg mentioned that his experience with the CEAR program showed that the weakest part of the MD&A right now is the analysis of the financial statements. The agencies are supposed to point out the significant amounts that affect the overall financial position, the major changes during the reporting period, and the causes thereof. He noted for example that the agencies report fund balance with Treasury as a significant amount

affecting overall financial position because that is the largest amount, although it has nothing to do with the operations of the agency. Regarding significant changes, Mr. Steinberg said the agencies report that assets went up and the reason is property, plant, and equipment went up; they do not say why it went up. In short, he said they just tell the reader things that are apparent in the financial statements. He concluded by saying that not only did he think the idea of saying that this is information that should be in the MD&A standard, but he would use this as an opportunity to expand on what the Board requires regarding the analysis of the financial statements.

Mr. Reid added that Treasury is not able to use the agencies' MD&A to get an explanation of events for use in CFR's MD&A. The explanation is not in the agencies' MD&A and Treasury has to make phone calls to get it.

Staff noted that SFFAC 3 provides guidance on what entities should include in the MD&A, and commented that agencies apparently are not following SFFAC 3. Staff questioned whether additional general guidance would be effective.

Mr. Allen said that Mr. Steinberg's point illustrates both the need to beef up the MD&A standards and the need to specify something the Board thinks is important. He opined that just telling the reporting entities to identify the significant issues will result in the current MD&A and you would end up with nothing.

Mr. Steinberg agreed. He said he would identify what he thought was significant, although not the specific format.

Mr. Farrell noted that the name of the standard is social insurance and the objective is to relate social insurance liabilities/commitments and changes therein to the rest of the financial statements. The talk about not being prescriptive clouds the objective. He said the Board is trying to take very, very large numbers and show how they relate to the rest of the financial statements, regardless of whether you call them open or closed. He opined that leaving the determination and explanation of what is important to the preparer's discretion would ignore numbers the Board is trying to deal with. He said the Board would have to tell people that the Board would like them to present these social insurance commitments in proximity to other numbers presented in the financial statements so people can make judgments. He concluded by saying he thought the Board would have to be prescriptive.

Mr. Allen noted that the Board had voted on whether this is a basic financial statement or RSI. He said there were some members who believed this was so important that the [reporting model] probably ought to start here. It ought to be the top of the pyramid and link to all the other financial statements. He noted that that position had not carried the day; the MD&A vehicle carried the day. Mr. Allen concluded by saying there was a need to be careful in specifying what is wanted.

Mr. Allen told Mr. Farrell that he appreciated the reminder that this [project's objective] was to help people see the magnitude of the social insurance commitment up front and relate it to other information.

Mr. Werfel said he was not proposing eliminating the requirement for a highlights table that draws critical measures from each of the basic financial statements. He said he thought the Board could achieve the same objective without specifying a particular tabular format. He wanted to preserve the flexibility to present it in other ways. He said that at the end of the

day the Board would have a table that probably will look a lot like the pro forma illustration but would allow the preparer to pivot potentially in a way that would meet user needs over time. He said the Board operates at its best when it gives the preparer and the auditor a certain degree of flexibility; and if the preparer is not meeting the spirit of the standard, then the Board should come in and rectify the situation. He noted that, given that the CFR over the last several years had already contained a table that looked very much like this, the Board was in a lower risk environment if it goes with a more flexible standard.

Mr. Werfel asked whether the preparer would have the flexibility to report a major new liability or would the preparer have to use the line items shown in the pro forma highlights table.

Staff responded that the standard probably would not specify the sub-line items under liabilities and the preparer would decide what sub-line items are displayed.

Mr. Werfel said he would want the standard to be specific regarding how much flexibility the preparer had.

Staff responded that the objective at this session was to obtain the Board's approval of the reporting concepts. The next step would be to develop the details of the standard for the Board's consideration.

Mr. Werfel added another point. He asked whether the preparer would be able to add fiscal imbalance or other measures from the statement of fiscal sustainability to the summary. He said that that might constitute adding line items to a prescribed table. He said the Board should grapple with these types of questions before tying itself to something.

Mr. Allen said that the only sustainability number the Board mentioned earlier in the day was the issue of inter-period equity or inter-generational equity.

Mr. Werfel said that in a few years from now there would be a statement of sustainability. At that time the whole report, the citizens' guide, the MD&A, could be anchored around a fiscal gap measure of \$51 trillion, which would not appear in the summary display because the standard would have been written at a time when that metric did not exist.

Mr. Patton said that a new sustainability standard could amend the highlights standard.

Mr. Werfel agreed but said revisiting the standard complicates things. He preferred a standard that would say merely that the highlights summary should include critical measures of each basic financial statement; this would solve the problem of what to do with new measures as they arise.

Mr. Jackson said that MD&A is an evolving standard. He noted that when the MD&A standard was created the intention was merely to establish the requirement to have an MD&A. The standard was somewhat vague about content because the Board wanted to encourage the agencies to experiment and not have the cloud of the audit process hanging over their heads. He said that was an important concept at the time. He said he was not in a position to say whether it has resulted in good MD&A. Although he said he was very sympathetic to what Mr. Werfel had said, Mr. Jackson said that we are seeing an evolution where there is a need in certain cases to be prescriptive beyond merely requiring an MD&A. He said there needed to be key information, for example, net cost, net position, social

insurance exposures, unified deficit, and the Board might prescribe the closed group for the social insurance section, with some discretion about what goes under those headings.

Mr. Allen said he appreciated hearing Mr. Jackson's view of the development of the MD&A standard. He shared GASB's experience. GASB held 27 public hearings around the country during its MD&A standard setting on what users of financial statements want. Users said they wanted to know why things changed. From the hearings Mr. Allen said GASB found 11 items of information that were very important, one of which being an explanation of the changes in the major assets, expenses etc., and summary information. He said GASB had decided it needed to be specific.

Mr. Werfel mentioned that paragraph 13 of SFFAS 15 represents the feeling of the Board at that time about the appropriate level of detail.

[SFFAS 15, par. 13: At the same time, the Board concluded that MD&A should be treated as required supplementary information. The Board agreed that it would recommend no detailed requirements or guidelines for MD&A at this time, beyond those in paragraphs 1-8. In other words, a discussion and analysis by management that addresses the listed topics should be required, because it is an essential part of a complete GPFFR. At the same time, management should have great discretion regarding what to say about those topics, subject only to the criteria in paragraphs 1-8 and the pervasive requirement that MD&A not be misleading. The standard itself, therefore, is not extremely prescriptive.]

Mr. Allen said that that was appropriate at the time, based on the lack of feedback from people and not knowing what they want. He added that he thought the Board was now saying it wants some things discussed and analyzed.

Mr. Reid commented that Treasury had put the CFR summary together in response to a survey it undertook of people new to Treasury who were used to seeing a summary schedule on the first page of corporate reports submitted to the SEC from which the readers can quickly get key information without having to read all the narrative. He noted that Treasury considered this feedback together with the problem of people not reading the reports and concluded that, if there were one thing they would look at, it would be a summary table on the first page of the MD&A.

Mr. Reid added that he was sensitive to what Mr. Werfel had said. Rules can ossify; they need to be flexible.

Mr. Allen suggested looking at the line items in the pro forma highlights table and deciding which ones are critical. He suggested that the standard could specify these and conclude with "and other key financial information that the preparer believes ought to be included," which would allow expansion. He opined that the Board could easily take out the open group, which is not critical to articulating to the other statements, if it complicated the display; but the preparer may want to display both the open and closed group, since other FASAB standards address both. He agreed that the standard could be in narrative form with an illustration quite a bit like the pro forma highlights table.

Mr. Werfel said he was not sure he fully grasped the need for the closed group over open group. He asked whether that decision is based on the decision to use the closed group for the statement of SOSI changes.

Mr. Allen said it was. The closed group measure would articulate with that statement.

Mr. Reid added that, to the extent that it articulates with the statement of SOSI changes, the change would be what is analyzed in the MD&A.

Mr. Werfel said that that made sense.

Mr. Jackson noted that the analysis of the change probably would be a component of the “financial statement” category of MD&A topics SFFAS 15 requires. Thus, he noted that the standard could be describing the content of a current MD&A section.

Mr. Allen asked if there were any other objectionable items in the highlights table other than the open group.

Mr. Reid said that line item “gross costs” should be changed to “net costs.”

Mr. Jackson agreed.

Mr. Allen asked the members whether each of the elements shown in the highlights table is important.

Mr. Reid said that some of the captions were important. He said he would address the standard to the categories rather than the sub-line items, which would address Mr. Werfel’s concern.

Mr. Allen agreed and suggested having staff write the narrative format that captures it at that level.

Mr. Werfel added that it made sense not to delineate liability sub-line items.

Staff asked whether the Board wanted the key financial information related to each other in one section.

Mr. Allen said they should be presented in relation to each other and refer to the financial statements where they appear so the reader can easier go to that statement for more information.

Mr. Allen asked if the members approved the approach outlined. No members objected or requested that any line items be added or deleted.

Mr. Dacey said that, broadly, he thought that the Board was being too prescriptive. He noted that there are six statements – or seven if the statement of changes in SOSI is included – and the Board is not covering these other ones. He said he favored a summary of selected financial information but was unsure of how prescriptive such a standard should be.

Staff noted that per the members’ comments today, the highlights summary would not be a statement but rather a narrative section bringing in data from other statements.

Mr. Dacey agreed but said that the Board's framework in SFFAC 3, the MD&A concept statement, now says that you should provide particular balances and amounts from the basic statements. He was prepared to go beyond that to a summary of selected financial data like the SEC requires; but he was concerned that the Board was going to pick some of the statements rather than all of the principal statements. He thought the Board would have to open up the MD&A standard, and the fiscal sustainability standard could be affected.

Mr. Allen asked each member if they were comfortable with the statement that the Board will identify all of the items on the pro forma highlights table, excepting the open group measure, and specify that these are the key items the Board would like to see discussed in a summary highlights section.

Mr. Jackson said he thought "gross costs" should be "net costs" but otherwise was in full agreement with Mr. Allen.

Mr. Steinberg agreed, noting that the new standard should amend the MD&A standard.

Mr. Murphy agreed.

Mr. Reid said he agreed with Mr. Dacey's position but, if the Board were going to go this way, he agreed that the Board should amend the MD&A standard, SFFAS 15, and in a way so that it also handles sustainability and anything else that may come up.

Messrs. Werfel and Dacey agreed with Mr. Reid.

Mr. Schumacher agreed with Mr. Allen's statement.

Mr. Patton asked whether, when Mr. Allen said "all these items," he literally meant the sub-line items like "federal employee benefits." Mr. Allen answered that he did not mean the sub-line items. Mr. Patton then also agreed.

Mr. Schumacher asked if the standard would include an illustrative statement.

The staff responded that there would be an illustrative section but not a statement since the members did not favor tabular format. Several members affirmed that the standard should include an illustration of the MD&A section.

Mr. Allen took up staff question two. Staff noted that question two asked whether there should be line item at the bottom of the balance presenting the net present value of the closed group.

Mr. Allen asked whether any member wanted to change his vote from the April meeting. [Attachment 1 presented a matrix of members' views on these questions.]

No one did and Mr. Allen noted that there was the same majority as in April in favor of this line item on the balance sheet.

Mr. Allen then took up staff question three. Staff noted that question three asked whether there should be a summary section at the bottom of the CFR and component entity SOSI presenting closed and open group information as illustrated in the attached FY 2007 CFR and pro forma SOSI.

Mr. Reid noted that in the future folks might become interested in net numbers by cohort and he would like to be able to put the total in for cohorts.

Staff agreed that the standard should be written so that it does not preclude presenting the information in different ways.

Mr. Allen mentioned staff question four. Staff noted that question four involved the statement of changes SOSI, which the Board has favored unanimously. The staff said that without objection, it would proceed with that statement.

There were no objections. However, Mr. Dacey noted that the pro forma statement of changes involved the closed group and asked whether the Trustees' Report presented changes for the closed or open group. Staff said he would research that information. [*Staff note: the Trustees' Report presents the reasons for the change in the 75-year actuarial balance for the open group population as a percent of taxable payroll, which line items identical to those in the staff pro forma illustration (see Table IV.B9), and the reasons for the change in the trust fund ratio over 10 years, again, with line items identical to those in the staff pro forma illustration (Table IV.A4).*] Mr. Dacey said he would reserve the right to change his affirmative vote pending the staff's analysis of the basis for the Social Security Administration's choice of the open group for its analysis of changes and a determination of whether the data was readily availability for a closed group changes statement.

Mr. Steinberg said he was not sure what the line item "change in ... programmatic data" meant and asked the staff to provide descriptions of each of the line items in the changes statement for the standard.

Mr. Allen then took up staff question five regarding note disclosure of a liability-type number. He noted that Mr. Reid had suggested this type of disclosure because many users ask for it and it is not provide currently in the financial reports.

Mr. Jackson discussed his concern about disclosing a different number than the closed group measure. He noted that a liability-type number might be confusing since it would be calculated on a different basis than the closed group measure.

Staff noted a liability-type number would be valuable because it could be used to explain the difference between the closed group measure and pension numbers wildly used by citizens.

Mr. Jackson said he was okay with it.

Mr. Werfel referenced the "kept it simple" goal and said if the open group measure is disclosed, the closed group measure is disclosed, the accrued benefit obligation is disclosed, and other measures are disclosed, the Board is weighing down the report with a lot of different metrics and about which he was concerned. Too much information may dilute the impact of the primary numbers.

Mr. Jackson agreed. He said it raised the question of which measure is relevant. He also equated the SSA's "accrued benefit obligation" with the concept of the "ABO" from FAS 87, which he said connotes something not being a going concern in contrast with the closed group and the open group measures that suggest the long-term, permanent nature and

magnitude of the social insurance programs. He characterized the ABO as a measure of what an entity would owe its employees if it shut down today. Mr. Dacey said it was not even that because that implies that that would be the way it would be, which is a policy question. Mr. Jackson said he worried about mandating something like that when dealing with programs such as Medicare and Social Security. He said his biggest concern was that it could suggest the programs might be up for termination because of what that number means on a corporate balance sheet.

Mr. Werfel said the term “accrued obligation” seems to connote almost a liability. Going back to the Board’s deliberations on the question of liability, he said the Board never reached consensus or even six votes on what to do on that point. He said there is a risk in reporting something called an accrued benefit obligation because the term seems to imply a liability, or at least it is confusing.

Mr. Allen went around the table for views. He noted that Mr. Reid proposed this because it was a number very commonly asked for and since the Board had not reached a conclusion on the liability question, something could be put in a note.

Mr. Reid said the note would also provide context for the number. He added that he agreed with Mr. Werfel that there is an issue here with respect to clarity.

Mr. Werfel added that putting this number in the report, even though Treasury would provide context, gives it meaning as an official metric that the U.S. government is considering. He said the Board needed to be sure it understood what the meaning and implication of that number is. He questioned whether the Board had deliberated enough on this issue. He said it was a significant, substantive decision the Board was making not just a number provided for curiosity sake. He said it seemed inconsistent with what the Board has been deliberating on liability treatment.

Mr. Jackson reiterated his concern about that an ABO-type number implied termination. He said that all the other actuarial calculations for employee benefits are on a PBO-basis.

Staff responded that the terms “ABO” and “PBO” are normally applied to employer’s pension accounting. Staff explained that the only difference between the ABO and the PBO is that the latter reflects projected final salaries for the employee population, and that Social Security projections are indexed and so in a sense SSA’s projections are similar to the PBO. However, staff was reluctant to use the terms “ABO” and “PBO” for Social Security due to the fundamental differences between Social Security and employee pensions.

Mr. Allen asked staff to give some thought to that and members could provide some feedback to staff to explain the downside and upside of this and then the Board can vote on it. He said an option is to not illustrate it but have a question in the exposure draft regarding the value of the disclosure and whether the respondents would like to have it.

Mr. Patton asked whether the staff would include the disclosure as part of the first draft of the exposure draft.

Staff said it would include it in the first draft with a question to the members regarding whether the Board wanted to retain it. Staff asked members to provide pros and cons and concerns in the meantime for inclusion in the discussion.

Mr. Allen noted that would leave the question open for future initial consideration, i.e., future consideration would not constitute reconsideration.

Mr. Allen then took up question six. He said he had sent a memorandum out asking for reconsideration of the issue of including in the operating statement a bottom line like that on the balance sheet representing the change in the level of social insurance commitments. The question was answered in the negative at the April FASAB meeting by a 6 to 4 vote. He asked if he had changed anybody's mind.

Mr. Jackson said this standard has been going on long enough and if the Board goes back and re-opens issues it has already decided then it is possible the standard will be held up for a longer period of time, which he said was contrary to the public good. He said he preferred that the Board stay on its current route. He said that what the Board has with respect to the illustrations in this briefing document sends a very strong message regarding social insurance programs and preferred not to delay it further.

Mr. Allen asked if anyone would object to a section in the basis for conclusions saying the Board considered this and the reasons why the Board rejected it. The ED would then also have a question in this regard for due process participants.

Mr. Jackson said he had no objections to that.

Members raised no objections.

Mr. Patton said that, in the same spirit, he would like the basis for conclusions to have an explicit and extensive discussion of why certain Board members concluded that this was not a liability before the due and payable date and others thought that it was.

Mr. Allen said that that would be fine and added the basis for conclusions should also address the due process feedback and why the Board concluded that the compromise position was good enough and represented progress.

Mr. Patton stated that, for his own education, he would like to understand exactly why the Board's conceptual framework does not result in a liability before the due and payable date.

Mr. Allen noted that the Board did not say it was or it was not, it did not resolve the issue.

CONCLUSION

- The staff will develop an exposure draft of a social insurance standard requiring all the major line items on the pro forma highlights table in the June briefing book to be displayed, analyzed and discussed in the entity's MD&A section, excepting the open group measure. The major line items are the key items the Board would like to see discussed in a summary highlights section.
- The standard will amend SFFAS 15 under the MD&A category "financial statements."
- The standard will not require specific sub-line items like "federal employee benefits."

- The standard will neither require nor preclude tabular format. Accompanying examples may include a non-mandatory table.
 - Staff questions 2-5 were answered affirmatively.
 - Question six, regarding the reconsideration of a line item on the operating statement for the change in the social insurance commitment between during the reporting period, was answered negatively. There were no objections to including a discussion of the issue in the basis for conclusions and a question for respondents on the subject.
 - There will be a discussion and analysis of due process responses received during the preliminary views phase and of the rationale for the compromise position. There will be an explicit and extensive discussion of why certain Board members concluded that this was not a liability before the due and payable date and others thought that it was.
- **PP&E Valuation**

Ms. Valentine opened the discussion by recapping the history of the Board's general PP&E valuation project. She noted that the project was initiated during the Board's technical agenda discussion last September. During that discussion staff noted Board support for an effort to reduce the cost being incurred and expected to continue to be incurred at the Department of Defense (DoD) as they establish values for general PP&E during the coming years. Also discussed was the fact that there still remain many issues that agencies are dealing with as it relates to G-PP&E. At that time it was agreed to develop GPP&E estimation guidance as well as seek the assistance of the AAPC to take on a project to address the many G-PP&E implementation issues that agencies are still struggling with.

Ms. Valentine then gave an update of the AAPC project. The AAPC formally accepted the project from the FASAB at its January meeting. The AAPC agreed to form a G-PP&E task force that would be chaired by Dan Fletcher of the Department of the Interior and Donjette Gilmore of the Department of Defense. Ms. Valentine noted that the task force has over sixty participants and represents nineteen federal entities. The task force meets monthly and has also formed four subgroups to address the many G-PP&E issues brought to the task force. Each of the four subgroups is headed by one or two leaders and meets at least monthly. Task force members have joined the subgroups based on their interest in the topics being addressed by each subgroup. Ms. Valentine stressed to the Board the tremendous interest in the work of the AAPC task force as well as the dedication and commitment displayed by the members. The Board members expressed their overwhelming support and appreciation with the interest and dedicated work of the task force and applauded their efforts in taking on such a monumental task.

Ms. Valentine directed the Board back to the draft exposure draft developed to clarify that the estimation of historical cost G-PP&E based on reasonable methods would be acceptable and is meant to promote cost effective implementation of the PP&E

standard. This exposure draft proposes amendments to SFFAS 6 and 23 to provide guidance for

- Estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization; and
- Estimating the historical cost of existing G-PP&E if obtaining historical cost based on the original transaction data is not practical (i.e., not cost effective or supporting historical cost original transaction data documentation does not exist).

Mr. Allen opened the discussion up for questions and comments from the Board members. Mr. Jackson, referring to page 5 of the draft [“This proposal also expands the use of estimates for existing G-PP&E if original transaction data historical cost information necessary to comply with the recognition and measurement provisions of SFFAS 6, as amended, have not been maintained.”], asked what would be the case if historical cost documentation has been maintained. In those cases when the entity is unable to gather all of the documentation in a form that would facilitate a complete and supported historical cost valuation. Mr. Jackson also commented on the wording “... if obtaining original transaction data historical cost is not practical ...”. He stated that “practical” is too subjective of a measure that can be challenged. The standard should provide for recognition of data not maintained in a form that makes the data readily available. Ms. Valentine asked if the parenthetical phrase [“(i.e., not cost effective or supporting historical cost documentation does not exist)”] after “practical” was sufficient explanation. Mr. Jackson asked who would be the judge of “cost effectiveness.” He also stated that for many entities, cost effectiveness means that systems and business processes are not in place to collect data for the purpose of ready valuation of the asset. He noted that there needed to be more specific illustrations of “not cost effective” in the standard.

Mr. Allen stated that he was fine with the first proposal of the standard that allows estimating the original transaction data historical cost upon initial capitalization, however the second proposal should be based on more stringent criteria. His assumptions are that entities have systems and processes already in place to track current year historical cost addition and deletion values.

Mr. Werfel noted that he believes that the fundamental issues relating to the tracking of historical cost values for G-PP&E was initiated so that the Board could address the notion of requiring historical cost valuation for all assets. This proposal in the interim would address the issue of wasting resources to gather historical cost data. The bigger issue is – is historical cost valuation the appropriate measure for certain assets.

Ms. Payne asked the Board members if the exposure draft (ED) should propose a date-certain instead of the current open-ended proposal to mitigate the subjectivity of any criteria (noting that the criteria were developed in response to concerns among auditors that the proposal might be applied more widely and for a longer period than

appropriate). Mr. Jackson agreed that a date-certain clause should be added to the ED. He also reiterated that specific conditions for cost effectiveness should be included in the proposal, such as the lack of mature systems and processes and those systems and processes do not facilitate the ready and timely collection of data for the valuation of the G-PP&E asset.

Mr. Reid suggested removing the parenthetical phrase “(i.e., not cost effective or supporting historical cost documentation does not exist)” after “practical” because it leaves too much to judgment. It should be as simple as, if it is not practical for an entity to capitalize based on historical cost documentation then estimation should be allowed. Mr. Jackson also agreed that the parenthetical phrase should be removed because it seems to add confusion.

Mr. Jackson asked that the word “were” in the first sentence of paragraph 11 in the proposed amendments to SFFAS 23 [This standard recognizes that determining initial historical cost may not be practical for items acquired before adequate systems and controls were established.] be changed to “are” – “were” denotes that adequate systems and controls are already in place. Mr. Jackson asked if the word “acquisition” in paragraph 13 in the proposed amendments to SFFAS 23 was changed to “in-service” to clarify that the intent is to distinguish between when an asset is actually acquired versus when it is placed in service. Ms. Valentine noted that change was to clarify the intent of the standard.

Mr. Patton asked if this proposal was an open-ended allowance for entities to estimate G-PP&E assets and will the open-ended allowance end if or when the Board takes up the issue assessing historical costing for certain assets. Mr. Werfel noted that the question is – is it worth forcing agencies to continue gathering old data instead of moving forward to get systems and internal controls in place to adequately capture G-PP&E valuation data. Resources are being spent assessing the values of old assets. He stated that there is value in the Board reviewing the question of tracking the historical cost of certain G-PP&E (i.e., military equipment) as it relates to smart investment decisions.

Mr. Schumacher asked what would be the case if there is a new agency that is investing in assets but does not have the proper systems and processes in place to adequately value those assets. Mr. Allen answered – as the proposal currently reads, the agency would be entitled to the initial implementation allowance and the continued estimating allowance if needed until their systems and processes are in place to adequately capture the data.

Mr. Werfel noted that allowing estimations should not be viewed as a negative methodology, especially in cases when cost effectiveness has been assessed. Mr. Jackson noted that estimating was not “cheap”, but that there are costs involved with the estimation process.

Mr. Dacey agreed that allowing the use of estimation methods should not be viewed as a “give away” because the proposal states that the estimates must be reasonable.

Also, agency financials are filled with estimates (i.e., certain liabilities, accounts receivables, etc.). The question that will have to be addressed as agencies implement the standard is – are methods being used that provide for the reasonable estimation of historical costs. Estimates should always be allowed. Mr. Patton asked what is the “reasonable” criteria being measured against.

Mr. Allen asked the members for their final thoughts on the changes that need to be made to the draft ED. Mr. Jackson stated that it was about right, but it needed the added clarification that he previously talked about. Mr. Farrell was more concerned with moving the proposal along in the most efficient manner – resolve the questions discussed and get the ED out for comment. Both Messrs. Steinberg and Murphy agreed with the edits suggested by Mr. Jackson. Mr. Reid stated that the basis for conclusions should reflect the expectations of the Board. Mr. Allen noted that he initially did not agree with the open-ended allowance of estimates but after hearing Mr. Dacey’s assessment of the use of estimates he sees that even with estimates disciplines are still in place.

Mr. Werfel questioned the application of the proposed amendment being treated as a correction of an error instead of a change in accounting principle. Ms. Payne noted that a change in principle would not produce comparable statements for entities that applied this standard and would also allow for a rolling effective date for both SFFAS 6 and 23 – that is whenever an entity implements this standard SFFAS 6 & 23 would then become effective for them. Ms. Valentine noted that a change in accounting principle would be if, for example, the proposal was changing from the historical cost basis to replacement cost basis. Mr. Allen asked if there were any agencies that we know of that would have to restate due to the application of this standard. Mr. Werfel noted the Department of Homeland Security (DHS) would be one that he knew of off hand, but that there may be others. Ms. Valentine agreed to talk with the OMB staff and DHS to determine the restatement implications of the standard.

Mr. Schumacher agreed to move the proposal forward and noted interest in seeing the respondents’ views to the open-ended versus date-certain question. Mr. Patton asked Ms. Valentine to add some additional context language in the basis for conclusions as it relates to the question on open-ended versus date-certain. The additional language should give the reader a better understanding of why the question is being asked.

Conclusion: For the August meeting, staff will make the revisions discussed by the Board and provide a ballot draft version of the ED for the Board’s review.

- **Steering Committee Meeting**

The Steering Committee met in closed session with the Appointments Panel.

Adjournment

The meeting adjourned at 4:00 PM.

Thursday, June 19, 2008

Agenda Topics

- **Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates**

The objective for session on June 19, 2008, was to approve the issuance of *Reporting Gains and Losses from Changes in Assumptions and Selection of Discount Rates and Valuation Dates*, as a final Statement of Federal Financial Accounting Standards (SFFAS).

The staff asked the Board to respond to two questions regarding the FECA/workers' compensation liability. In addition, Mr. Dacey had submitted a suggestion to remove the reference to the use of "five historical rates" in developing the average historical Treasury rates.

Mr. Steinberg had initiated the issues with respect to FECA/workers' compensation, and he explained his concern about requiring the disclosures for FECA/workers' compensation. He noted that it is not a very big liability for most agencies. In addition, he said that it was not "post-employment;" the government tries to get these employees back to work. He said staff had addressed his comment by distinguishing FECA/workers' compensation throughout the standard, but that was the opposite effect he was looking for. He said he was concerned whether the Board knew enough about the information that the Labor Department gives the agencies in this regard to say whether the agencies could comply with the disclosure requirements. In addition, Mr. Steinberg said he did not think the cost of FECA/workers' compensation was fundamental to the agencies, unlike veterans' compensation is to Veterans Affairs (VA), and the information would be useless. He said that the bottom line is that he did not think there should be a requirement that the agencies specify the nature of all of the changes in assumptions for the FECA program. He suggested taking out the inserted "workers' compensations" and excluding FECA from the display and disclosure requirements.

Mr. Dacey added that reporting FECA/workers' compensation, which, unlike retirement benefits, involved decentralized reporting, might be a challenge for Treasury at the consolidated level. He thought the agencies might have to breakout the amounts in the notes to their financial statements in order for Treasury to have the information to judge whether gains/losses from changes in assumptions was material at the consolidated level.

Mr. Allen said he would not object to excluding FECA/workers' compensation if it really causes problems, but the proposed standard had been out there for a long time and no preparers have raised an issue. Mr. Steinberg opined that nobody thought it applied to FECA and now the Board would be highlighting it. Mr. Allen said FECA could be excluded based on materiality. He said the standard was broad and now it is narrow

and both Mr. Steinberg and staff had acknowledged that the amounts were not large. Mr. Steinberg said materiality could be an area of disagreement between the preparer and the auditor.

The Board discussed the rationale for excluding FECA. Mr. Steinberg noted that the FECA liability is different because the administering agency, the Labor Department, does not report the liability.

Mr. Patton said he agreed with Mr. Allen that materiality seems to take care of it. He did not think explicitly excluding it was necessary. Mr. Jackson agreed.

Mr. Dacey noted that the FASAB has defined workers' compensation as OPEB in another standard and there needed to be a specific exclusion.

Mr. Schumacher mentioned the difficulty of rationalizing the workers' compensation exclusion. He favored removing the "worker's compensation" insertions and leaving SFFAS 5, paragraph 94, unchanged, and relying on the likely immateriality of the amounts.

Mr. Dacey said the FECA exclusion could be based on cost-benefit considerations. He said that because not all the agencies are getting the information from one source, display and disclosure would present a major challenge. He said the amount could be significant to an entity where personnel costs predominate, e.g., GAO. He said GAO has it broken out separately because it is fairly significant, but GAO calculates the liability based on some experience and does not have an actuary even go to the trouble of trying to find out what the components of the expense would be.

Mr. Allen said the options are: (1) a specific exclusion in the statement for that and leave SFFAS 5 alone; or (2) amend SFFAS 5, or (3) delete the references totally and count on immateriality to take care of it.

- (1) Farrell, Steinberg, Patton, Schumacher, Dacey, Reid, Torregrosa
- (2) none
- (3) Jackson (but flexible), Hug, Allen

A second issue involved a suggestion from Joe Applebaum, the GAO chief actuary, to remove the requirement to use at least five rates when developing the average historical Treasury rate for discounting. Mr. Dacey said that the 5-rate minimum might create a conflict within the standard. He mentioned that an over-riding issue in these projections is consistency among assumptions, which he noted is an existing FASAB requirement. He said consistency was critically important particularly between the discount rate and inflation assumptions. He said that a very specific discount rate requirement might be inconsistent with the inflation rate assumption derived independently.

Mr. Dacey suggested three things: first, remove the 5-rate minimum requirement added at the last FASAB meeting, and be flexible as to historic rates; second, reiterate in this

standard the need for consistency among assumptions, which is in SFFAS 5, so the reader understands it better; and, third, refer to actuarial standards of practice.

Mr. Applebaum added that a reference to good actuarial practice might be better than being prescriptive with respect to the discount rate.

Mr. Allen said that the intent of the 5-rate minimum was to achieve a basic consistency.

Mr. Dacey said that the notion of consistency among assumptions would preclude radically disparate assumptions.

Mr. Reid noted that healthcare inflation rates are radically different from the healthcare discount rate.

Mr. Applebaum said that for most of the federal pensions programs the benefits are real benefits; that is, they are fully indexed. He said that there is a certain amount of consistency between the discount rate and changes in prices, and between nominal wages and inflation. He agreed that the healthcare inflation rate was considerably higher but the spread between the increase in healthcare costs and general inflation has tended to be constant.

Mr. Reid said that the federal programs that have multi-year investments have a very good reading on how to establish a discount rate. He said the problems arise in programs like the VA that do not have investments. He said the standard is trying to provide guidelines for the latter programs. He noted that the VA is using current market rates, which is producing wild swings in the liability amount from year to year.

Mr. Applebaum replied that if people were using historical inflation rates for an assumption about future inflation, then you could probably use historical Treasury rates and get the right number. However, for a variety of internal reasons, e.g., the President's budget message, the preparer is often told what the inflation is going to be for that program, going forward. The actuary is in the odd position where he or she essentially gets a set of fixed cash flows.

Mr. Reid responded that the Board's issue is not actuarial determination. He said the issue here is an accounting determination at VA that they will use the rate at the end of the year. The standard would force them to look at Treasury rates of a longer timeframe rather than use an arbitrary rate.

Mr. Applebaum responded that he did not consider current market rates to be arbitrary.

Mr. Reid said the goal was to mandate an average rate, which all but one federal entity is currently using.

Mr. Applebaum said that it is more important to have consistency between the economic assumptions to determine the flows.

Mr. Allen said that VA could argue that what they are doing is consistent.

Mr. Applebaum agreed.

Mr. Reid said that, on a more basic level, the preparer of long-range calculations is obligated to do more than change the assumptions every year, particularly the discount rate assumption. He said the Social Security Administration and all the rest who do these things are very, very methodical and very cautious about changing basic assumptions. He contrasted that with the current market rate approach where there are wild swings from year to year. He said some specificity was necessary to prevent VA from concluding that what they are doing is all right.

Mr. Applebaum added that it did not matter what the historical period was, if the discount rate was fixed, there would be similar fluctuation.

Mr. Farrell said that the standard sought to achieve consistency among federal entities with respect to the discount rate.

Mr. Applebaum replied that it might be better to have the standard require federal entities to look at the assumptions other federal entities making similar calculations are using.

Several members noted that the standard does require that.

Mr. Reid reiterated that the swings in the VA liability amounts were unacceptable. He viewed them as an abuse of the standard; the preparer was misinterpreting SFFAS 5 and the Board was attempting to correct it. He felt the Board was too far down the road to revise the standard and, if in future years the Board had to revisit the standard, then so be it. He said it had been difficult to get to a point where the Board felt comfortable that it is actually resolving a problem that is distorting the government's and VA's cost. For example, he noted that you would expect to be able to look at VA's financial statements and make some decisions about how much the war in Afghanistan and Iraq influenced the cost of providing this compensation at VA. One would expect to see a change in costs from the 1990s, but the information is not there.

Mr. Allen called for a vote on the issue. Eight members voted against taking out the requirement for a minimum of five rates when calculating the average and two members (Messrs. Dacey and Murphy) voted for it.

[Although the Board did not vote on them, the staff believes that parts two and three of Mr. Dacey's suggestion are addressed in the standard. Because the standard amends SFFAS 5, the SFFAS 5 requirement that assumptions be consistent (see especially SFFAS 5, paragraph 66) would be applicable, unchanged, and prominent. However, the staff has add the sentence "The discount rate, the underlying inflation rate, and the other economic assumptions should be consistent" to paragraph 29. Likewise, the SFFAS 5 reference to actuarial standards of practice would be unchanged. SFFAS 5 currently contains an explicit reference to Actuarial Standards of Practice (ASP) 4, Measuring Pension Obligations and Determining Pension Plan Costs or Contributions (see SFFAS 5, paragraph 65); and, in turn, ASP 4 incorporates ASP 27, Selection of

Economic Assumptions for Measuring Pension Obligations, *and other ASPs (see ASP 4, paragraph 3.1).*]

CONCLUSION: The staff will:

1. remove the references to workers' compensation,
2. insert a paragraph in the basis for conclusions explaining that the Board does not intend for the display and disclosure requirements to apply to FECA and workers' compensation,
3. remove references to Labor Department procedures with request to FECA liabilities,
4. retain the requirement for a minimum of five rates when calculating the average historical Treasury rate, and
5. make other changes requested by members, e.g., delete "federal" before "entities" in paragraph 14, and delete the reference to paragraph 14 in paragraph 19.

The staff will circulate the final standard with a ballot to the members noting changes made. Four members submitted their written affirmative ballots at the conclusion of the meeting on June 19.

- **Measurement Attributes**

The Board discussed a staff memorandum that proposes staff research, with the aid of a small task force, into the feasibility for federal financial reporting of the measurement attributes under consideration by the FASB and IASB—for example, how well the use of the different attributes would meet the financial reporting objectives in SFFAC 1. Ms. Wardlow explained that progress on the FASB/IASB project on measurement had been further delayed. The Boards are scheduled to discuss future steps in the project at their joint meeting in October 2008 and are unlikely to issue a discussion paper this year as previously anticipated. Ms. Wardlow said that the FASAB would need to conduct the research she was proposing at some point, regardless of the future course of the FASB/IASB project, and she suggested doing the research now to make good use of the time until the FASB and IASB agree on their next steps. The staff proposes to select task force members and develop cases and questions for them in July, and hold a staff-level meeting with the task force at the end of August. The results would be presented to the FASAB at its October meeting.

At Mr. Allen's request and before continuing discussion of the staff proposal, Ms. Wardlow and Ms. Payne explained the proposed content of the meeting scheduled between the FASAB and the GASB at the August FASAB meeting. Ms. Wardlow explained the differences thus far in the content of the FASAB's and the GASB's

projects on measurement and the resulting difficulty in finding common issues for discussion in August. Ms. Payne reported that she has discussed possible topics with Mr. David Bean, GASB's Director of Research. The area of greatest alignment is the need for an AICPA Omnibus standard to bring into the preparers' literature some of the accounting guidance that currently is only in the auditors' literature. One area for discussion would be the GAAP hierarchy. The plan is to spend an hour to an hour and a half on the AICPA Omnibus project followed by a discussion of measurement attributes for about an hour and a half to two hours. The measurement issues to be discussed have not yet been decided, but FASAB members will be notified in time for them to consider their views on measurement attributes that they would like to share with GASB members. The session will be on the Thursday morning of the FASAB's August meeting, probably from 8:30 a.m. till noon.

Mr. Steinberg asked Ms. Payne whether the GASB shares the FASAB's interest in a project on deferred maintenance. She responded that the GASB has not specifically looked at deferred maintenance, but there is a GASB standard on asset impairment, which has some related issues. At Ms. Payne's request, Ms. Reese, a GASB project manager who was in the audience, commented that the GASB has an ongoing research project on "preservation methods," which is awaiting further information about governments' use of the optional "modified approach" under GASB Statement 34 to reporting infrastructure assets, related disclosures about asset condition, and the measurement methods used. Mr. Steinberg said that could be a common area for GASB and FASAB to discuss. Mr. Allen said that FASAB members would consider their level of interest in deferred maintenance when discussing project priorities.

Mr. Jackson asked Ms. Wardlow whether the staff/task force group would take a cohort of, say, assets and explore how the information could be used by managers. An example could be replacement cost, which Mr. Werfel has mentioned as being useful to agency managers. Ms. Wardlow said she thought internal decision-making issues might come into the discussion because some of the FASB/IASB measurement attributes, such as "value in use" and some of the replacement cost variants under "current entry price," probably are more useful for internal decision-making than for external financial reporting. She proposed to focus the assessment of the feasibility and usefulness of the attributes on the financial reporting objectives because FASAB standards focus primarily on providing information to meet the objectives. Mr. Jackson said he raised the issue of internal decision making because of the frequency with which agency personnel ask how a FASAB proposal or standard helps them do their jobs better. He did not wish to ignore external financial reporting, but he thinks the Board should not lose sight of the agencies' decision-making needs. Mr. Jackson commented that one issue was whether replacement cost makes sense if an agency will replace an asset with equivalent capacity rather than with a similar asset. The FASB/IASB measurement attributes include that aspect as well as other aspects of the notion of replacement cost. Ms. Wardlow agreed the assessments might be different under different variants and that was an area that might be explored. Mr. Jackson also asked whether the staff would be exploring the complexity of some attributes versus others and would bring to the Board some information concerning cost-benefit issues. Ms. Wardlow said that cost-benefit would be included in consideration of the feasibility

of using particular measurement attributes. She said the staff had only begun to consider how to conduct the research with the task force. She had some alternatives that could be considered and she would appreciate some feedback from the Board.

Mr. Allen summarized that there are questions on two levels that members should address: First, would it be productive to move forward with staff research on measurement attributes on the level proposed by the staff—that is, in relation to federal reporting—and bring the results to the Board in October? The Board then would need to decide whether to continue to wait for the FASB/IASB or go ahead alone or do something with the GASB. Secondly, do members think that the staff's proposal would be productive and do they have some feedback to offer on the proposal?

Mr. Allen said that he thinks the framework of the research should be how the measurement attributes relate to the FASAB's reporting objectives. The staff should ask the task force which of the various attributes best meet the reporting objectives. Ms. Wardlow said that was the intended framework of the proposal. However, an alternative might be to focus on what individual financial statements are intended to convey and how the various attributes might or might not help in that regard. In the staff's view, the difficulty with that approach is that it encroaches on Mr. Simms's project. Also, it would ask the task force to consider a possible different model, which might complicate their assessment of the attributes. Mr. Allen called for members' tentative reactions to the staff proposal.

Mr. Dacey said he generally would prefer to wait and see where the FASB and IASB will go with their project before FASAB proceeds too far. With regard to FASAB's objectives with the measurement project, he believes the Board recognizes that different attributes currently are used in the financial statements and is trying to rationalize whether that is acceptable or not and whether financial reporting could be improved by changing attributes used in the statements. He believes the staff should catalog the attributes currently used. He thinks that in theory all of the FASAB's current requirements for assets and liabilities would fall into one of the categories of measurement attributes proposed by the FASB and IASB, but addressing that is, in his view, an essential part of the project. If there is not much variation in what the FASAB currently has, then it may not be necessary to focus on what all of the proposed attributes might provide. He hopes that the FASB will arrive at a better articulation of the meaning of each of the attributes they have proposed and which of them are the most useful. However, the FASB seems to be having some difficulty with that. Ms. Wardlow said she thought the goals of the FASB/IASB and the FASAB were similar in that the objective of their projects is to arrive at consistency and cohesiveness in the attributes required by different standards. She indicated that the FASB/IASB has not concluded that the candidates for measurement attributes developed in Milestone 1 of their project are definitive. Mr. Dacey reiterated that he would prefer to wait for the FASB and IASB conclusions. The FASAB should assess what exists in FASAB standards before moving down a path of possibly selecting different attributes.

Mr. Schumacher agreed with Mr. Dacey that the FASAB should continue to follow the FASB/IASB closely because he believes they probably will lay the groundwork for the

FASAB's future path on the project. On the other hand, he does not see any problem or waste of time with the staff's recommendation to start work with a task force. The Board would have feedback from that effort in October and would probably obtain some useful information. The task force also might contribute to Mr. Dacey's objectives by giving their views on which of the FASB/IASB measurement attributes apply to the federal government and which do not. He would go ahead with the staff's proposal.

Mr. Patton said he would favor going ahead with the staff's proposal. He would not wait for the FASB and IASB to sort things out; they seem to be deadlocked. If the description of their staff's new approach in FASAB staff's memo is accurate, they seem to be proposing that the Boards decide what they want and then find reasons to justify it. He thinks that approach is backwards and a really bad idea. Perhaps the approach will be better than it appears, but he is not sanguine about the prospects of the FASAB obtaining much from the two Boards. Mr. Patton's second point was that how the issues are framed for the task force will be important. Mr. Jackson had mentioned having the task force consider assets or cohorts of assets. Mr. Patton agrees that some sort of grouping would be helpful rather than focusing on the assets and liabilities in the general ledger one by one. He would like to see cohorts of elements that could be considered. That would not be a simple task, but if that is not done, the result will be a very diverse, multi-attribute setting. Thirdly, he thinks the cohorts should include items that currently are not recorded as assets and liabilities and evaluate them for measurement attributes, because he believes that will stretch the definitions and give some ideas for future projects.

Mr. Jackson said he would go forward with the proposal. Like Mr. Schumacher and Mr. Patton, he does not want to wait for the FASB/IASB when they currently are stalled or not moving very fast. If FASAB waits, the Board will be held hostage to their progress before FASAB can do any exploring of its own. We can explore now, and to the extent that the FASB and IASB add value to that exploration, the FASAB can benefit. However, in the near term the FASAB's own exploration will help the Board make decisions sooner rather than later as to how to improve financial reporting to meet the objectives of financial reporting and help with management decision making.

Mr. Farrell said he could go with the staff's proposal.

Mr. Steinberg noted that members favor moving ahead but he is concerned about the timing. Given the lack of resources on the part of preparers and attestors, he wonders how a task force composed of preparers and attestors would be able to understand and address the issues, particularly at this time of year when they are gearing up to prepare and audit the financial statements. It would be difficult to hold the task force meeting in time to return to the Board in October and December. He thinks at some point the Board should move ahead, but members also should consider the value of the output to be obtained.

Mr. Murphy said that in Washington, DC getting a meeting of anybody the last week of August is almost impossible. September might be the earliest to hold a task force meeting, which would delay the schedule. He thinks that exploring now at a low level

makes sense but he would not devote a lot of resources to it. The description of the proposal for the next step seems minimal enough, but he is chary about moving forward with something that the FASB appears to be backing away from. He therefore would support the next step proposed by staff, but he is skeptical about the future.

Mr. Reid said he thinks the undertaking is very complex. He is not sure that without some parameters for the task force—a smaller “sandbox” for them to operate in—the results will be very beneficial. The timing is also an issue. He would prefer to wait until the Board has received some feedback from the FASB and IASB, whichever way they go, which means the Board probably would do little or nothing for six months or so, until it can refine what it expects the task force to do. He thinks the task force agenda would be well beyond what some people would be ready to address. It is not that they cannot deal with it, but they will not spend the time necessary to get into the issues and prepare for a task force meeting. The reactions are likely to be superficial. Given that the Board has so many projects that are aimed at standards rather than concepts statements, he would rather devote Board resources in that direction. He would prefer that even if it means waiting a year till the FASB and IASB can reach a consensus. He thinks that currently there is a difference of opinion on the two Boards and if the FASAB moves forward there probably will be three different opinions. He would prefer to move up other projects that the Board so far has not had the resources to staff.

Mr. Allen said that he agreed with some of Mr. Reid’s concerns. As he had said during the Elements project, a concepts statement takes a lot of work. The Board starts concepts projects with an anticipation of achieving greater guidance for the Board than actually happens. It is not that the Board does not do good work on concepts. But the Board does not have the discipline—and maybe that is good—to say that the Board’s choices on a project are limited because of what our concepts statement says. He has not found any Board that uses its concepts statements as rigorously as it probably should to achieve that consistency; Boards tend to respond to issues the way they want to respond to them. In terms of moving forward, he would not go further than what the staff has proposed. He agrees with Mr. Dacey’s proposal and he would go forward with the staff proposal, if that is work the Board needs to do anyway. On the other hand, he is swayed a little the other way in that the Board has been trying to work with the GASB in outreach, concepts statements, and consistency—and not just GASB, but everybody. If GASB is early on in their project and approaching it hesitantly as is the FASAB, the two Boards could share some thoughts at the August meeting and that may be as far as we can go.

In response to Mr. Steinberg, Mr. Allen said that GASB is about as far along as FASAB is and he invited Ms. Reese to comment. She said the GASB is a little less far along. It has not yet explored what the specific scope of the measurement aspect of the concepts project will be. Mr. Allen said that the GASB has requested a meeting and FASAB has been open to it, but there has been criticism from some Board members. In Elements, Mr. Werfel felt very strongly that when the Board addresses concepts the work should be linked to what other Boards are doing. That was the FASAB’s initial attempt to say there is some uniqueness in government. The Board wants to see what

is being done in the private sector but wants to pay particular attention to whether the FASAB can be consistent with what is being done in the government environment.

Mr. Allen said he liked Mr. Dacey's proposal. Maybe some of the preliminary staff work could generate a clear chart showing the various elements the FASAB has used and why the Board chose a particular attribute, if a reason has been given. For example, the Board has indicated fair value for investments and historical cost for other assets. The question is why? Is it because that is what people use or because these measures are superior, or is there some other reason? Exploring those questions would be a productive way to go forward. Although he is comfortable with going forward, he shares some of the concerns members have expressed about finding people who would have the time and expertise to help the Board.

Ms. Hug (for Mr. Werfel) said she did not have problems with the staff's approach. However, she has some concerns about where the project falls in the Board's agenda and its priority. For example, if the work would delve more into valuation and how it relates to PP&E and how it complements or assists with other efforts by the FASAB and AAPC in their PP&E efforts, should it have greater priority? If not, should it have less priority?

Mr. Allen referred to Mr. Simms's project to research what information people inside and outside the federal government need to make decisions. He thinks if that effort produces some answers, then the Board can come back to the measurement project and research which measurement attribute helps better answer the questions of those who want to use federal financial statements productively. However, he acknowledges it will be some time before Mr. Simms's project can produce results.

Mr. Allen summarized the members' comments by saying that there appears to be a slight majority in favor of moving forward with the staff's proposal, bearing in mind some of the comments made concerning putting a task force together and the timing of the effort. If it is difficult to gather preferred task force members, perhaps staff could focus on Mr. Dacey's proposal to take a closer look at what is currently reported and, if possible, determine why particular attributes were chosen. It may be that the reason is that those attributes were already in use for similar assets, but it would be interesting to have more information. Ms. Wardlow said she thought the staff would need to do the work suggested by Mr. Dacey in order to explain to the task force what the Board is trying to do. She said that, again, there is a timing factor and the staff's proposed timetable is very compressed. Several members have commented on the timetable and she asked for members' views about pushing it out a little further and starting with work on Mr. Dacey's proposal. To the extent that time is available, staff could also move ahead with preparations for the task force meeting but with a less tight schedule. She asked for Ms. Payne's views and Ms. Payne agreed that the approach sounds reasonable.

CONCLUSION: Staff will research FASAB standards to determine which measurement attributes are required in federal financial statements and why, if the reason is given. Staff also will begin work on preparing task force materials and

identifying potential task force members to assist in assessing the feasibility and usefulness of measurement attributes proposed by the FASB and IASB in relation to the federal financial reporting objectives. The timing of the task force meeting remains to be determined.

The August meeting session between FASAB and GASB members is scheduled for Thursday morning, August 21. The discussion will focus on members' views concerning (1) the AICPA Omnibus project and (2) measurement attributes.

- **Natural Resources: Oil and Gas**

Staff member Julia Ranagan reminded the board that she had been assigned to the natural resources project after long-time project manager Rick Wascak retired at the end of February. She noted that her first step was to read all of the minutes, briefing papers, and newsletters since the project began in May 1995 in order to familiarize herself with the progression of the project and the major decisions and milestones that occurred along the way. She pointed out that she included a timeline summary of the key decisions at Attachment 1 of the staff briefing paper that the members may find helpful as a refresher.

Ms. Ranagan stated that she then reread the May 2007 exposure draft (ED), comment letters, and fieldwork test results. She selected two issues from the comment letters that she considered significant: (1) the scope of the ED and (2) the level of detail contained in the proposed standards. She noted that two respondents had stated that they believe a standard on only oil and gas would result in inconsistent treatment of the different types of natural resources and require additional work to implement as subsequent standards are issued on other types of natural resources. She noted that one of the respondents had also commented on the complexity and level of detail of the standard that made it appear to be too "cookbook" while DOI had suggested even more detail in its fieldwork test results (e.g., separate wet and dry gas, compute separately and then add together).

Ms. Ranagan noted that the Department of Interior (DOI) had stated in its fieldwork test results that the Energy Information Administration (EIA) was not currently reporting on the amount of proved reserves under federal lands. DOI stated that it had to estimate the quantity based on the most recent report provided by EIA (2005). It is unclear when or if EIA would be providing this information in the future. Ms. Ranagan stated that this fact was significant because the big shift towards asset recognition occurred in March 2004 when staff learned that EIA would begin distinguishing between proved reserves from lands under federal jurisdiction and proved reserves from other lands as part of its regular reporting; prior to that point, the board had been supporting disclosure over recognition because of the various uncertainties involved in measurability.

Ms. Ranagan noted that she had received feedback (formally and informally) from four board members that were not in support of staff's recommendation to issue a comprehensive principles-based standard on all natural resources. One member voiced concern that the work on oil and gas would be scrapped if such an approach were taken. Ms. Ranagan stated that she disagreed, noting that she believes the whole process that the board went through to determine what information is out there, how it would be calculated, whether what you come up with is reliable and relevant, and if it is important for federal financial reporting was important for the board to be able to reach its conclusions. She said that if the board did choose to issue a more comprehensive, principles-based standard on natural resources, the work that was done on oil and gas could be used as an illustration or implementation guide to show how one might go about complying with the standard.

Ms. Ranagan stated that if the board accepts the staff recommendation, her approach would be to start looking at other leasable minerals (e.g., coal), gather background information, talk with technical experts, and apply the principles developed for oil and gas to other leasable minerals.

Ms. Ranagan stated that if the board does not accept the staff recommendation and chooses to go ahead with issuance of the oil and gas ED, staff would need to contact EIA to find out how often the report on proved reserves under federal lands would be available and work closely with DOI to address the issues raised in its fieldwork test results.

Mr. Allen then opened the floor up to questions.

Mr. Jackson noted that one respondent questioned whether oil and gas resources met the definition of an asset. He asked staff's opinion of whether oil and gas resources were assets. Ms. Ranagan responded that she believes they meet the characteristics of an asset but a question arises in whether they can be reasonably estimated if the information is not readily available.

Mr. Jackson then asked if staff had given any thought as to whether the information for oil and gas could be first presented as required supplemental information (RSI) and later become basic, noting that it was not one of the options presented.

Ms. Ranagan responded that she had not recommended that approach primarily because of DOI's concerns about cost. System changes would be required whether the information was reported as RSI or basic. DOI had stated in its fieldwork test that implementing system changes for one resource at a time would cost \$7 million as opposed to \$5 million if all changes were implemented at one time. However, she stated that she believes it would be a valid option and is an approach that has been used in prior standards.

Mr. Dacey said he believes any level of reporting would still meet the challenge of having reliable quantity information if that information is not available.

Mr. Farrell said he seems to recall that the task force had decided that all natural resources could not be looked at collectively. He said he thought the task force had concluded that the differences were so great that each of the different types had to be treated individually. Mr. Schumacher said he recalls that conversation as well. Ms. Ranagan responded that she did not recall that discussion from her review of the task force materials and will have to look back at the minutes to see if there is a record of it. She noted that she recalls that there was a discussion that renewable resources (e.g., timber) may need to be treated differently than non-renewable resources.

Mr. Reid said it strikes him that the proven reserve number does not change much from year to year due to changes in technology or whatever. He thinks the calculation seems overly conservative and may not achieve fair presentation. He questioned whether there was a way to allow for more estimation of the quantity, such as was done for property plant and equipment, which may result in a reasonable number without spending an inordinate amount of money. Is there a way to provide for a window of estimation that would prevent the preparers and auditors from getting at odds with each other?

Ms. Ranagan responded that, in general, the more detail a standard contains, the less the preparers and auditors become at odds with each other. She noted that there is a tradeoff between the level of detail that is contained in a standard and the amount of reliance that is placed on the preparer/auditor judgment. Issuing a standard that contains less detailed guidance might very well result in the need for implementation guidance if the auditors and preparers cannot agree on a methodology.

Mr. Reid asked if staff thought that would resolve the issue – if agencies came to the AAPC and told them how they would prepare the calculation, and the AAPC approved of it, would that resolve the issue between the preparers and the auditors?

Ms. Ranagan responded that having a less detailed standard might not prevent the need for more formal implementation guidance, but it would prevent the standard from becoming outdated as well as precluding preparers from doing what they believe is more appropriate. Ms. Ranagan noted that she would hate to see the agencies feel they are precluded from doing something more detailed because it is not specifically prescribed by the standard. For example, DOI suggested several additional calculations they would like to see included in the estimate proposed in the ED. Ms. Ranagan said she would hate to think DOI would be precluded from further refinement of the calculation if the auditors argue that the additional calculations are not specifically provided for in the guidance. She believes less detailed guidance that leaves the fine-tuning to the judgment of the auditor and preparer would prevent such “exactitude.”

Mr. Murphy noted that one of the respondents had commented that one of the proposals in the ED might conflict with SEC requirements and questioned whether staff had looked into that. Ms. Ranagan responded that Rick Wascak had previously looked at SEC requirements but that she had not yet reviewed any of the updated requirements. She said that would be one of her next steps if the board voted to continue with issuance of a separate standard for just oil and gas.

Mr. Werfel asked if it is possible to know whether oil and gas was material to the consolidated report. Mr. Reid said he believes there is about \$10 billion a year in oil and gas revenue. Ms. Ranagan responded that DOI's fieldwork test provided an approximate number of the asset as \$112 billion.

Mr. Patton asked if staff had proposed that the oil and gas standard be truncated. Ms. Ranagan responded that her recommendation to remove the detailed guidance from the standard was made in conjunction with the first staff recommendation to develop a comprehensive standard on all natural resources. She had not separately proposed to shorten the oil and gas standard but noted that would be a viable option if the board voted to issue a separate standard for just oil and gas.

Mr. Allen noted that CBO has proposed fair value reporting for all oil and gas resources (not just proven reserves) and asked how CBO gets its numbers. Mr. Murphy responded that CBO has the same difficulties communicating with EIA that staff noted but CBO usually starts with the EIA published numbers and extrapolates a current amount.

Mr. Allen questioned whether such a process for determining fair value would be acceptable to the auditors? If the latest information available is 2005 and it is adjusted for estimated changes, is that an acceptable estimation tool? Mr. Allen said he would like to go ahead with a standard on oil and gas unless you tell him there is no way in the world to get reasonable numbers.

Mr. Reid noted that the revenue does not seem to vary significantly from one year to the next. Ms. Ranagan responded that the flows may not vary much from year to year as a matter of practice or policy but the question becomes predicting what is actually under the ground at any one point in time.

Mr. Dacey asked Mr. Reid if he were to capitalize the revenue for non-renewable resources that have a finite end, how many years out would he go?

Mr. Reid said they would have to be pretty aggressive about how far they would capitalize it because extracting the resource seems to be about offset by whatever technological improvements are being made and that has been going on for years. He said he does not think that 50 years would be an outlandish number.

Mr. Allen asked for the board members' opinions on how to proceed with the standard.

Mr. Farrell repeated his earlier comment about recalling that the task force decided that they could not group all natural resources into one comprehensive standard because the types were too substantially different. He noted that the standard could include a modifier that it is based on the best information that is currently available and the nature and availability of that information may change as technology, the field, and other things change over time and the preparer is responsible for providing the best information available at the time. He added that oil and gas is considered a matter of national security and the board should proceed with issuing the oil and gas standard because it

is important to the country and should be recognized. He said it would be embarrassing to put it off because it is too difficult to obtain the information.

Mr. Jackson asked if the oil and gas companies recognize their own proven reserves that they own (not on federal land) as assets. He said it would be good to know that because if the oil and gas companies are reporting proved reserves then there must be a way to come up with a reasonably good estimate. Mr. Jackson said he thinks the board should proceed with the standard but he would prefer to have the standard be implemented as RSI for a period of time that would allow for a lesser degree of precision and complexity in the beginning.

Mr. Patton said he thinks the board should go forward with the oil and gas standard. He said the standard is principles-based because it relies on the definitions of asset and liability and when things should be recognized. He said the problem comes in the measurement phase which has become cookbook-like. Mr. Patton said he realizes things change over time so he would like to find a way to prevent the standard from becoming outdated but he is not sure exactly how to do that. He added that he believes implementing the oil and gas standard would provide the board with experience that they could rely on for other resources (e.g., coal).

Mr. Schumacher said he agrees that the board should go ahead with issuing a stand-alone oil and gas standard. As other people have mentioned, there has been a lot of work done. The board has discussed the availability of information and the difficulty with it. He said he personally sees a difficulty with trying to develop a standard for all natural resources that is principles-based because they are so diverse. He said he agrees with Mr. Farrell's specific comment about putting some wording in the current standard regarding changes in technology and available information.

Mr. Dacey said his first inclination is that he should not decide today because there are still some specific issues that need to be resolved. For example, he would like the board to bring DOI in to talk to them regarding their response to the ED. He is also concerned about the quantity issue and whether the information that the whole standard is predicated on will be available annually. He said before the board issues any standard, those two fundamental issues need to be resolved. If he were compelled to make a decision today, it would be at best to go to RSI until the board resolves some of the surrounding issues. He said his preference would be to take a look at another big resource to see if there is any comparability between them or any issues the board could learn from to be more consistent with another major category of resources. He said he could see a principles-based standard based on fair value with some general guidance on what constitutes fair value in the way of natural resources. He said he would prefer to let the oil and gas ED gel a little more while staff looks at another area of natural resources and addresses the issues that have been identified by DOI as well as the concerns about availability of information. The board could then evaluate where it wants to go at that point.

Mr. Werfel said he largely agrees with Mr. Dacey. He thinks the board should move forward with oil and gas and not the other resources at this time. He believes DOI

should be brought back in to talk to the board, answer questions about their comment letter and fieldwork test results, and provide their thoughts on what a more principles-based standard would mean to them as preparers. Mr. Werfel asked staff if it would be accurate to say that moving on a continuum from prescriptive to principles-based might improve the likelihood that the estimate would be measurable and could be recognized on the balance sheet. Ms. Ranagan responded that she thought it would. Mr. Werfel said that, since that was the thinking, he would agree that it would make logical sense to pursue a principles-based standard and he would like to get feedback from DOI.

Mr. Allen said the board has an obligation to move forward with the standard but he believes that it should not be RSI. He said he likes some of the things that Messrs. Dacey and Werfel said. He said he does not know of a reason the board could not proceed in a more principles-based manner. He said they have information that could be used with estimation techniques (e.g., cash flow projections). He recognizes that such an approach would require auditor buy in but does not think that would be impossible. He said he would not mind devoting a couple of meetings to looking at another type of resource and identifying whether or not a more principles-based approach would be plausible.

Mr. Reid commented on the length of the project and said the board should move forward with a standard on oil and gas. He noted that once oil and gas is recognized on the balance sheet, the board may decide that the other projects are not significant enough to go forward with. Mr. Reid said he agrees with the fair value notion and would relax the requirement to use the proven reserves number. He said he would go so far as to provide a formula that was cash-flow based and could be used as an alternative to going through all of the measurement steps. The preparer could use either the cash flow approach or spend the time and money to go through the more specific calculations. He said this would allow for an option that would satisfy the cost/benefit test. He added that he is on the fence about requiring the information as RSI versus basic. He said there may be some value in having the information required as RSI for the first three years or so with a date certain of when it would become basic. He said he does not want to get carried away with being precise about a number that we know is not precise. He would rather have a less reliable number on the balance sheet than no number at all.

Mr. Murphy said the board should go ahead with the oil and gas standard. He said he would also like to have an opportunity to talk to DOI about their alternative proposal.

Mr. Steinberg said there has been a lot of work done and he agrees with the other members that the board should proceed with issuing a standalone oil and gas standard. The country's oil and gas reserves are currently of great national interest. He said he is not in favor of RSI in general because he believes that information published by an entity should be accurate regardless of whether it is going to be audited or not. His experience indicates that when agencies publish information as RSI, they tend to not be as concerned with accuracy and the auditors feel they do not have to do much work. However, he noted that we should look at what is currently being done in the private

sector for private reserves and if they are still calling it RSI, then maybe the board would have to also.

Mr. Allen said he believes the board should start with financial statements and only move to RSI if there is a real force to do so. He added that when the board talks to DOI, he would like to find out why DOI believes a more detailed calculation is necessary (e.g., splitting wet and dry gas, splitting oil and lease condensate) and if they would use that information for purposes beyond purely reporting.

Mr. Dacey said he would also like to ask DOI for their thoughts on other types of resources that they manage.

Mr. Reid requested that staff provide numbers on what kind of revenue is generated by the other types of natural resources so they can compare them to oil and gas.

The following table provides a summary of the members' preferences:

	All Natural Resources	Oil and Gas Only	Other
Farrell		X	
Jackson		X	
Patton		X	
Schumacher		X	
Dacey			X
Werfel		X	
Reid		X	
Murphy		X	
Steinberg		X	
Allen		X	

Several of the board members indicated that they were willing to consider a less prescriptive standard that allows for more flexibility provided that staff can develop one that would meet the objectives of the standard as well as the needs of the preparers. Other members said they would prefer more detail but would support adding a note that the standard is based on the best information available at the time it was issued but the board recognizes that the nature and availability of the information may change as technology, the field, and other things change over time and the preparer is responsible for providing the best information available at the time.

CONCLUSION: The board directed staff to continue with the development of a final standard on oil and gas. Staff will invite DOI to appear before the board to discuss their alternative proposal from the fieldwork testing including why they requested an even lower level of detail than was prescribed in the standard as well as their thoughts on what a less prescriptive standard would mean to them and how it might apply to other resources under their domain. In addition, staff will research the reason the board decided to look at one resource at a time, review current SEC

requirements, find out how the private sector currently reports private reserves, obtain revenue numbers on the different types of natural resources, and attempt to make contact with EIA to find out if and when another report on proved reserves under federal lands will be published. If time permits, staff will also research another major type of natural resource (e.g., coal) to determine if there is any comparability between them or any issues the board could learn from in order for the oil and gas standard to be more consistent with another major category of resources.

- **Reporting Model**

Overview

The Board approved a plan for expanding the reporting model project. Staff developed the plan as a result of members' April 2008 discussions regarding the appropriate model for agency level reporting. The plan calls for conducting the project in four phases: 1) determine user needs within certain cost/benefit constraints; 2) determine the inventory of user needs and how they relate to the reporting objective; 3) determine methods for meeting user needs; and 4) determine presentation. In addition, while the plan involves both agency level and government-wide reporting, it does not advocate for a particular model. Members believed that potential users as well as current users should be surveyed. Also, some members discussed the need to consider internal users, such as managers, while others noted that addressing both internal and external users would be challenging. Staff will consider member's comments in initiating Phase I of the plan, determining user needs.

Discussion

Staff member Ross Simms introduced the discussion on the reporting model project. He stated that the objective of today's discussion is to review and approve an expanded plan for the reporting model project.

Staff noted that at the April 2008 meeting, the Board approved a reporting model plan that included: 1) reviewing the statement of net costs and the balance sheet; 2) considering issues such as how well the statements help achieve the reporting objectives, whether objectives are being achieved, and whether the statements should articulate; and 3) comparing the model with other reporting models. However, later, during agenda setting discussions, members returned to the reporting model topic and noted that the project could be expanded to consider appropriate agency level reporting. Consequently, staff developed a revised plan that included four phases: 1) determine user needs within certain cost/benefit constraints; 2) determine the inventory of user needs and how they relate to the reporting objectives; 3) determine methods for meeting user needs; and 4) determine presentation. The plan involved both agency level and government-wide reporting and did not express a preference for a particular model.

Members discussed issues to consider in the first phase of the project - determining user needs. They noted that citizen intermediaries such as congress, think tanks, and the media would be important for gaining input about the information needs of citizens and they discussed reaching out to potential users and internal users.

Mr. Werfel noted that the project provides an opportunity to work with the Performance Coalition who is looking at how to improve performance and accountability reports (PAR). PARs include performance information and financial information.

Mr. Allen noted that it would be good to ask open-ended questions like, “what financial information would be useful?” Mr. Jackson suggested including potential users in the study and determining their needs. Potential users include managers who may not be aware of a lot of data that they can use. To solicit information from them, we may need to “feed” them with suggestions of the types of information that may be useful. Also, if they have never used the information, we will need to inform them about its value.

Mr. Patton agreed that the Board should look at potential users because there are few actual users. Also, we need to consider their personal characteristics – how they make decisions and their environment. Mr. Patton also expressed concern that GAAP based statements would not be detailed or timely enough for internal users like program managers. He was not sure that the Board could have a financial reporting model that deals directly with the information preferences of both internal and external users.

Mr. Patton noted that in the past, the Board has noted that it wants to ensure that there are indirect benefits for program managers. Managers would be better off as a result of the process of producing the information that goes into a GAAP based report. However, the potential benefits to internal users should be separated and dealt with directly. If the Board believes that indirect benefits are important, then the Board should pursue those in the project.

Mr. Steinberg suggested that program managers could be asked questions such as:

What kind of decisions do you make?

What kind of responsibilities do you have?

What kind of information do you need to fulfill those responsibilities?

He also noted that readers need more than financial information. They need information on systems and controls, programs, and future oriented information. He suggested taking a broad view of a financial report.

Mr. Werfel noted that congress has made a statement about what financial information they want. They want information on federal payments and where the money is going. For example, the Transparency Act requires the Office of Management and Budget (OMB) to establish a website that provides the public with information about payments on federal grants and contracts. Also, Senators McCain and Obama introduced the Transparency Act part 2 which requires more details and three different audits per year.

Congress is sending a message about what financial information is needed in the public sphere.

In addition, Mr. Werfel expressed that there are things in basic financial statements that could be emphasized more and things that could be deemphasized. The Statement of Budgetary Resources and Net Cost have relevant information for funds control and holding management accountable. It would be helpful to learn what information management uses. The feedback could inform Board projects, how the Board considers the balance sheet, and what the Board may want to emphasize going forward. The Board could also help empower Chief Financial Officers in their efforts to hold organization management accountable.

Mr. Jackson noted that he is interested in the indirect user group. He stated that they may not necessarily use financial statements, but they have a role to play in ensuring the accuracy of the information presented. For example, logisticians may not use financial statements but, unlike the accountant, they are responsible for ensuring the accuracy of the existence assertion.

Mr. Patton agreed with the plan but noted that the phrase “user needs” is troubling because needs are so fundamental. He also volunteered to review survey questions.

Mr. Schumacher agreed with the plan.

Mr. Dacey agreed with the plan and stated that the Board should consider what information is valuable for managing an organization. Individuals have said that there is other information they are using but it is not a part of the financial statement process. It would be good to gain an understanding of other information that is being used.

Mr. Werfel agreed with the plan and believed that staff should be involved in the Performance Coalition discussions to help facilitate the external user needs.

Mr. Allen agreed with the plan noted that as we gather the information, we need to track where we get the feedback. There are different users and different user needs. For example, SFFAC 4 states that citizens are the intended audience for the consolidated financial report. When trying to determine the value of different statements, it would be good to know whose needs we are trying to meet with the information. We could have different statements for government-wide reporting and agency reporting. The success of the project will be based on the first phase.

Mr. Reid agreed with the plan and stated that about two or three years ago Treasury performed a number of surveys for the consolidated report. The surveys involved large groups and smaller targeted groups, and they prepared a summary of the comments. He offered to provide the summary to staff. Also, it may be a good idea to survey the Board members.

Mr. Torregrosa agreed with the plan.

Mr. Steinberg agreed with the plan and stated that members should be open to thinking about audited information at the agency level that would then flow up to the consolidated financial statements.

Mr. Farrell agreed with the plan and stated that producing financial statements are not always going to serve the internal managers needs. They need much more information than what we may be reporting in external financial statements. How to marry those requirements is not clear. In addition, members noted the change in the environment toward audited information that may not be in financial statements, such as listings of expenditures by contract. The auditing profession has made allowances within their standards for accommodating items outside of financial statements. So, that does not necessarily make that information a financial statement or the most important information to users. Financial statements convey information that is outside the realm of the type of information needed to run a business on a day-to-day basis. The Board needs to be careful about going to the extreme that annual, external reports have to serve all the needs of the internal users.

Mr. Jackson agreed with the plan.

Mr. Schumacher suggested considering the Governmental Accounting Standards Board's (GASB) work. Mr. Allen noted that there are some different users for state and local governments but basically it could provide information similar to the Treasury survey.

Mr. Allen also noted that the staff's plan is designed to be open and objective from the beginning, rather than indicating a preference for a particular model. He stated that it would be good to have Board members' input on some of the survey documents. In addition, he believed that it would be a good idea to consult Mr. Reid and the GASB about issues like how they setup meetings with users, what information was provided in advance of the meeting, and how they framed questions. Moreover, some users may say they would like all the information being suggested. So, it would be good to consult Mr. Reid and the GASB on how to get users to prioritize their choices.

CONCLUSION: The Board approved the proposed plan and staff will proceed with the first phase - determining user needs.

- **Agenda Setting**

Mr. Allen asked members to quickly relay their first and possibly second choices from among the projects. Mr. Farrell indicated that he did not support any of the projects. Mr. Reid noted that he believes his budget to actual statement would be addressed in the reporting model project. Further, he would support a project on leases; which was not among the options presented. (He later supported the project to evaluate existing standards.)

CONCLUSION: Polling of the members resulted in the following preferences among the projects:

1. Asset impairment and deferred maintenance (5; 4 as first and 1 as second)
2. Evaluating existing standards – targeted approach (4; 3 as first and 1 as second)
3. Linking cost to performance (2)
4. Asset retirement obligations (1 as second)

Adjournment

The meeting adjourned at 3:10 PM.