FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
April 22-23, 2009
Room 7C13
441 G Street NW
Washington, DC 20548

Wednesday, April 22, 2009

Administrative Matters

- **Attendance**

The following members were present throughout the meeting: Chairman Allen, Messrs. Dacey, Farrell, Jackson, Patton, Schumacher, Steinberg, and Werfel. Ms. Hug represented the Department of Treasury and Mr. Torregrosa represented the Congressional Budget Office throughout the meeting. During brief absences, Mr. Werfel was represented by Ms. Kearney and Ms. Hug was represented by Mr. Bell. 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.

Agenda Topics

- **Long-Term Fiscal Projections**

FASAB Assistant Director Ms. Parlow opened the discussion by noting that the Board's briefing materials for the April 2009 meeting included a preballot draft Statement of Federal Financial Accounting Standards (SFFAS). The SFFAS incorporated Board decisions at the February 2009 meeting, as described in (a) – (f) below. She also noted that items (f) – (j) would require further Board decisions.

a) Add language adapted from GAO's explanatory language about the distinction between projections and predictions. [See paragraph 39(c).]
b) The requirements in paragraphs 41(e), 42(a), 42(b), 42(c) and 42(d) of the exposure draft (ED) should remain as RSI permanently. [See paragraphs 41-43.]
c) Edit the time horizon requirement in paragraph 34(a) of the ED to require a finite projection period sufficient to illustrate long-term sustainability for the basic financial statement, with an additional requirement to discuss in RSI the implications of the sustainability information after the finite period ends and explain that the latter requirement could be met with infinite horizon projections. [See paragraph 35.]
d) Re-work the language regarding alternative scenarios to remove the requirement to report alternative scenario data for each line item of the basic financial statement, but to retain the detailed illustration in Appendix B. [See paragraph 42(d).]
e) Edit the illustrative financial statement in Appendix B to add lines for "Major Program A" and "Major Program B" to more clearly reflect the reporting requirement regarding disaggregation on the basic financial statement. [See Illustrative basic financial statement on page 34 of the preballot draft].]
f) Illustrations 8a and 8b should be deleted from Appendix B and staff should re-draft paragraph 38 towards a broader requirement that fiscal cap should be explained and disclosed, for example: "Fiscal gap information should be disclosed, either on the face of the financial statement or in the disclosures."
g) Staff should work with GAO to finalize new language for paragraph 31 (consistency of economic assumptions with the SOSI) that would be more specific about potential exceptions.
h) Staff should research the SOSI requirements to see if the GAO recommendation for additional disclosure might be redundant to information already required for the SOSI. If the item is not redundant, staff will draft language to include it as an optional illustration of how to put the information into context in paragraph 41(e).
i) Staff should explore options to enhance the illustrations as well as convey options developed by Mr. Stephen Goss for consideration.
j) Some members questioned why the basic financial statement does not include interest expense but the cash flow illustrations do include interest expense. Staff drafted an explanation to supplement note 20 in the preballot draft.

Fiscal Gap

Ms. Parlow said that at the February meeting, the Board had considered the fact that a majority of respondents indicated that the illustrative examples in Appendix B for reporting on fiscal gap (Illustrative Example 8 in the ED) were confusing and should not be included in the final SFFAS.

She said that the Board had decided to broaden the reporting requirements and to delete the graphics that respondents (and some members) found confusing.

She said that GAO graphics staff had also provided some alternative graphics for fiscal gap for the Board to consider; those graphics were incorporated into the April 2009 briefing memorandum.

Mr. Patton said that he would congratulate GAO's efforts in improving the illustrations for fiscal gap. However, he would prefer to send the draft illustrations for fiscal gap to Treasury informally but not to include them in Appendix B of the proposed SFFAS. He believes the alternative graphics are still not sufficiently understandable for readers.

Mr. Dacey noted that there was illustrative narrative language directly below the illustrative financial statement in Appendix B. He said that the illustrative narrative would be preferable for reporting on fiscal gap.

A majority of members concurred that the ballot draft SFFAS should include the illustrative narrative at the bottom of the illustrative financial statement. A majority of members also concurred that Illustration 8, *Fiscal Gap,* in Appendix B should refer to the narrative at the bottom of the illustrative financial statement and should also include the illustrative paragraph that explains the concept of fiscal gap. A majority of members concurred that Appendix B will not include any alternative versions of graphs that the Board voted to delete at the February 2009 Board meeting.

Edits for Consistency of Economic Assumptions with the Statement of Social Insurance (SOSI)

Ms. Parlow said that GAO's written comments had requested edits to the requirements for economic and demographic assumptions in paragraph 31 of the draft SFFAS, in particular that there should be an example regarding discount rates. She asked Board members for their response to the draft revisions that were included in the briefing memo. There were no objections to the draft changes.

GAO Recommendation for Additional Disclosure

Ms. Parlow said that at the February 2009 Board meeting, members had directed staff to research existing requirements for the SOSI to assist members in evaluating the GAO's recommendation for additional disclosures. She noted that the briefing materials included relevant citations from SFFAS 17, in particular paragraphs 24, 31 and 32.

Ms. Parlow said that staff is neutral regarding the GAO recommendation, but that if members decide to include the disclosure requirement, they should consider whether the requirement would name the programs intended (Social Security and Medicare Part A) or whether it should be worded in a more principle-based manner, since Congress is free to change programs, including re-naming programs and/or changing their funding mechanisms. She said that the option of "no change" would most closely align with the Board's decision at the February 2009 meeting. At that time, members had indicated that any requirements that duplicated existing requirements should not be repeated in the proposed SFFAS.

Mr. Schumacher asked if the GAO's recommended requirement would add a large volume of material to the disclosure. Mr. Dacey said that the GAO envisioned about one paragraph.

Mr. Patton asked if Mr. Dacey would recommend the principle-based language that staff recommended. Mr. Dacey said that he would recommend principle-based language, with some minor edits. Ms. Parlow asked if the principle-based language would refer to programs that were "primarily" supported by earmarked funding, or "solely" supported by earmarked funding. Mr. Dacey said that he would come back with suggested language.

Ms. Hug said that the CFR already contains extensive discussion of this topic and that the additional requirement should not be added.

Mr. Schumacher said that he would support the GAO proposal if it could be narrowed down in such as way that it would not add significant length to the disclosures.

Mr. Werfel said that the proposed disclosure is so focused on social insurance programs that he believes that the GAO proposal should be considered as a potential future amendment to the SOSI reporting requirements rather than being added to the fiscal sustainability reporting requirements. Mr. Dacey said that he would like to see generalized language for the requirement that did not restrict it to social insurance programs – only to major programs with dedicated funding.

Mr. Allen asked how the Board could address the issue that the additional requirement was not exposed for public comment.

Mr. Jackson said that the best place for the information that GAO wanted would be in the Management's Discussion and Analysis.

Mr. Allen said that staff might wish to consult with FASAB's legal counsel regarding the question of due process. He said that the process allows for deleting requirements but not adding requirements that were not exposed. He asked what could be done about the issue of re-exposure.

Ms. Parlow said that the proposed item could be included as an example of one way to put the information into context in paragraph 41(e) of the ED – information that the Board moved to RSI. Since this example would be optional, it would not require re-exposure.

Ms. Payne that it is a Board decision to determine whether something rises to the level of requiring re-exposure. She said that placing it in paragraph 41 would be one way to get the suggestion included. She said that one new component of GAO's proposal would be to do sub-totals for amounts that are already required to be reported. She asked if the distinction was such that public comment should be sought. She said that the other new component is the notion of competition between certain social insurance programs and the general fund. She said that the notion of competition appears to be embodied in other standards and she asked if that notion is sufficiently controversial that public comment should be sought.

Mr. Dacey said that in his opinion no re-exposure is needed for the reasons noted by Ms. Payne.

Mr. Jackson asked if a discussion of competing demands is appropriate content for a financial statement. Mr. Werfel said that the concept of competing demands is outside the scope of what the Board should be addressing in reporting requirements.

A majority of the members (Messrs. Allen, Dacey, Jackson, Patton, Schumacher and Steinberg) voted to include a requirement for the additional disclosure. However, Mr. Jackson said that he would agree to a disclosure of factual information about funding mechanisms but that he would object to a discussion of "competing demands."

Mr. Dacey said that he would coordinate with OMB and Treasury to provide draft principle-based language for the requirement and that the language would refer to social insurance only as an example and not as criteria for the disclosure on funding mechanisms.

Options to Enhance Illustrations in Appendix B

Ms. Parlow noted that additional illustrations provided by Stephen Goss, the Chief Actuary for Social Security, were included in the briefing materials and asked the Board if they wished to add any of the illustrations to Appendix B.

Ms. Payne noted that the additional illustrations could supplement but could not substitute for the requirement, because the requirement includes projecting all spending, including interest, and not just non-interest spending.

The members expressed their thanks to Mr. Goss and their appreciation for the additional illustrations but decided not to add them to Appendix B.

Additional Topic – Issue of Emphasis and Perspective

Mr. Werfel said that some of the public comments and oral testimony at the pubic hearing had indicated that there is a population of very learned experts who believe that the direction of the Board's proposed fiscal sustainability reporting is painting too bleak a picture – whether by assuming flat revenue or not reflecting appropriately what the world would look like if we got interest spending under control and that it's possible to do that, or whether the present value estimates are problematic in terms of showing too bleak a picture. He said that those comments resonated with him and resonated with OMB but were not discussed at length by the Board. He asked how the Board intends to address those issues.

Ms. Parlow said that although some respondents said that debt is not entirely a bad idea, that the extreme levels of debt projected were beyond what would be possible.

Mr. Werfel said that Mr. Goss might recommend a different picture, in that some relatively modest changes in revenue or spending could avoid the exponential increase in interest expenses.

Ms. Parlow said that she agrees with the point that Mr. Goss made in his oral testimony, in that there is no law of nature that revenues must always be 18.5% of GDP. She said that the Board's proposal explains that there is a difference between projections and predictions, which is why the projections generally show revenue as a fairly constant share of GDP. She said that the projections aim to show what will happen if we continue to do what we are doing right now. This is akin to an individual who is currently spending $1000 more per month than what he or she is making in income. We don't know the exact moment when this situation will not be able to continue, but a simple projection will make it clear that this can't continue. That doesn't mean that adjustments can't be made, but rather that the current situation clearly cannot continue in the long term. Ms. Parlow noted that it took the Board over a year to come up with language to define what is meant by "right now."

Mr. Allen said that he believes that the narrative requirements adequately address this issue.

Mr. Werfel said that the Basis for Conclusions should reflect some of the public comments, in particular from the economists, which seem to reflect that the Board's proposal is running the ship in a certain direction. He said that the Basis for Conclusions should be re-reviewed keeping that (avoiding bias) in mind. Mr. Dacey agreed that the reporting should be characterized such that it is not misleading and the reader understands the nature of the projections.

Mr. Allen said that the Basis for Conclusions generally identifies issues raised.

Mr. Werfel said that he would like to see the BfC explain several things: some of the comments on drawbacks of present-value numbers, some of the concerns with these types of presentations – that would give a little bit more context to the standard.

Interest Expense and Non-Interest Expense

Ms. Parlow asked the Board to review a draft explanatory footnote, as revised by Mr. Dacey the previous evening,[1] regarding the fact that the basic financial statement reports non-interest spending. Mr. Dacey said that the footnote might not even be necessary. The footnote would say that the basic financial statement reports the total amount that would be necessary to balance projected receipts with projected non-interest spending. Mr. Dacey asked if the intent of the footnote would be to clarify this for the Board or for the reader.

Mr. Steinberg asked about the role of interest in present value calculations. Mr. Dacey said that the point of the present value calculation – if it included fiscal gap- is that there would be virtually no interest because you balanced your receipts and non-interest spending over the time horizon.

Mr. Torregrosa said that the technical experts at the Congressional Budget Office (CBO) indicated that the original footnote in the ED was accurate.

Ms. Parlow said that the early versions of the proposal were simpler, because they were based upon the concept of fiscal imbalance (target debt level of zero). If the basic financial statement reported fiscal imbalance (which would require a line item for the amount of Treasury debt at the beginning of the projection period), there wouldn't be any interest expense because you've already included the amount necessary to pay the Treasury debt in full. But the basic financial statement proposed in the ED only includes the gross amount of projected receipts and projected non-interest spending, so there could be considerable interest expense depending upon the amount of Treasury debt at the beginning of the projection period.

Mr. Patton suggested that the footnote should be deleted rather than edited.

A majority of members (Messrs. Dacey, Farrell, Patton, Schumacher, and Werfel and Ms. Hug) indicated that the footnote was not necessary and should be deleted from the final standard.

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[1] The revised footnote from Mr. Dacey appears below. He indicated that the wording within the [ ] is optional.

The basic financial statement and the fiscal gap measure the extent of changes in policy (increases in revenue, decreases in non-interest spending, or a combination of the two) that would be necessary to balance receipts and spending and to achieve a target debt to GDP ratio, respectively. [Consequently, they exclude interest spending, which is not a directly controllable policy choice.] The historical and projected trends required by paragraph 42(a) illustrate the cash flows and changes in Debt Held by the Public that would occur based on the projected receipts and non-interest spending, including the impact of interest spending. [Consequently, the basic financial statement and fiscal gap exclude interest, while the required information in paragraph 42(a) includes interest.]

Policy Assumptions

Ms. Parlow distributed copies of draft revisions to the policy assumptions based upon a recommendation by Mr. Patton. She mentioned that Mr. Patton's recommendations had also been circulated to the other members via e-mail.

Mr. Allen asked if Mr. Patton's intent was to clarify the requirements or whether he is looking for a change in the requirements.

Mr. Patton said that he was trying to identify some underlying concept that would guide practice rather than having a series of examples. He said that he emphasized the role of current law, which was already there, and then tried to – so we start with current law - you may start there, but that may not work out – and here are some general features that might mean that current law is not appropriate. He said that Ms. Payne did a good job of editing his comments but that he would bring the examples that used to be in paragraph 28(b) forward. He would include those as examples of the general principles that are now in paragraph 28(a)-(c): Current law expires almost immediately; current law contains provisions that are internally inconsistent; current law has been changed in a consistent direction over a period of time. He said that those are the ones that are basically in what we have already, and if there are any others, we should add those as a general case of where current law may be inappropriate. He said that the most substantive thing that he is suggesting is to elevate current law to a general principle as the place to start.

Mr. Allen asked if Mr. Patton was recommending adding more rigor to the requirement, and saying that current law should be used except for identified exceptions.

Mr. Patton said that he would like staff to come up with more examples if they exist so that there could be a more complete list.

Mr. Torregrosa said that the technical experts at CBO indicated that the proposed revised language is clearer and would not preclude any of the flexibilities that the ED allowed. Mr. Allen asked if the CBO experts identified any exceptions other than those identified in paragraphs 28 (a)-(c) of the ED. Mr. Torregrosa said that they had not.

Mr. Dacey said that he had a question about the word "required" and he asked: if you had one of the three examples, would you then be required to deviate from current law?

Mr. Patton said that he did not recall writing the word "required" and said that Ms. Payne had interpreted his recommendation as saying that.

Mr. Jackson said it sounds mandatory. Mr. Patton asked what would be wrong with that. Mr. Dacey said that the decisions require a judgment call and that the requirements for policy assumptions should not include mandatory provisions. For example, although the TARP legislation expires almost immediately, the policy projections should not be required to depart from that provision of current law by projecting annual TARP spending over the projection period.

Ms. Payne said that she had interpreted Mr. Patton's recommendation as meaning "required" but that it could easily be deleted.

Ms. Parlow asked: if the Board was backing away from "required," what type of wording was the Board looking for?

Mr. Dacey said perhaps something like "may be appropriate." He said that he wanted to confirm whether the changes were intended to be editorial in nature. He said that he believes that the ED's concept of "current policy without change" is reasonably clear.

Mr. Patton asked how Mr. Dacey would interpret the wording in the ED that "current law is a reasonable starting point" versus "current law is the best starting point." Mr. Dacey said that both sentences mean the same thing and he would not be concerned about that particular word change. However, he said that Mr. Patton's other recommended edits appear to do more than that.

Ms. Parlow said that Mr. Dacey has often noted that because current law for discretionary spending expires almost immediately, and current law limits Treasury borrowing and limits spending relating to trust fund accounts – that most of the projected spending is not based upon current law. Mr. Dacey agreed.

Mr. Patton asked if the members would agree to change the wording to "Current law is the best place to start." Mr. Dacey and other members indicated that they would not object.

Mr. Patton asked if members would object to the revisions with "may be appropriate" rather than mandatory language.

Ms. Parlow noted that one of the examples being considered referred to shortages of funds, which appears to be intended to address the Social Security trust fund account exhaustion situation. However, she pointed out that there are many other situations where receipts are insufficient to support spending, and suggested that language referring to inconsistent provisions in legislation be used instead. Mr. Patton agreed.

Mr. Patton said that paragraph 28(b) should have examples, one example for each item in paragraph 28(a). He said that the language in the ED that "some provisions of tax law do not provide for future taxation consistent with current policy without change" could be interpreted as a reference to the Social Security examples.

Ms. Payne said that Mr. Patton had tentatively marked paragraph 29 (which provides examples of how to calculate growth rate of spending or receipts) for deletion, but said that it provides useful examples and recommended that it be retained. There were no objections to retaining the paragraph.

Mr. Patton also said that he would like to delete the phrase “while appropriately considering recent trends.” Ms. Payne said that the deletion was included in the edits provided to members.

Ms. Payne said that most of the examples seemed to be aligned with the categories in paragraph 28 and that staff would work on those that are not aligned.

Mr. Werfel said that some of the language regarding “at least one of the following characteristics” is tighter than the language that was exposed in the ED. He asked why the Board is considering doing this.

Ms. Hug said that she thought that the Board had indicated that the language should say “may include but are not limited to.”

Mr. Werfel asked: if we do that, what are we gaining from the edits? He said that the Board had exposed the language in the ED and he felt that there should be an important reason for changing it.

Mr. Allen agreed that a softer requirement had been exposed, and suggested that the intent of Mr. Patton’s edits was to tighten the requirements.

Ms. Parlow said that at a much earlier stage in the development of the ED, staff had established categories similar to what Mr. Patton is now requesting, but over the course of a year’s deliberations the Board had decided to delete the description of general categories and cite only concrete examples. She asked whether the Board was trying to clarify the requirements or to tighten the requirements. She said that the distinction is very important.

Ms. Payne said that staff initially believed that Mr. Patton’s edits represented a dramatic change, but that CBO technical experts had commented that they believed that the edits would still allow considerable flexibility. She said that if the edits do not change the requirements, what difference do the edits make? She said that she feels cautious because the Board spent so much time developing the policy assumptions, with many different versions going back and forth between the technical experts and the Board, trying to do exactly what was Mr. Patton is proposing (in terms of describing general situations that relate to the examples) and it was very challenging and the Board ended up proposing the language in the ED. She said that at this stage she is uncomfortable with what the Board is considering.

Mr. Jackson suggested taking out Mr. Patton’s “essential characteristics” language.

Mr. Werfel said that the language would still be too restrictive.

Ms. Parlow asked if adding the phrase “but are not limited to” would be helpful.

Mr. Farrell said that if the degree of flexibility was going to be the same, why are we making edits?

Mr. Patton said that he wanted to provide a concept instead of only examples. Mr. Dacey asked if category could be placed directly in front of each example.

Ms. Parlow said that there was an earlier version of the ED that did contain three or four theoretical categories.

Mr. Allen asked if staff could research the history of this issue and come up with options. Ms. Parlow said that only three members had provided views on Mr. Patton's proposal and asked what the other members' opinions were. She said that the Board spent a year and a half working on assumptions, and they started off with theoretical categories of when to depart from current law. She said that there were several Board meetings devoted almost entirely to assumptions, and as a result the members rejected the concept of theoretical categories. She said that she would like to review the history of the Board's deliberations to help inform the Board's decision on Mr. Patton's proposal.

Mr. Allen said that he would like to see the history and a couple of options, including sticking with the original wording in the ED.

Second-day Discussion of GAO Additional Disclosure (4-23-2009)

Ms. Payne said that Mr. Dacey had provided draft language regarding a note disclosure regarding funding mechanisms for earmarked funds, along with a one-paragraph illustration for Appendix B.[2]

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[2] <u>Draft language to insert into the fiscal sustainability reporting standard</u>
<u>Disclosures should include:</u>

> <u>…40[f] The net excess of spending over receipts disaggregated between (1) programs funded by General Fund revenues (which would currently include Medicare Parts B and D (SMI), as well as other programs), and (2) major programs solely funded by dedicated receipts other than General Fund revenues (which would currently consist of Social Security (OASDI) and Medicare Part A), accompanied by a discussion of the different funding mechanisms for the two types of programs.</u>

Illustrative example
Of the $XX of the net excess of spending over receipts, $YY relates to programs funded by General Fund revenues and $ZZ relates to OASDI and Medicare Part A programs, which are not funded by General Fund revenues. Under current law, if dedicated receipts (primarily payroll and self-employment taxes) and related trust fund assets for OASDI or Medicare Part A become insufficient to cover related benefits, as indicated by the projections, additional dedicated funding for each of these two programs would be necessary or scheduled benefits would need to be reduced. Under current law, if General Fund revenues are insufficient to cover both mandated transfers to SMI and spending for other general Government programs funded by General Fund revenues, as indicated by the projections, either General Fund revenues would

Ms. Allen asked if there were any comments on the draft language.

Mr. Farrell said that perhaps instead of "currently" it could say "as of the date of this Standard." Ms. Hug said that the terminology is the date of the Statement. Mr. Dacey agreed. No other members had comments on the draft language.

Second-day Discussion of Policy Assumptions (4-23-2009)

Ms. Payne said that Ms. Parlow had prepared a paper overnight regarding the history of the Board's deliberations. She said that staff had originally proposed theoretical categories but that the Board decided not to include theoretical categories in the ED. Ms. Payne said that the Board has three options: to retain the original language in the ED; to provide criteria plus examples but make them permissive; or to require departure from current law if a criterion is met. She said that staff recommended that there not be any changes to the language in the ED.

Ms. Parlow said that there may have been small editorial changes to the ED, such as eliminating the phrase "while appropriately considering recent trends" which added nothing to paragraph 27.

Ms. Parlow said that over the course of about a year, the Board tried to extrapolate criteria from a very limited set of actual examples. She said that there is always a danger in that, because the population of examples is so small. For example, a previous theoretical category had focused on "likely" or "more likely" but the Board later made that the assumptions are intended to produce projections and not predictions, which is a very important distinction. Accordingly, the Board is not requiring the assumptions to be what is "more likely" to happen, but rather what would most faithfully project current policy without change.

Ms. Payne asked if Mr. Patton was willing to delete the mandatory language ("possesses at least of the following…") and he said that it could be.

Ms. Parlow said that because the edited language did not include restrictive language like "must" that she believed that it would be possible to make a change without re-exposing.

Mr. Allen asked what staff recommends or proposes.

Ms. Parlow said that staff proposes no change to the language in the ED. She said that staff would need to carefully review any edits to make sure that there is no significant addition to what was proposed in the ED.

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need to be increased, spending for SMI benefits and/or other general Government spending would need to be reduced, and/or additional amounts borrowed from the public.

Mr. Allen asked if the edits would not be very close to what was exposed.

Ms. Parlow said that it would not be. She said that the new version starts off with the theoretical categories, making it sound as if the theoretical categories are the important part – but in fact the categories were only extrapolated from a very limited population of examples. She said that this reminds her of once when her daughter was very young, she described a huge school bus by saying “Oh, the bus on that bus route is huge- it’s a Bluebird!” And this was puzzling, because many Bluebird school buses are very small– but then Ms. Parlow realized that her daughter was so young that she had only seen a couple of Bluebird buses, and since those happened to be huge, her young daughter had extrapolated on that evidence to assume that Bluebird only makes huge school buses – in effect, she had come up with a rule based on only one or two examples. Ms. Parlow said that the Board faces a similar danger in extrapolating theories from a very limited population of examples and trying to make up rules. She said that if the Board had exposed this, the public comments could have informed the Board of problems with the rules, but it wasn’t exposed for comments.

Ms. Kearny (sitting for OMB) asked if there had been any objections from the public on the assumptions section in the ED. Ms. Parlow said that Question 2 in the ED asked if the guidance on assumptions was appropriate, and all 10 out of 10 respondents who provided a clear “yes” or “no” provided comments that supported the guidance in the ED; the eleventh respondent wrote that the guidance was “clear, understandable and generally appropriate” and did not suggest any changes.

Ms. Kearney said that the preparer [the Treasury Department] and the auditor [GAO] have no issues with the guidance as written and the public comments were favorable, she does not see any reason to change the guidance. She said that she recalls that there was a lot of pain in coming up with the guidance in the ED and recommended that the Board err on the side of caution and leave the guidance as it is.

Mr. Patton said that his concerns were significant enough that he would issue a dissent on the proposed SFFAS.

Mr. Jackson asked if the language projected on the screen would satisfy Mr. Patton’s concerns. Mr. Patton said that he would agree to the revised language.

Mr. Jackson said that the revised language simply re-organized the previous language.

Ms. Parlow said that the revised language was a huge improvement over the earlier version of Mr. Patton’s proposal but said that she believes that revised language needs to say “include but are not limited to.”

Mr. Allen asked how the revised language differs from the ED.

Ms. Parlow said that the revised language puts the general description first, whereas the ED put the example first, because the examples are what the Board actually has; the general descriptions were merely discussing each example and explaining why a projection of current law in those cases would not produce useful information.

Mr. Allen said that he thinks that the revised language is very similar to what was in the ED.

Ms. Parlow said that the revision would add the Social Security example and make other changes, including separating the general descriptions from the examples in the structure of the paragraph.

Ms. Hug said that language stating “may include” was different from Mr. Patton’s initial proposal to mandate rules.

Mr. Patton said that he originally proposed that, but now realizes that because the Board does not wish to re-expose he has revised his proposal to the more permissive language. He said that it’s important to state the basic principle that you should start with current law, and then give some principles on what kinds of things might qualify for a departure from current law and provide examples of those principles.

Mr. Allen said that he thinks that the new revised language is substantively the same as the language in the ED.

Ms. Parlow says that there is a slight content difference in that the ED did not mention the trust fund exhaustion example in the standard, only in the Basis for Conclusions, but that written comments from the Social Security Administration had indicated that the example should be more prominent – and the proposed revision would accomplish that. However, she suggested that in order to maintain parallel structure, the Board should delete the example of “some provisions of tax law do not provide for future taxation consistent with current policy without change.” Ms .Payne noted that the Board does not have an example for that concept, but has more than one example for another of the categories.

Mr. Allen said that the revised language looks like an improvement to him.

Ms. Parlow said that she would support moving the Social Security example from the Basis for Conclusions into the standards section because that would be responsive to public comments received.

Ms. Payne said that staff did find Mr. Patton’s proposal appealing because the idea of guiding principles was one of the first proposals that staff made to the Board, but that after staff worked with the technical experts on the Fiscal Sustainability Reporting Task Force, back and forth with the Board, to produce the guidance in the ED. She said that, in reality, the preparer and the auditor are sitting here at the table, and if they understand it, we shouldn’t raise any concerns. But over time as individuals leave, that understanding may break down. When staff worked with the technical experts, there was a fear factor that the standards would tie the hands [of the preparer and auditor]. This is why the ED proposed language such as "you are not required to produce the worst-case scenario." She said that the guidance was developed using expert input from economists, accountants and auditors.

Ms. Payne said that the major differences in the proposed revision are:

- you're saying that current law is "the best place to start" rather than "a reasonable starting point,"
- you're giving examples where departing from current law "may be appropriate" which implies that if the examples are not here that it may be inappropriate.

She said that those are the only differences that she could point to other than the tone, but tone is important in this guidance.

Ms. Parlow agreed and asked if the Board would consider adding "but are not limited to" to the proposed revision. She said that this would be clearer and more helpful for preparers and auditors in the future. Otherwise auditors may think that the list is all-inclusive.

Mr. Patton said that he would agree to the inclusion.

Mr. Allen asked the members to respond to the overall proposal.

Mr. Schumacher said that he would approve the revision, with re-organized examples.

Mr. Dacey said that he thinks that he would agree with it, because he doesn't think it changes anything from what was in the ED, but as a technical comment, the Board has four examples but only three principles. He said that the Board is missing a principle to match up with the example in paragraph 28(b) of the ED.

Ms. Kearney said that her preference would be to keep the language that the Board originally proposed in the ED. She said that she does not see the need to change, but she also said that the proposed changes may be minor enough that she could consider supporting them.

Ms. Hug said that her preference is also not to change, but that it may be possible to keep the requirement flexible enough so that she might be able to agree to the proposed edits. She emphasized that it is important not to substantively change what was in the ED.

Mr. Torregrosa said that it is important not to insert the Alternative Minimum Tax (AMT) legislation as an example for taxes. Ms. Parlow agreed and said that her review of the Board's deliberations indicated that the AMT example is unacceptable to the Board.

Mr. Steinberg said that he would approve the changes; he said that the Board should always be setting up criteria rather than examples. Mr. Farrell and Mr. Jackson agreed. Mr. Allen said that staff should work on revised language.

Ms. Parlow asked for clarification: do members want staff to work on a fourth principle? Several members, including Messrs. Allen, Farrell, and Jackson, said yes.

Mr. Dacey suggested that we could combine the principles and examples so that each principle would be immediately followed by an example.

Mr. Patton said that he wants to emphasize the criteria by having the criteria come first, followed by examples.

Conclusions:

- GAO will work with OMB and Treasury to draft language for the additional GAO-recommended disclosure requirement regarding funding mechanisms.
- Staff will draft additional language for the Basis for Conclusions per Mr. Werfel's request regarding:
    - comments regarding the drawbacks of present-value numbers, and
    - overall concerns with these types of presentations.
- Staff will delete footnote 20, which discussed interest versus non-interest expenses.
- Staff will finalize draft language regarding changes to the guidance on policy assumptions and forward them to members prior to the June 2009 Board meeting.

- **Social Insurance**

At the February 26th meeting, the Board directed staff to explore options for reporting social insurance and possibly other critical information in association with the balance sheet. The Board was particularly interested in the "Overall Perspectives" table in the FY 2004 Financial Report. In addition, the Board directed staff to consider deferred revenue accounting.

The staff memorandum for the April 23rd meeting discussed the pro forma reporting options, the other issues, and accounting for deferred revenue, and provided recommendations.

Regarding options for a new statement, Mr. Allen said the first question was whether the Board wants a new statement; and, second, if so, what is the format. He asked the members to comment.

Mr. Farrell commented that, in light of the fact that the government has presented this information before, as seen in the "Overall Perspectives" table in the FY 2004 Financial

Report (FR), and other people were doing similar things, for the Board not to include something like this in the FR might look like the Board is avoiding the issue.

Mr. Steinberg said the Board had a financial reporting project underway and, if the Board did anything, it should be in that project. The financial reporting project would be figuring out who the users are and their needs and objectives and building a model based upon that. He said he had no problem with considering a new statement and in fact the Board was already dong it. He added that the Board had done a lot of work in social insurance and the Board ought to carve out that which it agreed on and get it out, which is the statement of changes in social insurance.

Mr. Torregrosa said it would be good if the Board could come to agreement on a new display.

Ms. Hug said she was not in favor of adding a new statement. She agreed with Mr. Steinberg; the Board should consider a new statement in the context of the reporting model [project] – or in the MD&A [project].

Mr. Allen agreed with Mr. Farrell. He said [the "Overall Perspectives" table from the FY 2004 FR] provides the appropriate perspective. He said that the new statement was substantive enough to conclude the social insurance work for the foreseeable future. If the Board could not do that, then he would go back to what Mr. Steinberg proposed. He added that the Board could get a standard out there quickly while acknowledging the Board still has something on the shelf. He said that because of the time and effort put into this, he would rather not go that route.

Mr. Allen continued by challenging anybody to find any discussion in any newspaper about the financial position, liabilities, etc., of the federal government that does not combine [liabilities and social insurance obligations]. Some call it all a liability, like *USA Today*; some, like the Peterson report, show some of it as a liability and some as other commitments. But it is the commonly understood number that is being conveyed to the taxpayers, and he thought the Board would be deficit not to deal with it.

Mr. Werfel said, first, that he was concerned about citing [the Overall Perspectives table from the FY 2004 FR] as precedent. He said [this table] had not been presented as part of the balance sheet; it was a table in the MD&A. He wanted the auditor and the preparer to have some ability to get creative and think of different ways to present it. He said [the table] it was tried only once. He opined that, if the impact of trying different things in the MD&A is to set a precedent that if it is done once, it gets moved into basic financial statements, then it is going to cause, at least from OMB standpoint, a re-thinking of how creative and flexible we want to be in our MD&A. Second, he said ultimately he agreed with Mr. Steinberg. He said the Board had exposed a proposed standard which would have a non-additive line on the balance sheet for social insurance responsibilities. The Board had received a good set of mixed feedback from that. He felt a pretty strong set of comments supporting the alternative view expressing concern, consistent with the alternative view's position, that this actually compromised transparency because it is not clear how the user would use this information, it's not clear what the relationship is between a responsibility and a liability; and, by putting them on the same page, are you blurring a line that should not be blurred. He thought the Board felt that it did not have a consensus nor was there one in the community to make that kind of change. He said now the Board was looking at even more aggressive changes, beyond what was even exposed where things are actually being added together and coming up with a fundamentally different bottom line net position. He said the Board had moved in a direction with these illustrations that he did not see as entirely consistent with the tenor of the dialog around the original ED.

Mr. Dacey said his position was similar to Messrs. Steinberg and Werfel. He did not think it was a good idea at this time to move forward with anything of this nature for a couple of reasons. Although he said he was not averse to changing the current financial reporting, he agreed with Mr. Steinberg that that was part of a different project where the Board needs to re-think how the financial reporting model looks. He said that he would like to see if the Board could get a agreement on what the Board has today and move forward with the financial reporting model. There may be other changes that the Board wants to make regarding how to present the information. He said that, given where the Board is today with hopefully unanimous support for fiscal sustainability reporting, that that really provides the appropriate context for all of these programs. It shows all the revenues and illustrates the policy choices that face the government and what decisions they need to make without presupposing what the government's decisions will be relative to the trade-offs between receipts and spending. He added, first, that adding sustainability items to the balance sheet would be double-counting and that did not make sense to him. He thought the balance sheet and fiscal sustainability statement were complementary from a static or stock standpoint. The changes in fiscal sustainability and the statement of operations are complementary statements from a flow standpoint. Trying to add them together confuses the issue, and trying to add some of the responsibilities without acknowledging the commitments to maintain programs other than social insurance is misleading, especially now that there is a statement of fiscal sustainability. He is also concerned that the Board is trying to "dress up" the balance sheet to make it something it is not. He said the Board needs to be clear about what the balance sheet is purporting to represent in a government environment; that, by adding all these things in, the Board was trying to create a monolithic statement when in fact the balance sheet, in his view and the view of many analysts, is almost irrelevant. It is the cash flows that are deriving a lot of the analysis not the balance sheet. To try to put everything onto one balance sheet and not think of these statements as a set of statements would be inappropriate.

Mr. Schumacher said he favored moving ahead using one of the illustrations, for example, Option 1C. Option 1C shows the traditional balance sheet and additional responsibilities separately. He said he still believes this is a liability and a commitment that should be shown. He noted that the Board had devoted a long time to this project and he would like to see something accomplished. He said the Board had gotten to a point where it could do something significant. The new statement represented a blended solution. He said this was a better solution than putting one number on the bottom of the balance sheet. This puts it in context. He noted that it has been added before. He mentioned the “Overall Perspectives” table and the Peterson report. He said people could add it if they wanted or look at the traditional balance sheet.

Mr. Patton said he agreed with Mr. Schumacher. He added that, if the Board was going to declare a moratorium on social insurance because of the financial reporting project, then it probably should also declare a moratorium on all the other projects as well.

Mr. Jackson said, first, he found it novel that the Board was talking about putting a lot of these things off to a financial reporting project. He asked why the Board had not put sustainability reporting or the SOSI off to a financial reporting project. He did not recall any arguments favoring postponing those projects. Secondly, the Board could review whatever is done here as it goes forward with a financial reporting model. He said the Board has a responsibility to do something. It had debated this issue for a long time. It has all these disparate financial statements, some of which are sort of hanging on their own, and this is a good way to sum up the government’s assets, liabilities, and responsibilities.

Mr. Allen addressed Mr. Werfel’s comments about the responses. Although he would acknowledge that people did not like the new line [on the balance sheet], he would like to have a detailed analysis from the staff as to why the respondents did not like it. Some wanted it as a liability; some of the others said it did not give a perspective. He said [the new statement] answers both of those. He said he was looking for what else respondents cite other than those two issues.

Mr. Fontenrose interjected that another issue for respondents was the absence of a conceptual basis for commitments at the bottom of the balance sheet. He said that opening up the elements concepts and explaining what a commitment is would address that concern.

Mr. Allen said that social insurance is different from anything else. He would just use the words that were used yesterday: this is a promised and communicated benefit. He added that, unlike [other government programs], he gets a [social insurance] statement that says what his benefit will be, based on what he has earned and contributed. He said he does not get any statement that says [the government] will maintain the roads or help with education or health or anything else.

Mr. Dacey interjected that Mr. Allen and others will get their benefits if the government has the money.

Mr. Allen disagreed. He said the statement says “however, if we don’t adjust it, you’ll only get 75%.” He added that, for Medicaid, which he said was the 80% of the issue, the statement does not qualify it at all. Mr. Allen said the statement instructs you to be sure and contact the government to get the benefit you are entitled to when you are 65, even if you decide not to retire until after you are 65. He said that makes social insurance different than anything else. There is a <u>communicated</u> commitment as opposed to what one may view as the mission of the federal government.

Mr. Steinberg said he had a problem with that. He said the people who issue [social insurance statements] are to a certain degree mis-communicating. He said the problem is that what we are saying here is that we are going to use accounting to validate a miscommunication. He said he has always thought the purpose of accounting is to correct these misconceptions and to get what really is probably the true story out there.

Mr. Farrell asked Mr. Steinberg what the misconception is.

Mr. Steinberg responded that the misconception is that the benefits will be paid to the extent shown in the social insurance statements. He said Mr. Allen gets a letter that tells him these are the benefits he is going to get and there is some small print at the bottom that Mr. Dacey cited, but Mr. Allen is not looking at the small print.

Mr. Allen disagreed. He said he looks at the small print. He said he would be happy to take whatever they said on the statement. Mr. Allen said he thought the purpose of accounting is to communicate. Since the 1970s FASB struggled with the question of whether accounting is legal-based and the answer was "no." He said the purpose of accounting is to capture economic substance.

Mr. Steinberg said he would submit that the economic substance is our other statements showing that it is really unsustainable.

Mr. Schumacher said he wanted to make another point, one that was similar to Mr. Jackson's. He said Option 1C shows non-social insurance receipts and spending. Focusing on social insurance would make this document more meaningful. It is a social insurance document and the Board is not trying to capture every other potential liability or commitment. He said he would not include non-social insurance amounts or "contingences and commitments."

Mr. Werfel said, first, that he thought and hoped the Board was past the notion that the federal government is trying to hide or not fully confront the fiscal situation. He agreed information relevant to assessing the current financial position of the social insurance programs is being communicated loudly and clearly. He said in his view the Board is doing this because [some believe] that the balance sheet holds a special place in federal financial reporting and, if something on social insurance and sustainability is not there, then we are not telling the full story. He said he thought the Board has a growing debate about the appropriate role of the balance sheet in the federal government. He noted that the prior Comptroller General of the United States told the Board that the balance sheet is simply useless in the federal government context. He said that is why the Board started the financial reporting model discussion. Thus, he said when [he and others] indicate that this type of change might be more appropriate in the federal financial reporting model discussion, it is not because they are trying to throw every project that they do not like onto that project. He said the reason why they are thinking about the financial reporting model project for it is because that project emanated out of this discussion about whether the balance sheet is meeting our needs. He mentioned that the federal government was investing a tremendous amount of resources into the balance sheet, billions of dollars and thousands of FTEs, and [OMB and others] are asking whether the form and content of that statement is optimized for transparency and internal control and other objectives of financial management. He continued that, [since the Board will be] debating fundamental changes in that very financial statement that caused the financial reporting model project to be initiated, he feels it fits well in that context.

Mr. Torregrosa said that when you have a compromise it is good if both sides compromise not just one side. He said he favored adding additional social insurance responsibilities. He agreed with Messrs. Schumacher and Jackson about getting rid of the other sustainability amounts, which he thought is a distraction because you have the sustainability statement. In his view the idea is that the balance sheet is a snapshot as opposed to the fiscal sustainability statement's flow picture. He noted that federal budget people have a unique perspective not shared by many private citizens. He said he thought a lot of the objection was to using the closed group measure and thus using an open group measure would be helpful.

Mr. Farrell said, first, to counter some of the things that had been said, that irrespective of the limitations of the balance sheets, whether for the federal government or commercial enterprises, people understand and expect them; that should not dissuade the Board from trying to improve ours while the Board goes through the process of looking at other reporting models which better serve the federal government 10 years from now. He said, secondly, a couple of people had brought up the point that the programs cannot continue as they are; it will be good, when our politicians finally act to change the program, to show the effect of the change on these statements. Thirdly, he noted that on the very last page the *Citizen's Guide* there is a chart that looks very much like Option 1C.

Mr. Dacey responded that the current model now includes statements of social insurance and of fiscal sustainability that will show the effect of policy changes if Congress does act, and in an appropriate context. He said, again, the issue is whether everything has to be on the balance sheet. He said he would not like to think the FASAB should consolidate all their statements into one to try to make it simple for readers to understand. He said he was afraid that is what the Board is trying to do here. He reiterated that the effect of the change will be disclosed, particularly on the statement of fiscal sustainability, which will show the interaction of all these other receipts and spending that the government has to decide on, which is really their decision ; the [government decision-makers] are not going to make decisions in isolation. He said he thought the ultimate intention of the *Citizen's Guide* basically was to have a section on sustainability; but the numbers were not available, so SOSI was put there for the time being.

Mr. Allen noted that some of the members talked about not adding apples and oranges, and a balance sheet and a statement of fiscal sustainability is the ultimate in apples and oranges. One is on an accrual basis of accounting and captures events and transactions that have happened; the other is looking to the future and presents cash flow projections without regard to anything accrued or that has happened in the past. They answer two questions but you come to very, very different conclusions when you look at them. When you look at a balance sheet you say here is the accumulation of something, of promises made to employees, to people with whom you have communicate every single year that we have a taxing system with two purposes. One purpose is to raise revenue for the federal government and the other is to protect your benefits. [The government] has lowered one and raised the other, whether it is mis-communication or not. He added that he did not like the balance sheet and would argue that the way it is now is so misleading that, if it were the financial reporting model project, he would vote not to have one. He said the Board was talking about natural resources so that we can accumulate the assets that we have, the obligations that we have in some way that we have a statement of financial position; we are building a little bit at a time. He mentioned that an AGA survey he had seen of a couple of weeks ago on the usefulness of the balance sheet was very clear: the CFOs at least do not think the information on the balance sheet is useful but do think the reporting process is useful. He said it was inappropriate to spend millions of dollars preparing balance sheet numbers that he has never seen communicated to the public without the perspective of adding in additional responsibilities. The financial displays he has seen printed all say we have a partial balance sheet and to understand financial position one must add in other things.

Mr. Steinberg said Mr. Allen seemed to be making an argument for the importance of looking at this in the totality of the financial reporting model project. He said Mr. Allen was talking about the balance sheet, which is a statement about the past. It seemed to him that we need to worry about the future and the statement of fiscal sustainability is about the future. He said he could have looked at the UK balance sheet 30 years ago and said that country is going out of business, but then the UK found oil in the North Sea and they were okay. He said that when you talk about sovereign governments, he did not think the past is the thing to worry about; worry about the future.

Mr. Jackson suggested that a modest change in the name of [the Overall Perspectives table] and the way it is laid out can improve financial reporting generally without doing any harm. He said that modest change could be to title it “statement of financial position and results of fiscal sustainability” and the latter does not have to be characterized in the context of responsibilities. He proposed a columnar presentation similar to Option 2A. You have your traditional statement of financial position or balance sheet and something that would bring up critical information. He noted Congressman Cooper said you need something in your face on this issue. He added he was not worried about Social Security and Medicare; he worried about the whole financial health of the government and the ability to sustain current behavior. This would bring it up and call it what it is: the “results of fiscal sustainability projections.” He said he would not change the balance sheet; the balance sheet is what it is. But then adjacent to the traditional numbers we have something else that we call what it is; it is articulating up from the statement of fiscal sustainability. He suggested not summing numbers because there are apples and oranges. He said a two-column approach would simply bring information up, not trying to muddle the balance sheet.

Mr. Dacey responded to Mr. Jackson’s comments. He said he thought if the Board believes a dual column presentation – one column with the balance sheet and the other the statement of fiscal responsibility – would be informative and would not be confusing to people, he did not have a concern. However, it should be the entire statement of fiscal sustainability because that is the stock presentation equivalent to the balance sheet; that is the past and the future. He added that, if the Board wanted to construct the statements to do that, you could also do it to the flow side by juxtaposing the changes in fiscal sustainability and the statement of operations. He said an MD&A presentation could accomplish this if the Board wanted to do that. He liked Mr. Jackson's idea. You could structurally come up with a presentation and divide it past and future and put them side by side.

Mr. Allen said the only challenge to past and future is on the statement of sustainability, which is not a pure past/future statement. It does have things such as cash flows for pensions that have been earned by workers. Mr. Allen said the presentation here was not intended to separate past and future. It was trying to say if one looks to accrued commitments or obligations rather than cash flows one comes to something like [the Overall Perspectives table] which is a look-back statement showing the accumulation of promises. He said that was a little bit different than looking 75 years in the future of how the road are going to be maintained or national defense.

Mr. Dacey said he viewed sustainability as entirely forward looking and the balance sheet as past transactions, and he thought that is the way it is presented in the *Citizen's Guide* and people could deal with it conceptually.

Mr. Jackson said you do not need to open up the financial reporting model for that, at least in the near term. He said you already have a separate, stand-alone statement that says this is where we are going. All he is proposing is an alternative of where to pull this all together into a single reflection for the reader.

Mr. Steinberg said he had given a speech at the JFMIP Conference where he said that was one way to do it: take the balance sheet and the statement of fiscal sustainability and, if you want a flow statement, take the statement of net cost and the future-oriented flow statement would be the bar chart with the revenue line that we have for the MD&A. But he said those are separate statements.

Mr. Werfel said that the Board could vote on this issue but he did think it was critically important for staff to analyze the comments received to inform that vote. He said, with respect to Mr. Torregrosa's point about compromise, sometimes a compromise can set you back and have problematic implications and set precedents that you might not want to set.

Mr. Allen said that was a legitimate complaint. The Board could issue a standard fairly quickly on parts of the social insurance project. However, he added that re-expose might be worthwhile. He mentioned Mr. Torregrosa's earlier point about the perspective of budget people being unique and reflecting an inside-the-beltway view not shared by 99 percent of the rest of the country. He continued that it seemed to him it would be good to expose that to see whether, if this is for the citizens, what right or wrong conclusions would they reach from the information, how would they be informed or not informed. He added that, if it is misleading, why do the media, politicians, and others addressing this issue present the numbers accumulated together? He said there seems to be some fear by some board members that there is going to be some mis-information and he said that is what he is struggling with: what is the mis-information and why is the board arguing about presenting information that is already being publicly presented. He said he thought the Board has a duty, if the Board did nothing else, to have a footnote providing this information. He said he was more worried that the Board is communicating misleading information by calling something a balance sheet that leaves out information citizens would expect to see included than by communicating some other way.

Mr. Dacey said, reflecting on the respondents' comments, that former Comptroller General Walker also supported sustainability reporting because he felt it was a vehicle to overcome that. CG Walker was very adamant about showing the future revenues as well as the future costs.

Mr. Steinberg asked for a vote.

The Board discussed what the vote would be on.

Mr. Fontenrose noted that the first staff question was on page 4 of the staff memorandum, which asked "Should the Staff Develop a New Basic Statement". Mr. Fontenrose explained that, subsequent to that vote and depending on its outcome, the sub-questions of page 7 of the staff memorandum, which are associated with a new statement, could be addressed.

The Board voted as follows on the question "Should the Staff Develop a New Basic Statement:"

Mr. Patton	Yes		
Mr. Schumacher	Yes		
Mr. Dacey		No	
Mr. Werfel		No	
Mr. Allen	Yes		
Ms. Hug		No	
Mr. Torregrosa	Yes		
Mr. Steinberg			May or may not support a statement depending on its format
Mr. Farrell	Yes		
Mr. Jackson	Yes		

Mr. Allen said the next question involved format.

Mr. Fontenrose said that the first associated sub-question on page 7 of the staff memorandum was on the staff recommendation regarding Option 1C.

Mr. Werfel asked if the Board was architecting a project where FASAB would purport to set a standard for the precise format and content, or is it a principle-based standard where this is a pro forma illustration.

Mr. Fontenrose noted that the Board has always handled that through a concepts statement. It has never prescribed exact format.

Mr. Allen said the best statement that he could remember was FASB statement 116 regarding not-for-profit organizations where they say there are six pieces of information we want and we do not care whether you go columnar or what the format looks like but we need that information.

Mr. Werfel said that that was the issue and he wanted to be clear what path the Board was going down.

Mr. Patton asked whether the new standard could not say “don’t add them up.”

Mr. Allen responded that he did not think it would say “don’t add them up.” It would require certain bits of information and then it is up to the preparer and auditor.

Mr. Patton noted that one of the bits of information could be the sum of A and B.

Mr. Allen agreed and added that it would be up to the preparer to decide how or where to add them up.

Mr. Jackson said that, if the Board wanted to have an illustration, then the Board would have to deal with the geography issue, that is, where does the Board want to articulate that.

Mr. Allen asked the members which format Option they preferred.

Mr. Jackson – He proposed a two columnar format. One column would contain traditional statement of financial position or balance sheet information, which looks back, and another column would contain the results of fiscal sustainability projections. Option 2A is similar to what he has in mind. He said he was not preoccupied with adding things up. He believes social insurance is a responsibility but does not subscribe to the notion that receipts and spending for “rest of government” are a responsibility.

Mr. Patton – Agreed that receipts and spending for non-social insurance do not belong on whatever the Board comes up with. He liked Options 1B or 1C, with reservations regarding adding things up, because they link more to the balance sheet, which is closer to his original position.

Mr. Schumacher – Preferred Option 1C without non-social insurance receipts and spending. He had trouble with Mr. Jackson’s proposal because he did not see how all the other fiscal sustainability projections for continuing numbers would be brought into the social insurance project. He did not have a problem with Options

1C or 2A with social insurance responsibilities – or whatever they are called – in the second column.

Mr. Dacey – He liked Mr. Jackson's format. He favored disclosing the relationship between the past and future. He did not like any of Options [1A-2A], particularly ones that seem to mirror the bottom-of-the-balance-sheet line item in the social insurance ED, which [the ED respondents] rejected. He said this could be done now in the MD&A without re-exposure, although maybe not be prescriptive; but along the lines of showing the relationship between the balance sheet and the statement of fiscal sustainability in some side-by-side or other format. He noted that the Board may need to tweak the fiscal gap disclosure [in the MD&A requirement from the social insurance ED] anyway. He did not know if the Board would want to be specific regarding format, but there is an opportunity here to start experimenting.

Mr. Werfel – He preferred an approach like Option 2A because it leaves the balance sheet as it is and experiments with a format that better integrates the balance sheet with the statement of fiscal sustainability.

Mr. Allen – Although he said any of the Options would be an improvement, he preferred the format of the ["Overall Perspectives" table from the FY 2004 FR] because it is the most informative presentation. He is open to options.

Ms. Hug – She said she is concerned about changing the balance sheet. Accountants have a view of the balance sheet. It is a snapshot of what has happened. She said apples and oranges were being mixed here. She preferred not changing the balance sheet. She did think there should be information and liked Mr. Jackson's idea. She would like to see something in the MD&A versus an extra statement at this time. She did not oppose looking at how to do another statement in addition to the balance sheet or changing the balance sheet and not calling it a balance sheet, but that would take time; in lieu of that, something in the MD&A would be a good avenue.

Mr. Torregrosa – He would like to hear the private members' view. He could support Option 1C if it moves the Board forward, but without non-social insurance receipts and spending.

Mr. Steinberg – He favored a statement that shows the past, which is the balance sheet, and a statement that shows the future, which is fiscal projections. He did not want to add them up at this time. His idea is close to Option 2A, where there are two separate statements. He was not sure yet if he would put them on the same page.

Mr. Farrell – He liked the "Overall Perspectives" table from the FY 2004 FR, including a combined amounts column – "memo only" or however that would be phrased – without the non-social insurance amounts. He said he thought this would be the same as Mr. Jackson's proposal.

Mr. Patton said that he was worried about people projecting on to Mr. Jackson's proposal their own versions of what it is. He said he did not really have a firm idea of what it was and it could be that he would support it. He noted that the Options are in print and asked if Mr. Jackson could draw what he has in mind on the board so he could evaluate it.

Mr. Allen asked Mr. Jackson to draw it. Mr. Jackson drew the following example:

Statement of Financial Position and Results of Fiscal Projections		
Accounts	Financial Position	Fiscal Sustainability
Assets		
-----	$ XXX	
-----	XXX	
-----	XXX	
Liabilities		
-----	$ XXX	
-----	XXX	
-----	XXX	
Net position	XXX	
Total Liabilities and net position	XXX	
Social Security (net)		$ 6,555
Medicare (net)		36, 312
Other social ins. (net)		104
Other (net)		1,500
"Problem"		$ 44,481

Mr. Jackson explained that his model would allow the movement of information from fiscal sustainability and actually articulate with the statement of changes in social insurance. He said "net position" could be called something else for the purpose of describing the results of fiscal sustainability reporting. He said this would align things and not simply drop them at the bottom of a financial statement. He said that some names or titles could be added to help explain it.

Summary of Tentative Preferences of Members			
	Something Similar to Option 1 – Combined Balance Sheet and Sustainability Info.	Something Similar to Option 2 – A Separate Statement	Other
Mr. Jackson		A separate statement with two columns as illustrated above. Non-SI sustainability amounts are not included. Liabilities and SI sustainability amounts are not added together. The current balance sheet format and geography is not affected.	
Mr. Patton	Option 1B or 1C w/o non-SI amounts.		
Mr. Schumacher	Option 1C w/o non-SI amounts		
Mr. Dacey			Mr. Jackson's format in the MD&A, including all fiscal sustainability information
Mr. Werfel		Something similar to Option 2A	
Mr. Allen	"Overall Perspectives" table from the FY 2004 FR. Open to other options.		
Ms. Hug			Mr. Jackson's format in the MD&A
Mr. Torregrosa	Option 1C w/o non-SI amounts		
Mr. Steinberg		Something similar to Option 2A	
Mr. Farrell	"Overall Perspectives" table from the FY 2004 FR w/o non-SI amounts		

Mr. Fontenrose summarized the members' positions as five supporting some kind of combined balance sheet and other responsibilities statement, three supporting a separate statement as outlined by Mr. Jackson, and two favoring an MD&A presentation. He suggested voting on a combined versus a separate display.

Mr. Allen suggested the Board had gone as far as it could today. It had given Mr. Fontenrose input to go back and further develop formats, trying to be responsive to the members' comments.

Mr. Allen said he promised Mr. Steinberg the Board would vote on splitting up the project. He noted that Mr. Dacey brought up the issue that he thinks you can probably do this [include information on the MD&A] without re-exposure. He suggested that the staff research the issue of re-exposure. He said time was limited and he wanted to get through the issues quickly enough so that the staff to get back to them. Mr. Allen noted that a new basic statement will require re-exposure and asked whether the members wanted to carve out and quickly issue the non-controversial parts of the proposed social insurance standard, specifically the statement of changes in social insurance amounts. He asked staff about the pros and cons of doing that.

Ms. Payne responded saying the reality is that, unless the Board carves out the statement of changes in social insurance amounts and perhaps the sensitivity analysis, nothing will be voted in time for the June meeting, the last for Messrs. Farrell and Patton. She opined that the Board should vote on those pieces.

Mr. Patton said he would oppose the carving-out pieces because they represent minimal progress compared to the scope of the original project and do not warrant a separate standard.

Mr. Allen responded that sometimes standards have been very limited in scope and the social insurance issues to be carved out present more progress than other standards the Board has issued.

Mr. Steinberg noted the AICPA letter that said, in the absence of liability and expense recognition, the statement of changes in social insurance amounts is the highlight of the ED. He thought analysis of the changes in social insurance amounts is key information.

Mr. Jackson also noted Mr. Dacey's comment about changes in the MD&A not needing re-exposure and suggested requiring something akin to what he proposed as a basic statement in the MD&A. He said he would like very much to get this information out.

Mr. Allen took a vote on whether to carve out the statement of changes in social insurance amounts.

	Yes	No	Comments
Mr. Patton		X	
Mr. Schumacher		X	Fears the rest of the project would disappear and the Board would end up dealing with it in the reporting model project several years from now.
Mr. Dacey	X		
Mr. Werfel	X		
Mr. Allen	X		
Ms. Hug	X		
Mr. Torregrosa		X	Disaggregating the reasons for the change is very important. The net result of the social insurance project is the statement of fiscal sustainability, which wouldn't have been done without the social insurance project. However, he opposed the carve-out in deference to the private sector members' view.
Mr. Steinberg	X		
Mr. Farrell		X	He thought carving-out of a small piece of a standard for issuance should be re-exposed; it sets a bad precedent.
Mr. Jackson		X	He'd open up the sustainability project and integrate it with the social insurance.

Since the vote was 5 to 5, the carve-out did not go forward.

Mr. Allen asked the staff to go on to the other issues in Section II of the staff memorandum.

The first issue in Section II ("Issue #2", on page 9 of the memorandum), dealt with whether the standard should "feature the closed group"; in other words, whether it should be the common thread among the proposed new reporting. The staff recommendation on page 11 of the staff memorandum was for the open group measure to replace the closed group measure. The effect of this would be to emphasize the open group measure in the MD&A discussion and use it for the new statement of changes in social insurance amounts.

Mr. Fontenrose noted that the question of what social insurance amounts should be presented on any new basic statement was a separate issue. As shown on page 7 of the staff memorandum, there are a series of questions dealing with the new statement that the Board has addressed or will address in the future. Sub-question 1.6 addresses the issue of which amounts to present on a new statement, and will be dealt with in due course.

Mr. Allen asked for a vote on the staff recommendation on page 11 of the staff memorandum regarding Issue 2.

	Supports the Staff Recommendation	Does Not Support the Staff Recommendation	Comments
Mr. Patton	X		
Mr. Schumacher	X		
Mr. Dacey	X		
Mr. Werfel		X	Agreed that the emphasis should be on the open group measure and appreciated that the closed group measure might need to be discussed, but objected to the FASAB requiring that the closed group measure be discussed in the MD&A and elsewhere in the presentation. He said a better standard-setting model is to require the one measure the Board deems appropriate and allow the preparer and the auditor the flexibility to include additional measures if they believe it is necessary to provide better context for the primary measure.
Mr. Allen	X		
Mr. Bell		X	Favors Mr. Werfel's view.
Mr. Torregrosa	X		
Mr. Steinberg		X	Favors Mr. Werfel's view.
Mr. Farrell	X		
Mr. Jackson	X		

The staff recommendation was approved 7-3.

Noon – Mr. Allen concluded the social insurance session at this point.

CONCLUSION

Regarding the issues in Section I of the staff memorandum (pages 4-8), the Board addressed some of these issues as follows.

Issue #1

Regarding Issue 1, Section I (page 4 of the staff memorandum), which asked "Should the Staff Develop a New Basic Statement", the staff recommended (page 8) a new statement be developed. The Board voted in favor of the staff recommendation, 6-3.

Issue #1, Sub-issues 1.1 – 1.6

Regarding the format for the new statement, which was essentially sub-question 1.1 (page 7) ["Should the new statement be combined with the balance sheet (as in Option

1) or be a separate statement …"], the members expressed tentative preferences, as noted above, and directed the staff to develop the two options further. There was strong support among the members for keeping the balance sheet format as it is and combining it with social insurance amounts.

Two approaches seemed to be favored. One would be as in Option 1C where sustainability amounts are reported separately immediate below the balance sheet. The other approach, proposed by Mr. Jackson, would have two columns, one for the balance sheet and one for social insurance amounts. Future deliberations will include the questions of format.

Regarding sub-question 1.5 ["Should the statement include more than social insurance amounts, especially … the 'rest of government' …."], the Board did not support including non-social insurance amounts in the new basic statement.

The Board did not reach a conclusion as yet regarding sub-questions 1.2 – 1.4 and 1.6, Section I. Future deliberations will address these issues.

Regarding the issues in Section II of the staff memorandum (pages 9-22), the Board addressed some of these issues as follows.

Issue #2

Regarding Issue #2 (page 9) ["Should the Standard "Feature" the Closed Group Measure …"], the Board voted in favor of the staff recommendation (of page 11) that the open group measure be "featured" instead of the closed group measure. The effect of this is to require:

1. Emphasis on the open group measure in the MD&A. However, the closed group measure is required to be included in MD&A discussion of social insurance.
2. The use of the open group measure for the statement of changes in social insurance amounts.
3. In addition, the closed group measure will continue to be a subtotal in the summary section of the SOSI, as proposed in the ED.

Issue #3

The Board partially addressed Issue 3 (page 12) ["Should the Standard Require Key Measures to be Presented in the MD&A …"]. Although the Board did not vote on whether to approve the MD&A standard, it effectively addressed a part of Issue #3 in combination with Issue #2 immediately above. For Issue #3, the staff recommended (on page 13) that the proposed MD&A standard [ED paragraphs 26-30] be approved as written except for paragraph 27c, which deals with the MD&A discussion of the closed group measure, and 27e, which deals with the MD&A discussion of the fiscal gap. Staff recommended changing these sub-paragraphs.

As noted above, the Board voted to "feature" or emphasize the open group measure in the MD&A and elsewhere, instead of the closed group measure. At the same time the closed group measure will be discussed in MD&A. This disposes of the part of Issue #3 dealing paragraph 27c of the ED, which will be revised accordingly.

Sub-paragraph 27e regarding the MD&A discussion of "fiscal gap" will need to reflect what the Board decides to require in the MD&A regarding the "fiscal gap" in light of the final fiscal sustainability presentation and possibility other information that the Board may want to include there.

Issue #4

Regarding Issue 4, Section II (page 14) ["Should the Standard Require the SOSI to Have a Summary Section as Described in the Exposure Draft …"], although the Board did not vote on whether to approve the summary section of the SOSI, the Board effectively addressed Issue #4 in combination with Issue #2 immediately above. The staff recommended (page 14) that the SOSI have a summary section as described in the ED. The staff concludes that the Board's decision with respect to Issue 2, Section II, that the closed group measure will continue to be a subtotal in the summary section of the SOSI, as proposed in the ED, means that the Board approved a summary section and a subtotal for the closed group measure. This would fully address Issue 4.

Issue #5

Regarding Issue 5, Section II (page 15) ["Should the Standard Require a New Basic Statement that Explains Changes to the Closed or Open Group Measure …"], the staff recommend (page 15-16) that the new statement be approved and that the open group measure replace the closed group measure. Although a formal vote was not taken on Issue 5, the staff concludes from the fact that the Board has unanimously supported a "change statement" and from the discussion at the April 23 FASAB meeting that the Board supports its recommendation. This would fully address Issue 5.

Issues #6-9

Issues 6-8, Section II (pages 17-22) and Issue 9, Section III (page 23) were not addressed by the Board in April.

- **Steering Committee Meeting**

The Steering Committee reviewed the FY2010 and FY2011 budget. No concerns were expressed. Updates will be provided as needed.

Adjournment

The meeting adjourned for the day at PM.

Thursday, April 23, 2009

Agenda Topics

- **Federal Entity**

Staff member Ms. Loughan began the session by explaining the binder materials included a Staff Draft of an Exposure Draft entitled *Federal Reporting Entity*. Ms. Loughan explained that since it was the first time the Board had seen a Draft ED for the project, staff wanted to provide an overview of activities to date as well as a recap of how the Draft was developed.

Staff explained in 2008, the Board approved the formation of a task force to assist with the project. The task force was an excellent means of having diverse views and input on the project. Staff explained the task force met several times and recommendations of the task force were presented to the Board at previous Board meetings and the majority of recommendations for actions were implemented. For example, the task force had recommended a survey of the financial management community on the boundaries of the federal reporting entity to learn more about issues. The survey also offered an opportunity to gather feedback on the general principles developed by staff. Based on the survey, the community supported the general principles and believed the principles to be an improvement over FASAB's entity concepts in SFFAC 2.

Staff explained the Draft ED captures most of the concepts agreed to by the task force as a basis or starting point for Board discussion. Staff also explained that this is the first time the Board has seen the draft ED and that there are several open items, but staff hoped providing the draft in this format would allow members to have a better understanding of the proposal.

Staff explained the objective of the meeting would be to obtain Board members high level comments and input on things such as scope, structure, principles and other areas that need to be addressed or the Board believes staff should research further or require a detailed analysis for the Board's consideration. Staff explained that high-level questions were included on page 2 of the transmittal as well as throughout the Draft ED to gather feedback from members. Board member comments will assist staff in further developing the ED.

The Board began the discussion by considering the definitions of reporting entity, federal reporting entity, and component reporting entity. Staff noted one goal of including these definitions would be to ensure consistency as terms have often been used interchangeably. Staff explained that one Board member had suggested that the definition of federal reporting entity should include reference to component reporting entities because they are an integral part and staff planned to make this change.

Mr. Patton asked how the current CFR would fit within the definitions and specifically if it would be considered somewhere between the two definitions of federal reporting entity and component reporting entity. Staff explained that the federal reporting entity would be similar to what is currently reported in the CFR. Mr. Patton questioned it because the definition for federal reporting entity explicitly states that it includes "all organizations existing within the federal government, which are the executive, legislative, and judicial branches as well as…." Staff explained that although FASAB does not have the authority to require the legislative or judicial branches to prepare statements, it has always been FASAB's position that all branches should be within the federal reporting entity. Mr. Allen also offered that it was his understanding Treasury does pick up the material items for those branches in the CFR. Mr. Dacey agreed and explained that he supports the definition should include all branches.

Mr. Allen commented that the definition for component reporting entity was broad enough to include many things. Ms. Hug questioned if the component reporting entity would have to be an organization that had a CFO. Staff pointed out language that shows a component reporting entity can be lower levels, even groups of accounts. Mr. Dacey commented on the fact that often special reports are done for audits of schedules, such as the Schedule of Public Debt. Mr. Dacey explained that an audit is required of TARP activities and one may question if TARP is considered a reporting entity.

Staff explained the definition of reporting entity in the staff Draft is "A reporting entity is an entity that issues GPFR in accordance with GAAP. It issues reports because either there is a statutory or administrative requirement to prepare them or it chooses to prepare them." Staff further explained the Draft states that an entity may choose to issue GPFR to communicate financial and related information about the entity because it is reasonable to expect there are users of the GPFR that would benefit; the scope would provide a meaningful representation and demonstrate accountability; or it would be helpful for managing government operations and there is a management responsible for controlling and deploying resources.

The Board discussed there needs to be some distinction between special reports that are required versus reporting entities because the special reports that are required will not have all the information needed for a GPFR. Mr. Farrell suggested that the proposed definitions may need adjusting as it would not capture these types of things in the federal reporting entity.

Mr. Jackson said that a reporting entity can prepare special reports or schedules and have those audited and that is something different from this particular standard. Mr. Allen suggested that being a reporting entity is self purported. Mr. Jackson asked if the Board should address entities that prepare non-GAAP reports because he noted paragraph 11 of the draft states "A reporting entity is an entity that issues GPFR in accordance with GAAP." Mr. Jackson explained he was struggling with this but perhaps it may be best handled in the basis for conclusions. He explained that the Board deals with GAAP but it would serve to explain that in fact other types of reports may be issued that are non-GAAP. Mr. Patton asked about entities that aren't able to report in accordance with GAAP although the entity may be attempting to prepare them in accordance with GAAP. Mr. Jackson suggested that the draft remove "in accordance with GAAP" from the definition.

Mr. Dacey explained he found the language to be somewhat confusing or just a different structure with the term federal reporting entity as in the context of the draft, federal reporting entity is for the government wide entity whereas currently one views departments, such as DOD as a federal reporting entity. Mr. Allen commented that is why he believes it is important to define the component reporting entity as well in the proposal.

Mr. Steinberg referred to the definition of reporting entity in the current concepts statement, SFFAC 2. SFFAC 2 par. 29 states:

> As stated, reporting entities are entities that issue general purpose financial statements to communicate financial and related information about the entity. For any entity to be a reporting entity, as defined by this Statement of Federal Financial Accounting Concepts, it would need to meet all of the following criteria.
>
> - There is a management responsible for controlling and deploying resources, producing outputs and outcomes, executing the budget or a portion thereof (assuming that the entity is included in the budget), and held accountable for the entity's performance.
> - The entity's scope is such that its financial statements would provide a meaningful representation of operations and financial condition.
> - There are likely to be users of the financial statements who are interested in and could use the information in the statements to help them make resource allocation and other decisions and hold the entity accountable for its deployment and use of resources.

Staff commented that the criteria included in SFFAC 2 were considered somewhat restrictive and the restrictions are not included in the current proposal. Mr. Steinberg suggested that the Board should try to stay consistent with the concepts in SFFAC 2.

Mr. Jackson noted that par. 6 of the Draft sets the stage by stating the "Statement applies to federal reporting entities that prepare general purpose financial reports (GPFR) in conformance with generally accepted accounting principles (GAAP) issued by the Federal Accounting Standards Advisory Board (FASAB)."

Ms. Payne posed the question if the General Fund could be considered a reporting entity by itself. Ms. Payne suggests she has a difficult time viewing it as a reporting entity. Mr. Dymond explained there are many funds in the federal government that are required to prepare GAAP based financial statements. Mr. Dacey explained that it is possible for the General Fund to be considered a reporting entity because there are funds that are reporting entities, and that is okay but the Board should decide if that is acceptable as it moves forward. Mr. Jackson added that he believes a fund (for example the Highway Trust Fund) can be a reporting entity and produce financial statements.

Mr. Jackson explained the problem is expecting all the information for the CFR to come from another set of audited financial statements. He referred to the public debt and explained how this is appropriate for the CFR, but in attempting to bring it from a component entity, it is misleading to include it as debt of the Treasury Department. Essentially, the public debt is an audited line item from a schedule, not a reporting entity.

Mr. Allen reiterated the main focus of this document is to establish the federal reporting entity as the government-wide reporting entity and everything below it would be considered a component reporting entity of it.

The Board discussed the notion of ownership and how it relates to the boundaries of the federal reporting entity. Mr. Werfel explained that the issue of ownership is complex and big, even more so than social insurance and sustainability. He added that it definitely should be a separate project to look at the relationships among GSEs, Federal Reserve, conservatorships, receiverships, Treasury activities in the market and so forth before deciding the implications of federal ownership on the reporting entity.

Mr. Werfel explained the complex issues need to consider work groups and expert panels that could brief the Board. Mr. Werfel suggested it would involve consultation with the Secretary of Treasury, Director of OMB, GAO, members of Congress and others to determine how comfortable they would be with FASAB making determinations on these issues. Mr. Werfel explained it made him a bit nervous to move in front of these policy issues and their implications as there may be uncertainty regarding the intent of government actions. He added it may even involve the legislative and judicial branches weighing in on the federal government's role in these types of situations.

Mr. Werfel explained that his concerns cover both ownership and control. He believes there is potential for the federal government to do many things but what are the implications because the relationship is very different when compared to other ownership and control scenarios. He added the federal government owning 51% of a company is very different than another company owning 51% and this needs to be considered further. Mr. Werfel suggested additional studies need to be performed to determine what type of control over the assets and responsibilities for the liabilities the government actually has in these situations.

Mr. Patton agreed that the issues are significant and complex, but that is what the purpose of the project is and that if the Board only wants to tackle the easy issues, then there really isn't a purpose for the project. Mr. Patton suggested that a framework is needed to determine how these unique situations should be handled. Mr. Farrell agreed and offered that if FASAB didn't act, who would address it. Mr. Farrell added that these transactions are happening now and it needs to be addressed and FASAB is the body to issue standards on this.

Mr. Werfel explained that he didn't mean FASAB shouldn't do the project, he believes FASAB should be more strategic in approaching the project and complex issues while considering policy implications. He reiterated he believes there must be consultation with senior officials and Congress because there are significant questions. Mr. Werfel cautioned the Board on moving too quickly before acting with due diligence and outreach of public policy officials on the matters.

Mr. Allen pointed out that a task force has worked with staff for over a year on the project. He believes that the Board needs to be cautious and conscientious, however he realizes there will be some who do not buy in to the framework for policy reasons but ultimately we need the principles.

Mr. Werfel explained he believed the federal entity project was on a certain trajectory as the Board has considered various issues on the project, but it appears the project has taken a faster pace due to some of the current events. Mr. Werfel explained that there are new areas that need deliberating and the complexities of the TARP have changed the nature of the project. He believes a determination should be made on how to move forward. He added the Board could move forward on a modest trajectory and not get into some of the complex areas or the Board can cover all the issues such as ownership and control. If the Board chooses to cover all the complex areas, Mr. Werfel suggested the Board pause and determine a strategic approach and plan that would involve outreach to senior officials.

Mr. Allen agreed the issues are very controversial and very political. Mr. Allen stressed he did not want it to look like the Board was reacting to something but instead have a sound framework that would be able to deal with all types of activities in the future.

Mr. Jackson agreed with Mr. Werfel and explained the issues are very complex and one must consider the uniqueness of the situation. The federal government stepped in with actions (whether dumping money or buying stock) to prevent a total economic failure in this country. Does this indicate ownership or control as one expects? However, it was more of a safety net to protect the country, not to obtain ownership for any other reason.

Mr. Allen suggested that in standard setting, the unique situations should be considered and appropriately considered. He further explained that the financial statements of the federal government should capture all of the potential risks associated with these relationships so it can be reported to the taxpayers. A reporting entity standard should capture these types of events and activities and determine how it should be reported whether consolidated or disclosed in some fashion. He added that he understood Mr. Werfel's concerns but believed the Board would be derelict if it did not move forward with the project.

Mr. Steinberg explained that SFFAC 2 speaks to GSEs, bailouts and Federal Reserve and therefore any new proposals would have to look at those again or the Board would open itself to questions. Mr. Steinberg added that it goes without saying the Board always does research and outreach before exposing a document and policy is considered throughout the process. He said he had confidence policy implications could be considered by the Board as we move forward on the project.

Mr. Allen asked Mr. Werfel for suggestions on how the Board could proceed in a cautious manner. Mr. Werfel suggested staff lay out the complexities of the project and the implications and brainstorm. For example, what is the relationship of the federal government when they are purchasing equities and loaning funds to corporations which is very different compared to one corporation loaning to another. Mr. Werfel also explained there are logistical complexities as many of the organizations are on a different year end reporting cycle and report on FASB GAAP. He believes once the key issues are outlined this will in turn allow the Board to determine an appropriate outreach strategy. Mr. Werfel suggested that perhaps it is better to start conceptually with the different types of relationships that exist and then determine the reporting implications.

Mr. Allen explained that the reporting entity standard will not only address consolidation but will also include disclosures for those organizations that are not consolidated. He added that if certain criteria exist, it would require certain disclosures whether it be risk or investments. Mr. Werfel explained that often the purchase of the equities by the federal government may be for a certain purpose, not to control assets or be responsible for liabilities.

Mr. Farrell explained that the federal government is unique and there may be some modified form of consolidation that the Board could consider. He added that there are many possibilities or options to handle the unique situations that would be more than disclosure but less than full consolidation or special presentation of equity. Mr. Allen agreed there are many different possible considerations to present the economic substance of the relationship.

Mr. Steinberg explained GASB 14 details blended components, discreet components, jointly-owned entities, etc. and there are rules for each type of component. He added this approach could be used in the federal government while considering concepts or factors such as rationale for taking control or ownership, relevance to the federal mission, likely time frame for involvement, nature of the involvement, availability of timely information, etc.

Mr. Dacey explained that he focused on the temporary control exclusion and thought this area would need additional research, especially in gaining an understanding of what the federal government's intent is with some of its current activities. He added that we do have experience with receiverships at the FDIC and it is very clear what the intent is and those are not consolidated. He added that the TARP activities could be seen as akin to that and he doesn't see any problems with the current accounting for FDIC and perhaps there should be more reference to this similarity. He added the language in SFFAC 2 on bailouts would need to be amended. In addition, the notion of temporary control based on a timeframe may need to be expanded further to include the reasons or purpose of why there is the temporary control or the intent, as it may be longer than one year.

Mr. Allen explained staff should explore more than whether an organization is in or out, but other options for consideration. The Board also expressed an interest in staff doing research with technical panels and outreach to senior officials. For example, Mr. Torregresa suggested having FDIC brief the Board on its activities so there is a better understanding for comparison. Mr. Allen asked Board members to suggest individuals that would be in a position to assist or advise the Board or work with the task force on the project.

Mr. Jackson explained that the project must consider the input of the real decision makers up front on the perception and the purpose of some of these activities or the project will eventually hit a brick wall . He offered the example of Social Insurance and explained if you don't consider the policy implications, there will be problems. He explained this is a very big deal when you consider consolidating some of these organizations and its best to have input from senior officials on their position and intent.

Mr. Patton explained that he was a bit confused with the definition of control. He explained par. 40 of Draft reads "**Control** is the power to govern the financial and/or operating policies of another organization with expected benefits (or the risk of loss) to the federal reporting entity" Mr. Patton explained he was concerned with the notion of expected benefits (or the risk of loss) being part of the definition. He added that it may be another path to whether or not an entity should be included but it is different than control. Staff explained the definition of control addressed both a power and benefit element because strictly power may inadvertently include entities that were not controlled. Staff also explained this draft definition is similar to what other standard setters have considered and what FASB is considering in its current project. Mr. Allen explained he agrees with the definition as there must be some benefit or risk of loss associated with the power to control for inclusion in a financial report and that in more times than not, with the federal government there is probably the risk of loss. In regards to the definition of control, staff explained there were several comments from members that it should be clarified to explain it is the ability to control. Mr. Torregresa explained that many of the control concepts were considered in the Elements Concepts Statement and we should be consistent.

Mr. Allen summarized the Board's position is to proceed cautiously with the project. The Board would like staff to scope out some of the more complex areas such as the temporary exclusions, the linkage of benefits and risk with control, and options for dealing with entities other than consolidation. He suggested once these areas are looked at further perhaps the Board would be in a position to walk through the issues more and deliberate on the specifics. The Board also suggested other fact finding to determine the federal government's role and intent as well as statutory basis in the unique relationships. Mr. Jackson also suggested it may be difficult to meet with senior level people as not many have been appointed.

> **CONCLUSION:** Staff will proceed cautiously on the federal entity project by scoping out some of the more complex considerations for the Board. The key issues will allow the Board to determine an appropriate outreach strategy. Staff will also explore alternative presentations and disclosures for some of the unique relationships.

- **Reporting Model**

The objective for the reporting model session was to discuss staff's proposal to convene a roundtable discussion during the June 2009 Board meeting. Staff member Ross Simms noted that staff is currently studying user "needs" by conducting focus group discussions. Staff has conducted four focus group discussions and is planning to conduct more involving program managers and citizens throughout the remainder of the year. Organizing a roundtable discussion would afford Board members the opportunity to engage in a dialogue with former focus group participants and potential users.

Board members discussed the need for feedback on questions such as how data elements of financial statements are used and what information potential users like and how is the information used. Answering these questions could potentially lead to wide-open conversations; therefore, members believed that staff structured interviews would be a better approach than a roundtable with the Board. Staff could continue with the user needs study, develop a synopsis of the discussions, and report to the Board.

> **Conclusion:** Staff will continue the user "needs" study by conducting focus group discussions and structured interviews rather than organizing a roundtable discussion for the June 2009 meeting.

- **PP&E Estimation**

Ms. Payne reminded the Board that a ballot draft of *Statement of Federal Financial Accounting Standards 35: Estimating the Historical Cost of General Property, Plant, and Equipment - Amending Statements of Federal Financial Accounting Standards 6 and 23 (SFFAS 35)* had been sent to the members on April 3, 2000. Member ballots were requested by April 17 and those members not responding by April 23 would be considered to have abstained.

She also noted that staff had received the following proposed change to SFFAS 35 from Mr. Dacey. The suggested change related to language in the amendments to SFFAS 23 [Adjustment to Cumulative Results of Operations] section of SFFAS 35**.**

Current SFFAS Language:

[16.] Application of this standard by an entity previously reporting G-PP&E should be treated as a correction of an error in accordance with SFFAS 21.

Proposed SFFAS Language:

[16.] Changes to previously reported G-PP&E amounts resulting from the application of this standard should be treated as corrections of an error in accordance with SFFAS 21.

Mr. Patton asked Mr. Dacey for the rational for the proposed revision. Mr. Dacey noted that the rational for the change is to clarify the language to reflect that not just the mere application of SFFAS 35 would trigger a correction of an error, but changes as a result of the application of the standard to previously reported G-PP&E would be treated as corrections of an error.

Ms. Payne asked the members to inform her of any objections to SFFAS 35 based on the proposed revisions by the end of Thursday's (4/23/09) meeting. As of April 23, staff had received ten member ballot votes approving the release of SFFAS 35.

CONCLUSIONS: There were no objections to the changes noted by the members. The revisions will be reflected in the final statement.

- **Natural Resources**

Julia Ranagan, staff member, briefly summarized the briefing materials, which include a history of the project and key decisions, a revised draft exposure draft (ED), and a transmittal memorandum that lists the changes made to the ED since it was last discussed at the December 2008 board meeting. Ms. Ranagan noted that she had received detailed comments on the revised ED from Mr. Steinberg that she plans to incorporate into the next draft.

Par. 24 Valuation Flexibility

Ms. Ranagan stated that she received a strong objection from Mr. Patton to the valuation flexibility permitted by par. 24 of the draft ED combined with the planned transition to basic. Ms. Ranagan suggested discussing the par. 24 valuation flexibility issue first if there were no objections from the members. Mr. Dacey asked if the members had discussed whether they were comfortable with fair value as an appropriate measurement basis for natural resources. Ms. Ranagan responded that the members had not discussed that and it would be part of the current discussion.

Mr. Allen asked for clarification of the distinction the issue paper is making between present value (PV) and fair value (FV). He noted that in his experience PV is one method for measuring FV but staff's issue paper and the ED seem to separate the two. The ED refers to PV or FV while he believes it should be framed as PV or "some other method for valuing FV."

Ms. Ranagan explained that the ED refers to PV or FV because the FAS 157[3] approach to fair value approximates an exit value including assumptions about market risk while the PV approach in the ED specifically requires a risk-free discount rate. Therefore, the PV approach in the ED is not technically consistent with FAS 157 because of the use of an entity-specific risk free rate. Ms. Ranagan noted that staff would clarify the wording in the next draft.

Ms. Ranagan teed up the valuation flexibility issue for discussion by briefly summarizing the project's history regarding valuation guidance. Ms. Ranagan explained that the May 2007 ED provided very detailed valuation and implementation guidance. The Department of the Interior field tested the proposed guidance during the comment period and raised significant issues, particularly with the lack of available data required to comply with the standard. The field test team recommended a PV approach to measuring estimated petroleum royalties. The December 2008 revised draft ED contained the following more principles-based approach to valuation which allowed for the PV approach proposed by the field test team or the QxPxR[4] formula exposed in the May 2007 ED as well as other methodologies:

> If it is not reasonably possible to estimate the present value of future federal royalty receipts on proved reserves, then the value of the federal government's estimated petroleum royalties may be computed by multiplying the estimated quantity of proved oil and gas reserves under federal lands by the average first purchase price for oil or average wellhead price for gas and the effective average royalty rate by region. Other methodologies may be acceptable.

At the December 2008 meeting, a majority of the board members supported the PV approach proposed by the field test team but requested that staff remove the explicit reference to the QxPxR formula and soften the language to allow more flexibility.

Ms. Ranagan explained that staff had drafted the following valuation paragraph that provided broad flexibility that was included in the February briefing materials but natural resources was not discussed by the board at the February meeting due to the board's focus on long-term projections and social insurance:

> The preferred measurement method for valuing the federal government's estimated petroleum royalties is the present value of future federal royalty receipts on proved

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[3] Financial Accounting Standards Board Statement of Financial Accounting Standards (FAS) 157, Fair Value Measurements

[4] quantity X price X rate (estimated quantity of proved oil and gas reserves under federal lands times the average first purchase price for oil or average wellhead price for gas times the effective average royalty rate by region)

> reserves; however, another methodology may be acceptable if it is not reasonably possible to estimate present value.

Ms. Ranagan explained that since that time, Messrs. Dacey and Patton have expressed significant concern about providing both broad flexibility and a transition to basic information. To help alleviate those concerns, staff drafted the following paragraph that was included in the current revised draft ED:

> The preferred measurement method for valuing the federal government's estimated petroleum royalties is the present value of future federal royalty receipts on proved reserves as provided in pars. 20 through 23; however, methods for measuring fair value may be acceptable if it is not reasonably possible to estimate present value. [FN]
>
> [FN] FAS 157, *Fair Value Measurements*, provides a framework for measuring fair value.

Ms. Ranagan stated that, due to the significant concerns raised by Messrs. Dacey and Patton, staff would like the board to consider the compromise offered in the above paragraph which limits the valuation flexibility to the present value approach proposed in the ED and FAS 157 fair value measurement approaches. Ms. Ranagan directed the board's attention to the screen that displayed a graphic for recording the member's responses in one of the following four quadrants:

- I – Flexibility / Transition to Basic
- II – Flexibility / RSI Indefinitely
- III – Limit to PV + FV / Transition to Basic
- IV – Limit to PV + FV / RSI Indefinitely

Ms. Ranagan noted that at the December board meeting, the majority of the members were in quadrant I, meaning the majority supported broad flexibility with a transition to basic after three years.

Mr. Allen asked if someone had asked for formal reconsideration of the issue. Ms. Ranagan responded that Messrs. Dacey and Patton had not requested a formal reconsideration; staff was proposing the issue for reconsideration because staff feels the concern is significant enough that it would lead to an alternative view. Ms. Ranagan noted that staff would like the board to either reaffirm its decision or come to a compromise that would avoid the need for an alternative view.

Mr. Farrell requested that Messrs. Dacey and Patton express their concerns to the group in more detail before he associates himself with a box.

Mr. Dacey responded that the language in the February revised draft ED provided substantial flexibility by permitting present value or, paraphrasing, "anything else you think is a good idea." Mr. Dacey said he thought that was not a workable standard if it became basic information, that there should be a more discrete, specific standard for basic information. Mr. Dacey explained that he believes the flexibility is necessary because he does not believe the board will know exactly what can be delivered until DOI actually delivers it. Mr. Dacey said he thinks there should be flexibility because it is a new area and no one really understands what can be provided until they get into the details of the numbers and audit them. Mr. Dacey said going to FV expands that window of being flexible yet having a standard, but he is still concerned that the model that DOI can actually implement may be something other than FV. Mr. Dacey said he appreciates the move to FV because it broadens the flexibility while still having a standard, but he still has some concerns, although they are not as large as they were before.

Mr. Patton agreed with Mr. Dacey's summary.

Mr. Allen asked Mr. Patton if he agreed with Mr. Dacey that he was less concerned about the transition to basic if the alternatives were limited to FV. Mr. Patton responded that he would be except that FV does not seem to be included in the underlying conceptual development of the standard. He said FV is only mentioned once the reader gets to par. 24 so he would expect to see some central development as to why FV is appropriate and then see PV as a recognized way of estimating FV. Mr. Patton said the ED is the reverse; it states PV and then attaches FV in passing.

Mr. Allen asked Ms. Ranagan to address Mr. Patton's concern – why was the order reversed? Ms. Ranagan responded that the order was reversed because the board had supported the PV approach proposed by the DOI field test team and additional methods for valuing FV via a FAS 157 approach was proposed by staff to limit the valuation flexibility. Ms. Ranagan noted that Mr. Patton is conceptually correct – PV does flow from FV.

Ms. Payne clarified that the draft ED is very explicit about the discount rate ("interest rates on marketable Treasury securities"), noting that while PV with that specified discount rate might fit the board's notion of FV when it defines FV, use of an entity-specific risk-free discount rate does not fit FASB's definition of FV because risk is part of the equation. If one does a PV calculation under FAS 157, one must consider the exit value for market participants; it makes a fairly sizable difference in most cases. Ms. Payne stated that since FASAB does not have its own definition of FV, which she believes FASAB should considering how the government interacts with the marketplace, she would not espouse the view that the PV approach proposed in the ED using the risk-free discount rate is FV.

Mr. Dacey said that if the PV approach proposed in the ED is not FV because of the use of a risk-free discount rate, the ED should clarify that the valuation alternatives would be limited to the proposed PV approach **or** FV. Staff stated that the alternatives would be clarified in the next draft.

Mr. Allen stated there is a general belief in the world that PV is a method of FV; therefore, staff needs to do a lot of work to develop this distinction in the ED starting with the summary and working throughout the document including in the standard and the basis for conclusions.

Ms. Payne responded that it is only the use of an entity-specific, risk-free discount rate that makes the proposed PV approach in the ED inconsistent with the FAS 157 definition of FV, not the concept of discounted cash flows. She said that staff could work on coming up with a term for that type of PV such as risk-free PV or entity-specific PV or something that would distinguish it from FV.

Mr. Allen said that the ED needs to be clearer to eliminate the confusion that he found every time he kept reading "PV or FV." Ms. Payne replied that staff will clarify.

Mr. Dacey said he remains in quadrant II because he thinks the standard provides too much flexibility to become basic information. Mr. Dacey said he thinks the board should review what DOI comes up with and determine if it is acceptable and then issue a standard that makes it basic information.

Mr. Patton said staff's recommendation was creative but it did not work for him; he would also be in quadrant II with Mr. Dacey.

Mr. Allen said he is less hung up on the methods than he is on the transition. He is concerned, like others, that if the standard does not say that it will become basic information, nothing will happen. Mr. Allen said later having to delay the transition to basic information would be preferable to leaving it as RSI indefinitely.

Mr. Patton proposed deleting the last two lines in par. 24 – "however, methods for measuring fair value may be acceptable if it is not reasonably possible to estimate present value."

Mr. Jackson said the last two lines are not necessary anyway because if something is not reasonably possible, one does not have to do it.

Mr. Schumacher said he thought that was in there to not give them a choice of not doing it. The preparer must do PV; if it is not possible to do PV, then the preparer must do FV.

Mr. Allen asked Mr. Torregrosa for his views.

Mr. Torregrosa responded that the alternative view pushed for FV because CBO wanted to be as broad as possible. They thought that applying PV to proved reserves made sense. CBO's major problem was that there was no discounting initially which CBO considers wrong. Mr. Torregrosa said he is fine with requiring PV using the risk-free discount rate; it is close enough for him.

Mr. Jackson asked what an obstacle to using PV might be.

Mr. Allen responded that he was concerned that DOI might not be able to actually deliver on their proposed method because they have indicated agreement with the previously proposed measurement approach in the past but later indicated that it was unworkable.

Mr. Torregrosa said that John Woods from EIA had said that there were sales of reserves in the private sector and CBO's thinking was that those sales could be used as a proxy for FV using Level II or Level III of the FAS 157 fair value hierarchy. Mr. Torregrosa said the field test team indicated that their PV approach would work and if the board wanted to limit it to PV [as proposed by Mr. Patton], that would probably be okay.

Ms. Ranagan responded that when the field test team came to speak with the board, they stated they were comfortable with their proposed PV approach but would like the two or three year implementation period so they would have time to work out any issues while the information was presented as RSI and come back to the board for further guidance, as needed. Ms. Ranagan noted that an analysis of the field test team approach showed that there were still some areas where hypothetical numbers were inserted by the field test team, indicating that they thought they could get the information but did not have time or resources to actually get/compute the information. Furthermore, the field test team had not consulted with their auditors on the proposed approach. The concern was that the board would have to reissue the standard if the proposed PV approach would not work; therefore, flexibility was recommended to avoid the need for further revisions.

Mr. Patton pointed out that if DOI came up with a methodology that the board did not particularly like, they would have to revisit it to strike it out.

Ms. Payne asked if it would be possible to provide flexibility during the RSI period and then limit valuation to one method when the information transitioned to basic; DOI would either have had to find a way to do PV or come back to the board. Mr. Dacey said he has tried to think of a way to do that but he couldn't because at the time the information becomes basic, there has to be a standard in place. If it is specific when it is RSI, you run the risk of having the auditors note that the RSI was not prepared in conformance with the standard. Mr. Dacey said he would rather have them fix it and then finalize the standard rather than finalize the standard and then have to go back and fix it.

Ms. Kearney said that it seems to her that almost every option has drawbacks and ends up with board action at some point. She said it seems logical to her that the board should go ahead and be flexible and leave it as RSI. She noted that the board did something similar with social insurance and it wasn't favorable because there was a delay in audit guidance until the board made it permanent, but she does not see that problem with this standard. She said she agrees with Mr. Dacey that she would make it flexible and RSI indefinitely (quadrant II) because, ultimately, the board will probably be back in a few years discussing it again anyway.

Mr. Schumacher said he would be in favor of giving DOI the flexibility with the proposed PV approach or FV but he still believes the information should transition to basic and the board can always come back and extend the RSI period. Mr. Schumacher clarified that he is in quadrant III.

Mr. Jackson said he will put himself in quadrant II with Ms. Kearney and Messrs. Dacey and Patton.

Mr. Farrell said he is in the southwest box with Mr. Schumacher (quadrant III).

Mr. Steinberg responded that he is in quadrant III.

Mr. Torregrosa responded that he is in quadrant III.

Mr. Bell said he is in quadrant II because there are too many unknowns right now to transition to basic.

Mr. Allen responded that he is in quadrant III.

The poll resulted in a 5-5 split between quadrants II (flexibility / RSI Indefinitely) and III (PV + FV / Transition to Basic).

Mr. Allen asked where the majority was at the December meeting. Ms. Ranagan responded that the majority was in quadrant I (flexibility / transition to basic) in which there is currently no one.

Mr. Allen stated that unless a member was willing to change his or her vote, the wording would be based off of the original quadrant I vote because they did not have a majority vote to change it (a 5-5 vote would mean that the language would remain as previously presented based on the December meeting). However, Ms. Ranagan noted that while the members had directed staff to develop more flexible language, they had not deliberated on the actual language until this meeting, at which they were given the additional option of limiting the valuation alternatives to the proposed PV approach and methods for measuring FV that are consistent with FAS 157. Ms. Ranagan referred the members to the language that was developed for the February briefing materials and asked if any of the members strongly objected to being that flexible since no one voted to be in quadrant I.

Mr. Allen said some members did not understand that wide open meant anything including historic cost; he said flexibility to him meant PV or some other method for measuring FV. Mr. Farrell countered that wide open is where all the members in quadrant II are right now—they are not limiting it to PV or some other method for measuring FV.

Mr. Jackson said he does not have a problem being in quadrant IV (PV + FV / RSI Indefinitely); he just does not want to have an absolute transition to basic.

Mr. Allen asked staff what the vote was when the board voted on RSI vs. transition. Ms. Ranagan responded that the majority voted for transition to basic [Staff Note: from December minutes: vote was 8 – 2 for transition to basic; Messrs. Dacey and Werfel were the only members to vote for RSI indefinitely].

Mr. Jackson asked if he was one of the members that voted for transition to basic. Ms. Ranagan responded that he was. Mr. Jackson replied that he would like to be true to his previous vote for transition to basic and since he does not know any other way that DOI would measure the asset other than the proposed PV approach or FV, he will change his vote to quadrant III.

Therefore, the final vote was 6 – 4 in favor of quadrant III (PV + FV / Transition to Basic).

Paragraph 24 Valuation Requirements

	Transition to Basic	RSI Indefinitely
Flexibility	I	II Bell Dacey Kearney Patton
Limit to PV + FV	III Allen, Steinberg Farrell, Torregrosa Jackson Schumacher	IV

Other Comments

Moving on to another issue, Mr. Steinberg asked the board members if they accepted staff's recommendation from the February briefing materials [Issue Paper No. 6] to only record a liability for non-federal entities. He noted that DOI would have a significant increase in net position in the year in which the assets are recorded on the books. Ms. Ranagan reminded the board that this change was proposed primarily due to cost/benefit considerations and DOI's disclosure to staff that they would be retaining 50% of the amounts disbursed on their books anyway because the Department of the Treasury would not be recording a receivable for the portion that is distributed to the Treasury General Fund. Mr. Jackson agreed that agencies should not spend a lot of time coming up with a number that does not have any managerial usefulness or significance to the financial statement user. None of the other board members objected to staff's recommendation.

Mr. Steinberg recommended that there should be a robust footnote at the very least that explains the estimated distribution. None of the other board members objected to such a footnote.

Ms. Kearney inquired why par. 26 related to the change in accounting estimate referred in a footnote to FAS 154. She asked if there was a reason for it because it seemed to be setting a precedent and she wondered how that fit in with the board's previous discussions on the GAAP Hierarchy and when one should go out of the FASAB hierarchy to apply guidance.

Ms. Payne responded that a change in methodology was not addressed explicitly in FASAB standards so staff found the appropriate guidance in FASB literature. Ms. Payne noted that the ED does not need to reference FAS 154 if the board is concerned about precedence; the footnote could be removed. Ms. Payne said staff viewed it as a matter of professional courtesy to acknowledge when material is directly adopted without change from other standard-setters.

Mr. Allen said staff can determine when a reference would lead readers to a standard with more depth versus when a reference would not lead readers to something of more substance.

Mr. Dacey requested that the footnotes clarify their intent, meaning whether the standards being referenced by way of footnote are being incorporated into FASAB standards or if they are merely a place for readers to look for more guidance absent any guidance in FASAB standards.

Mr. Dacey said that he thinks it is important that there be a disclosure that lets the reader know that there are other oil and gas resources that are not being valued by this standard, that it is only the oil and gas being leased. He said the disclosures required by par. 42b touches on it a little bit but he does not think that it goes far enough to be informative to the reader regarding all of the other oil and gas resources that the federal government owns which will not be valued as part of this standard.

Mr. Allen pointed out that the recognition of revenue when the asset is first recognized is implied but it is not explicitly stated in the ED. Ms. Ranagan responded that staff would clarify that in the next draft.

> **CONCLUSION / NEXT STEPS:** At the April board meeting, members voted to limit the valuation flexibility to either the proposed PV approach (using a risk-free discount rate) or a method for measuring FV that is consistent with FAS 157. Members reaffirmed their previous decision to transition to basic after a period of three years as RSI. Staff will incorporate board member comments into a pre-ballot draft for the June board meeting.

Adjournment

The meeting adjourned at 3:30 PM.