FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
February 13-14, 2008
Room 7C13
441 G Street NW
Washington, DC 20548

Wednesday, February 13, 2008

Administrative Matters

- **Attendance**

The following members were present throughout the meeting: Chairman Allen, Messrs. Dacey, Farrell, Jackson, Murphy, Patton, Reid, Schumacher, Steinberg and Werfel. 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.

- **Statement of Members Responsibilities**

Ms. Payne explained the following four proposed amendments to the statement:

1. Mr. Dacey requests that the phrase “including an ability to understand and analyze the similarities and differences between the Federal Government’s financial reporting environment and user needs and those of the private and other government sectors” be added to the requirement that members have a “broad understanding of the environment in which the Federal Government operates.”

2. Mr. Patton proposed the following revision:

    Board members may **dissent** to a FASAB Statement (Concepts or Standards) if they vote against the majority position in the Statement. Member’s dissents will be published with the Statement and the dissenting member identified.

3. Mr. Patton also proposed the following revision:

    <u>High intellect applied with integrity and discipline</u>--A member should critically assess issues, and should reach conclusions regarding sound accounting and financial reporting policy based on objective, logical analysis. The basic foundation for analysis is the Board’s conceptual framework as presented in its Statements of Federal Financial Accounting Concepts.

4. Ms. Payne proposed that “Guidelines on FASAB Board Member E-mails” provided by General Counsel Abe Dymond be incorporated as an addendum to the statement.

Proposal one was adopted following a brief discussion regarding the intent with respect to political factors of the environment.

Action on proposal two was deferred until the Board can consider various ways that separate expressions of views have been or might be included in the basis for conclusions. Some members were concerned that absent a vehicle for clarifying individual votes, members who may have offered a qualified “yes” or an abstention would be required to dissent in order to offer explanatory text.

Proposal three was modified and adopted as follows:

> <u>High intellect applied with integrity and discipline</u>--A member should critically assess issues, and should reach conclusions regarding sound accounting

> and financial reporting policy based on objective, logical analysis. This implies that members must have the ability to absorb and process complex information. The basic foundation for analysis is an understanding of the Board's conceptual framework as presented in its Statements of Federal Financial Accounting Concepts.

After general counsel answered some questions from members, the members approved the fourth proposal.

Agenda Topics

- **Strategic Planning**

Mr. Reid led the discussion and explained that a situation audit would be helpful to the Board. The objective was to develop lists of strengths, weaknesses, opportunities and threats. Given the lists, the members would be asked to prioritize the list.

The members offered additions to each list and subsequently offered their individual prioritization. The resulting lists are shown below.

Strengths

Quality of people - collegiality and influential

Small set of entities involved and affected allows bold moves - help with implementation (well defined population)

Credibility with those outside of Government through Rule 203 status

Dedicated people focused on improving financial reporting

Listening to respondents and explaining positions taken in final pronouncements

Weaknesses

Accrual process overshadowed by budget

Don't have decisions resting on reports and clearly demonstrated relevance to decision making

Purpose seems to be to improve the information used by internal users but there is lack of clarity regarding this goal (e.g., Who are we serving – internal or external users?)

Lack of budget and limited meetings

Identify approaches to maximize federal agency/mission effectiveness

Getting timely responses and better interaction

Opportunities

Realign and prioritize our work (are we spending too much time on things others could do? Tier 1 issues should get most of our time)

Decide what action our users take through end product – identify who users are and what their information needs really are based on their decisions

Open opportunity to restructure/reformat model - nontraditional ways to convey info; extend beyond traditional

Work more closely with agencies to be more effective as a board

Do things differently - and be in front regarding readability and connection to mission effectiveness. Leadership in standard setting and thinking outside the box.

Improve stakeholders' understanding of financial matters

Threats

Declining organizational capacity in federal financial management - can they maintain current efforts and add new initiatives

Consequences of a veto

Declining interest and understanding in Congress; Lower priority in Congress; interest lies outside our mission

Will future administrations be as committed as current and past administrations

Rule 203 recertification issues

Changes in the audit community have led to more intense audit environment – is the target precision level right? Risk aversion may compromise intent of standard; government context different than corporate context - are audit standards being driven in the wrong direction

The Board concluded that this list would be helpful in considering potential projects by serving as a supplement to the criteria established for ranking projects.

- **Technical Agenda Setting**

Ms. Payne explained that the briefing material summarized the input received from four roundtables, several standing government-wide groups and the Association of Government Accountants Financial Management Standards Board. The five projects most frequently included in a group's top five were:

1. Linking Cost to Performance
2. Evaluation of Existing Standards
3. Deferred Maintenance and Asset Impairment
4. Leases
5. Application of the Liability Definition

In addition, the groups suggested the following activities that would not result in a technical project but would require resources:

1. Agreement between Auditors and Preparers on Precision Needed in Relation to Estimates
2. Communication of the Board's Intent
3. Training Needs (FASAB sponsored events)
4. Budgetary Reports (general acceptance of standards, structure of trial balance, understandability, need for training materials, etc.)

Mr. Reid suggested that members address the technical agenda in light of the strategic planning session; consider how the strengths, weaknesses, opportunities and threats influence project priorities and/or suggest projects other than those already identified.

Members offered the following comments and ideas:

- A matrix could be developed showing the relationship between current standards and mission effectiveness (that is, the relationship to decisions and operations as well as behavior).
- Issues relating to the Department of Defense should receive high priority since significant resources are being devoted to implementation.
- Reporting could be focused in a way that supports the budget given the emphasis on budget over accrual accounting noted in the weaknesses.
- Risk management should be considered in selecting technical projects and in making specific choices between accounting options. For example, key operational risk areas could be identified and an assessment made of how the existing accounting standards aid in managing such risk areas so that gaps are identified.
- The insurance area poses a significant risk and should be a high priority among the technical projects.
- Given the emphasis on evaluation of existing standards, a triage approach could be established to address existing technical problems. One member suggested that agencies be asked to list technical problems. One member suggested that agencies be asked to list technical problems. Another suggested possible criteria for selecting items through the triage: risk to taxpayers, conflicts between auditors and accountants, time required to account for and report information.
- In light of the problems with grant accruals, perhaps a common model should be developed and given authoritative standing.

- Intergenerational information is needed. (Some suggested that the social insurance project is intended to address this need and may be expanded if needed.)

Mr. Allen noted that the emphasis on budget should not drive us to back off of the accrual model. While there may be specific cost/benefit issues to consider, the accrual model provides significantly more information needed to meet the reporting objectives than cash or modified-accrual models.

> **CONCLUSIONS:** The Board will continue its discussion of the technical agenda in April. Staff will provide additional material such as expanded project descriptions and new project options focusing on issues raised at the February meeting.

- **Measurement Attributes**

The Board reviewed the "Milestone I Summary Report—Inventory and Definitions of Possible Measurement Bases," prepared by staff of the Financial Accounting Standards Board (FASB) and discussed whether the inventory and definitions it describes could provide a starting point for the FASAB's consideration of measurement attributes for items reported in federal financial statements. The Report is the result of several years of research and deliberation by the FASB and the International Accounting Standards Board (IASB) in their joint conceptual framework project on measurement. The two Boards decided in April 2007 to consider the decision usefulness of the proposed measurement bases in Milestone II of their project, using the qualitative characteristics of accounting information previously adopted by the two Boards.

FASAB staff proposed that the FASAB tentatively adopt all or most of the FASB/IASB terms and definitions as a starting point, test them using the qualitative characteristics established by the FASAB, and consider whether additional or different measurement attributes are needed for federal financial statements.

The Report identifies and defines nine primary candidates for measurement bases or attributes, or twenty-one candidates if the variants listed under the primary candidates are included. The FASB and IASB concluded, however, that they will focus in Milestone II on the nine primary candidates and consider one or more variants only if and when needed. Definitions are provided from both an asset and a liability perspective, but except for terminology, the asset and liability definitions are the same. The nine primary candidates and their variants, grouped into past, present, and future amounts, are:

Past:
1. Past entry price
   a. Without related prices
   b. With related prices
2. Past exit price

    a. Without related prices
    b. With related prices
3. Modified past amount
    a. Accumulated
    b. Allocated
    c. Amortized
    d. Combined

Present:

4. Current entry price
    a. Without related prices
    b. With related prices
        i. Identical replacement
        ii. Identical reproduction
        iii. Equivalent replacement
        iv. Productive capacity replacement
5. Current exit price
    a. Without related prices
    b. With related prices
6. Current equilibrium price
7. Value in use

Future:

8. Future entry price
    a. Without related prices
    b. With related prices
9. Future exit price
    a. Without related prices
    b. With related prices

FASAB staff reviewed the candidates for measurement bases or attributes and their definitions with the Board and clarified certain issues based on information in the Summary Report and conversations held with the FASB project manager assigned to the measurement project. One issue was the decision not to include “historical cost” or “fair value” as candidates because these terms have a variety of interpretations in the literature and in practice. In contrast, a goal of the project is to identify only one term for each measurement concept. To assist understanding, the Report lists terms in current use that are synonyms for the measurement basis candidates.

The FASAB discussed the candidates for measurement attributes and reached the following tentative conclusions.

1. The FASAB would work with the terms and definitions proposed by the IASB/FASB, at least initially. However, future deliberations, including consideration of their suitability for the federal reporting environment, may lead to additions or changes to the terms or definitions. In this regard, some members were less sure than other members about the appropriateness of certain terms, such as “value in use,” “modified past amount,” “current equilibrium price,” “future entry price” and “future exit price,” for federal financial

statements. However, the Board decided not to jettison terms at this early stage, but to work with them and also keep abreast of future decisions of the IASB and FASB in their project.

2. Consistent with 1, the FASAB would not adopt "historical cost" or "fair value" as measurement attributes, but would adopt different terms (the IASB/FASB's terms or other terms) for the principal possible meanings of "historical cost" and "fair value." The concepts document would indicate those terms for which "historical cost" or "fair value" currently is a synonym.

3. Also consistent with 1, the primary measurement attribute candidates would be considered from both the asset and the liability perspectives. The Board agreed that the definitions should be the same from both perspectives, except for traditional variations in terminology, such as "acquire" an asset but "incur" a liability. The Board did not identify attributes that would be specific to revenues and expenses. However, in deliberations about the decision usefulness of the candidates, consideration should be given to their potential effect on the statement of net cost and other federal financial statements as well as on the statement of financial position. Definitions and examples for revenue and expenditure/expense items could be developed in Phase II. The eventual concepts statement should include descriptive information about such potential effects.

4. It could be useful to include in the concepts statement a discussion of the meaning of "price" vs. "value." The distinction would be deliberated further at a future meeting. The Board also would consider whether "price" is an appropriate basis for all federal transactions or whether "amount" or some other term should be used for nonexchange transactions.

Mr. Steinberg stressed that since the framework will be based on the FASB/IASB project, which was developed for for-profit entities, the staff should be sensitive to the unique circumstances and conditions associated with Federal government reporting. For instance, the Statement should identify IASB's work as the starting point, that FASAB has adopted the IASB material to take advantage of work already done and in the interests of convergence; that some terms might be different from what the Federal community is familiar with, and for those terms synonyms will be provided.

> **CONCLUSION:** The Board agreed to take the FASB and IASB's conclusions in Milestone I of their project as a starting point for the FASAB's project. The Board would consider the usefulness of the IASB/FASB proposed measurement attributes in the context of the federal environment. There was some discussion about the desirability of considering future developments in the IASB/FASB joint project and not moving ahead of their deliberations, but no decision was made as to the timetable of the FASAB's project or its work plan. Staff proposes to provide at the April meeting additional information on the IASB/FASB reasoning in their Milestone I and subsequent meetings. Topics to be addressed will include the distinction between "price" and "value," the definition of

"measurement," and a clarification of the definition of "measurement attribute" presented at the FASAB's December 2007 meeting.

- **Natural Resources**

Members received all comment letters on the oil and gas exposure draft as well as a brief staff summery of responses. Ms. Payne explained that the only decision requested was whether a public hearing was needed.

> **CONCLUSIONS:** The Board concluded that a public hearing was not needed in light of the limited number of responses received. The Board may elect to follow up on individual responses as needed.

Adjournment

The meeting adjourned at 4:45 PM.

Thursday, February 14, 2008

Agenda Topics

- **FY2007 Financial Report of the US Government**

The Board discussed the most recent report as well as the planned highlights (or summary) document.

- **Reporting Gains/Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates**

Mr. Fontenrose presented a summary of the comment letters and the staff's analysis and recommendations.

The Board discussed the comments relative to assumptions and activities that would be within the scope of the standard. Paragraph 14 of the exposure draft (ED) lists five examples (A though E) of the latter. Several members favored limiting the scope of the standard to the activities in item A (Federal civilian and military employee pensions, ORB, and OPEB) because that is where the most significant changes in assumptions occur. Mr. Steinberg stated that even though changes in assumptions might drive changes in the costs administrative agencies charge or advise employer agencies, the standard should not require the administrative agencies to break out the components of the costs for the employer agencies and the employer agencies would not need to disclose the components of the costs. Other members requested more information about assumptions used for activities B through E in paragraph 14.

> **CONCLUSION:** The consensus of the Board was in favor of limiting the scope of the standard to the activities in ED paragraph 14, item A. The staff will provide prior analysis

of the assumptions used for activities B through E in paragraph 14 and seek additional information.

The members did not object to the other recommendations in the staff's analysis. The staff will develop the recommendations for the Board's consideration in April. Staff asked members to communicate any additional comments they might have, if any, regarding the recommendations via telephone or e-mail subsequent to the meeting.

- **Appropriate Source of GAAP[1]**

Julia Ranagan, Assistant Director, opened the session by summarizing the contents of the staff discussion paper, including the three primary objectives that the Board is trying to address through resolution of this project:

- To ensure that general purpose financial reports issued by federal entities are meeting the objectives of its primary users;

- To respond to the American Institute of Certified Public Accountant's recommendation that FASAB clarify its policy with regard to entities that have been following standards promulgated by the Financial Accounting Standards Board (FASB); and,

- To address compilation issues that arise during preparation of the consolidated financial report of the U.S. Government (CFR) as a result of federal entities using different sources of GAAP.

Ms. Ranagan noted that the paper contains an analysis of user needs that includes (1) the objectives of federal financial reporting, (2) how the needs of the federal government's financial statement users compare with those of for-profit businesses, (3) whether certain federal government activities may have financial reporting objectives that differ from the rest of the federal government, (4) specific examples of the needs of users of federal business-type activities' financial statements, and (5) whether federal business-type activities should be required to meet the financial reporting objectives for federal entities and/or business enterprises.

Ms. Ranagan highlighted the structure that staff developed to distinguish between the different activities of the federal government: (1) governmental-type activities, (2) business-type activities, and (3) fiduciary activities. Under the structure developed by staff, entities that engage in primarily governmental-type activities would be required to apply FASAB GAAP while entities that engage in primarily business-type activities would be permitted the option of applying FASB GAAP where it best meets the needs of the primary financial statement users. Fiduciary activities would continue to be accounted for under SFFAS 31, *Accounting for Fiduciary Activities.*

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[1] [The "appropriate source of GAAP" is a shorthand reference. The AICPA established that FASAB is the source of GAAP for federal government entities (as defined in SFFAC 2). The outcome of this project will be a provision in FASAB GAAP that addresses whether, and if so when, a federal entity may apply FASB GAAP. In addition, the project may address added requirements if FASB GAAP is applied by a federal entity. For convenience and clarity, these minutes continue to refer to options simply as application of FASB GAAP or FASAB GAAP.]

Ms. Ranagan briefly summarized the following three options that were provided for the Board's consideration:

- Option 1 – Separate Accounting and Reporting by Line Item
- Option 2 – Separate Accounting and Reporting Using the Modified Equity Method
- Option 3 – Audited Note Reconciliation

Ms. Ranagan then directed the board to the draft surveys that would be used to solicit feedback from the federal financial management community on each of the three options, noting that staff's primary objective for this session is to obtain approval on the surveys.

Before turning the session over to the members for comment, Ms. Ranagan suggested an alternative scaled-back option in response to staff's interpretation of the Board's discussions during the preceding sessions on strategic planning, agenda-setting, and long-term assumptions, particularly the discussions on having Tier 1 and Tier 2 projects and the "if it ain't broke, don't fix it" approach. She cited the Bonneville Power Administration as an example of a process that is currently working and would nonetheless be affected by the adoption of the options presented by staff.

As an alternative, Ms. Ranagan suggested that the Board consider adopting option 1, as staff had recommended in the staff memo, but instead of requiring detailed displays in the disclosure standards, the Board could require that the notes to the financial statements simply disclose that the financial statements of the component reporting entity apply FASB GAAP, the audit opinion received on the statements, and where the statements can be located. Therefore, (1) the component entity's financial statements (e.g., Ginnie Mae) would disclose the use of FASB GAAP in its significant accounting policies note; (2) the consolidating entities (e.g., HUD) would disclose the use of FASB GAAP in the note for each major line item where a material amount was presented under FASB GAAP, the audit opinion received by that entity, and the location of the entity's financial statements; and (3) the CFR would disclose the use of FASB GAAP in the note for each major line item where a material amount was presented under FASB GAAP, the audit opinion received by that entity, and the location of the entity's financial statements. This approach would be similar to the approach adopted by the Board for the fiduciary activities note disclosure.

Under this alternative option, entities that engage in primarily governmental-type activities would still be required to convert to FASAB GAAP by the effective date of the standard. Ms. Ranagan suggested that GAO, OMB, and Treasury could work together in the interim to develop an acceptable method for mapping the FASB GAAP line items to the GFRS submissions that would permit timely compilation of the CFR.

Ms. Ranagan then requested feedback on any of the options presented, including the alternative that was orally presented at the meeting in response to recent Board discussions.

Mr. Allen noted that the primary objective of the staff memo was to obtain approval on the draft surveys and asked if that was still the objective. Ms. Ranagan responded that if the Board preferred the scaled-back option suggested by staff, the standard would not require nearly as much change and could be developed into an exposure draft quite easily. She felt that the added step of a survey would not be necessary if the alternative option were developed.

Mr. Dacey asked the Board if they would accept financial statements that include different sources of GAAP[2] if the reader is clear that there are two different sources of GAAP. Mr. Dacey said that if the members were to accept that, there are probably ways to code the activity so that it could be pulled out and reported separately. However, he noted that the Board has thus far been operating on the premise that the information needs to be converted to FASAB GAAP to meet the reporting requirements.

Mr. Reid responded that allowing agencies to report under FASB standards creates additional intragovernmental elimination problems because the two amounts are not the same.

Mr. Dacey said that was his second point – additional adjustments may be necessary during consolidation to address elimination issues.

Mr. Reid said there is a material weakness at the CFR level on the intragovernmental elimination process and agencies reporting under FASB GAAP contributes to the problem.

Mr. Jackson noted that in the responses received to the previous survey, there are a number of entities that have made a solid case that their user community is best served by FASB GAAP. He questioned whether the Board's focus should be on the user community or on the consolidated financial statements. He said it would seem to him that the Board's focus should be on whether the financial statements meet the needs of the user community. Mr. Jackson said techniques for resolving the consolidation problem could be developed.

Mr. Reid said the big ticket issue item is that the required financial statements are different.

There was a detailed discussion of the Statement of Budgetary Resources, which is an issue that remains to be resolved at the governmentwide level.

Mr. Allen said he is not sure what side-by-side GAAP would tell anybody; it is both accrual accounting. He stated that, in the GASB domain, if an entity is a business enterprise (e.g., government hospitals), it follows FASB except where the difference is material (e.g., pensions). He said that seems to be what the Board ought to look at – where are the significant differences between FASAB GAAP and FASB GAAP and do they matter.

Mr. Dacey said going back to the initial question regarding the proposals, he is not sure if option 2 (the equity method) would solve anything. He said option 1 is a possibility but the intragovernmental eliminations come into play and he is not sure if that needs to be addressed before soliciting feedback.

There was a discussion of the option of bypassing the survey phase and going straight to an exposure draft if the Board preferred one of the options and/or wanted feedback from a wider audience at this time.

[2] [Several of the Board members referred to the difference between FASB GAAP and FASAB GAAP as a different basis of accounting. However, staff notes that these constitute different sources of GAAP, but not different bases of accounting; both FASB and FASAB are on the accrual basis of accounting. Therefore, staff has substituted "source(s) of GAAP" where "basis of accounting" was used.]

Mr. Reid asked if staff could include questions in the exposure draft that would achieve the objectives that staff was trying to achieve with the survey. Ms. Ranagan responded affirmatively.

Mr. Werfel questioned whether it would be unprecedented to put the other options considered but not selected as the primary view in the basis for conclusions. Mr. Allen said that would be perfectly acceptable.

Mr. Reid questioned whether it is cost-effective to require an annual reconciliation that is less costly to implement in year 1 than full conversion would be, but 17 years later you have a pretty elaborate record to support the note. Would they be better off to just require conversion so the entities only have one set of books? He said conversion would be a bigger step in year 1 but it would certainly be a smaller step in year 2 on.

Mr. Dacey said he is not as concerned about having different sources of GAAP except for the intragovernmental which would have to be fixed.

Mr. Jackson said it seems to him that one could find a way to deal with that. He said it concerns him that the Board might force an entity to report under FASAB that is required to file with the SEC under FASB (e.g., TVA).

Mr. Werfel said he does not believe there is a fundamental reason to require agencies to report under FASAB if they are meeting transparency, stewardship and internal control objectives under FASB. He said it comes down to a logistical issue that the federal government has in reporting consolidated information. Therefore, Mr. Werfel believes the Board should try to solve the problem without requiring changes to the sources of GAAP if it can. If it can't, then the Board should cross that bridge.

There was a discussion of whether, if the Board exempts certain agencies from current FASAB standards, would they be exempt from all future FASAB standards as well. It was noted that the language of the standard could be drafted such that entities would be alerted to the fact that they could be later subject to certain current and future standards, as the Board deems necessary. These entities are following FASB GAAP only inasmuch as FASAB allows them to follow FASB GAAP.

Mr. Murphy questioned whether that means the Board would have to individually consider reporting for business-type activities for all future standards and whether different treatment is warranted. He said he does not know how much of an added burden this would present.

Mr. Murphy said he also does not know what the cost burden would be for these entities to make any changes but he does know that Congress set these entities up differently for a specific reason. Congress wanted them to operate like a private sector enterprise, driven by cost. He noted that these entities have investors that care about the bottom line cost while the CFR does not have investors that care about the bottom line cost.

Mr. Murphy went on to say that dealing with the CFR consolidation issue is significant but he would want to know what issues are so significant that they would have to be treated differently whether they are FASAB or FASB.

Mr. Allen said GASB addressed the differences by requiring different financial statements for business enterprise funds. Their financial statements look more like FASB statements.

Mr. Reid said that was basically what was done when the government corporations were permitted to continue applying FASB standards. However, it causes problems for consolidation.

Mr. Dacey said the real problem is intragovernmental eliminations if you allow different sources of GAAP, which he does not know if the other members would find troubling or not.

Mr. Reid said he would find having two separate sources of GAAP in the same financial statements troubling.

Mr. Allen said this is an issue where we ought to follow the lead of the FASAB sponsors that have to live with this and manage it. If the sponsoring agencies have needs that are not being met, then he can support bringing the entities in under the FASAB umbrella. If not and they have other ways to get the information they need than he is fine with that too.

Mr. Reid said he originally thought doing the note would get them the information they need to support the consolidation without having to make adjustments. However, from a management standpoint, he is not necessarily sure that is the right answer. He questions whether and how they can get the information in there that really matters.

Mr. Allen asked staff to work with the primary agencies to come back with a recommendation on the direction to go.

Ms. Ranagan noted that option 3 – audited note reconciliation – was the workgroup recommendation and said she could prepare an ED or a survey to request feedback on just that option.

Mr. Jackson inquired if option 3 would address the intragovernmental elimination problem.

Mr. Dacey said it would help and the workgroup can work on that but the fundamental question remains of whether the consolidated financial statements have to be presented only under FASAB GAAP. In other words, do we have to convert all numbers or is it an option to just roll up the numbers except where they affect the consolidation? Is it critical that we adjust all the numbers?

Mr. Jackson responded that he sees no reason why entities that have been reporting and getting a clean opinion and meeting the objectives should have to change to FASAB standards. Mr. Werfel mentioned earlier (transparency, stewardship, internal control) should be required to convert to FASAB.

Mr. Jackson went on to say that he sees no issue with reporting using different sources of GAAP for an entity as large as the federal government.

Mr. Allen asked if anyone wants to argue the other side of that. No one responded.

Ms. Ranagan asked for clarification on how to proceed.

Mr. Werfel summarized that the Board would not require the other entities to convert to FASAB and would use a note reconciliation as an avenue to the extent that it can support the consolidated financial statements and address intragovernmental eliminations.

Mr. Werfel went on to say that what he is taking away from this is the potential for an ED that reports the sense of the Board, outlines the note reconciliation, and provides for the other alternative solutions in the basis for conclusions.

Ms. Ranagan said she thought that solution was contrary to what Mr. Jackson expressed and no one disagreed with.

Mr. Reid said it may mean agencies would be required to keep balances in both FASB and FASAB forever to be able to roll forward from year to year.

Mr. Jackson said his comment was an option 1 comment essentially but where an entity differs significantly from FASAB, it would have to break that out and have a note disclosure but no one would be required to convert to FASAB.

Mr. Werfel said it makes sense to focus the note reconciliation in a way that would align with the sense of the Board and limit the requirement to move to a different source of GAAP.

Mr. Dacey noted that this would be a melding of options 1 and 3.

Mr. Jackson said he would support limiting the note disclosure to some clearly defined things as opposed to a complete conversion.

Mr. Steinberg said option 1 is more than just enabling consolidation of the CFR; it also affects FASAB and FASB component level reporting. He said the Board is really talking about an option 4 that is a reconciliation of only those things we decide are important for the CFR.

Mr. Steinberg said the example from option 3 looked like it would be a whole lot of work and he could support the sponsors working together and coming up with only those reconciling items that are needed.

Mr. Allen asked staff if they had the information needed to proceed. Ms. Ranagan responded affirmatively.

CONCLUSION / NEXT STEPS:
The sense of the Board is that no entities will be required to convert to full FASAB GAAP at this time. The Board is also comfortable with including two sources of GAAP in the consolidated financial statements except where it affects intragovernmental eliminations. Members did not vote to adopt the governmental-type and business-type structure developed by staff. The Board requested that staff meet with the sponsor workgroup to determine which line items are significant in the FASB vs. FASAB intragovernmental reconciliation and develop an exposure draft that proposes a note disclosure for those significant reconciling items only. The other options considered would be included in the basis for conclusions. The issue of budgetary reporting for entities reporting under FASB GAAP will be deferred until the matter is resolved at the governmentwide level.

- **Financial Reporting Model – Communication Methods**

Overview

Members deliberated revisions to the pre-ballot draft concepts statement, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*. The Statement is the product of the first phase of the Financial Reporting Model project and it proposes amendments to SFFAC 2, *Entity and Display*. As the Financial Reporting Model project progresses to later phases, additional amendments to SFFAC 2 may be presented.

Members discussed the structure of generally accepted accounting principles (GAAP) which includes basic information and required supplementary information (RSI). Other accompanying information (OAI) is not required by a body that establishes GAAP. Members also discussed RSI and OAI and the role of the Office of Management and Budget (OMB). The OMB has the legal authority to define form and content and prescribe the auditing procedures that auditors should apply. Auditors must apply the OMB audit requirements in addition to the American Institute of Certified Public Accountants' (AICPA) auditing standards. The Statement allows for the OMB's role.

Members provided additional comments and requested clarification of the phrase "Strength of signal" which is used in two of the factors for distinguishing basic information from RSI. Staff plans to incorporate members' comments and prepare a ballot draft statement prior to the next meeting. Details of the meeting discussion are presented below.

Discussion

Ross Simms stated that the objective for the discussion was to review the revisions in the pre-ballot draft concepts statement, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*. The Statement proposes amendments to SFFAC 2 which would provide criteria for determining whether an item of information should be defined as basic, RSI, or OAI. Staff initially provided members with a draft of the Statement on December 19, 2007, and members later provided comments. Staff incorporated those comments into the version under discussion.

Staff reminded members that the Financial Reporting Model project is being conducted in phases and the Statement would be a product of the first phase. In the next phase, staff plans to focus on issues such as the information to be provided by financial statements and how they might be used. This may require additional amendments to SFFAC 2.

Mr. Allen stated that initially one of his concerns was that paragraph 16 of the Statement does not necessarily consider sustainability reporting and other issues the Board is considering. However, he agreed that this could be addressed in the next phase of the project.

Mr. Steinberg noted that the OMB periodically requires the reporting of additional information in financial reports, such as the disaggregation of the Statement of Budgetary Resources at the major budget account level. He expressed concern whether the concepts capture the notion that the OMB may also say what information is required.

Mr. Allen stated that perhaps OMB should comment on this issue. His initial thought was that if the OMB believed that certain information should be required, they should present the argument to the FASAB and the FASAB incorporate it.

Mr. Werfel stated that he believed that the primary role of the FASAB is to issue requirements regarding basic financial statements and, possibly, secondarily what should be RSI. The Statement provides a framework for determining what should be basic or RSI. If the FASAB goes through the framework and determines that the information is important enough to be basic, then the FASAB would conduct the work necessary to develop standards. However, in his opinion, if the FASAB determines that the information should be RSI, he did not believe that the FASAB needed to spend substantial resources developing a detailed set of standards. This would leave the OMB with the responsibility for providing some of the details and requirements for information that is in RSI.

Mr. Allen added an example that a state Board of Education may require attendance information to accompany the audited financial statements and may want audit assurance at a supplemental information level like OAI. This provides a mechanism for reporting some additional information.

Mr. Steinberg noted that the OMB has added some additional RSI. Perhaps a footnote should be added to the RSI definition to say that, at times, the OMB may feel that something is important temporarily.

Mr. Allen noted that the structure of GAAP includes RSI, but not OAI. There is no audit opinion on the fairness of RSI, but there are audit requirements that are implemented and that keep the information within the GAAP structure. Consistent with the GAAP structure, if OMB wants information to be considered basic or RSI, they could present it to the FASAB. However, if OMB does not want to go through this process, they can have the information accompany the basic information and RSI as OAI. The auditor would then be required to read the information for material inconsistency with the financial statements. Mr. Steinberg noted that this would require a change in the way A-136 classifies certain information.

Mr. Jackson stated that he does not believe that a non-GAAP entity can create RSI. RSI is a domain and only the GAAP entity can create RSI. In response to a legitimate need, an entity such as OMB could build out what the RSI might include. For example, RSI is used for experimentation and the OMB could provide criteria for which it is to be prepared. This information would be subject to the responsibilities of the auditor to ensure that the criteria have been followed. While the FASAB could say that an item is RSI, the framework for experimentation could be sent to OMB. OMB can require information and, through its audit bulletin, require the auditor to perform audit procedures.

Members discussed the OMB's ability to require the reporting of information and to issue auditing procedures. Auditors must follow the OMB audit bulletin in addition to generally accepted auditing standards (GAAS) issued by the AICPA.

Mr. Dacey stated that the auditor has three levels of work they perform – basic, RSI, and OAI. Basic and RSI are the sole province of the FASAB. Everything else is OAI. For instance, the Securities and Exchange Commission (SEC) has requirements that go beyond the Financial Accounting Standards Board's (FASB) requirements. However, those requirements are considered OAI.

Members reviewed the description of RSI in Statement on Auditing Standards AU Section 558. Mr. Jackson noted that the AICPA guidance for RSI states that RSI is required by GAAP. Mr. Werfel expressed that this provision does not govern OMB's authority on whether to require certain form and content for RSI. It may cause confusion in understanding the AICPA guidance, but it does not impact the OMB's authority.

Mr. Jackson stated that when you get to non-GAAP information, the auditor's report takes on an entirely different frame. It states that the information is not intended to present fairly in accordance with GAAP.

Mr. Werfel stated that the domain of content and requirements regarding RSI is not strictly with the GAAP standards setter. The domain is broader, which is demonstrated in practice. Whether this conflicts with auditing standards is a different issue.

Mr. Dacey stated that the OMB's legal authority is not disputed. The OMB can require information. However, the auditor is bound to follow the AICPA standards and treat the information as OAI unless the OMB prescribes additional audit procedures. The SEC requires specific formats. The form and content requirements are an elaboration of the GAAP standards.

Mr. Werfel expressed discomfort with the notion that the OMB needs any written language within the FASAB standards to have the authority to issue requirements.

Mr. Steinberg clarified that the OMB does have legal authority, but in order to prevent the conflict with the audit authority, the FASAB could address it. The OMB could require the information as OAI and, with the audit bulletin, say what procedures the auditor should perform on the OAI. Mr. Steinberg asked whether the definition of OAI in paragraph 5 of the Statement needs to include a sentence that explains that this includes information that the OMB and Treasury may determine is necessary.

Mr. Jackson noted that the definition of OAI in paragraph 5 could be clarified. The paragraph states, "Information that accompanies basic information and required supplementary information but is not required by a body that establishes GAAP." By definition, RSI is required by a body that establishes GAAP. Ms. Payne stated that it may simply be a matter of adding a comma before the word "but." The intention of the definition is that OAI is information that accompanies "both" basic information and RSI.

Ms. Payne also explained that paragraph 73f of the Statement does not exclude the OMB from requiring information. It simply states that the GAAP body is not requiring the information. In addition, Mr. Allen noted that the next to last sentence of the paragraph captures the notion that the OMB has the legal authority to define form and content. It states that entities report information required by laws or administrative directives.

Regarding the factors in Table 1 of the Statement, Mr. Werfel stated that the factors, "Strength of signal the Board wishes to be sent in the auditor's report" and "Strength of signal Board wishes to be sent in the financial report" could be clarified or stated in plain language like level of audit scrutiny. In particular, it is not clear what is meant by "strength of signal." In addition, an item that has an inherent risk to the mission of the organization, if it is not accounted for thoroughly, should be considered in the FASAB's thinking about whether the information should be RSI or basic. Mr. Allen noted that the factor, "reliability and/or precision needed" captures that idea.

> **CONCLUSIONS:** Staff will incorporate members' comments and prepare a ballot draft concepts statement before the next meeting.

- **Fiscal Sustainability**

Ms. Parlow opened the discussion by indicating that Board decisions on the following issues would be necessary for a preballot of an Exposure Draft:

1. Proposed format(s) for a primary summary display, including:
    a. Time horizon for projections
    b. Disaggregation of inflows and outflows, especially "other"
    c. Options A, B, C, D and E
2. Proposed requirements for additional specific graphics and narrative for:
    a. Major drivers, such as trends in cost of health care and demographic trends
    b. Trends in deficit spending/debt
    c. Additional information necessary to help readers understand the nature and relevance of the primary summary display
3. Initial placement and audit status of the proposed summary display and the additional graphics and narrative within the CFR.
4. Proposed reporting requirements for significant changes in economic, demographic, or policy assumptions.
5. Proposed guidance on the selection of discount rates and/or valuation dates.

Recap of recent Board actions

Ms. Parlow noted that at the December 2007 Board meeting, the members

- reached consensus on the substance of the objectives and assumptions,
- decided against including any "per capita" measures in the reporting requirements, and
- requested that staff work with Congressional Budget Office staff to produce illustrative data for the primary summary display options.

Time Horizon

Ms. Parlow noted that there are two types of time horizons for projections: finite (limited period, such as 75 years) or infinite (all future years), and that the February briefing material presented the pros and cons of both types. She noted that reporting requirements for the Statement of Social Insurance (SOSI) do not specify a projection period, but simply require the projection period to be "sufficient to illustrate long-term sustainability" (e.g., traditionally the "Social Security" or OASDI, program has used a projection period of 75 years for long-term projections).[3]

Staff recommendation was that:

1) Projections in the primary summary display should incorporate a projection period that is consistent with the Statement of Social Insurance (SOSI). The SOSI projection period is required to be "sufficient to illustrate long-term sustainability" (e.g., traditionally the "Social Security" or OASDI, program has used a projection period of 75 years for long-term projections).[4]

2) The accompanying narrative should include the following information:
   - Narrative explanation that trends projected, particularly near the end of the projection period, are important to consider, but that projections beyond the projection period are subject to increasing uncertainty.
   - The total projected shortfall (surplus) for the infinite horizon should be reported in present value dollars, % of taxable payroll, and % of future GDP.
   - For periods after the initial implementation period, the change in the previous year's infinite-horizon shortfall (surplus) should be reported in present value dollars for comparison with the above.

Mr. Murphy noted that there is a "moving window"[5] issue and that he is not sure about the magnitude of the moving window effect and how that could be explained.

Mr. Allen said that the staff recommendation requires the narrative to explain the "moving window" issue, and to quantify its effect by providing a comparison with the infinite horizon.

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[3] SFFAS 17, paragraph 27.
[4] SFFAS 17, paragraph 27.
[5] The "moving window" problem occurs when there are significant changes to an estimate from one year to the next that are caused by the passage of time. For example, if a projection period is 75 years, the activity in "year 76" is outside the projection period for that year, but will be included in the projection period for the following year.

Ms. Parlow said that there is also a requirement to report the changes from one year to the next, and the “change in the projection period” would be reported in a separate category—one of three categories. This would provide the magnitude that Mr. Murphy mentioned.

Mr. Werfel said that both the finite and infinite horizons have advantages. He suggested that the standard leave the length of the projection period to the discretion of the preparer. He suggested that whichever horizon was used in the primary display, the other would need to be disclosed. He believes that the pros and cons are close to equal for the two types of horizons. He said that if the Board does not agree, it should be a question in the ED.

Ms. Parlow noted that technically, the requirements for the SOSI appear to allow the preparer to use the infinite horizon. She asked Mr. Werfel if he believes that consistency with the SOSI should be required. Mr. Werfel said that he is not sure, but wants potential flexibility.

Mr. Schumacher said that he wants to see articulation with numerous lines of the SOSI, either in the primary display or in the secondary material.

Ms. Parlow asked if the requirement should be to allow preparer discretion in the primary display, and require that important totals with the other projection period be displayed in the secondary material. Mr. Dacey said that the proposal should go both ways.

Mr. Allen said that both should use the same finite period for the “finite” display. Mr. Werfel agreed and said that there should not be more than two projection periods.

Ms. Parlow asked if any members did not agree with this idea, and would prefer, for example, a single set of numbers with a horizon consistent with the SOSI.

Mr. Patton said that he believes that the ED should state the Board’s preference, and that he does have a preference. Mr. Patton said that he prefers a finite horizon for the primary display.

Mr. Allen said that it’s important to be consistent with the SOSI, but that he would support Mr. Werfel’s proposal.

Mr. Reid said that he wants to see the primary display use exactly the same horizon as the SOSI, and would not support Mr. Werfel’s proposal. He said that it is important for the primary summary to be consistent with the SOSI.

Mr. Murphy said that he believes that an infinite horizon is more difficult for reader comprehension, and was concerned about the possibility that technically the SOSI could move to an infinite horizon projection period. He said that he would not allow the preparer to move away from a fixed horizon. He said that it’s critical to explain what happens after the end of the projection period, as required by the staff recommendation, but that a finite horizon is easier to grasp.

Mr. Steinberg said that people don't relate to an infinite horizon and that infinite horizon should not be used for the primary summary display.

Mr. Farrell and Mr. Jackson agreed with Messrs. Murphy and Steinberg.

Mr. Allen noted that there was not a majority for a finite or infinite horizon. Ms. Payne mentioned that staff will ask for input from the technical group of the Task Force at an upcoming Task Force meeting.

Mr. Dacey said that he would like to see the fiscal imbalance expressed—in a secondary material—as a percentage of revenues and as a percentage of cost that would need to change to bring things into balance. He said that this could be accompanied by a chart that shows how that changes if you delay. Mr. Murphy said that the GAO did a good graph several years ago in a report on Social Security.

Conclusion: Time Horizon

The members did not reach a consensus on a specific time horizon for the primary summary display. The members agreed to a compromise, that the ED will require that either the primary summary display or a secondary display will reflect a projection period that is consistent with the SOSI, so that amounts displayed for Social Security and Medicare are consistent with the SOSI.

[Staff Note: Currently, the time horizon requirement for the SOSI is that it is "sufficient to illustrate long-term sustainability (e.g., traditionally the "Social Security," or OASDI program has used a projection period of 10 years for relatively short-term and 75 years for long-term projections, and the UI program has used a projection period of 10 years for its projections)."[6] Accordingly, the SOSI could be prepared with either a finite or an infinite horizon projection period.]

The members also agreed that the bottom-line summary figure(s) should be provided for both a finite and an infinite projection period, with only one projection period for the primary summary display; the other would be in a secondary display or narrative.

Level of Disaggregation

Ms. Parlow asked for members' views regarding the minimum level of disaggregation (beyond Social Security and Medicare) that should be required for the primary display.

Staff recommendation was that disaggregation beyond Social Security, Medicare and Medicaid be left to the discretion of the preparer.

Mr. Dacey said that most of the items in "other" get inflated at the same rate. He said that from a standpoint of disclosure, he believes that the "growth at a different rate" issue would be one reason why a preparer may wish to disaggregate items. He said

[6] SFFAS 17, paragraph 27.

that the level of disaggregation can be left to the preparer but that when the Board addresses the various display options, he wants to address earmarked versus non-earmarked funding, as displayed in Option D.

Mr. Allen asked the members for their preferences.   Among the possibilities considered were: minimum of Social Security and Medicare, with or without Medicaid, Defense and Veterans Benefits; the Board also considered having no minimum requirements at all, not even Social Security and Medicare.

Conclusion: Level of Disaggregation

A majority of members- Messrs. Farrell, Jackson, Murphy, Schumacher, Steinberg and Allen — agreed with staff recommendation.

Primary Summary Display Options

Ms. Parlow noted that the briefing materials contained five potential format options for a primary summary display and a list of elements that all of most of the options had in common.

Mr. Dacey opened the discussion by focusing on the elements that were common to most of the primary summary display options. The elements or attributes that he raised for discussion were:

(a) Total Projected Receipts/Inflows/Resources
(b) Total Projected Costs/Outflows/Responsibilities
(c) “Bottom Line”
(d) Amounts Displayed as both (present value) dollars and percent of Gross Domestic Product (GDP)
(e) Fiscal Imbalance as a percent of projected inflows and total projected outflows
(f) Year-to-Year (e.g., Side-by-Side) Comparison with Prior Year
(g) “Net Change” Column
(h) Disaggregation of Major Programs Funded by Earmarked Funds (Social Security and Medicare Part A)

Mr, Patton also mentioned:

(i) Range (high, low, medium) (for the “Bottom Line” or some other summary total—not for all line items)

Mr. Jackson expressed concern that too much detail and complexity in the reporting—such as too much information presented for ranges and too much explanation of the assumptions—would prevent the central message from being effectively communicated to readers.   He said that the longer the report, the less effective it would be.

Mr. Dacey said that he would like to see some summary disclosure- bottom line- of pessimistic or optimistic alternative scenarios; perhaps in a graphic. Ms. Parlow said that the “Additional Information Required” section proposes that the major drivers be shown as a range in a graphic presentation; those critical elements could be included in the reporting requirements of the standard, and one or more potential displays could be shown as illustrations.

Mr. Steinberg and Mr. Jackson suggested that a display of trends over time, such as the display in “Part 2” of Option C, could be required as a secondary display. Mr. Dacey said that the most important comparison should be for the prior year and the current year. He said that a secondary display, such as the graphic sections, could show trends over time, perhaps more effectively than a table of numbers. Mr. Dacey said that he would prefer such graphs to be in the supplemental section. Mr. Steinberg said that a secondary graph would be acceptable.

Mr. Patton said that he would like to see high/low/medium for at least the bottom line on the primary summary display. He said that otherwise the primary display would give the illusion of precision. Mr. Dacey said that he originally had thought the same thing, and included in the primary display, but that the result was a lot more information than he thought should be on a primary display, so he believes that that even summary range information would be too much detail for the primary display and probably belongs in a secondary display.

Mr. Jackson asked about the segregation of Social Security and Medicare Part A from all other in Option D, which also has additional disaggregation of Medicare Parts B and D, Defense and Veterans Benefits. Mr. Allen noted that the Board had already made a decision about the level of disaggregation. Mr. Murphy asked how it would help people understand overall sustainability for the primary display to break out the various parts of Medicare. He said that the same decisions need to be made for each federal program or activity, regardless of how the funding is structured. He asked whether the funding structure is so important that it should add a significant degree of complexity to the primary summary display, and said that he believes that a simpler presentation would be preferable. Mr. Reid said that different line items were likely to become more or less material over time, and that in practice, materiality would determine the level or disaggregation.

Ms. Parlow asked the Board to consider the list of elements (a) through (i) in terms of which ones should be mandatory minimum requirements in the proposed standard. She mentioned that there seems to be disagreement about breaking out Social Security and Medicare Part A (both of which are limited to dedicated funding) from the rest of Medicare and the rest of government.

Mr. Steinberg asked if the other fiscal exposures such as insurance would be in the projections and was assured they would be.

Mr. Patton asked if the focus of this reporting is on government-wide sustainability. He said if the focus is on government-wide cash flows, then the distinction between earmarked and non-earmarked funding is not so relevant. Mr. Dacey said that as long as such a breakout is not precluded, it could be left to the discretion of the preparer.

After a brief discussion, the members indicated that the additional breakouts would likely not enhance understanding, but that there could be a question about this in the Questions for Respondents.

Conclusion: Options for Primary Summary Display

The members indicated that (a) through (g) above should be included as requirements for the primary summary display, with the format of the elements left to the discretion of the preparer. The ED will provide an illustrative pro forma in the Appendix.

Initial Placement and Audit Status of the Proposed Summary Display within the CFR

Ms. Parlow asked the Board to comment on staff recommendation, that the ED should propose that Fiscal Sustainability Reporting should be RSI for the initial year of implementation and basic information thereafter. She said that if responses to the ED indicated that there should be a longer implementation period, the Board could always put that into the final standard without re-exposure, whereas if the ED proposes a longer implementation period, and the Board wanted to shorten it, that would require re-exposure. So, having the ED propose a faster phase-in would leave more room for flexibility for the Board in developing a final standard.

Mr. Allen said that he would prefer to go to basic information immediately. Mr. Bell, speaking on behalf of Treasury as Mr. Reid had briefly left the table, said that there should be a more extended period to show a trend of how the information is impacting the reader. Mr. Murphy said that he agreed with staff recommendation. Mr. Steinberg said that he would be interested in hearing from preparers and auditors, and was inclined to treat this similarly to other reporting that had an experimental period—to propose it as RSI subject to later re-evaluation after the period of experimentation was over. In other words, don't put any time period.

Mr. Jackson asked if the auditor has a sense of the difficulty involved in auditing the proposed reporting. Mr. Dacey said that there was not a good sense at this time, but that it seems less complex than auditing Medicare for the SOSI, but that timing and supporting data would be important. He said that for Medicare, the auditors began to prepare a year ahead of time. He said that his only concern with one year of RSI, that there might not be sufficient time to complete a "mock audit" and resolve issues that might arise. Mr. Jackson said that in order to allow time for audit preparation, he would support three years of RSI status. He said that three years as RSI would also give Treasury and OMB and others time to experiment with display options to make the display more meaningful and useful.

Mr. Patton agreed that one year seems to short. He said that he would go with at least two years as RSI; he is uncertain of whether two or three years would be best.
Mr. Schumacher agreed exactly with Mr. Patton.

Mr. Dacey said that three years would be adequate, but that he was uncertain about whether two years would be long enough.

Mr. Werfel said that he agrees with Mr. Steinberg, that the ED should propose RSI and leave the potential elevation to basic information to the next stage of this project.

Mr. Allen asked the members to vote on what the ED should propose.

Mr. Patton noted that if the final standard is fairly flexible, the reporting could move to basic information more quickly than a more prescriptive standard, which might need to be revisited.

Mr. Allen noted that a limited period as RSI would indicate that the Boards intent is ultimately to have this information as basic information.

Conclusion: Initial Placement and Audit Status

A majority of the Board decided that the ED should propose that the reporting should be RSI for three years, and then go to basic information.

Other Required Information

Due to time constraints, Ms. Parlow asked if the members could discuss the list of additional proposed requirements in questions 2, 4 and 5 on page 23 (other required information; reporting on changes in assumptions; and selection of discount rates and valuation dates) on an "objections only" basis.

Mr. Steinberg said that although user feedback should be encouraged, he thinks that it is not usual or appropriate to include this requirement in an accounting standard.
Mr. Allen asked for a vote and a majority of members said that this requirement should be deleted.

Mr. Werfel said that he was concerned about the wording of the "cost of delay" requirement[7] and said that it should not involve making specific policy proposals. He asked about if there was expanded language was used in the ED. Ms. Parlow said that there was not yet language in the ED, but that many of the members of the Task Force had stressed the importance of communicating that delaying action has an impact on options available to remedy fiscal imbalance.

Mr. Jackson said that a discussion of consequences might more properly belong in the Management's Discussion and Analysis (MD&A) section.

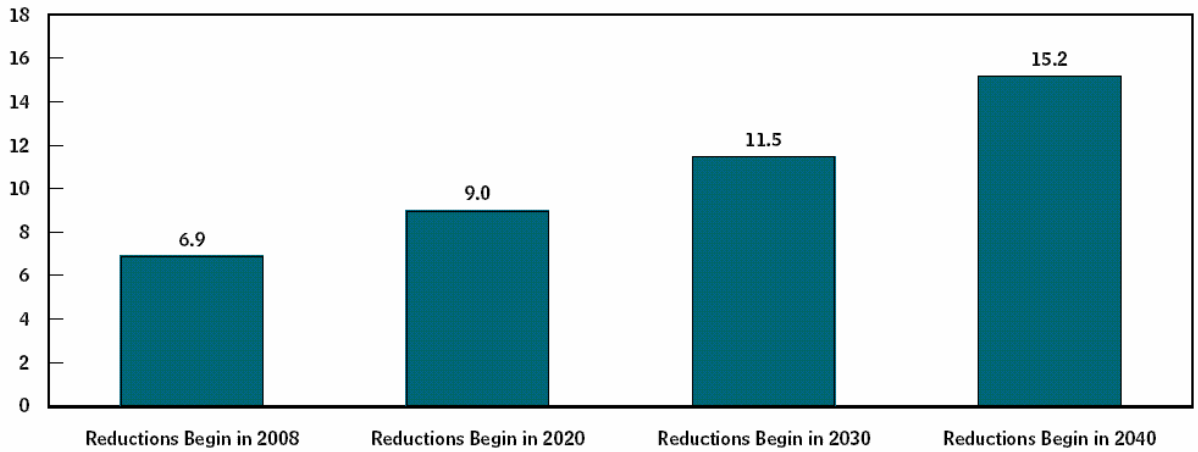
Mr. Werfel asked Ms. Payne to project Figure 1-3, "Reductions in Noninterest Spending Needed to Close the Fiscal Gap in Various Years Under CBO*s Alternative Fiscal Scenario" from the CBO's December 2007 report, *Long-Term Budget Outlook*.

[7] "Narrative should explain how options for addressing the issue will become more limited and/or the impact of the options more severe if action is delayed."

Figure 1-3.

Reductions in Noninterest Spending Needed to Close the Fiscal Gap in Various Years Under CBO's Alternative Fiscal Scenario

(Percentage of gross domestic product)



Source: Congressional Budget Office.

Notes: The fiscal gap is a measure of federal shortfalls over a given period. It represents the extent to which the government would need to immediately and permanently either raise tax revenues or cut spending—or do both, to some degree—to make the government's debt the same size (in relation to the economy) at the end of that period as it was at the beginning.

The alternative fiscal scenario deviates from CBO's baseline projections during the next 10 years, incorporating changes in policy that are widely expected to occur and that policymakers have regularly made in the past.

Mr. Werfel asked if something like this would address the intended requirement. Ms. Parlow said that it would, and that if members prefer there could be a more specific requirement including CBO's Figure 1-3 as an illustration.

Ms. Payne pointed out that the Summary Report for the FY 2007 Consolidated Financial Report includes the kind of statement that this requirement is calling for: on page 7, it says "Delays in taking this action will increase the magnitude of the reforms needed and will place more of the burden on our children and grandchildren." She said that it was this kind of assertion that we were looking for, as well a couple of more sentences that include numbers, perhaps the numbers shown on Figure 1-3.

A majority of members agreed that the requirement should be retained, with wording revised to avoid misinterpretation.

Ms. Parlow said that staff would work on wording and to include the example graphic of CBO's Figure 1-3 in the draft ED.

Mr. Dacey mentioned intergenerational equity as an important area to address. Ms. Parlow said that general government services and benefits are far more difficult to assign to specific age groups than programs that involve direct cash payments to individuals. She mentioned programs such as school lunch programs, national infrastructure and national defense and said that once you get beyond programs with direct benefits to individuals, it becomes difficult if not impossible to objectively assign benefits to one age group or another. She said that generational equity is more appropriately addressed by the SOSI and could be considered for a potential future amendment to the SOSI. Mr. Dacey said that he would try to work with Mr. Murphy to come up with a graphic that could help with this.

Mr. Steinberg asked about the progression over time that is shown as Part 2 of Option C. Ms. Parlow said that this display is currently envisioned as part of the primary summary display but could be re-positioned as a secondary display if the members prefer. Mr. Steinberg said that he prefers it as primary; Mr. Dacey said that he prefers it to be secondary. Ms. Parlow said that it would be somewhere.

Mr. Patton asked if there is going to be another round of discussion of Options A through E, or whether this had changed to the list of critical elements/attributes. Ms. Payne said the latter.

Mr. Allen and Mr. Farrell mentioned the relatively small share (5.2%) of GDP in unfunded obligations at 75 years, and noted that the figure seemed smaller than what they expected. Ms. Parlow said that perhaps the number they are thinking of is the cumulative national debt, which is shown elsewhere. Mr. Werfel said that the 5.2% number doesn't provide any context for the reader to evaluate what it means. Ms. Parlow agreed, and said that this is part of the challenge in developing the reporting.

Mr. Allen said that members should e-mail staff if they have any concerns that were not addressed at the meeting.

Conclusions: Other Information

1) The ED will not include mention of providing contact information in the CFR for the public to provide feedback.
2) Staff will work on the wording of the "impact of delaying action" requirement and utilize the CBO's graphic as an illustration.

- **Steering Committee Meeting**

The Steering Committee discussed the FY2008, 2009 and 2010 budgets. No decisions were made.

Adjournment

The meeting adjourned at 5:00 PM.