FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
June 22, 2011
Room 7C13
441 G Street NW
Washington, DC 20548

Wednesday, June 22, 2011

Administrative Matters

- **Attendance**

The following members were present throughout the meeting: Chairman Allen, Messrs. Granof, Jackson, Reger, Showalter [joined the meeting at noon due to travel delays], Schumacher, and Steinberg. Ms. Bond attended most of the meeting and was represented by Regina Kearney during any absences. Mr. Dacey attended most of the meeting and was represented by Asif Khan during any absences. The executive director, Ms. Payne, and general counsel, Ms. Hamilton, were also present throughout the meeting.

- **Approval of Minutes**

The minutes of the April meeting were approved electronically before the meeting.

Agenda Topics

- **Earmarked Funds**

The exposure draft was approved prior to the meeting and this agenda topic was canceled.

- **Asbestos Related Liabilities**

Staff member Julia Ranagan introduced the briefing materials at Tab C, noting that the materials were in response to the request received from the U.S. Department of the Interior (DOI) just prior to the April board meeting that the information required by Technical Bulletin 2006-1 (2006-1) be reported as required supplementary information (RSI) for a period of two to three years so that they can gather additional survey data.

Ms. Ranagan stated that the materials at tab C show the research and outreach that staff has conducted since the April board meeting to provide the members with more information with which to consider DOI’s request since several members had requested that we find out what other agencies are doing and what their status is.

Ms. Ranagan stated that, as summarized in the briefing materials, many agencies believe they are ready for implementation of 2006-1. That information is based on the results of an agency poll that staff sent to those agencies that had the majority of properties listed on the General Services Administration (GSA) Federal Real Property Report.

Ms. Ranagan stated that she followed the poll up with a roundtable attended by more than 28 individuals composed of preparers, auditors and consultants from over 15 organizations. The purpose of the roundtable was to share methodologies and best practices surrounding implementation of 2006-1 and also to talk about some of the issues with implementation.

Ms. Ranagan summarized that the roundtable was very enlightening for her as well as the participants because we learned the reason for much of the disparity between some agencies being ready for implementation and other agencies not being ready. The agencies that stated that they were ready for implementation were developing an estimate of their asbestos-related liabilities using a cost estimate or modeling technique, which she believes will lead them to a reasonable estimate, while many of the agencies that have indicated they are not ready are trying to perform detailed surveys of their buildings and structures. Ms. Ranagan noted that the participants have been told that it is not considered a survey unless they drill holes in the walls, ceilings, and floors to determine where the asbestos exists, which 2006-1 actually says not to do because that is not reasonable and it is not the intended means of developing an accounting estimate.

Ms. Ranagan summarized that based on the information she has gathered so far and the presentations from the preparers and auditors at the roundtable, the approach taken by DOI to survey all of their buildings is not really reasonable. She noted that DOI is now trying to develop a cost model using the existing survey data but they are concerned that their auditors will not accept modeling. Ms. Ranagan noted that several members of the CFO Council have said they are going to work together to try to develop a consistent cost factor or estimation methodology that they can share across government.

Ms. Ranagan concluded that she believes, for the various reasons stated in her research, that DOI's request should not be granted.

Mr. Allen asked if she had received any feedback from others on the fact that DOI has already spent quite a bit of money to survey buildings and whether they may be able to use the information that they already have to make projections rather than incurring additional costs to gather more data.

Ms. Ranagan responded that would be consistent with the presentation that they had heard at the roundtable from a preparer that primarily used the data from one of their large centers, which had already estimated the asbestos-related cleanup liability for its buildings and structures, to project the results of that data across the agency to their other centers. Several other centers had partial data but most of the projection results were based on the data from the primary center. She noted that the general opinion of the auditors at the round table was that an accounting estimate should be auditable if (1) it is supported by adequate documentation of (a) how the estimate was calculated, (b) why the assumptions used were chosen, (c) where the information used to calculate the estimate came from, and (d) the controls over the data sources of the information used to populate the estimate; and (2) you have a plan to refine the estimate over time as more information becomes available, meaning you are using the best data you have available right now, but you have a plan to refine your model over time as you gather more data.

Mr. Allen asked if other members had questions and then he would go around the table to see if there was support for the staff recommendation.

Ms. Kearney noted that staff had stated that DOI's use of surveys was slowing them down and asked if the reason the Department of Defense (DOD) has stated it will not be ready for a 2012 implementation of 2006-1 is because its situation is similar to DOI's.

Ms. Ranagan responded that she had not followed up with DOD to determine the reason for its status of "not ready."

Ms. Kearney then asked about GSA, noting that she had not seen where they had responded.

Ms. Ranagan replied that GSA had not responded to the poll but a representative from GSA was listening in on the roundtable via the telephone.

Ms. Kearney asked if GSA indicated whether it was going to have issues considering that a lot of agencies are probably going to be dependent upon GSA since they lease a lot of buildings that the agencies occupy.

Ms. Ranagan responded that she has not received a response as to whether GSA will be ready or not, but the GSA representative on the phone call did say that he found the information from the roundtable very helpful.

Ms. Kearney stated that she does not have specifics about the situation at DOI, but she does know there was an issue at DOD with using an estimation methodology because they have such a wide variety of assets. She asked if that is something DOI is struggling with as a possible reason why they are going down the survey path rather than using estimation.

Ms. Ranagan responded that DOI has stated that in analyzing the data for the three parks they have already surveyed, they were having trouble determining a trend or close enough approximation that they felt they could project out to their other buildings and structures. Ms. Ranagan noted that there is a provision in the standard for things that are not considered to be reasonably estimable because you do not have comparable data on which to base an estimate, but the views of the auditors at the roundtable are that most things are generally estimable, it is just a matter of the precision with which things can be estimated. The thinking is that it should be a reasonable estimate and you have to balance the precision with the cost/benefit of gathering the data; it is a tradeoff.

Ms. Kearney stated that, from OMB's perspective, it seems there are still a lot of unanswered questions—we do not know what GSA is necessarily doing; we do not know what DOD is doing but in the briefing materials, other than Navy, it seems they will not be ready for a 2012 implementation; DOI is struggling as well and we are not quite sure if they can use a costing methodology or not. She noted that between DOD and DOI, that is 60 percent of the buildings that will not be ready for a 2012 implementation so it seems that there is still something more going on in the community as far as struggles with the standard.

Mr. Jackson responded that he understands what Ms. Kearney is saying, but as far as DOD is concerned, they are not going to be ready for much of anything until around 2017 at least. He noted that DOD has so many issues to address that he does not know where this would sit on their priority list. He added that it seems to him if GSA was having issues they would have come to the table by now, and they have not. He asked Ms. Kearney why we would assume they were having a problem.

Ms. Kearney replied that she would take it from another perspective; she would not be so positive as to assume that they were taking a proactive approach. She noted that they may even question whether or not this is their responsibility area.

Mr. Jackson replied that he would think GSA would certainly think it was their responsibility area given the number of buildings that they hold. He went on to say that one of the reasons he would take the position that GSA would be proactive is because they are one of only two federal agencies that have had an audit opinion on their financial statements since prior to the CFO Act. He said of all agencies he would think GSA would have jumped on this simply because historically they have been proactive. He said they seem to have been on top of things over the years.

Ms. Ranagan responded that she has attempted to contact GSA representatives multiple times via telephone and email—first during development of 2006-1, again when considering deferral in 2009, and most recently when she reached out concerning readiness for a 2012 implementation date, but she has not been able to get feedback.

Ms. Kearney replied that GSA is such a big stakeholder in this that she questions how the board can say they are ready to go ahead with 2006-1 when GSA has not responded and DOI and DOD, which are also huge stakeholders, have stated they are having problems. She said it is hard to take that information and say yes, we should go forward with 2012 or no, maybe there is something more going on here.

Mr. Dacey said he also has a concern about complete information and what is going on. We have 60 percent of buildings that say they are not going to be ready for whatever reason. We have concerns about whether DOI's approach to implementing the standard is appropriate or not—GAO has not gotten involved in that if so he cannot really comment on either side—at this point he is neutral because he does not have enough information to decide whether their position is reasonable. Mr. Dacey said that he does understand from a basic audit premise that if there is not homogeneity among groups or classes of assets you cannot necessarily make projections to the whole, but certainly where there is homogeneity you can because you could therefore have a representative sample of the whole population. But from the facts he has today, he cannot determine whether DOI's approach is appropriate or could be streamlined. Mr. Dacey said he is not sure he has the kind of information he would like to have to reach an informed decision on this particular issue and that is his concern today.

Mr. Reger said he would like to hope that people do not just ignore the board; it seems like DOI is at least making an effort although perhaps not the most efficient effort they could make to actually get to a representation. He went on to say that he does not know how you pick how long to give somebody to come into compliance but it is clearly not going to be helpful if the agencies that own the largest number of buildings are not going to be in compliance. He said it does seem almost as though the board has missed something fundamental in trying to construct the time frame, but he does not know what that is and it did not come out in the roundtable; the roundtable seemed to be more constructive toward the people who did do it and saying how they got it done. Mr. Reger said he is with Mr. Dacey; he is at a loss as to exactly what to do at this point because he does not know what is causing the problem.

Mr. Allen stated that his reaction regarding DOD's lack of readiness was similar to Mr. Jackson's. He felt they probably haven't given this standard much attention given their many challenges in preparing auditable financial statements and it wouldn't make much difference if the implementation date was one year or five years. He also stated that since this is a standard that has already been extended, he assumes that anyone else having an implementation problem would have come forward by now. He said he appreciates DOI representatives coming to speak to FASAB but wonders if their approach goes beyond developing an accounting estimate called for in the standard. He said he was concerned that to delay implementation might encourage them to continue their approach which may be beneficial for management purposes but more costly than required to meet the standard. He did not support delaying the standard..

Ms. Ranagan stated that she does not believe the board should overlook the fact that when the Financial Accounting Standards Board (FASB) issued FASB Interpretation Number (FIN) 47 in 2006, the precursor to 2006-1, the federal agencies that followed FASB had only approximately nine months from the time the standard became effective to come up with an estimate of their asbestos-related liability. Tennessee Valley Authority was able to do it the first year while the Government Printing Office (GPO) received a reportable condition because they were unable to come up with an estimate in the first year. Ms. Ranagan said, in her opinion, she would imagine that for most federal agencies that are not able to comply with 2006-1 after five years, it would be immaterial and result in at most a reportable condition. Ms. Ranagan stated that, although it is not difficult to release another technical bulletin for comment making it RSI, she thought based on the board's input at the last meeting that they were not very sympathetic to that request since it had been five years since the technical bulletin was originally issued.

Mr. Steinberg said he liked the way Mr. Reger put it—we should not be ignored—and it seems to him that if we add GSA to the list as another reason why we should not come out with it, then an agency can say "if I do not like a standard then I just will not respond to it and they will not be able to go ahead." and that is not good.

Mr. Jackson summarized that the board is looking at several options. First, should we just let it go as it is—let it go forward and require agencies to report their asbestos-related cleanup liability. Second, there are those who have asked us to call it RSI—why do they want us to call it RSI? Because they are suggesting, at least the way they have gone about it, that they will be unable to comply with the standard. That means that the RSI for that agency will be incomplete—it will not be a fair presentation—so he would struggle with agreeing to an agency's request for a progression from RSI to basic when the board would be allowing agencies to report incomplete information in order to preserve their opinion. He pointed out that the whole thing was put on the table five years ago and, for the reasons he just mentioned, it would be a sad commentary for the board to move it to RSI for one or two agencies that have had five years to deal with it, notwithstanding the number of buildings they have that may be tainted with asbestos. So he believes, if the board is going to do something because they feel it is warranted, a third option would be to just defer the whole thing for a year or two. He said he believes the board should not allow the information to be reported as RSI knowing that at least one agency would be reporting incomplete information.

Mr. Dacey said Mr. Jackson touched on it earlier, but he wanted to talk about what the audit implications would be—if the standard goes as is and they do not accrue a comprehensive liability and it is material, then it would affect their opinion on the financial statements. If the board was to move it to RSI, it would not affect their opinion but the auditor would still have to disclose in their report that the RSI did not conform to the disclosure requirements because they did not have complete information. If we defer the whole thing, as Mr. Jackson suggested, then that would not affect any reporting by the auditors. He said he does not think that should drive the board's decision, but he would agree with Mr. Jackson that the real essence of putting the information in RSI versus the notes is the potential effect on the opinion on the financial statements. He does not think that should be a driver for the board's decisions, but he thinks it is an interesting point.

Mr. Schumacher noted that if the liability is material and they are unable to develop an estimate, it would affect their opinion but how do they know if it is material if they are unable to estimate it.

Mr. Dacey responded that is part of the problem. He noted that there are situations where one can quantify that the maximum extent of the liability is not material, but he is not sure whether or not that would apply in DOI's case. He noted that something similar was done for fiduciary receivables where they did not have an exact number but they were able to determine that it could not be material. It is sometimes hard to do and he is not sure if DOI could do that.

Mr. Reger asked what DOI's response was to the information presented at the roundtable. Ms. Ranagan replied that DOI was on the phone, but they did not respond much.

Mr. Allen stated that it seems to him that DOI's approach was more robust than just coming up with an accounting estimate. He does not want to tell them that approach is wrong, but he also does not want them to think that an accounting estimate is driving their approach. If DOI wants to know the asbestos in every cabin in Yellowstone Park in order to take some action, that is fine, but it is not our standard that is driving that.

Mr. Jackson added that it if an agency decides to take the long road, and they know there is a deadline and they do not have to take the long road, there is a peril to doing that—you have to cut the cloth to fit the suit.

Mr. Schumacher responded that he is inclined to agree with Mr. Jackson, in that making the requirement RSI does not make a lot of sense to him because it is going to be a worthless number anyway. If DOI cannot come up with a number to report, then there is not going to be anything in RSI that is going to be meaningful. He added that, as far as GSA goes, it seems that they have had every opportunity since 2006 to come forward, so he has to believe that if they had a problem they would have brought it forward by now. He stated that he would rather the board either postpone it or go ahead and implement it and have them give it their best shot.

Mr. Dacey stated that RSI would be a problem for another reason—for those who have early implemented, he is not sure what they would do. He would agree that RSI is probably not a very good option.

Mr. Reger asked if we had gotten a sense from anybody what delaying the requirement would help. If we delay one year, two years, or three years, how would that help.

Mr. Dacey replied that Mr. Reger raises a good point—the question is does DOI have a plan in place whereby they would complete their assessment and, if so, is there a timetable for when they have said they will have it completed.

Mr. Allen said his concern with deferring the standard is that they would be encouraging DOI to continue with their same methodology, and in the end, the board would be blamed for $25 million spent to come up with an estimate.

Mr. Dacey said that, without sitting across the table from DOI, he cannot pass judgment on whether DOI's approach is reasonable or not; it may be reasonable.

Mr. Reger asked if there was anyone from DOI observing the meeting.

Emily Joseph stood up and responded that she works at DOI and she had listened in on the roundtable. Ms. Joseph stated that DOI found the information to be very interesting and noted that DOI does have a plan in place. They have a data call to gather information and they are going to analyze it this summer so that they will have something to put on their financial statements in case the RSI request is denied. Ms. Joseph stated that DOI is not going out to do more surveys just to do more surveys. She stated that a couple of DOI's bureaus had been proactive and started gathering data that could be used across DOI's portfolio because DOI's portfolio is very diverse—from the National Monument to dams out west. Ms. Joseph stated that DOI has had conversations with GSA and, at the roundtable, GSA supported the request for RSI and they supported DOI's approach of going to the CFO Council to try to find a common cost factor to use for buildings and structures that have similar characteristics. Ms. Joseph stated that DOI believes that its approach is the right approach; they are just going to analyze the data that they already have and use that to get a number that they can book.

Mr. Allen replied that what Ms. Joseph just stated sounds like an argument for postponement of the standard for a year as opposed to RSI, especially given the negative feelings that people have about permitting RSI instead. Ms. Joseph said she appreciates the concerns about RSI since she is not on the accounting side and does not know the ramifications from that perspective. She stated that deferment would probably be agreeable to her agency because they believe based on an analysis of their data that they can use a costing methodology and it is a number that the auditors might find acceptable.

Mr. Dacey asked Ms. Joseph how much time she thinks DOI would need. Ms. Joseph replied that all of the bureaus are required to turn in their property information in response to the data call by July 15. Then DOI is going to analyze the information to see what they have and if they can use a cost factor like $3.00 per square foot and apply that across their portfolio or do they need different cost factors for the different asset groups. She stated that DOI will then analyze it and see if it makes sense or not. DOI also hopes to get help from the governmentwide CFO Council in developing different cost factors for similar assets. She noted that all agencies have office buildings, for example, so it makes sense to develop data they could share and use consistently.

Mr. Allen asked for members' views on the following three options:

1. Leave as is – Technical Bulletin 2006-1 would become effective as basic information in fiscal year 2012

2. Defer one year – Technical Bulletin 2006-1 would be deferred for one year to become effective as basic information in fiscal year 2013

3. RSI – Technical Bulletin 2006-1 would become effective as RSI in fiscal year 2012

Mr. Granof stated, based upon what he has heard, his order of preference would be (1) to do nothing, implement as is; (2) to defer; and, (3) put it in RSI.

Mr. Jackson stated that he would vote against RSI for the reasons he has already stated. He said for his first order of preference he is with Mr. Granof—leave it as it is. His second order of preference would be to defer the effective date—he would not say for how long but it would not be for very long.

Mr. Steinberg said he agrees with Messrs. Granof and Jackson.

Mr. Reger said he would reverse the first two; it seems to him that if deferring it for one more year (and he feels like it is dragging on forever) would give agencies an opportunity to find the methodology that will allow them to put a number on their statements and get in compliance at least, then it is worth that. Second, he would vote to do nothing rather than RSI; he said he does not think RSI actually works.

Mr. Allen said he has some sympathies for what Mr. Reger said. He would not defer more than a year and he hates to defer at all because he thinks, based on what he has heard, DOI has a very reasonable chance to come up with an estimate by the effective date. He noted that everybody has more than then can do so they only do what they have to do to put the fire out at the time, so he hates to defer when there are a lot of other agencies that have made the effort.

Mr. Reger said the reason he chose a one-year deferral is because of the timeframe required to issue a deferral. If DOI goes to the CFO Council, it will take some time, but it would not be a bad thing if it results in better representation governmentwide.

Mr. Allen said one year would be okay with him but not beyond that.

Ms. Kearney says she agrees with Mr. Reger on the one-year deferral and possibility of getting something governmentwide; getting consistent data across the board would certainly help in consolidation efforts. She stated that she is not as concerned about RSI because there are ways to get around some of the issues that have been raised. For example, if someone has already reported the information as basic, language could be developed that makes it RSI for a set period of time and then it goes to basic and earlier implementation is encouraged, meaning if one wanted to go to basic earlier, they could. She said she is not wedded to RSI but she thinks it would give DOI an opportunity to experiment with the data. So she would support the one-year deferral, second would be RSI, and her third choice would be to let it continue as is.

Mr. Dacey stated that he would agree with Mr. Reger on a one-year deferral but no more than one year. Since DOI has a plan under way and it seems to be moving along, he thinks it would be okay to defer the requirement for one year. He said he does not think RSI is a good option for the reasons he stated.

Mr. Schumacher stated that he does not think RSI is a good option. Based on what he has heard, Mr. Schumacher's first choice would be to leave as is and his second choice would be to defer for one year.

Mr. Allen stated that his sympathies are less for any one agency than for the plan that the CFO Council get together and talk, and come up with common estimates, and he is sure willing to give agencies another year if we can get that type of momentum on this issue and hopefully others.

Members' tentative views are summarized in the following table in order of preference:

Member	**Leave as is**	**Defer one year**	**RSI**	**Comments**
Allen	2	1		Hates to defer at all, but would not defer more than a year. Is willing to give agencies another year if it will result in a coordinated approach.
*Kearney **	*3*	*1*	*2*	
Dacey	2	1	--	
Granof	1	2	3	
Jackson	1	2	--	Preference is to leave as it; would vote to defer but would not defer for very long; would vote against RSI.
Reger	2	1	--	If deferring one more year would give DOI enough time to put a number on its financial statements, then it is worth deferring; do not think the RSI option actually works.

Schumacher	1	2	--	Does not think RSI is a good option.
Steinberg	1	2	--	

* OMB representative for Ms. Bond; vote is unofficial.

Mr. Showalter was not present during this session.

Mr. Allen commented that they had gone around the table once asking for views and asked if anything that had been said would change any of the members' views.

Mr. Jackson said the nice thing about the deferral—albeit he does not necessarily agree with it—is if we encourage early implementation, the only thing we would be doing is providing relief for those that are struggling while allowing agencies that are plowing ahead to keep doing what they planned. We would be providing an additional window of opportunity without damaging those agencies that have already done it.

Mr. Allen asked if Mr. Jackson had changed his preference towards deferral.

Mr. Jackson stated that it does not change his preference, but he will vote for deferral because no harm can be done by deferring for a year as long as the deferral encourages early implementation to address those that have already implemented or have plans to implement for 2012.

Mr. Allen concluded the session by directing staff to defer the technical bulletin for one year.

> **CONCLUSION / NEXT STEPS:** Staff will develop a technical bulletin that proposes to extend the deferral of Technical Bulletin 2006-1 by one year. Staff will provide board members with a draft to review via email; it will be released for public comment if a majority of members do not object.

- **FASB Reporting by Federal Entities**

Ms. Ranagan summarized the materials at Tab D and asked for the board's approval of the proposed project approach and staff's plan to draft a discussion memorandum (DM) to receive formal feedback from federal entities on the reasons why they primarily use standards issued by FASB, the different needs of their financial statement users, and several proposed options for addressing the issues that arise when consolidating two different primary sources of generally accepted accounting principles (GAAP).

Mr. Schumacher asked if the DM would require less work than an exposure draft (ED). Ms. Ranagan explained that a DM is a way to get formal feedback without the board having to spend a lot of time deliberating on issues and selecting one approach. A DM is an initial document, prior to an ED, that can present several different viewpoints and get feedback on each one. It is a compliment to staff research that can make drafting a subsequent ED less time-consuming.

Mr. Dacey noted that staff had done a lot of initial work during development of the GAAP Hierarchy standard. He asked what staff expects to gain as far as additional information with this project. Ms. Ranagan responded that the proposed project plan focuses on gaining the perspective of users because that aspect was not researched previously; she noted that several board members had asked staff to not just focus on the issues surrounding consolidation but rather to ensure that component entity reports prepared primarily under FASB GAAP were meeting the needs of their users.

Mr. Allen added that there was no deliberation during the GAAP Hierarchy discussion because the board had agreed that they would not require anyone to convert to FASAB so they did not want the GAAP Hierarchy standard to affect current practice. He said his personal belief is that federal agencies ought to be following FASAB GAAP unless there are legitimate reasons why they are not.

Mr. Reger said he is baffled why agencies that are part of the federal government are not reporting according to federal rules. He pointed out that federal agencies are currently required to prepare their closing packages in accordance with FASAB, and many of the federal entities that primarily apply FASB are not. He said it is a nightmare that needs to be fixed as soon as possible.

Ms. Kearney stated that, when OMB looked at this, the initial questions that came to mind were: what is broken…what are we trying to fix…at the governmentwide level, is it material…are we getting a disclaimer because of this…are we getting material weaknesses because of this…at the agency, what problem is it causing them to follow FASB versus FASAB. She recalled previous board discussions where members had agreed that GAAP is GAAP and unless there were some material differences at the governmentwide level, GAAP is GAAP, so why would the board focus on this when it is not clear that there is a big issue or priority here that we should be spending time to address.

Mr. Allen responded that he appreciates OMB's view and that is consistent with their position a couple of years ago, but Treasury had a different position on it.

Mr. Jackson pointed out that CFO Act Audits did a lot to improve the accuracy of budget reporting when the statement of budgetary resources was required to be audited. He stated that he would be interested to know what OMB thought about requiring similar audits of budgetary statements for those agencies that are required to submit an SF-133 but do not prepare a statement of budgetary resources because they apply the FASB reporting model for nongovernmental entities. Mr. Jackson stated that, if the board decides to go forward with this project, the budgetary statement is the one statement he would like to get feedback from users on.

Ms. Kearney stated that there has been quite a bit of evolution with regard to the 133 reporting and there is a much more stringent process in place that allows for more edit checks than were in place before.

Mr. Granof asked if staff really expects to gather new information from a DM or is it a means of delaying a decision from the board. He asked if the outcome would be any better than if they just went right ahead and issued an ED. He asked if it was a poll or if staff would really be getting new information.

Mr. Jackson said it seems as though, for the significant reporting differences, staff could make an inquiry of the principal users without going through a big bureaucratic exercise of a DM or ED, and find out that no additional information is required. Mr. Granof said that is consistent with his thinking.

Mr. Dacey said that a lot of the issues with information that Treasury needs for consolidation can be worked out between Treasury and the agencies from which the information is needed, which has already been accomplished for some issues such as differences in recording Treasury securities between the Bureau of Public Debt and agencies that apply FASB GAAP. Mr. Dacey said the real question becomes whether users want to see that information actually reported in the agencies' general purpose financial statements.

Mr. Jackson asked if there was already a process in place for Treasury to get the information they need. Mr. Reger responded that there is but there is an issue with non-compliance; some of the entities ignore the request for information.

Mr. Allen asked if there was member support around the table for following the staff recommendation.

Mr. Schumacher said it is not totally clear to him what information is not coming in that is required. He said he would still support the staff recommendation, keeping in mind that the board does not want to devote a large amount of resources to this. He would support the fact-gathering so that the board can finally come to a decision on the issues.

Mr. Dacey said he supports moving ahead but not putting a lot of resources into it. He agreed with Mr. Schumacher that he would like to finally come to a decision on it and move along to other priorities.

Ms. Bond stated that she does not support the project or the staff recommendation. She stated that this is not seen as a priority. She appreciates that others have said we should not be spending more resources on it, but she actually does not see anything broken. She said this issue has been around since 2001 and she does not see why we are reopening it when there are no material misstatements at this point. She again stated that she does not support moving ahead with the project or the staff's recommendation.

Mr. Allen said he supports the staff recommendation with the same caveats that have been expressed by others. He supports determining the views from the users' standpoint as well as understanding the issues from Treasury's standpoint. He said it presents an interesting conceptual issue if it is not addressed—the board has spent a lot of time arguing that it is unique and different from state and local and private entities—and he thinks the board should have a logical basis for federal entities to apply standards other than FASAB.

Mr. Reger said what staff is proposing would provide the board with more information but he is not sure that it solves the problem. He said he thinks they already have enough information to come to a decision. He responded to Ms. Bond that he does think something is broken because they have an audit finding on it. Mr. Reger stated that they have to resolve a few outstanding reporting issues; however, he is not sure it is something that the board can resolve. Bringing the issue to conclusion and getting rid of it is helpful but he is not sure more study is going to get the board there.

Mr. Steinberg stated that there are two things he is concerned about: (1) when we say it will not take many resources, he is not so much concerned about board resources as staff resources. Any time staff works on something it takes resources from other projects. Since Ms. Ranagan is assigned to the risk assumed project, any time spent on this project would take away from that project, which is a priority of the board. (2) Initially, he thought that a DM would give the board more information but he forgot that staff did gather a lot of information in the early years on this project so now he wonders what more information would a DM give us than we had before. He stated that if Mr. Reger and the rest of the board think it is a real priority, he would move it to an ED, but absent that he would not spend any more time on it.

Mr. Jackson said he agrees with Mr. Reger that there are things that are broken but many of them are because people refuse to comply with governmentwide policy, the FASAB requirements, or whatever. He said we need to deal with it but he does not think a DM solves that problem. He said we need to look at the user community, figure out what information is needed in a more informal fashion, and then come to the board with a recommendation based on that discussion—OMB on budgetary information, Treasury on information that they are not getting and who the agencies are that are not complying with something. He noted that, if there are agencies that are not complying with something, there are central agencies that should at least have the ability to go forward and push the envelope a little bit as opposed to going through some wholesale effort to research this. A DM does take time and resources to deal with and then the board will probably have to deal with it down the road again. He thinks some back office research and discussion about how to go about getting agencies to comply with current policy is a much more cost-effective move.

Mr. Granof said he has a sense of déjà vu; if you look at the notes from the October 2009 meeting, the discussion is very similar to what was said today. His recommendation would be for staff to rough out an exposure draft, bring it to the board, and at that point we can say if we want to go forward with this, make any adjustments, and go on and put it out. He said that we have consensus; let's not spend a lot of time on this and let's be done with it.

Mr. Dacey said, in thinking about what Mr. Jackson stated, maybe the board ought not to decide what to go forward with right now but, instead carry out some of this more informal research and come back to the board and see what we have. He said they probably can gather a lot of information without a structured, formal process because that does take a lot of resources and the board cannot help but wordsmith documents at the table when something is put before them.

Mr. Reger said he would support that too because there are a lot of questions in the next discussion on Federal Entity that are related and getting together the issues and the problems and figuring out the best way to do it or to address it in one of these other projects may be just as effective and much quicker.

Ms. Bond said the issue is compliance and to say that everything is broken is just not right. Intragovernmental is close to being resolved and this is not an issue that would be substantive to resolving that material weakness. So, when you look at, if an agency is not complying, she agrees with Mr. Jackson, one of the central agencies can certainly take action to get them to comply. She said she really questions, given the resources and priorities of the board, that this should be pursued at this point when we are all acknowledging the same conversations, as Mr. Granof pointed out, that have been had for years and nothing has changed except for it is a compliance issue. She said she questions board resources on this. She does not know if there is any harm in doing informal research as Mr. Jackson had suggested except that, as Mr. Steinberg pointed out, it distracts the staff from other priorities that the board actually wants them working on. She said she thinks the board has all the information it needs and she thinks that they are in a position uniformly around the table that it is a compliance issue. She believes the central agencies should come up with an idea of how to deal with it and report that back to the board versus having the staff spend resources to do any sort of work on it.

Mr. Allen pointed out that the project proposes other objectives, such as guidance for new entities, that he was hoping this project would address.

Mr. Jackson responded that some of those same questions are also being asked in the Federal Entity project about entities that follow FASB so he thinks they would be getting ahead of themselves by trying to also address them separately in this project.

Mr. Allen acknowledged that the majority of the board does not want to go forward with the project but he wants to keep his foot in the door because there are still questions that need to be answered, and may at some time be worth talking about.

Ms. Bond stated that she agrees with Mr. Jackson, if there are questions, she believes they are addressing a number of those questions in other projects so she feels that doing any work on this project now would be premature. If at the end of the Federal Entity project, there are still some lingering questions, the board can revisit it then but she does not see a need to keep a foot in the door right now when we recognize that other projects are going to address those questions and it is not a board priority.

Mr. Allen stated that the majority view of the board is that the project should be dropped.

> **CONCLUSION / NEXT STEPS:** Staff will close the project and move it from the Active Projects to the Archived Projects. At the board's request, no further research or outreach will be conducted with respect to this project. If there are outstanding questions or issues remaining at the end of the Federal Entity project and the board agrees at a future agenda-setting session that the issues are a priority, the project can always be reopened.

- **Federal Entity**

Staff member Ms. Loughan began the session by explaining the main objectives for the federal entity agenda item would be to review options for related party and consider issues regarding consolidation of different fiscal year ends and consolidation of FASB based information for core entities and disclosure of information relating to non-core entities.

Staff explained that at the April Board meeting, it was agreed that staff would develop a revised related party section and the Board would consider it in its entirety at the June meeting. The Board requested staff address issues because (1) the guidance might include government contractors and others that may be economically dependent upon the government and (2) the "established by the federal government" criteria may be too broad.

Staff explained the binder materials provided a background of the work in this area and existing guidance in the area as well as brief consideration of other standard setters. For purposes of comparison, staff noted the objectives – in brief – of the existing standards in other domains. The text of GASB, IPSASB, and FASB standards are included as an attachment to the related party paper.

Staff's explained the analysis considered intra-governmental relationships among component reporting entities as well as relationships with outside entities.

Although related party relationships exist among the component entities of the federal government, component entities are subject to the overall direction and operate together to achieve the policies of the federal government and should not be subject to the related party disclosure requirements.

The analysis discusses that when considering the universe of entities the federal government may have relationships with and who may exercise significant influence, there are infinite possibilities and countless types of entities and possible relationships that would have to be considered. It also notes the objective of relationships that the federal government enters into and the resulting transactions and thereby the need or purposes for related party reporting may be different than those in the private sector.

The analysis explains the federal government is not routinely or typically the party at an advantage in the relationship or transaction with others. Nor is the entire effect of the relationship or transaction easily expressed in financial terms. The purpose of most of these relationships is for the good of the nation or to fulfill public policy goals and society needs.

Therefore, staff explained the recommendation—considering the federal government's role and its potential 'related party relationships' would be an infinite number of related parties reported—is to place parameters on what needs to be reported. Because without parameters the cost of meeting this type of requirement and related disclosure would be high; the benefit of including an infinite amount of information would be lost because users would be overwhelmed.

Staff explained the tentative views about related party reporting at the component entity reporting level was also included in the paper but was shaded and staff wanted to obtain the Board's tentative thoughts. Staff recognizes the Board has not deliberated on the principles for the component reporting entity as of yet and it is not included in the proposed ED language, but it is in the Related party paper for discussion.

Staff requested member questions.

Ms. Bond explained she had a question on page 10 of the Related Party Issue Paper. She noted the draft language states "the federal government may be able to exercise significant influence over certain entities or be significantly influenced by certain entities." She explained her concern was that the language stated that the federal government may be significantly influenced. She asked if there were examples of entities that might influence the federal government. Ms. Payne explained that it wasn't referring to entities that might influence decisions of the federal government, nor is it the influence that citizens may have over politicians. The significant influence referred to is that kind where operations may impose risk and the influences may introduce risk. Staff noted specific examples such as Freddie and Fannie before the conservatorships.

Mr. Jackson asked if the significant influence goes from the federal government to the entity or both ways. Ms. Bond stated she believed based on the way it is written it goes both ways. Ms. Payne confirmed. Ms. Bond suggested that staff work on different language because it seems awkward as written because it doesn't seem the federal government can be significantly influenced. Ms. Payne noted that she recognized Ms. Bond's concern and agreed but noted the language was to capture the risks that are imposed due to some of the relationships that occur. Mr. Dacey noted the definition and other language seems to just speak to a one way relationship. Chairman Allen noted he understood staff's position; it wasn't the ability to influence but more the ability to pass on risk. He noted that it often isn't the organization that creates the risk, but rather the federal government that assumes the risk. He suggested that perhaps there are better words that could be used to describe this instead of influence. Ms. Bond stated that perhaps the clause should be dropped to be consistent with the other language as Mr. Dacey pointed out, and perhaps other language could be added to capture the point that is trying to be made in another paragraph. Mr. Jackson stated he believed that related party tended to be a one way track.

Chairman Allen suggested staff come back with an analysis of influence types and options.

Mr. Granof asked if the federal government takes over a bank or a failing institution, would it qualify as a related party. Staff explained if an entity met the inclusion principles that it would not be a related party because the definition of related party states if it "was not included in the government-wide reporting entity." Mr. Granof stated he understood but he would imagine it would not be the intent to include each bank in the federal entity either, so would it meet the related party test. Ms. Payne explained it did meet the inclusion test, it's just the disclosures would be minimal. Mr. Dacey explained this would be similar to current reporting, for example for the FDIC receivorships, each bank is not listed in the report. Mr. Granof explained he wanted to ensure that it wasn't treated as a related party. The Board members agreed. Mr. Dacey further explained in this example, it is the receivable that triggers the reporting as the Board discussed at the last meeting, there are other reporting requirements that fulfill the disclosure requirements.

Mr. Steinberg explained he didn't see the disclosure requirements for the related party being that different than the disclosure requirements for the non-core accountable entities. He stated when considering the approach by FASB with related parties it's because companies may use a related party relationship to complete a non-arms length transaction and inflate net income. Therefore related parties would have to be disclosed. He noted concern that inflated net income does not exist or is not a major concern in the Federal government. Mr. Steinberg explained what we are concerned about is the risk of exposures and similar effects. He added that once the non-core entity issue is resolved then perhaps there may not be a need for a separate category called 'related party.' He noted there were three related parties listed in the most recent CFR—Amtrak, Export Import Bank and the Federal Reserve. Therefore, there may not be a need considering it appears these may be considered non-core entities. He asked if we needed a separate category for "related parties."

Mr. Granof noted the extensive discussion of key employees in the related party material and that we do not have such concerns in the federal government.

Mr. Dacey noted the grants we give to states may or may not fit a related party definition. He explained they don't meet the non-core definition but perhaps you want to describe the magnitude of the funding that goes out to the states as a related party. Mr. Jackson explained he doesn't see pouring out millions of dollars to the states as a related party. However, if he reconsiders it as a two-way street, perhaps states do pose a risk or financial responsibility for the federal government through the grant relationships.

Ms. Payne explained that staff had a similar thought process in their approach. However, as noted in the staff analysis and draft language, staff did not believe that states or other national governments should be reported as a related party. Ms. Payne noted that staff used the term ‘normal’ in the objectives—specifically the draft language states “The objective of related party reporting in the federal government is to identify risks and influences that would not be expected in the normal operations of the federal government.”

Staff noted this allows judgment as there may be situations where the relationship with states may not be deemed normal so it would have to be reported and it rises to the level of reporting. Ms. Payne explained she understood Mr. Steinberg’s remarks regarding that there may not be a need for a category of related party, because as the staff’s analysis and issue paper detailed the federal government could be considered related to everyone but once you set certain parameters as detailed in staff’s proposal, it may not leave a lot to be reported.

Ms. Payne also explained we must address risk assumed and we can’t keep pushing it down to that but it appears everyone comes back to that same conclusion that it is risk assumed that you want to highlight through related party disclosures. Ms. Payne noted that most Board members agree that is what is going to trigger wanting disclosure, then the Board will have to decide if it wants to say there are no related party reporting requirements and risk assumed would be what triggers the disclosure requirements but there is some danger in that because related party reporting is such a pervasive part of GAAP. Ms. Payne explained we could consider the staff proposed options or consider this all under risk assumed.

Mr. Reger noted that the proposal included language that excluded “Entities with which the federal government transacts a significant volume of business resulting in economic dependence such as government contractors, state and local governments, and non-profit organizations” so it does address these types of things. Staff explained the proposal attempted to address those situations that were deemed normal such as these as well as foreign governments, other national governments and component entities should be excluded from reporting.

Mr. Steinberg explained he isn’t trying say we need to kick this down the road but we address what needs to be in the entity and then we can describe what we have relationships with and take care of these things in that manner.

Ms. Bond agreed and stated she didn’t see this as kicking the issue down the road but believes this is more of a risk assumed issue than an entity issue. Ms. Bond explained she was trying to see the value in saying states receive large grants and so forth. She didn’t see from an entity reporting perspective the value that is gained. However, she explained there may be an issue with the risk in this area. Therefore she believed this fits better in the risk assumed project versus the entity project.

Mr. Dacey explained bottom line he believed we should still have related party addressed here as we can’t anticipate all and everything that may happen or all entities.

He believes we need to address things that may not fit the criteria for core and non-core. Therefore there should be provisions for how to report those types of entities that may fall outside just as other standard setters address this. Mr. Dacey noted the Board would want to have a standard that says report the nature of the relationship. Mr. Dacey explained he supports continuing to have it in the Draft ED even if there isn't a specific example that we can find today. He explained there is connection between all of these with the related party and some of it may already be reported due to the nature of other reporting requirements. Although states may be a bad example that he suggested, and he can't think of one presently, it doesn't mean that related parties shouldn't be addressed--especially at the agency or component level there may be ones that may need to be considered.

Chairman Allen explained that he struggled when considering related parties at the component level. For example, does one have a relationship with the Department of Health and Human Services or is it with the federal government as a whole? He explained it is likely a very complicated issue. Another example is the Federal Reserve—is their relationship with the Treasury or the federal government. He explained he always considered it with the federal government.

Ms. Bond agreed that is a good point and requested that staff discuss the component issue. The explanation of staff's recommendation may influence the discussion.

Although materiality may differ, staff is asserting that the same principles and objectives should be applied at the component level that is applied at the government-wide. Staff explained when one considers things at the government-wide, most come through at a department level. By virtue of a relationship with a department, they are related to the federal government. Something that might not is when one considers treaties but this may require consult with general counsel to determine who they are related to.

The Board discussed the proposal recognizes related party relationships exist among the component entities of the federal government, component entities are subject to the overall direction and operate together to achieve the policies of the federal government and are not subject to the related party disclosure requirements.

However, Mr. Jackson noted concern with the sentence in par. 8 that allows components to be reported when "significant transactions are not arms length transactions or when the preparer deems disclosure necessary." Staff noted that the overall principle set forth in the ED is that component entities should not be included as related parties. The language referenced by Mr. Jackson is included to allow for situations that may arise where Treasury as the preparer may believe it should be disclosed. For example, in the current report the Federal Reserve is listed as a related party and although staff believes based on the Draft ED the Federal Reserve will be considered a non-core entity—staff doesn't believe the flexibility to report such significant situations should be removed if Treasury deems it necessary. That was the purpose of the language; staff didn't believe it was appropriate to shut the door in all situations.

Mr. Jackson explained he has two concerns with the sentence: 1. how does one determine when significant transactions are not arms length transactions that are deemed material and 2. More importantly—"when the preparer deems disclosure necessary" makes the provision more or less not applicable. Ms. Payne suggested the flood insurance program may be a possibility for a related party disclosure. Mr. Jackson noted the less than arms length transaction is between the individual and FEMA and actually the individual is paying the premium so it might not be construed as less than arms length. Mr. Jackson asked if the disclosure would be about the risk. Ms. Payne explained it might be about the fact the program is substantively different from the public's perception.

Mr. Dacey noted this involved intra governmental eliminations and it would be eliminated in consolidation. Mr. Jackson noted a lot of things are eliminated upon consolidation so what might the sentence in question be trying to capture.

Ms. Payne explained staff included the sentence simply as a fail safe that allowed disclosure when the preparer believed it was warranted. She noted we have requirements for programs that we are not charging the full cost but it has been noted that we don't see disclosures for that. She explained it might be helpful to explain more about how these programs work.

Mr. Dacey explained he goes back to the definition of related party and what might not be clear is that it meets the definition and it is not core or non-core or intra-governmental. With that being said, he explained that he is not certain much would be gained by having the language included because it wouldn't pull in anything additional.

Mr. Steinberg explained his point again of why even define related parties if we are agreeing that there might not be any reported or that the disclosures aren't any different than that of non-core.

Mr. Dacey explained he believes there is still a need for the category as it does offer a place for those relationships that aren't covered by core and non-core. Although the disclosures may be similar, it is a different relationship and the amount of disclosures may differ. Mr. Dacey added that he believed the government-wide and component level should be the same standards or principles though the materiality is different and therefore things may not show up at the consolidated government-wide level.

Mr. Jackson agreed with Mr. Dacey's comment that the Board shouldn't do away with the category because you may need this in the future. Mr. Jackson explained he would be in favor of leaving the sentence in if staff or the Board could find an example that would demonstrate why the sentence should be left in.

Mr. Jackson explained he had some additional comments regarding the way the language is presented in the proposal. For example, in par. 7 it states "Although par. 6 permits exclusion of certain entities as related parties…" He noted that it specifically excludes them because the language in the previous par. states "the following do not constitute significant influence and are not related parties…” Therefore, there is a conflict with this language.

Mr. Jackson noted there are a few other examples like this. He noted there are sentences in the document that suggests you can determine if a transaction is not at arms length and he would suggest that it is a relationship that suggests a transaction is not at arms length and staff should review the wording to ensure that is conveyed properly.

Mr. Dacey noted concern with par. 6 because he didn’t know if one could say conclusively that these specific entities or examples are not related parties in all instances. For example, entities that have no federal representation on their governing board—there may circumstances with that type of entity where it does create a related party relationship. He explained that is excludes them without considering the totality of the circumstances. For example, with the first one-- economic dependence alone may not be sufficient to be a related party but there may be other factors that when considered would make it a related party. Mr. Jackson agreed. Mr. Dacey explained he understood what the intent of par. 6 was but he didn’t believe it was written appropriately and there needed to be some revisions to the wording as it didn’t convey the right balance to automatically exclude them from related party. He believes the definition in par. 3 takes more of a view of the totality of the relationship and that should be reflected in par. 6.

Staff explained par. 7 was intended to recognize this fact by stating “Although par. 6 permits exclusion of certain entities as related parties, other factors may create a need for related party disclosures. The use of judgment will be necessary in identifying those factors consistent with the objectives of related party disclosures.” Staff noted that par. 6 could be revised to bring a better balance as Mr. Dacey suggested. Mr. Dacey agreed as par. 6 appears to be definitive by stating “the following do not constitute significant influence and are not related parties…” Staff understood the concern and agreed to revise the language to state the factors may be relevant considerations. Mr. Dacey noted he is not certain what language could be offered because the danger is you don’t want to soften the language to the point where it isn’t meaningful. For example, it would be difficult to say that a foreign body or international government would never be a related party or that it should always be excluded.

Chairman Allen noted it was impossible to solve all these issues at the table and staff may need to come back with options for the Board’s consideration.

Mr. Reger noted his concern with the bail out entities and wondered if those should be mentioned since this related party is presented later in the ED document or should it be referenced as well to ensure there isn’t confusion in application. Mr. Dacey explained under the proposed standard those would be non-core and by definition related party could not be something that is core or non-core. Staff concurred with Mr. Dacey’s statement.

Mr. Reger suggested that this be clarified, perhaps the definition of related party state explicitly that core and non-core would not be considered related parties.

Mr. Schumacher noted that within the definition of related party we state the "federal government has an ownership interest" and he asked if the Board should state a minimum ownership interest or does the Board want to intentionally sweep everything into this definition. For example, there may be instances where the federal government owns 2-5% or some other small amount of an entity, and he wondered if this would be considered a related party. He noted there may be problems with saying significant or more than a certain amount but he questioned if there should be some parameters.

Mr. Dacey explained the federal government owns securities in investments that wouldn't meet the core or non-core definition. Therefore it is a good question but it probably wouldn't meet the materiality levels for disclosure requirements. Chairman Allen also noted it might be the normal transactions criterion that is discussed in the proposed language.

Mr. Dacey stated that perhaps the related party definition should be brought together in a more concise definition versus carried out over several paragraphs because that point may not be clear.

Ms. Bond commented that several issues had been raised but she wanted to ensure the Board came back to the point discussed earlier and the need for clarification of the language regarding whether related parties are a one way or two way street. She didn't believe the Board came to agreement on that important issue. She struggles with that and fundamentally doesn't believe it can be a two way street and she requested other Board members' views on that particular point.

Chairman Allen noted staff's response was that it wasn't a pure two-way street and the fix was to say "the federal government can influence or may assume risk or an entity may create risk for the federal government" or language along those lines. He agreed the entities can't influence the federal government in the same way but they may get involved in things that may subject the federal government to risks that doesn't necessarily originate with the federal government. Ms. Bond explained she didn't disagree with the suggested change, but she was interested in feedback from the Board answering Ms. Payne's earlier question about whether the member's believed there could be a two way relationship of influence.

Mr. Dacey explained he couldn't think of any examples and his only concern with the suggested language is that may get into the risk assumed project. He explained the government may elect to assume some risk and in that situation we are in the risk assumed model. He explained he is not sure if there are good examples of influences that would get the federal government into risks as defined here, but that is just his thinking today when he considers it as a related party disclosure.

Mr. Jackson explained based on everything he has heard it is a one way street because if the federal government assumes risk, it is still a one way street. He explained that the risk is a result of something the government does—whether it is creating the entity, entering into a relationship, etc. He added that another entity cannot create something upstream without the federal government creating the relationship to begin with that made it a related party.

Mr. Steinberg explained it isn't just risk but there are also benefits too. He noted the government creates entities that could be related parties, such as the CIA's InQTel that was created for a benefit. He stated that another entity may create a situation or condition that creates a risk for the federal government. Mr. Jackson stated that he believes the government would have to create a relationship that enabled them to do so.

Ms. Bond explained in those situations she believes the core and non-core would come into play and capture those entities. She definitely believes it is a one way action or influence.

Ms. Payne clarified that it isn't the creation of a relationship but that there is an existing relationship in which a party gives the federal government risks or benefits. Mr. Jackson stated the federal government had to create the event that formed the relationship. Ms. Payne agreed but that event was in the past and we are reviewing all the parties where a relationship exists. The question is for these relationships that exist, does influence flow in both directions now that a relationship exists. For example, the federal government enters into a treaty with NATO—can NATO influence the decisions the government makes? Mr. Jackson explained that was a good point. Mr. Jackson explained the creation of the relationship makes the related party and that is a one way street. However, actions the entity takes may have a significant impact on the federal government. Staff noted another example might be the public – private partnerships.

Ms. Bond explained she views this more as risk and perhaps that is what the focus should be. She explained that there appears to be a consensus that it is a one way relationship and this appears to be a risk assumed issue. She explained she wasn't trying to speak for anyone, but only trying to capture what had been stated earlier by Board members such as Mr. Dacey. Ms. Bond explained she didn't want to blend the two issues of risk assumed and related party.

Mr. Jackson stated the federal government can not be significantly influenced by an entity, the federal government can influence behaviors. Events that occur by related parties may have an impact on our financial statements but the government is not influenced in any way, especially in a managerial sense. Chairman Allen asked if the other Board members agreed with what Mr. Jackson had stated. If so, perhaps wording could be crafted that states the relationships are one way but the events that occur because of that relationship may impact the federal government in a way that creates risk. Ms. Bond stated she agreed with the concept, but she still believes it is one way and in the definition of related party that is being considered, she doesn't believe the upstream events should be included in that definition.

Mr. Reger explained he agrees with that except for state and local governments. He stated there may be a risk associated with them and they are not controlled and aside from the grantee relationship that was discussed earlier. He explained that states vote to join the union; the United States doesn't vote or agree to accept them into the union. Mr. Reger explained if you have a state go into bankruptcy then it could create a risk to the federal government but that is the only example he can think of that may be something other than a transactional risk where the government enters into an agreement. Ms. Bond stated she didn't believe it was a related party and Mr. Reger agreed but it is an example that should be considered.

Ms. Bond explained she believes there has been a lot of direction given to staff but she is uncertain if the Board is in a position to vote on related party. The Board appeared in agreement that they needed another version that incorporated the concerns discussed during the session.

Chairman Allen explained he wanted to go back to an important question—does the Board feel comfortable that we need a related party definition as it appears there is agreement we capture most entities in core and non-core as well as assets and liabilities through other standards. Chairman Allen explained Mr. Dacey has noted he preferred to have the category although we may not have specific examples, but Chairman Allen wanted to determine if the consensus of the Board is that a related party should exist.

Mr. Steinberg explained that answer may depend on the final definitions for core and non-core and the related disclosures for those. Wherever those end up would determine if the related party needs to be addressed. He explained that Mr. Dacey noted there might be instances where entities did not meet the core and non-core criteria, so he doesn't see how this can be addressed until those are finalized.

Staff suggested the Board consider the objectives of related party written by staff and wondered if the Board agreed with those. As noted in the Draft ED, it states the "objective of related party reporting in the federal government is to identify risks and influences that would not be expected in the normal operations of the federal government." Ms. Payne noted that she observed a lot of members discussed transactions versus risks and influences. Ms. Payne asked if the Board preferred that staff come back with a broader risks and influences or come back with an approach similar to transactions.

Ms. Bond explained that the reason she didn't speak to risks and influences is because she didn't see a way that it could come about as staff nor the Board could come up with specific examples so there is difficulty is seeing how it would be applied.

Ms. Bond explained the fundamental question of do we need to address related party is important and she struggles with doing it because as of now there doesn't appear to be a need to do so because there aren't specific examples.

Mr. Dacey explained there has been discussion of transactions but the nature of the relationships may be that they do create risk and that would be a part of this disclosure, not just transactions. Therefore he believes it is both transactions and risks or other agreements the government may be exposed to based on the relationships that would be disclosed. He explained again that there is the possibility it could occur—meaning it would not meet the core or non-core, especially at the component level and need to be disclosed as a related party.

Mr. Jackson noted that the reason the word transaction may be used so often is that it is often used or cited by other standard setters.

Mr. Granof explained it is troubling if one can't come up with examples, but he understands Mr. Dacey's views.

Chairman Allen asked if the related party issue should be set aside or placed on a shelf and allow the Board to continue on some of the other entity and then revisit this to see if we need this. He explained he doesn't want to put forth additional staff time if there isn't a need for it or if the Board isn't in agreement. Chairman Allen noted there is also the Misleading to Exclude that captures organizations as well.

Mr. Granof explained that perhaps this could be solved with a sentence or two versus several pages. He agreed that it could be put aside and the Board could come back to it.

The Chairman noted there are several other important issues the Board needed to talk about and wondered how frustrating it would be for the staff to move on to the next topic.

Mr. Jackson suggested that before staff put the related party issue aside that if there are changes agreed to today that those should be incorporated. In addition, some of the clean up of the language that was discussed could occur so when the Board does return to it, these issues are resolved. Staff agreed that would be done. Staff also explained that staff didn't see the Board discussions as being too far off from the proposal and believed it could be incorporated rather quickly. Chairman Allen requested any follow up thoughts on the issue be sent to staff.

Mr. Dacey commented that the proposal excludes intra-governmental because it is required to be separately disclosed under form and content but he wondered what the thought process was behind why the standard shouldn't provide for that. Ms. Payne explained that SFFAS provides for intra governmental.

Staff explained at the April Meeting, the Board requested staff to consider issues regarding consolidation of different fiscal year ends and consolidation of FASB based information for core entities and disclosure of information relating to non-core entities. Specifically, the Board requested staff to perform additional research and outreach to the audit community and the federal entity task force as necessary on the audit responsibility for condensed information; especially for non-core entities on different basis of accounting or core entities with different year ends.

Staff explained a summary of the issue was provided to the Financial Statement Audit Network, the Federal Entity Task Force and to several Independent Public Accounting audits partners for feedback. Although the outreach was sent to many, staff explained the response was considered very low and mostly through informal means. Staff explained the comments were summarized for analysis and included for the Board's consideration.

Staff noted that other standard setters work was considered and provided in the analysis. Specifically, staff considered FASB and GASB guidance in this area and noted where similarities could be drawn. Staff also determined what procedures Treasury was currently performing to address the issues. Staff requested the Board's feedback by each issue presented in the staff paper.

Issue #1 Core Entities--Consolidation of Different Fiscal Year Ends

Staff explained Treasury staff identified three entities that are currently consolidated in the CFR that have a different fiscal year end: Farm Credit System Insurance Corporation; Federal Deposit Insurance Corporation; and the National Credit Union Administration. For Closing Package purposes, Treasury asks them to provide 12-month balances and amounts as of September 30. Treasury does not require them to provide full scope audited data as of September 30, but does request some audit assurance on material line items. Staff noted that Treasury Financial Manual I TFM 2-4700, Agency Reporting Requirement for the Financial Report of the United States Government, Section 4705.25—Special Basis of Accounting addresses the different fiscal year issue.

Therefore staff proposed language that would in essence maintain the status quo while supporting Treasury's efforts to prepare the CFR. Staff's proposed wording for the ED was to include "Amounts consolidated for core entities should be based on a common reporting period."

Mr. Jackson asked how FASAB could require a common reporting period when in fact many of those may be statutorily required. He asked if we were suggesting that we might for example; require some entities to prepare financials for a statutorily required year end then also for a 9/30 year end. Staff explained the draft language is for the government-wide, so it would be applicable to Treasury as the preparer of the government-wide report. Staff explained this recommendation is for core entities and presently there are three significant core entities that are on a different year end. Mr. Jackson clarified that this issue was specific to core entities and staff confirmed that fact. Mr. Jackson noted he originally did not see this issue was strictly for core entities, but now understands that (versus for non-core entities.)

Staff explained that as noted in the analysis Treasury does have procedures in place. The TFM requests 12 month balances and one would expect auditors review quarterly data for core entities. Therefore the staff recommendation was viewed as maintaining the status quo while further supporting Treasury efforts at the government-wide and it doesn't affect what is being done at the component level.

Ms. Bond suggested that she interpreted the recommendation to mean that the three entities would have to change their year end. Staff clarified that was not the intent, the language is contained in standards applicable to the government-wide entity to be explicit regarding the common year end. Staff explained one alternative considered was that we could be silent on the issue but staff believed it would be an opportunity to support Treasury consolidation efforts. Ms. Bond asked what the value would be in supporting the status quo.

Staff explained that we are aware there are at least three core entities on a different year end that are consolidated and the issue has been brought up that it appeared it should be addressed in the standard; even if that is giving support to the current way it is handled. Further, it appeared in the past Treasury wanted language such as this in the standard to be able to point to a requirement and gain help from the affected entities.

Mr. Dacey explained this reflects the current intention to get 12 months of data for these entities. It isn't changing the year end for these entities, it is getting a special purpose report on the 9/30 information. Mr. Dacey explained they are working through this at FDIC because GAO is the auditor for FDIC. Mr. Dacey explained there are some logistical issues because it would require management to perhaps have a more rigorous 9/30 review. The issue now is to get audit assurance on that information. Mr. Schumacher asked to confirm that presently 12 month data is used but it is currently not audited. Mr. Dacey confirmed but stated the move would be to a special purpose audit report on the 12 month set of statements. He explained there is more flexibility with FDIC since GAO audits it and can determine the appropriate materiality level for the consolidated. He noted the main concern is it will require the entities to have a harder close at 9/30 than in the past.

Mr. Allen asked Mr. Reger what value he saw in two options – a common year end and use of the 12 month period that ends within the government's fiscal year end. Mr. Reger said in either case the auditor needs assurance that nothing significant occurred during the period between the earlier year end and the common year end. In either case, there is audit work to be done. The difference is the need for balance testing at the September 30 date. Mr. Showalter indicated that the added work to establish assurance over the common year end balances is not as great as a full audit.

Mr. Reger expressed the view that the three federal agencies could work together to resolve this and the standard need not be explicit regarding the common year end.

After a brief discussion, the Board agreed with the alternative mentioned by staff and that it should remain silent on the issue.

Issue # 2 Core Entities--Consolidation of FASB Based Information

Staff explained there are core entities that presently and obviously will continue applying FASB GAAP in the future because it may be more appropriate to their objectives and operations. Staff explained these federal entities would be permitted to do so, but the standard ought to address how the consolidation should be handled. Staff noted examples of core entities that apply FASB include U.S. Government Printing Office (GPO), Pension Benefit Guaranty Corporation (PBGC), Federal Deposit Insurance Corporation (FDIC), United States Postal Service (USPS), Tennessee Valley Authority, and the U.S. House of Representatives.

Staff explained based on discussion with Treasury, it handles the consolidation of FASB statements with the same guidance noted in the issue above--specifically Treasury Financial Manual TFM 2-4700, Section 4705.25.

Staff also explained there were three options presented in the analysis based on much research that was performed in the FASB Reporting by Federal Entities project. Staff also noted the options and recommendations were based on the assumption the Board is comfortable with including two sources of GAAP in the CFR.

Staff explained staff's recommendation was Option 1- Conversion to FASAB through Audited Note Reconciliation. Staff noted this option would allow entities currently following FASB GAAP to continue to do so but require that they present in their individual financial statements an audited note reconciliation of the differences between FASB GAAP and FASAB GAAP that would support the numbers submitted to Treasury for the CFR. Staff explained this option requires no change to the entity-level presentation other than the addition of an audited reconciliation footnote. Staff noted in summary this option changes current practice only by requiring (1) component entities applying FASB GAAP to provide a disclosure of any material differences between FASB and FASAB amounts and (2) the CFR to disclose the use of reconciliation for any material amounts.

Mr. Schumacher asked what Treasury currently gets from the FASB based preparers. He asked if they currently receive reconciliations. Mr. Reger explained that they currently get the numbers but not reconciliation. Mr. Dacey explained a request for reconciliation has been made but it has not been provided. Mr. Jackson recognized that there may be a compliance issue.

Ms. Bond noted the current policy or practice is that a reconciliation should be done.

Mr. Granof suggested that in previously addressing the issue of different fiscal years, the Board decided there wasn't a problem. Similarly, therefore, as long as the Treasury is able to get what it needs, the different GAAPs should also not be a problem. Chairman Allen agreed and stated if it doesn't matter which you report on, then why require a reconciliation. If it does matter, then why wouldn't we state which standards a particular agency ought to use. Mr. Jackson explained the second question is not on the table for this particular project. Chairman Allen agreed with that point. Mr. Jackson explained if it is material the first question may matter.

Ms. Bond noted concern with the third staff recommendation related to this issue to require component entities to disclose a reconciliation of FASB and FASAB based amounts. She explained this was problematic—not only misleading but it could potentially lead to litigation.

Ms. Payne noted one benefit of maintaining the status quo is that it allows the central agencies to work through the TFM and audit process as well as focus needs on the material items. This is something that FASAB has difficulty in doing; we can't require a component entity to give us a disclosure only if it is material to the CFR. Therefore, the current process has an added benefit that may not be highlighted that the central agencies can pick and choose who has to do this.

LUNCH BREAK

Staff continued to put this issue in perspective with the earlier agenda item discussion of the FASB Reporting by Federal Entities project by noting there are core entities applying FASB GAAP that will be consolidated and that should be addressed within the standard. Staff stated that is why this issue is being brought up here—strictly as it relates to the consolidation of entities. Staff explained as noted before lunch, Treasury references the same TFM guidance for consolidation of FASB statements. Staff explained there are more entities that fall into this type of scenario when compared to the different year end. Therefore it is being handled but staff wonders if it is being adequately addressed and proposed that it be addressed at the standard level. Based on previous input and requests from Treasury, staff believed that requiring something at the standard level would be beneficial. Staff doesn't believe it would require a huge change in practice but it would require some changes.

Mr. Reger stated that staff provided a good synopsis and a lot of this issue is covered by the TFM but it just isn't being very effective at this point. If we can get the information, then it isn't a problem. He also added the issue of whether an entity is part of the federal entity is the more critical issue. He believes the information will follow once that decision is made.

Chairman Allen explained his thoughts are similar to what was previously discussed in the year end consolidation discussion. The issue of how to accomplish these tasks is up to management but if there is a problem that needs to addressed in the standard, then we can. If the Board agrees they can use FASB, then why should we require reconciliations and explanations of differences? If the Board has a problem with FASB based information in situations then we need to state that.

Mr. Showalter explained he viewed this as important because in some situations there may be two different sets of numbers (stand alone financials and what gets consolidated) so it might be important to disclose that fact and the explanation as to why they are different. For example, things that are listed on separate line items. If there are two sets of numbers for the same entity you might want people to understand why they are different.

Mr. Jackson understood Mr. Showalter's point but stated it didn't give him huge concern for there to be different sets of numbers for certain line items or accounts in these situations because the Board has agreed it is okay to use FASB GAAP in certain situations. For example, in situations with inventory and credit reform there may be valuation basis issues. Our standards state it is permitted to use FASB based methods. He explained there are a couple ways to deal with this—there could be a line item (such as Inventory) and in that footnote explain how it is accounted for differently between different types of entities—such as XYZ entities use accounting principles promulgated by the FASB and accordingly account for the inventory in this manner. This would be a relatively good approach for the government-wide without changing the face of the financial statements. There wouldn't be a need to get into disclosures of reconciliations and so forth. Mr. Jackson explained if an entity is using FASB GAAP, here it is detailed in the note. Mr. Steinberg explained to build on what Mr. Jackson said, loan receivables are reported on two different bases depending on when they were entered into—those after 1991 are present value, those before are different measurement.

Mr. Showalter asked if Treasury needed the reconciliation. Mr. Reger stated that there have been some long standing issues and comments by the auditor. Mr. Reger explained that Treasury is attempting to move from the disclaimer and trying to turn our attention to these other things. He added that though not significant enough to cause a disclaimer alone but they need to be addressed and this happens to be one of those issues. Mr. Reger explained it has been an issue, and it needs attention but it might be accomplished by what Mr. Jackson suggested by simply incorporating the explanation within the note so the reader understands where a different basis might have been used in consolidating the statements.

Chairman Allen asked Mr. Reger to clarify that wasn't Treasury's ultimate goal to get adjusted numbers so that all the numbers are on the same basis? Mr. Reger suggested that should be a question for the Board, does the Board believe all the numbers need to be on the same basis? Mr. Schumacher explained if the Board did, then we would be requiring two sets of books.

Mr. Jackson explained that the Board has stated that FASB GAAP is okay, so unless the Board has changed that position, there isn't a major issue to address. Instead, allow the entities to submit FASB based data and Treasury can deal with it in a note disclosure as suggested by disclosing there are different bases included in that amount. The differences wouldn't be disclosed; the valuation methods or different basis would be disclosed. He explained the component entities really wouldn't have to do anything because they would have the appropriate accounting disclosures regarding their inventory in their financial statements and that would be sufficient, so Treasury would just have to describe that in the consolidated.

Mr. Schumacher asked if the auditor would have to determine if the difference between FASB and FASAB GAAP is material. Mr. Jackson explained no because both numbers are still in accordance with GAAP because FASAB has stated FASB GAAP is okay. Consolidating FASB GAAP and FASAB GAAP would be acceptable. Mr. Dacey agreed and explained another example would be equity securities where there would be a mixture of bases but you would disclose which are on FASAB versus FASB basis and describe the measurement basis.

Mr. Granof explained there doesn't seem to be an issue if it is handled in this manner, so he questions if it is something that needs to be addressed at the standard level. Ms. Bond agreed.

Mr. Dacey stated the key is to ensure the reader is adequately informed. The Board agreed. The Board agreed that a reconciliation wasn't required to be performed by the component units and the component units would continue to prepare their statements in accordance with their basis of accounting. The only distinction that must be made is for accounts or line items that might be measured differently.

Mr. Jackson noted the problem is the fact that some comply with the requirements and some don't and that poses a problem for Treasury.

Chairman Allen explained he believes it is up to the preparer and the auditor to determine what is fair presentation and how one gets to that. Mr. Reger explained that is what they are trying to get to because there is an audit finding now. He added if FASAB states it is okay to use FASB then Treasury can move forward with that and it should eliminate the finding because in the past Treasury had requested FASAB based information.

Mr. Dacey explained the users of the component unit financial statements may require FASB based information. Does that same logic apply at the government-wide? Mr. Dacey suggested that perhaps there needs to be something in the standard to clarify this point.

Mr. Jackson stated he believed the GAAP hierarchy took care of this issue since the Board has already said it was okay to use FASB. Therefore, when one consolidates the financial statements for the government as a whole, one would expect there to be a consolidation of both. Ms. Payne explained that each component applies the GAAP hierarchy individually. Mr. Jackson explained then perhaps this is a SFFAS 32 issue one that is specific to the CFR.

Ms. Payne noted there was consensus among the Board and suggested that staff draft options for the Board for the next meeting along the lines of where it appears and how it is worded. Ms. Payne explained there were at least 6 members that were comfortable with the component level reports being FASB GAAP, as well as with the consolidated government-wide statement including both FASB and FASAB based information as long as the disclosure breaks out the numbers where there may a material difference based on the methods used or policies or where there might be a material difference but it does not reconcile the differences or show the differences between the two GAAP based amounts. No numbers would change in preparing the consolidated government-wide and we need to find a place in the standard to state this is acceptable.

Ms. Bond explained she was trying to see the difference between this and the issue this morning where the Board agreed to be silent on the issue. Ms. Payne explained there is a change in practice because the Board would state Treasury could combine the two different based amounts. As of now, Treasury has been requesting FASAB based information where there is a material difference.

Mr. Jackson stated what the Board is comfortable with is that when Treasury receives the upstream reporting some of it may be in accordance with FASB and some in accordance with FASAB. Treasury can consolidate both of those and for particular line items detail the two amounts that are on the different basis of accounting. For example, inventory would show an amount that is per FASB and describe methods used and an amount per FASAB and methods used. There wouldn't be a reconciliation, there wouldn't be an issue with two amounts presented in their statements versus the consolidated statement.

Mr. Jackson explained because there has been history on this issue and there is a change in what has been required he believes it would require some authoritative groundwork.

Chairman Allen explained perhaps it is something that could be worked out between the preparer and the auditor in determining which is preferred. Perhaps there is a preferred method and FASAB amounts might be appropriate in situations. Mr. Jackson took exception to that statement. Mr. Jackson explained when you allow the component to choose whether they convert the FASB based information to FASAB then there might be an issue because consolidation is more a process of summation and elimination.

Chairman Allen explained he believed he thought it could be appropriate for a component to need to prepare financials in accordance with FASB for their purposes but perhaps it doesn't make sense to do so for the government-wide. Mr. Jackson explained he didn't see what the purpose would be in doing the extra work to convert the information because most of these FASB based entities have been receiving clean opinions for quite some time. He added it did not have any decisional value to convert everything to FASAB for the purposes of consolidating the information.

Mr. Jackson explained he believes the proposal discussed would require the least effort but still accomplish the consolidation requirements.

Chairman Allen asked Mr. Dacey for his views and if he believed something needed to be addressed in the standard. Mr. Dacey explained that he believes the standard should address the issue and he would have concern if the standard was silent because it needs to be addressed at the government-wide level. As of now, we know it is okay for the components to prepare FASB based statements but we haven't stated that it is okay for Treasury to consolidate those numbers in the government-wide. Otherwise, Treasury is locked into following FASAB GAAP which means they might interpret that to convert the information for consolidation.

Ms. Bond stated she supports streamlining things and if a statement needs to be included in the standard to accomplish that is fine.

Mr. Showalter explained if the flexibility is left there like Chairman Allen had suggested, then differences should be disclosed. Chairman Allen questioned if it would be appropriate to say it is wrong if Treasury wants to convert an entity to FASAB?

Ms. Bond asked if the Board would be overriding the TFM. Mr. Reger explained the TFM could be re-issued. Mr. Dacey explained the TFM should support GAAP, not the other way around. Ms. Bond explained she understood that, she wanted to ask Mr. Reger if he supported the fact that Treasury would lose some flexibility that it has right now and she wanted to make sure they are comfortable with how things would change. Mr. Reger stated he was comfortable with the change based on the Board's decision that FASAB and FASB can be consolidated.

Mr. Dacey added that the Board has stated that FASB is appropriate for certain component entities and this is just carrying it forward.

Chairman Allen confirmed it was the GAAP hierarchy decision that drove this decision. He confirmed with the Board members there were no concerns with the recommended approach. Chairman Allen explained that the Board should at least raise this issue during due process and explain this will be the affect of this change. Mr. Reger agreed and stated it would be the basis they are required to use in the consolidation; entities won't have the choice of which basis to use. Mr. Reger explained it only applies to the consolidation and that is why it is the entity standard. Mr. Jackson agreed. Ms. Payne explained staff would come up with language to capture what the Board had agreed to and the best location and keep it as simple as possible.

<u>Issue # 3 Non-Core Entities— Non-core Disclosures, especially those that may relate to different year ends and the auditor's responsibility for information that is disclosed entities audited by others</u>

Staff explained the Board tentatively agreed at the April meeting that while the same year end is encouraged for non-core entities, it was agreed that a non-core year ending within the fiscal year of the core entity is acceptable for disclosing information in the notes. Based on the feedback there didn't appear to be other major issues that might arise considering the materiality and the fact these are disclosures. However, due to the fact there could be a large time lag, there should be a provision for disclosing significant changes in information (whether financial condition or other information) occurring from the audited financial statements to the reporting entity's fiscal year end. Therefore, staff explained the proposed the following language included "information included for non-core accountable entities should be for the year ended within the core government entity's year end, while being timely and accurate" and "any significant changes in information occurring from the non-core entity's financial statement date to the core government entity's year end should be disclosed."

Mr. Dacey explained if an entity is required to present summarized financial statements or summarized financial information that is when this provision comes into play. Otherwise normal transactions would be captured throughout the year so this is a very narrow focus.

Chairman Allen asked if any Board members objected to the proposed language. Mr. Dacey explained he had concern with the potential audit cost if the audit has to assume responsibility for summary financial information. He added he didn't think it should dictate what the Board does, but it should be a consideration. He suggested another option could be a reference to where the financial information could be located or obtained.

Mr. Showalter noted the level of audit responsibility depends on how that reference is made and whether the standard requires just a reference or specific information to be included in the referenced document.

Staff noted this is the last issue that is presented for discussion in the memo and we could discuss it now. Chairman Allen asked Mr. Dacey with the exception of this issue if he was okay with the proposed language. Mr. Dacey said he agreed, but he is concerned with summary information and audit cost but we can talk about that in the next issue. He added another option would be take make summarized information RSI.

Staff explained similar to Mr. Dacey's point and suggestion, a respondent recommended the option to refer to non-core entities' financial statements in the Government-wide disclosures. Staff explained the respondent believed this should be the same case for certain non-core entities, or at least an option for consideration in certain situations. Staff notes this would be somewhat similar in principal to SFFAS 32, *Consolidated Financial Report of the United States Government Requirements: Implementing Statement of Federal Financial Accounting Concepts 4 "Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government,"* that allows Treasury to simply refer to agencies' financial statements for certain disclosures rather than reporting the information in the consolidated financial report (CFR).

Staff notes that SFFAS 32 reliance on the reference to the component reports is that the information is clearly audited and based on the same reporting model. A disclosure referring to a non-core entity financial statement could not be construed to have the same meaning. Staff explained a question for the Board to consider is whether a reference to a non-core entity financial statement—would such a reference be considered an adequate substitution for full disclosure or one that would meet the disclosure requirements set forth in the proposed statement? Staff explained the proposed statement provides flexibility and factors that help to determine the extent of appropriate disclosures. Additionally, the proposed statement provides flexibility in what should be presented, not only in the type of required information but also in that the disclosures may be met through existing requirements.

Staff explained that while a voluntary reference should be permitted (that is, not prohibited); staff didn't recommend that it be a substitute for the disclosure presented in the Draft ED.

Mr. Showalter explained this could be very tricky, especially in the electronic world because it could open the report up to a lot of information with just one reference and link. The wording of the reference could be very tricky as to what was incorporated.

Mr. Dacey explained based on the nature of the disclosure requirements he doesn't believe a reference is a substitution for the general information one would expect to find in the notes. His concern is presentation of summary financial information or results of operation information.

Ms. Bond explained that a reference appeared adequate and she agreed with Mr. Dacey that it is not a substitution.

Chairman Allen agreed with the points brought up by Mr. Dacey because it seems one should be able to use a reference to get to disclosures that are already available and have a brief statement for the general audience.

Chairman Allen explained that we shouldn't preclude the preparer from referencing additional information through a reference in the notes.

Mr. Showalter explained there is certain information that should be in the notes that shouldn't be referenced, so it must be carefully worded. Mr. Jackson stated we don't have to tell the preparer what they can't do; we just have to tell them what they have to do or what is required.

Staff summarized that the Board agreed the reference should be allowed but staff should work on the wording of par. 69 and specifically the required disclosures. Staff noted this is somewhat different then having a reference that is a substitution so staff will bring back the revised language for par. 69.

Mr. Jackson added he wouldn't state that something could be allowed by reference as entities have flexibility in doing things like that. FASAB's job or the standard should state what is required.

Mr. Jackson referenced par. 69. In reviewing par. 69 which states:

> Information that would provide an understanding of the potential financial impact, including financial-related exposures to potential gain and risk of loss to the government-wide reporting entity resulting from the entity. Examples of information that may provide the necessary understanding include:

a. Summary financial statements, condensed financial information for the entity (e.g. assets, liabilities, fund balances, total expenditures and sources of revenues), or key indicators. For example, if the federal government's risk of exposure is significant, then a set of summary financial statements may be appropriate, whereas if the exposures are limited then key indicators of financial impacts with selected financial info (net position and net results) might be appropriate.
b. key terms of contractual agreements regarding financial impacts (including those terms of the arrangements to provide financial support and liquidity, including events or circumstances that could expose the federal government to a loss)
c. the nature of, and changes in, the risks associated with the control or involvement with the entity such as changes in bond ratings, publicly traded share prices, or other indicators of financial health or changes in financial health
d. key statutory or other legal authorities relating to financial impacts

Mr. Jackson noted that when you have a requirement like summary financial statements in a disclosure requirement, that puts a huge cost and burden on the auditor.

Staff noted that the actual requirement in par. 69 is the first three lines; the remainder is examples of information. Staff explained summary statements and condensed financial information are simply examples, not requirements.

Ms. Payne asked if the example of the summary financial statements should be removed. That is, perhaps the reference to the financial statements was preferred as an example or if a reference should be added to the list of examples so that both appear as examples.

Mr. Showalter suggested the first question for the Board to consider is whether it is appropriate for non-core entities to disclose summary financial statements. It appears up to this point the Board agreed it was an example or possibility.

Mr. Jackson explained we may be in a situation where an entity could meet a requirement by either presenting summary financial information or it could refer to the financial information in another report. He asked if the reference would impose a responsibility on the auditor. Mr. Showalter explained it depends on how it was worded, he would need to make sure they were available, but it depends on how it was worded or whether it was required.

Mr. Dacey explained it might be a situation where it is a substitute for disclosure. Mr. Jackson agreed and stated we must be careful what we prescribe in the disclosure requirements.

Mr. Dacey explained he didn't have any major concerns with par. 69 disclosures and liked how it was permissive but he feared preparers may feel compelled to put some of this information in the notes that is listed as examples or that it is required. Mr. Dacey explained that it isn't required so that is why he is comfortable with it, but as long as it is clear.

Mr. Jackson explained he would be comfortable with a reference to the financial information when that information isn't required because it wouldn't make an audit issue.

Mr. Dacey stated he would support the reference to the financial information as an example of an option. Mr. Reger supported that idea. The Board agreed paragraph 69a should be changed to say a reference to or include a reference to the financial information or summary financial information. Ms. Payne suggested staff would craft language for the Board's consideration.

CONCLUSION: Staff will incorporate the revisions and suggestions agreed to by the Board into the related party language. The Board will determine at a later date—after the remaining portions of the standards are completed-- if the related party issue will be addressed in the entity project. There wasn't full agreement on that at this meeting.

The Board agreed to the following regarding the consolidation issues:

- remain silent regarding the consolidation of core entities with different fiscal year-ends
- consolidation of FASB and FASAB based information is acceptable in the government-wide statements. Line items would reference disclosure that breaks out the numbers where there are material differences based on the methods used or policies. However, the disclosure would not reconcile the differences or show the differences between the two GAAP based amounts. No numbers would change in preparing the consolidated government-wide statements.
- approved the wording for the basis of accounting for non-core entities. However the Board requested staff revisit the wording of the required disclosures for non-core entities. (See action item related to this issue.)

For the next meeting, Staff will

- develop revised language for the consolidation of FASB statements
- revisit the required disclosure for non-core entities, specifically craft language that incorporates a reference to the financial information as an example
- review ED for consistency in language regarding how we describe non-core entities, such as interventions, included in the government-wide report versus those consolidated as core entities

- **Federal Entity - Illustrations**

Ms. Loughan introduced the discussion by noting that staff developed a draft illustration guide with example entities. The draft guide was intended to demonstrate how the proposed standard would be applied and, for two of the example entities, the draft guide

included different scenarios to illustrate how a change in circumstances can lead to a different outcome.
Ms. Payne acknowledged Mr. Simms assistance in drafting the illustrations and noted that his feedback led to improvements in the draft ED as well.

Board members agreed with the decisions illustrated in the draft guide and discussed the following enhancements:

- Ensure that illustrations do not present actual entities. Members expressed concern that some preparers would apply the illustration guide literally.
- For each example, the analysis should be brief. Members suggested using a table to present the analysis for each example entity.

Members also provided editorial comments to facilitate the guide's readability.

Conclusion: Staff will provide the Board with a revised draft illustration guide for consideration during the August 2011 meeting.

- **Deferred Maintenance**

The ballot draft exposure draft was approved before the meeting began and this topic was not discussed at the meeting.

- **Asset Impairment**

Mr. Savini reminded the Board that at the April meeting staff promised to deliver a preliminary draft ED on asset impairment. The preliminary draft ED was based on subgroup and task force analyses that resulted in a recommendation for the board to accept as much of the GASB 42 impairment standard as a baseline and consider proposed modifications. Mr. Savini then proceeded to page four of the transmittal memo where he began addressing each of the four questions regarding modifications.

Concerning question one, the definition of impairment, staff explained that the task force has taken the position that losses or declines in service utility should be considered temporary unless management intends not to restore the lost service utility (refer to paragraph 15b). That is, for accounting purposes, impairment only arises when management will not restore lost service utility. Impairments will arise when they are permanent in nature. Another distinction between the task force's recommendation and the GASB 42 definition is the concept of unexpected.

Mr. Jackson inquired about the distinction between expected versus unexpected.

Staff explained that the task force believes that unlike the GASB approach, not all impairments are in fact unexpected. Impairments can be expected such as obsolescence and technological changes which in fact are known at the time of acquisition. However, due to the inability to predict when they are going to occur, adjustments to an asset's depreciation method or useful life estimate cannot be taken.

Mr. Jackson noted that he was still not convinced that the modification would need to be made to the existing GASB language.

Staff noted that in the case of obsolescence or technological changes, if the definition includes the requirement that impairment must be unexpected then by virtue of that requirement, obsolete or technologically changed items expected to occur cannot be impaired.

Mr. Steinberg entered an example of a printer that has a ten-year useful life. Due to known obsolescence or technological change an entity may use a five-year useful life estimate instead. However, if in three years a new printer is introduced rendering the purchased printer obsolete, the entity may decide to keep the printer in service, not to further adjust the useful life estimate, or recognize impairment.

Mr. Granof asked if the proposed definition would consider damaged assets to be impaired assets.

Staff replied that first we would have to determine if there was a significant or material amount of lost service utility as result of the damage. Then the second part of the definition would require that the lost utility would need to be permanent, meaning that management has made a decision not to restore the lost service utility. Management's decision would in essence recognize that they could live with the reduced capacity of the asset and the corresponding lost service utility would be deemed permanent and recognized for impairment purposes.

Mr. Granof then asked if there could be a clarification between restoration and permanent loss. If an entity restores an asset, then it is obviously not a permanent loss. However, can we distinguish between an ordinary repair and an impairment? In other words, when will an entity need to follow this draft guidance as opposed to just repairing an asset? For example, what happens if a roof is damaged or blown away in a storm?

Mr. Allen replied that the difference is really between the remaining service utility and the value of the asset. The restoration cost approach is simply a methodology one follows to estimate the lost service utility.

Staff went on to explain that the methodologies listed are not to reflect that an actual repair of the asset has taken place but rather to reflect the measurement of the lost utility and that it would take management to decide whether to "repair or impair" the asset. In the roof example, if management decides not to repair the roof then that would lead to an asset impairment situation and application of one of the five proposed methods.

Continuing with his example, Mr. Granof stated that if management decides not to repair the roof, then the restoration approach is not really relevant. However, it would be relevant if insurance is considered. For example, if there is a repair there is no gain or loss. However, under the restoration approach, we are treating the situation as two separate transactions.

Ms. Payne replied that she did not believe there would be two separate transactions.

She clarified that the restoration approach provides a basis for putting a dollar value on the damage. The accountants would use what it would cost to repair/restore the asset in the calculation to adjust the asset's historical cost.

Mr. Allen then noted that the only time an impairment would be recognized in this roof example is if management makes a determination not to repair the damaged half roof and decides that the other half of the building is fine. In such cases, an entity would use one of these proposed approaches to write the asset down to what it would have cost us in then-year dollars to build the half of the building that we are in fact now able to use. In addition, insurance recoveries are discussed in the draft ED at paragraph 20.

Mr. Granof noted that Mr. Allen's explanation implies that there would be no restoration of the roof. Therefore, the moment management decides to make a repair there is no impairment recognition.

Mr. Allen agreed stating that in such a case where an entity does not restore the roof there is an impairment to recognize; conversely, if the roof is restored or repaired there is no impairment. An entity will not need to use this standard unless it has made a decision not to restore the lost service utility of the asset.

Mr. Steinberg stated that another way to look at this situation is that an impairment temporary decline in lost service utility exists but management decides to expend resources to make the repair restore the lost service utility.

Ms. Payne suggested that incorporation of a flowchart might assist readers.

Mr. Jackson concurred with Ms. Payne's recommendation.

Mr. Reger stated that the question really is whether or not the lost service utility is permanent. If it is not permanent there is no impairment.

Ms. Payne summarized the discussion by stating that if there is an event that does physical damage to an asset then the goal is to book an expense, loss or a debit on the statement of net cost. One way would be to estimate the amount of historical cost that has been lost using one of the proposed five methods. The other way is if the asset is in fact repaired, the debit would be to the repair costs associated with restoring the lost service utility.

In agreeing with Ms. Payne, Mr. Jackson noted that there could be instances of double counting. For example, if half of a building has been destroyed by fire and no impairment loss is recognized and then a later rebuild capitalized costs is performed, costs have been counted twice. To avoid this problem an entity would have to recognize the impairment loss.

Mr. Allen then clarified Mr. Jackson's example by noting that if that was the case (that a building would be rebuilt), there would not be an impairment loss recognition because the restoration would create a temporary decline and loss of this utility.

Mr. Jackson agreed with Mr. Allen that this would not be an impairment situation requiring use of this standard. Notwithstanding the fact that this situation would not be covered by this standard, the guidance in this draft ED regarding the impairment loss calculation could be beneficial in estimating the amount of the loss or debit caused by the fire.

Mr. Allen noted that in the GASB 42 standard included as Attachment 2, there is a mold example that differentiates between the amount of the impairment loss to be recognized versus the recapitalized costs. The example shows both an improvement being made as well as an impairment recognition.

Mr. Dacey believed that Mr. Jackson's example was a separate issue because one would have to determine whether the incurred costs were repairs or betterments. However, in any event that situation would not be considered an impairment because the lost service utility was not permanent.

Mr. Granof referred to an example within the GASB 42 standard that includes an insurance recovery that results in a gain. This is an area that he does not feel comfortable with because the repaired asset was revalued to a new carrying value and that is why he objected to that portion of the standard GASB 42.

Mr. Dacey then asked that we revisit the third criteria, "often unexpected" in the proposed definition. Whether or not a potential impairment event is expected, seems irrelevant. The expectation of a potential impairment event does not seem to drive the decision regarding whether or not an asset should be impaired. Mr. Dacey would prefer retaining this as an explanation of the standard as opposed to a criterion and suggested deleting this notion from the definition.

Staff noted that the task force considered eliminating references to the expected or unexpected nature of potential indicators from the definition because the two primary considerations for asset impairment should be whether or not the impairment is both permanent and significant. However, the notion of "unexpected" was modified and retained because the task force wanted to stay as close to the GASB definition as possible.

Both Mr. Jackson and Ms. Bond concurred with Mr. Dacey's recommendation.

Mr. Steinberg addressed paragraph 8 on page 11. Beginning on line 7 where we discuss "decline", he noted that decline infers a gradual loss. However, in the event of damage such as that brought about by a hurricane, the loss in service utility is instant.

He proposed adding additional wording such as “cessation” or “discontinuation” something that would describe a sudden loss to the service utility as opposed to a gradual loss.

Mr. Dacey suggested that we could have something that would read “gradual or sudden decline.”

Mr. Allen then asked the board to address whether or not an impairment standard for Federal PP&E would in fact be beneficial. Is the proposed draft consistent with the board’s expectations? If so, we then need to discuss whether or not we would like to have illustrations accompany the standard.

Mr. Jackson noted that illustrations would be required to explain the proposed concepts proposed five methodologies.

Noting no additional comments or objections, Mr. Allen then concluded that the board believed it was headed in the right direction regarding the issue of impairment. However, Mr. Allen noted that the board’s intent was for the community to adopt the proposed standard only for significant events material to the financial statements. The intent at GASB was for the application of asset impairment to be for very rare events.

Responding to Mr. Allen’s comments, Mr. Jackson referred Mr. Allen to page 12 of the draft ED, paragraph 12 beginning with line 21 that clearly says that events or circumstances that may indicate impairment generally are expected to have prompted discussion by oversight agencies, senior management, or the media. Hopefully, this would preclude such things as printers from been considered for impairment. What concerns Mr. Jackson is the language on line 20 which refers to “normal operations” surveying for impairment. When both of these sentences are considered together it could be interpreted to mean something different than what the board intends.

Mr. Allen responded that this was GASB’s attempt to elevate impairments to the point where if for example, the media was not covering a potential impairment event, management should not be concerned with it either. Turning to staff, Mr. Allen asked that we insure to get that message across.

Mr. Jackson then asked members to look at the phrase “routinely evaluate” found at paragraph 14 on page, 12 line 35. This seems to contradict paragraph 12. The term “routinely” infers that there’s a business process, which although very well may be the case, creates an expectation that management should have set processes in place. We need to focus the standard for example, on F/A 18’s or B-52 bombers as opposed to say, rifles.

Mr. Reger then noted that we do not want the standard to impede progress already being made at DOD. For example, we do not intend that every tank be evaluated for impairment. We need to inform preparers that this impairment standard is at a very, very high level.

Staff then proceeded to the second question regarding the methods described and whether or not the ED should include examples or illustrations. Staff briefly reviewed Paragraph 16 noting that there were two differences that needed to be discussed. The first major difference in our proposed standard is to distinguish among the different asset categories. For example, an appraiser on the task force recommended that we specify differences between the replacement cost approach versus the restoration cost approach. In his opinion, the restoration cost approach should be limited to multi-use heritage assets and the replacement cost approach should be used for the more general PP&E type of assets. What may appear as a subtle difference or splitting of hairs amounts to what the appraiser says could be a material impact in the measurement of lost service utility. The second difference is the inclusion of the (FASB 144) undiscounted cash flow approach for cash or revenue generating assets.

Mr. Jackson then asked for clarification regarding the restoration and replacement cost approaches. Concurrently with Mr. Jackson's inquiry, members asked why the dollars would be different.

Staff replied that although the methods or mathematical formula would be the same under either approach, the respective dollar amounts would be different. Staff provided an illustration of a wall requiring repair. For example, if the wall were in a 300 year old building the wall repair would be priced significantly different than a wall repair in a more modern building because the restoration would require different techniques, methods and materials that would affect pricing.

Mr. Granof then stated that the difference was in the choice of numbers between the two methods.

Mr. Jackson reiterated that illustrations needed to be included with each of these approaches. The board needs to show how the approach will be executed in practice. The undiscounted cash flow approach concerns him. He is not sure if agencies operating in a proprietary manner are even of the mindset to consider such a financial approach in the measurement of impairment. He is unsure if they would be able to identify the impact of cash flows either at an individual asset level or at another level. An illustration here is particularly important. Mr. Jackson reminded members that he has been on record as saying that he's unsure if FASB standards could work in the Federal environment.

Ms. Bond asked if there could be confusion if an asset fell in between two categories. For example, if the building is damaged one could say that the replacement costs approach should be used. However, upon considering environmental factors application to the service units approach might also be appropriate, how would an agency determine which method to use?

Staff replied that GASB 42 steers people into specific methods or approaches to be used depending upon the indicators of impairment. Staff proposes taking a softer approach leaving it up to management and providing guidance in the basis for conclusions. The appraiser on the task force took exception to the service units approach considering it to be an inferior approach to the others. However, we decided to keep it in because the functional community, including the DOD equipment representative believed that this would be a suitable method to measure impairment especially for equipment. Staff believes that it could develop guidance within the basis for conclusion to help guide practitioners deal with Ms. Bond's question.

Mr. Granof indicated that this seemed to be the same approach that the GASB took; virtually the same types of illustrations.

Staff asked if the board wanted to be as prescriptive as GASB in directing users to a method.

Mr. Granof suggested that we provide guidance that would allow an agency to see which method would be most appropriate given the circumstances exactly as the way the GASB document was written.

Addressing Ms. Bond's inquiry, staff then asked what advice we would give to an agency where they had a choice among methods.

Mr. Allen then suggested that the advice would be to use the most efficient and practical method available to the agency.

Mr. Showalter suggested that the agency use its judgment in that regard.

Ms. Bond noted that when there is overlap there will be ambiguity. She prefers leaving things flexible for the agency to decide.

Mr. Allen advised staff that we could adopt wording such as when "certain circumstances arise an agency would generally use the following method."

Mr. Jackson noted that staff has basically drafted language that sets Mr. Allen's suggestion in motion on pages 14 and 15. Each of the approaches begins with a sentence that lays out the circumstances for when they are used.

Ms. Bond responding to Mr. Jackson replied that his observation was partly true because in most cases, the replacement cost approach would be used. Overlap is fine; however she agrees with Mr. Allen that an agency should select the most efficient method available as opposed to having the task force deliberate this issue.

Mr. Jackson concurred with Ms. Bond.

Mr. Allen then inquired about the third full paragraph on page five of the transmittal memo where we discuss the replacement of a wing inclusive of the potential service upgrades. The upgrade represents a new capitalized asset and should not be a factor when calculating an impairment loss.

Staff concurred with Mr. Allen's observation noting that this problem of including upgrades can apply to any of the methods listed.

Mr. Allen stated that for practical matters, if the asset was going to be repaired it probably would be improved.

Ms. Bond asked if staff was trying to clarify that the agency would not have to change the standard e.g., construction, design, etc. by which the asset was originally built?

Staff replied in the negative to Ms. Bond stating that the point it was attempting to make was for estimation purposes in order to be more precise, any improvements or betterments would be excluded from the numerator and denominator of the ratio we use to calculate the lost service utility. This first came to light during our research in our working group where we evaluated different impairment examples IPSASB and GASB. In fact, Ms. Kearney helped us isolate the problem in one of the examples. Staff believes that if the board decides to retain the replacement cost approach this can be an easy fix by stating that under whatever method is used upgrades or betterments should not be included in the numerator or denominator of the ratio calculation. In this way, we will make it clear that it is the lost service utility which is being replaced and not any utility arising from an improvement of betterment.

Mr. Jackson concurred with Mr. Savini noting that his only problem was with the execution. If we were to repair a building that was damaged we would in essence have no impairment. As this pertains to the methods we are discussing, this needs to be made clear in the standard or basis for conclusions. Measurements will be difficult because enhancements or efficiencies on replaced portions of equipment for example, HVAC systems, have occurred since they were first originally installed.

Mr. Showalter asked if the board wanted to include in the standard that future methods which might be acceptable should also be considered in addition to the 5 listed in the proposed draft ED. The way the standard is written now we are limiting agencies to the five methods.

Mr. Jackson stated that the board could have a provision allowing for other acceptable methods.

Mr. Granof replied to Messrs. Showalter and Jackson by saying that in so doing, the standard provides unlimited flexibility to the agencies.

Mr. Showalter stated that criteria could be added to the standard that would preclude such an unlimited application of methods. The problem becomes if a new method is developed and it's not in our standard we will have to an issue an amendment.

Mr. Reger asked if there are other methods adopted by the IPSASB or GASB.

Mr. Allen replied that standard-setters have suggested that these are the normal types of methods used.

Ms. Bond reiterated Mr. Showalter's concern that the board should address whether it wishes to confine agencies to these methods or allow for other methods.

Mr. Showalter indicated that the leading sentences to each of these methods begin with "should." He is unsure if these five methods represent the complete universe of methods or if there are others which may be available for use.

Mr. Allen suggested that the leading sentence could be changed to say "any acceptable method" and then list the five as some of the acceptable methods available to agencies.

Concerning Mr. Showalter's suggestion, Mr. Reger noted that the board would need to define what an acceptable method is.

Ms. Payne noted that the GASB standard is explicit in its listing of the methods; "the methods for measuring impairment are…." One of the trends in standard standing is to articulate the objective and as such, we could structure our standard to specifically state the objective is to get the appropriate (i.e., lost service utility) historical cost off of the balance sheet and record the loss. In this way, we can leave the methods as alternatives for agencies to follow.

Mr. Showalter stated that we could consider any methodology prescribed by some credible body.

Mr. Jackson stated that he does not see any harm in having an additional "other acceptable practices" paragraph as long as these practices are recognized by some credible body.

Mr. Allen asked staff if the use of a bridge were changed; (e.g., after September 2001 trucks were prohibited from traveling on Hoover Dam) would those types of impairments be considered?

Staff noted that such impairments would be considered "change in use."

Mr. Steinberg noted that the bridge situation would lend itself to a service units approach application.

Mr. Schumacher indicated that if it was a toll bridge the undiscounted cash flow approach could be used.

Ms. Payne discussed paragraphs 16a and 16b (i.e., replacement and restoration cost approaches) and how the terms are problematic because they do not align well with FASAB's measurement attributes (Concepts 7). Changing the names or title is an option but then we would be describing them differently than GASB.

Mr. Jackson asked why there would be a need to change the names.

Ms. Payne explained that the names do not align with the measurement attributes in our concepts statement. For example, the restoration approach should be re-titled to replacement and the replacement cost approach would have to be re-titled to something else. Doing this would put us out of synchronization with the state and local terms but in synchronization with our own measurement attributes.

Mr. Schumacher suggested that we take footnote 9 on page 14 and place that up into the text and state that “the replacement cost approach is also known as plant replacement value.”

Ms. Payne and Mr. Allen agreed that Mr. Showalter’s suggestion would solve the problem.

Mr. Allen then turned to question number three in the transmittal memo regarding the issue of whether or not impairment losses should be reversed. The staff proposal is to be consistent with the international standard and not GASB in this regard.

Staff explained that the subgroup which initially met believed that reversal of impairment losses should be allowed for Federal PP&E. However, there is a minority view on the task force that believes this draft standard should not entertain reversals because SFFAS 6 covers those cases where an entity later decides to restore or replace lost service utility after taking an impairment loss; that is, via the capitalization of such repair or restoration costs.

Mr. Allen provided an illustration of a school that due to changing demographics might in effect result in an impairment loss but then several years later be reopened. The GASB standard would keep the lower carrying value on the balance sheet whereas the international standard and GASB dissent would allow for the reversal.

Ms. Bond was curious concerning the minority view and stated that it seemed to make sense to keep this as easy and clean as possible.

Staff noted that the minority view suggests that by capitalizing the subsequent repair or restoration effort, the costs will be matched appropriately to future benefiting periods and that there would be no need to reverse the original entry. From a pure accounting point of view this might not be correct, but from a practical point of view the minority view believes that it is workable.

Mr. Jackson inquired as to why not just consider it to be a non-permanent situation.

Mr. Allen replied by saying that is the dilemma. The draft standard currently requires those types of situations (where management decides not to restore the lost service utility) to be considered permanent losses. By not writing the asset down, management then considers it to be temporary. The accounting and financial reporting concern is what is that cost in providing the service. This is the driving factor.

Mr. Jackson stated that although he agrees with the concept of service costs, allowing for reversals creates a dilemma that could be avoided. The benefit does not seem to justify the cost.

Mr. Allen stated that the best example is that of a military base that was closed and then subsequently reopened. The question then becomes do we want to have a value on this or not.

Mr. Schumacher clarified the example by stating that the reason we would write the cost back up is in order to calculate the cost of operations.

Mr. Granof believes there is no conflict between the practical or pure approaches. We are not asking for additional information because this isn't data which would be used to support either of the journal entries. Therefore, if there is no practical problem, why not go with the theoretical answer and allow for reversals?

Ms. Bond was concerned that there could be unforeseen burdens allowing for reversals.

Mr. Showalter noted that the probability of this occurring is probably very remote and although the international convergence seems to be adopting this restoring reversal approach, he would be in favor of the more practical solution.

Mr. Allen stated that this (no restoring/reversal) is the conservatism principal at work in accounting that says you recognize losses but not gains.

Mr. Khan, representing Mr. Dacey, noted that if you're going to allow for reversals you would have to identify triggering events and thresholds and whether or not full or partial reversals would be in order. If these are not defined the amount of reversal will be volatile.

Mr. Jackson also noted that records and personnel familiar with the asset (e.g., records retention) may not be available. This then would require the use of an appraiser.

Mr. Reger stated that allowing for reversals seems to be overly complex. An agency would not have recognized a permanent impairment loss if it did not believe it would not be able to restore the lost service utility. However, if events later change and the asset is placed back into service, the costs incurred to place it back into service will become the new basis.

Mr. Allen noted that Mr. Reger's explanation is a very practical approach.

Ms. Bond concurred with the reasonableness of Mr. Reger's explanation noting that these will be very rare occurrences and that there would be no need for complexity and that the integrity of the asset's value is maintained.

Mr. Granof disagreed noting that the value of the asset is not maintained. For example, if the asset is written to a low carrying value, there is reduced or no depreciation being charged. Therefore, an agency would be understating the cost of services significantly.

After various member cross-discussion concerning Mr. Granof's observation, Mr. Showalter stated that at the end of the day more than likely the amounts in question would be immaterial.

Mr. Allen polled the members and determined that the majority would not support reversals. In conclusion, the Chairman asked that any other comments or suggestions should be provided to staff.

CONCLUSIONS: Staff will develop illustrations and revise the exposure draft for the following decisions:

1. "often unexpected" will not be included in the definition
2. the objective of applying the various methods of estimating impairment will be stated and flexibility regarding choice of methods and use of new methods will be provided
3. a flow chart will be included
4. reversal of prior impairment losses will not be permitted

- **Technical Release – Removal from Service**

Monica Valentine, staff member, first summarized for the Board the purpose of proposed Technical Release (TR) 14, *Implementation Guidance on the Accounting for the Disposal of General Property, Plant, & Equipment.* Ms. Valentine explained that the purpose of the TR is to addresses important implementation questions related to the accounting treatment for the disposal, retirement, or removal from service of general property, plant, and equipment as well as related cleanup costs as outlined in SFFAS 6. The implementation guidance specifically provides guidance to differentiate between permanent and temporary removal from service of G-PP&E assets (SFFAS 6 paragraphs 38 and 39). The implementation guidance also delineates events that trigger discontinuation of depreciation and removal of G-PP&E from accounting records. The proposed TR has gone through a lengthy review process by the AAPC, the FASAB staff, and the AAPC G-PP&E task force. The review process included a 90-day exposure draft comment period.

The objective for the Board discussion was to review a comment letter received from KPMG on the TR during the comment period. KPMG questioned the ED's introduction of the terms "temporary" and "permanent." They questioned whether the introduction of these terms would cause the technical release's Level C guidance to override the Level A guidance outlined in SFFAS 6. Ms. Valentine noted that Mr. Showalter and Mr. Steinberg both provided comments to staff prior to the meeting. Staff responded to the members with a further explanation of staff's position.

Staff's position on the KPMG letter is that we disagree with KPMG's assessment that this Level C guidance is establishing new accounting guidance and terminology not addressed in Level A guidance (SFFAS 6). Staff also disagree that the technical release contradicts in any way SFFAS 6. The objective of the technical release is to provide clarity to SFFAS 6 paragraphs 38 and 39. In those paragraphs the standards address the accounting for the "permanent" disposal of G-PP&E [i.e., 1.) management's decision to remove G-PP&E from service and the actual removal of G-PP&E from service; and 2) the final disposition (destroy, sell, disassemble, etc.) of the G-PP&E]. However, SFFAS 6 is not clear that the intent of that accounting is to address "permanent" disposal. Due to the lack of clarity in SFFAS 6, there is confusion in the community as to the "true" intent of SFFAS 6. The technical release does not specify any accounting transactions for management’s decisions and/or actions prior to “permanent” disposal, which we are calling “temporary” removal. The terms “permanent” and “temporary” simply describe the various stages of the disposal process. The technical release reiterates the guidance in SFFAS 6, explains the intent of the SFFAS 6 guidance, and then provides implementation guidance on how to identify possible circumstances prior to “permanent” disposal, as well as factors that help identify when disposal could be deemed “permanent” vs. “temporary.”

Mr. Jackson stated that, from his read of the standard, the guidance in SFFAS 6 paragraph 38 was clear that it relates to permanent removal and that temporary removal is not addressed in SFFAS 6. Mr. Showalter noted that he had spoken with the KPMG partner who had written the letter and that she was very passionate about her beliefs and that he agreed with her assessment. Other Board members did not see a problem with the use of the word “temporary”, however suggested changing “temporary” to “not permanent” or “not yet permanent”, or “other than permanent.” Two members also suggested clarifying the two tables in Appendix B.

Next Steps

Staff will make the wording changes throughout the draft TR and the necessary clarifications to the two tables in Appendix B. Proposed Technical Release 14 is expected to be balloted by the AAPC at its next meeting in July. Once the TR is approved by the AAPC it will be sent back to the FASAB for a 45-day review period to gain negative assurance from a majority of the Board.

- **Steering Committee Meeting**

The Steering Committee discussed the budget and requested more detail regarding staff assignments in the coming years.

Adjournment

The Board meeting adjourned at 4:30 PM.