FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
February 25-26, 2009
Room 7C13
441 G Street NW
Washington, DC 20548

Wednesday, February 25, 2009

Administrative Matters

- **Attendance**

The following members were present throughout the meeting: Chairman Allen, Messrs. Farrell, Jackson, Patton, Schumacher, Steinberg, and Ms. Fleetwood. Mr. Torregrosa represented the Congressional Budget Office throughout the meeting. Mr. Dacey attended the meeting via teleconference on February 26th from 8 AM until approximately 2 PM. Ms. Franzel represented the Government Accountability Office during Mr. Dacey's absence. Mr. Werfel was present during the meeting with the exception of an absence on February 25th from 8 AM until 10:30 AM and mid-day on the 26th. Ms. Kearney represented the Office of Management and Budget during his absence. The executive director, Ms. Payne, and general counsel, Mr. Dymond, were also present throughout the meeting.

- **Approval of Minutes**

The minutes were approved electronically in advance of the meeting.

Agenda Topics

- **GAAP Hierarchy**

Overview

Members discussed comments received in response to the exposure draft (ED), *The Hierarchy of Generally Accepted Accounting Principles for Federal Entities, Including the Application of Standards Issued by the Financial Accounting Standards Board*. The ED included proposals to: (1) incorporate the hierarchy of generally accepted accounting principles (GAAP) into the FASAB's authoritative literature; (2) clarify GAAP for those federal entities that are currently applying financial accounting and reporting standards issued by the Financial Accounting Standards Board (FASB); and (3) clarify that a federal entity that is preparing GAAP-based financial statements for the first time is required to implement FASAB standards unless the entity clearly demonstrates that the needs of its primary users would be best met through the application of FASB standards. Respondents generally agreed with the proposals in the ED and the Board agreed that a public hearing would not be conducted.

Also, the Board discussed concerns that staff should address while developing the final standard. Those concerns included (1) clarifying the location of administrative directives from organizations such as the Office of Management and Budget (OMB) within the hierarchy; (2) stating the Board's plans for revisiting the source of GAAP issue; (3) discussing the approval process for newly created entities that wish to follow FASB GAAP; and (4) removing discussions that appear to treat the legislative and judicial branch entities different from executive branch entities. Staff will address these issues in a pre-ballot draft for the April 2009 meeting.

Discussion

Staff members Ross Simms and Julia Ranagan presented the results of the ED efforts and Board members discussed concerns regarding the location of administrative directives within the hierarchy. Mr. Steinberg noted that some constituents believed that the OMB financial reporting requirements are GAAP. However, the FASAB establishes GAAP and in Statement of Federal Financial Accounting Concepts 2, Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information, the Board noted that requirements by others are considered other accompanying information (OAI). Mr. Steinberg stated that the final standard should explicitly state that the OMB requirements and requirements of the Department of the Treasury and Congress are not GAAP, but OAI.

Ms. Kearney stated that there is a concern if OMB guidance is specifically excluded from the GAAP hierarchy. She noted that in the past, the OMB has stated that OMB guidance is considered level d (paragraph 5 (d) in the ED). For example, in an instance where the FASAB does not address an issue, the OMB may provide guidance in a circular. The guidance provided in the circular should not be excluded from GAAP recognition. However, Mr. Steinberg noted that if the OMB guidance is presented in level d, preparers would see requirements that they do not have to follow because the FASAB provides guidance. Ms. Franzel noted that they have been interpreting OMB guidance as level d - practices that are widely recognized and prevalent in the federal government. Mr. Allen stated that Mr. Steinberg's point that FASAB sets GAAP is not inconsistent with Ms. Kearney's and Ms. Franzel's point that OMB guidance is considered when FASAB does not address an issue.

Mr. Jackson noted that the standard should characterize the issue properly. Level d would only apply if an issue is not addressed in the higher levels of the hierarchy. Simply because an entity imposes a requirement does not make the requirement subject to the hierarchy. If the OMB prescribes reporting that is already addressed in the hierarchy, it is OAI. Mr. Allen noted that some agencies may be concerned whether the standard moves the OMB guidance out of level d to a lower level and the Board should be sensitive to those concerns.

Next, the Board discussed the issue of revisiting the source of GAAP issue and the approval process for newly created entities that wish to follow FASB GAAP. Mr. Allen stated that he was comfortable with the notion that the Board would not require entities to change existing practices at this time. However, at some point, the Board needs to have a discussion about when we plan to address the issue of entities following FASB GAAP and whether it would be a separate project or part of an existing project. He did not want the issue to go unresolved. Ms. Kearney suggested adding a footnote that the issue would be addressed in another project so that readers understand that a final decision had not been made. In addition, Ms. Franzel stated that a high-level consideration for the follow-on project is that given the interactions between the federal government and the private sector, we probably need to leave some flexibility as well as criteria for using FASB standards. Ms. Ranagan stated that footnote 6 of the ED mentions a separate project, but staff could explicitly state that the Board plans to revisit the source of GAAP issue.

In addition, Mr. Shumacher stated that the final standard could be clearer regarding the process for deciding whether a new entity follows FASAB GAAP or FASB GAAP. For example, is this a decision that is resolved by the entity and its auditors or by the OMB?

The Board also discussed paragraph 13 of the ED which focuses on the judicial and legislative branches. Ms. Franzel noted that paragraph 13 of the ED seems to single out the legislative and judicial branches when they should come under the same consideration as the executive branch. Ms. Fleetwood noted that the distinction was important because the legislative and judicial branches have not followed the same financial reporting requirements as the executive branch but they need to realize that

FASAB GAAP would apply to them as well. Mr. Jackson suggested that, rather than distinguishing the legislative and judicial branches in paragraph 13, insert the following phrase as a footnote to paragraph 4:

> The AICPA has designated the FASAB as the source of GAAP for federal reporting entities. Therefore, FASAB GAAP would be the appropriate accounting standards for entities in the executive, legislative, and judicial branches if they prepare financial statements in accordance with GAAP.

Conclusion: The FASAB will not conduct a public hearing regarding the ED. Also, staff will incorporate Board members' comments into a pre-ballot draft for the April 2009 meeting.

- **Public Hearing**

A separate verbatim transcript is available for the public hearing.

Adjournment

The meeting adjourned for the day at 4:15 PM.

Thursday, February 26, 2009

Agenda Topics

- **Fiscal Sustainability**

Comments on the exposure draft, Reporting Comprehensive Long-Term Projections for the U.S. Government were requested by January 5, 2009, and a public hearing was held on February 25, 2009.

Staff member Eileen Parlow opened the discussion by noting that staff developed issues for the Board's discussion based upon responses to the majority and minority proposals in the ED. Ms. Parlow noted that only issues where there appeared to be significant controversy were include in the issues developed in the staff paper, as follows:

A Areas of Respondents' Disagreement with Board Proposals

A1 Reporting as Required Supplementary Information (RSI) (permanently) may be more appropriate than basic information for the proposed reporting [Question 12c]

A2 Time Horizon for Projections [Question 5]

A3 Review guidance on alternative scenarios for clarity [Question 9]

A4 Clarify that "major programs" are not limited to social insurance programs [Question 7]

A5 Illustrative Disclosure for "Fiscal Gap" (Illustration 8 in Appendix B) is unacceptably confusing [Question 4]

A6 Clarify that Treasury is encouraged to include the FAQs in the CFR [Question 11]

A7 GAO recommended flexibility regarding consistency of economic and demographic assumptions with Social Security and Medicare in the Statement of Social Insurance [Questions 2 & 3]

A8 GAO recommends additional disclosures [Question 3]

B Respondents' Reactions to Minority Board Proposals

B1 Requirements for RSI should address foreign holdings of U.S. Treasury debt [Question 13]

B2 Analysis of potential policy proposals should not be included [Question 14]

B3 Majority of respondents advised against developing reporting requirements relating to inter-generational equity [Question 15]

RSI versus Basic Information

Ms. Parlow said that the Board's proposal in the ED was that the proposed financial statement and disclosures would be RSI starting in FY 2010 for three years, and basic information thereafter. Ms. Parlow also distributed a copy of Table 1, "Factors to Consider in Distinguishing Basic Information" from Statement of Federal Financial Accounting Concepts 6, *Distinguishing Basic Information, RSI and OAI.*

Ms. Parlow noted that the Government Accountability Office (GAO) proposed that several of the disclosure items (items in paragraphs 41(e), 42 (a), 42(b) and 42 (d) of the ED) should remain as RSI. Those paragraph sections are:

[41] Disclosures should include:

[e] an explanation of the significance of the data presented or other information that puts the data into context. Options for context may include but are not limited to:

1. comparison of the data/trend with past U.S. trends and trends in other developed nations,

2. where to find information about outside organizations that use similar data to assess the long-term implications for an entity or sovereign government, for example, the role of rating organizations and/or European Union rules for member nations, and/or

3. information that may be helpful to readers in assessing whether financial burdens without related benefits were passed on by current year taxpayers to future year taxpayers.

[42] Disclosures should explain and illustrate:

[a] the major factors that are expected to have a significant impact upon future receipts and spending. For example, two such factors may be (1) the rising cost of health care and (2) demographic trends. Information about how these factors have changed and are expected to change over time is necessary to assist the reader in understanding the factors that influence fiscal projections. (See Illustrations 1a, 1b, and 2 in Appendix B.)

[b] historical and projected trends for a progression of years beginning at least 20 years before the current year and extending to all projected future years for:

1. historical and projected receipts and spending,

2. historical and projected deficits, and

3. historical and projected Treasury debt as a share of GDP. (See illustrations 3, 4 and 5 in Appendix B.)

[d] the results of alternative scenarios that are consistent with current policy without change. Alternative scenarios are projections in which one or more significant assumptions are varied from the assumptions used in the projections presented in the basic financial statement. The choice of alternative scenarios presented should consider both those that result in larger as well as those that result in smaller net differences between the present value of projected receipts and spending. For each alternative scenario, the net present value of projected receipts, spending, and of the difference between projected spending and receipts should be presented. Projections for individual programs may be presented. (See (a) above.) Projections for alternative scenarios may be displayed in a table format. (See illustration 7 in Appendix B.) The major causes of the differences between the results of the alternative scenarios and the basic financial statement should be disclosed.

In addition, staff recommended that the items required in paragraphs 42(c) - cost of delay – also remain as RSI (see text of 42(c) below) because this requirement is similar to the requirements identified by GAO and would allow the preparer to present all the analytical requirements together in an integrated manner.

[42] Disclosures should explain and illustrate…

(c) if a fiscal gap is indicated by the projections, the likely impact of delaying action. For example, graphics could illustrate the progressive increase in the change that would be needed to close the fiscal gap by (1) reducing non-interest spending or alternatively (2) increasing receipts. (See Illustration 6 in appendix B.)

Ms. Parlow said that there are two parts to this question: whether the phased implementation dates beginning in FY 2010 are reasonable, and whether some or all of the information should remain as RSI. Ms. Parlow noted that regarding the implementation date, the responses were varied, with some respondents recommending an earlier date, others a later date, but a plurality concurring with the Board's proposal.

Mr. Jackson said that he is concerned about commingling RSI with basic information and wondered how the information would be labeled. He said that he had no problem with the staff's recommendation.

Ms. Payne said that in the Statement of Social Insurance (SOSI), the preparer places the RSI separately, in the back of the report. Ms. Parlow noted that this issue would apply to other FASAB standards as well. Mr. Jackson agreed.

Mr. Dacey said that in the SOSI, the preparer took a number of steps to clarify the distinction between RSI and basic information, starting with the Table of Contents shows a separate section for RSI and that every page of the report makes the distinction by putting "unaudited" in the caption.

Ms. Parlow said that when staff made the recommendation to include 42(c) in RSI, staff envisioned a physical separation between the RSI and the basic information.

Mr. Jackson said that he has no problem with that, but that at some juncture the Board should consider this issue in a general way.

Mr. Patton asked what level of resolution the Board was striving for at this meeting for staff questions. He said that while he agreed with Mr. Jackson's basic point, he thinks that the proposed information is innovative but experimental, and is not sure that the government knows how to do it very well yet. He said that he is concerned about the default being that the information would become basic. He proposed that the Board should require the information as RSI and then review the results at a later date to consider whether it should become basic information.

Mr. Allen said that the challenge becomes the standard that you set. He said that in practice, requirements for RSI are sometimes given little attention because compliance with requirements for RSI does not impact the audit opinion. He said that the intention for this to become basic information should be communicated sooner rather than later.

Mr. Steinberg said that the Board has previously discussed the fact that if the Board issued a standard requiring RSI and then decides it should become basic information, it would have to re-expose the entire standard, but on the other hand if the Board puts in a timetable and then decides that the timetable needs to be extended, only the timetable would need to be subject to due process.

Ms. Payne confirmed that this is correct. She also noted that past experience had shown that any necessary auditing standard revisions would not be developed until there is a requirement for the information to become basic at some point. She also noted that issuing a standard for RSI and then coming back later to consider making it basic would re-open the entire document for re-consideration, which might be a resource issue for the Board.

Ms. Fleetwood said that this is an important statement and does not have an issue with the timetable.

Ms. Parlow noted that some of the comments indicated some confusion between the nature of projections and predictions. She asked the Board if the standard could include clarifying language based upon GAO's explanation of the distinction. The members had no objections.

Mr. Dacey said although the audit of the SOSI was a challenge, he said that the audit challenges for the fiscal sustainability reporting should be surmountable. He said that he believes that the auditors can work through the distinction that Ms. Parlow mentioned- about what the projections are and aren't- and that three years seems to be reasonable. He said that the deadline would put more rigor and focus into the effort, certainly on the audit side and probably on the preparation side as well.

The members decided not to change the original proposal in the ED: RSI for three years and subsequently basic information. This decision was based on two rounds of voting: first, the members voted on three options: (a) RSI for 3 years and then basic, (b) RSI for 5 years and then basic, and (c) RSI permanently. The second round of voting was on the length of the transition period.

The vote on those options, with Mr. Torregrosa abstaining, was:

(a) Messrs. Schumacher and Steinberg
(b) Ms. Fleetwood, Messrs. Allen, Dacey, Jackson, and Patton
(c) Messrs. Farrell and Werfel

The members then voted on two options: (a) RSI for 3 years and (b) RSI for 5 years. The vote on those options, with Messrs. Farrell and Torregrosa abstaining, was:

(a) Messrs. Allen, Dacey, Schumacher and Steinberg
(b) Ms. Fleetwood, Messrs. Jackson, Patton and Werfel

Since it would have required a majority vote to change the Board's proposal in the ED the result of the voting was that there will be no change in the proposal (RSI for 3 years, then basic).

Mr. Allen asked if the members concurred with the recommendation of GAO and FASAB staff to classify the requirements for paragraphs 41(e), 42 (a), 42(b), 42(c) and 42 (d) as RSI permanently and there were no objections.

Time Horizons for Projections

Ms. Parlow noted that that Board's original proposal in the ED was to allow preparer discretion in selecting a projection period that is "sufficient to illustrate long-term sustainability." She said that this requirement is identical to the requirement for the

Statement of Social Insurance, which is currently prepared for a 75-year projection period. The ED also proposed that if the projection period selected for the basic financial statement is finite, disclosures should display summary totals for an infinite projection period, and if the projection period selected is infinite, disclosures should display summary totals for a finite projection period.

Ms. Parlow said that the Board's original proposal in the ED was designed to keep the time horizon for the proposed basic financial statement in sync with the SOSI. She said that the Board had found the arguments in favor of both basic types of horizon (finite and infinite) sufficiently compelling that the ED proposed reporting at least summary information for both. She said that the Task Force had been divided on which type of time horizon is superior.

One of the members introduced a concern about using present value summary numbers in the primary financial statement. After some discussion, another member asked if the Board could first resolve the issue of time horizon. To ensure that the concerns were addressed, two issues were added for later discussion—format and present value.

Mr. Allen noted that staff identified the issues that received significant disagreement from respondents to the ED. Ms. Parlow noted that the issue of present value summary amounts in the basic financial statement had been approved by the Board in August 2008 and that a majority of respondents had either concurred or not objected to the format of the basic financial statement. She explained that it would not have been possible for staff to develop all issues that were raised by only one or two respondents.

Mr. Steinberg noted that most of the respondents disagreed with the Board's proposal to include both finite and infinite horizon data. Ms. Parlow agreed, and said that several of the respondents suggested a requirement for 75 years. She said that the SOSI is currently prepared with 75-year data but that the requirement is simply "sufficient to illustrate long-term sustainability," which is the same wording that is in the Board's proposal for fiscal sustainability reporting.

Mr. Allen said that he believes that when the Board debated the time horizon, the idea was to be in sync with the SOSI so that if the preparer decided to change the time horizon for the SOSI, the preparer would have the flexibility to prepare the fiscal sustainability reporting financial statement with the same (new) time horizon as the SOSI.

Mr. Jackson said that at the public hearing, Social Security Chief Actuary Stephen Goss had indicated that the 75-year period was in statute, and that this is very significant. Ms. Parlow agreed, but noted that former Board member Robert Reid had stated that some in Treasury were favoring preparing the SOSI with an infinite horizon. She said that SFFAS 17 would allow Treasury to prepare the SOSI with an infinite horizon.

Mr. Dacey said that he is inclined to go with a finite horizon for the primary financial statement but would rather not specify 75 years. Ms. Fleetwood asked how this would interface with Treasury's consolidating data from agencies. Mr. Dacey said that the current model for the preparation of the fiscal sustainability projections would be high-level projections that are not likely to involve agency-level information other than for Social Security and Medicare.

Ms. Parlow said what she was hearing is that the Board was considering changing the original proposal in paragraph 34(a) to one where the basic financial statement would be required to present data for a finite horizon. Mr. Dacey agreed, and added that there should also be a requirement to discuss (in either notes or RSI) what is projected to happen beyond the end of the projection period. The latter requirement could be met by a narrative discussing trends, by infinite horizon data or by something else.

Mr. Werfel said that since this reporting is new territory, he would prefer that both paths for the basic financial statement should remain open as provided in the Board's original proposal.

The Board decided to change the time horizon requirement in paragraph 34(a) of the ED to require a finite projection period sufficient to illustrate long-term sustainability with a requirement to discuss in RSI the implications of the sustainability information after the finite period ends. This requirement could be met with infinite horizon projections or a narrative. Voting in favor of this proposal were: Ms. Fleetwood and Messrs. Allen, Farrell, Jackson, Patton, Schumacher and Steinberg. Mr. Werfel indicated that he prefers not to change the original proposal, which allowed either finite or infinite in the basic information. Mr. Dacey indicated that he could go either way; Mr. Torregrosa abstained.

Alternative Scenario Information

Ms. Parlow said that the public comments indicated some disagreement or possible confusion about the nature of alternative scenario information. She said that paragraph 42(d) in the ED requires higher and lower results that remain consistent with current policy without change. Some respondents indicated that this would be too much information. She said that the Board's proposal balanced simplicity with technical rigor by presenting point estimates in the basic financial statement and range information in the disclosures.

Mr. Jackson noted that paragraph 42(d) will now be permanently RSI.

Mr. Dacey said he believes that the requirement in paragraph 42(d) is important to illustrate uncertainty. Ms. Fleetwood said that she believes that the wording in the ED is acceptable. Ms. Payne noted that there can also be a range of data for policy assumptions even where policy assumptions are consistent with "current policy without change."

Mr. Steinberg proposed that the reference to assumptions in paragraph 42(d) should be explicitly limited to economic and demographic assumptions. Messrs. Patton, Schumacher and Steinberg voted "yes," and Messrs. Allen, Dacey, Farrell, Jackson, and Werfel, and Ms. Fleetwood voted "no." Mr. Torregrosa abstained.

Mr. Allen proposed that staff should re-work the language in paragraph 42(d) to make it more generic and less prescriptive, but to retain the detailed illustration in Appendix B. For example, the following sentence would be deleted: "For each alternative scenario, the net present value of projected receipts, spending, and of the difference between projected spending and receipts should be presented." Mr. Torregrosa abstained and all other members voted in support of this proposal.

Major Programs

The Board's proposal in the ED used the term "major programs" to allow the preparer flexibility regarding disaggregation. The illustration in Appendix B only disaggregated Medicare, Medicaid and Social Security. Many respondents interpreted the illustration as implying that social insurance programs are the only major programs of the federal government. Ms. Parlow recommended that the illustrative financial statement in Appendix B be edited to add lines for "Major Program A" and "Major Program B" to clarify. The Board agreed with this recommendation by unanimous voice vote.

Fiscal Gap

Ms. Parlow noted that nearly every respondent who addressed the question indicated that illustrations 8a and 8b of fiscal gap were not clear or understandable, and that even several Board members had indicated doubts about the clarity of the illustrations.

Mr. Patton suggested that the entire requirement relating to fiscal gap in paragraph 38 should be deleted, because despite a sincere effort over a number of months, the Board is unable to come up with a coherent and understandable way to report fiscal gap.

Mr. Dacey said that fiscal gap is a commonly-used measure. He said that there is a note immediately below the illustrative financial statement in Appendix B that effectively describes fiscal gap – without using the phrase "fiscal gap" - and that he was unaware of any complaints about it from respondents.

Ms. Parlow noted that the difficulty in drafting a requirement for fiscal gap is that fiscal gap relates to a specific debt-to-GDP level. However, in the U.S. there is no legislated target level of debt to GDP, and the Board has no basis for establishing a target level of debt to GDP.

Mr. Patton proposed to delete illustrations 8a and 8b from Appendix B and to revise paragraph 38 to include only a broad requirement for fiscal gap, for example: "Fiscal gap information should be provided, either on the face of the financial statement or in the disclosures." All members concurred with the proposal; Mr. Torregrosa abstained.

FAQs

Ms. Parlow said that the FAQs were popular with the respondents and they found them helpful. There was some disagreement as to whether the FAQs should be included in the CFR.

Ms. Fleetwood said that she was agreeable to having the FAQs as part of the SFFAS, but not being required in the CFR because the CFR is currently already 188 pages long, and the FAQs might be better placed elsewhere.

Mr. Patton proposed that the final SFFAS should make it clear that the FAQs are "FASAB's FAQs and not Treasury's FAQs," and there were no objections.

GAO Recommendation on Assumptions

Ms. Parlow said that GAO made an observation that the economic and demographic assumptions used in the preparation of the SOSI for Social Security were not always exactly identical to those used for Medicare. This makes the requirement in paragraph 31 of the ED problematic. Paragraph 31 requires that "the same economic and demographic assumptions should be used for the basic financial statement for Fiscal Sustainability Reporting and for Social Security and Medicare in the SOSI." GAO noted that this requirement would be impossible to follow when there are differences between the assumptions used for both programs and suggested that the requirement should be more flexible.

Ms. Parlow said that based upon GAO's recommendation, staff recommends that paragraph 31 should be revised (see below) and that a disclosure requirement be added as new sub-paragraph 41(d):

> [31, revised language in bold] The same economic and demographic assumptions generally should be used for the basic financial statement for Fiscal Sustainability Reporting and for Social Security and Medicare in the Statement of Social Insurance, although exceptions may be necessary (see paragraph 41(d)).

Proposed new sub-paragraph 41(d):

> [41] Disclosures should include:
>
> new sub-paragraph [d]:
>
> Any significant differences in economic or demographic assumptions from those used in the preparation of the Statement of Social Insurance (SOSI). In addition, a reference to the note presenting the assumptions used in the preparation of the SOSI should be included.

Mr. Patton said that he was concerned that the proposed language sounded open-ended. He said that the example provided- when there were differences between the assumptions used for Social Security and Medicare- would be reasonable, but the suggested language would be too flexible.

Ms. Parlow asked if Mr. Patton would prefer to have the exception limited to a situation where the assumptions within the SOSI are not consistent.

Mr. Patton agreed that it should be at least an example, if not the definition of what the exception should be.

Mr. Dacey said that he was not comfortable with that proposal. He said that a comment letter from Sam Gutterman (comment letter #22) also noted this issue. Mr. Dacey said that such a situation should be rare, and mentioned discount rate as a possible example of an inconsistent economic assumption.

Mr. Farrell asked if the GAO's language, "For example, an appropriate unified discount rate for all projected receipts and spending in the Statement of Fiscal Sustainability may differ from either the Social Security or Medicare discount rates," could be used to describe the exception, instead of the broader "although exceptions may be necessary."

The Board concurred that staff should work with GAO to finalize new language for paragraph 31 that would be more specific about what exceptions were being referred to.

Additional Disclosures Recommended by GAO

Mr. Dacey said that GAO's recommendation was to add a requirement for a short description of the funding mechanism for Social Security and Medicare Part A versus general funding.

Ms. Parlow said that staff is neutral on this requirement because other respondents had indicated that there was already too much information being required.

Ms. Fleetwood asked exactly what GAO was recommending being added. Mr. Dacey said that what was being recommended could be covered in a couple of sentences.

Ms. Parlow said that if this is what GAO wants to recommend, then the names of the programs should be explicitly named in the standard. She explained that in the implementation of the principle-based Earmarked Funds standard (SFFAS 27), a huge number of funds were found to meet the definition of earmarked funds, even though the Board's intent was focused on Social Security and Medicare. Accordingly, she recommended that the programs intended should be named.

Mr. Werfel asked if there is a similar disclosure in the SOSI, and if so what would be the value of also doing that in the fiscal sustainability reporting.

Ms. Fleetwood said that there is a great deal of information in the SOSI, and that the SOSI is also part of the CFR.

Mr. Werfel said that there first needs to be some research: if it is in the SOSI, then it would be redundant here, but if it is not in the SOSI, he would want the preparer to have the flexibility of attaching it either in the SOSI or in this reporting.

Mr. Allen said that this issue could be discussed at the next Board meeting. Mr. Dacey suggested that the requirement could be placed in paragraph 41(e) as an example of an optional illustration of how to put the information into context.

Foreign Holdings of U.S. Treasury Debt

Ms. Parlow noted that a majority of the respondents addressing this issue believe that information about foreign holdings of U.S. Treasury debt should be required as RSI. However, she noted that GAO had argued that there were significant reliability/audit issues for this data. She noted that there were strong arguments on both sides of this issue, and that the pros and cons were discussed in the Board's briefing materials.

Mr. Allen asked the Board members representing the preparer and the auditor of the CFR to express their views.

Ms. Fleetwood said that she did some additional research on this issue to determine if relatively reliable/auditable information is available. She said that some data is available at the point of auction, but there were two problems: the country was not always obvious by the name of the buyer, and also once you get past the point of sale, there can be additional transactions that result in resale to an unknown buyer. Accordingly, the source for the information is the surveys, which present audit issues. She said that the information is "very, very useful" and we ought to put something out there, but the problem is getting reliable/auditable information that could be included in the CFR. She asked if there is a category where it could be placed somewhere in the fiscal sustainability reporting without being audited because it's useful information.

Mr. Dacey said that the information is not auditable. He said that at a recent conference, questions were raised regarding the risk involved in finding willing buyers for U.S. Treasury securities. He asked if there could be a discussion of the risk involved with these holdings without requiring reporting foreign holdings.

Mr. Werfel said that he is not convinced that there is a legitimate and valid connection between information about foreign holdings of U. S. Treasury debt and the federal government's fiscal sustainability. He said that he could support this reporting if it were part of a separate project, for example on government transparency.

Mr. Steinberg said that this information is even more important than it was back in August 2008 when the Board approved including this issue in the ED. He said that this issue is something that is currently in the media and that the public is concerned about. He said that in terms of being auditable, it was never suggested that this information be audited, but rather that it be placed in RSI.

Mr. Farrell said that if foreign holdings of U.S. Treasury debt are in fact a risk element, then there is already a requirement to discuss it in the MD&A, so there is no need to include it in the fiscal sustainability reporting requirements.

Mr. Allen noted that the Board is currently reviewing the MD&A requirements and that it might be discussed in that context.

Mr. Werfel said that he does not agree with a pre-supposition that foreign holdings of U.S. Treasury debt are in fact a risk element; he is concerned that this would constitute the Board endorsing the idea that foreign holding of U.S. Treasury debt should be considered a risk factor.

Mr. Allen said that the comment letters, as well as the questions from the audience at a recent conference presentation indicated a strong public interest in this topic. He said that he could concur with a proposal to include it in RSI but that he was also sensitive to Mr. Werfel's concerns.

A majority of the Board decided not to include a requirement to require information about foreign holdings of U.S. Treasury debt in RSI. Messrs. Dacey, Farrell, Jackson, Patton, and Werfel voted not to require information on foreign holdings of U.S. Treasury debt. Ms. Fleetwood and Messrs. Allen, Schumacher and Steinberg voted to require such information. Mr. Torregrosa abstained. Several members (Messrs. Allen, Dacey, and Farrell), indicated that this issue should be discussed in the context of re-examining the requirements for the MD&A.

Alternative Policy Proposals

Ms. Parlow said that a minority of members had proposed a requirement that RSI (not subject to the phased-in implementation in paragraph 44) should include the identification, explanation, and fiscal impact of one or more policy alternatives that would reduce the fiscal gap. She said that a majority of respondents disagreed with this proposal.

Mr. Farrell mentioned that one of the speakers at the public hearing, David Walker (comment letter #10), mentioned foregone taxes as a type of expense item or policy alternative. However, he mentioned that he recently learned that the U.S. Budget contains coverage of foregone revenues and was wondering if there would be a place in fiscal sustainability reporting for such coverage.

Ms. Parlow noted that the Board's proposal contains flexibilities, and also noted that the examples of options for projecting revenue included utilizing the overall percentage of GDP (which, as noted during the public hearing, has historically been around 18.5% of GDP) rather than selecting various tax options to project and then adding them all up. She noted that the latter method would involve not only a decision to project a given tax cut, but also to project whether a corresponding increase would occur to offset the tax cut and maintain federal revenues at the average historical average percentage of GDP.

Mr. Farrell said that he is opposed to having anything in the standard that would suggest that FASAB is proposing policy.

Ms. Payne said that one challenge in trying to report on tax expenditures is that you would need to start by determining what a "normal" tax would be. She also showed on the screen the extensive list of tax expenditures found in the President's Budget each year.

Mr. Farrell said that he will table the suggestion, but wanted to mention that he found the topic interesting.

Mr. Steinberg said that OMB does prepare the table of tax expenditures shown, but it does not total the table because so many of the items overlap and/or offset each other.

Mr. Allen asked if any of the members wanted to speak in support of the proposal to require alternative policy proposals, and none of the members did so.

Inter-generational equity

Mr. Allen said that he believes that this would be a very important project for the future and asked staff if there were any plans for a future project in this area.

Ms. Payne said that the issue of inter-generation equity may arise in other projects, such as deferred maintenance and natural resources. She said that there is a body of information available in the economic field regarding overall measures of equity (e.g., relative tax burdens) and said that if the next time the Board considers projects, that such a project could be on the list of potential projects.

Format of basic financial statement

Mr. Jackson asked if the format of the basic financial statement is as reader-friendly as it could be. He suggested that it is beyond comprehension due to the focus on trillions of dollars. He suggested that looking at things in natural cohorts, 10 years, 20 years, enables you to say here's the position, here's where we see the program being in 2010, here's where the program would be in 2020, 2040 or whatever, and people can see that as a percentage of GDP. This may make it more tangible; otherwise, I think we are producing financial statements that are not tangible to the reader.

Ms. Fleetwood noted that page 57of the actual ED shows you what the expenses are going to be over time compared to total revenues. Page 58, illustration 4, gives you a simpler chart. These are all good charts but are not something to be done instead of the basic financial statement. The benefit of the basic financial statement is that it pulls it into that present value.

Mr. Jackson suggested trying to present the illustrations referenced in comparative to see if there was a dramatic change between years or maybe a change in conditions that cause the amounts to change. He simply wishes to make the total package user-friendly as suggested by Mr. Goss during the hearing.

Mr. Steinberg supported Mr. Jackson saying that he wrote down what Mr. Goss said:

- it must be simple in terms of what we're trying to sustain,
- talk about 75 years is not where we want to be,
- rather show expenditures for what American people want the government to do, that is, take care of the elderly, take care of the sick,
- show it as a percentage of GDP, and
- feature 10-year periods.

- do we have enough income to pay for these?

Ms. Fleetwood generally agreed but noted that people need to understand the present value issues in order to understand that the issue is today. They need something to let them know that there's a problem today and the financial statement serves that purpose.

Mr. Jackson conceded that present value was necessary but indicated a desire to see some alternative presentations along the line of those suggested by Mr. Goss.

After some discussion of various features of the entire reporting package, Mr. Allen noted that Board had spent a year getting input from experts, including experts in the field of communication, and that the proposed package is what the Board came up with. However, he indicated that staff would explore options and work with Mr. Goss (who committed the previous day to offer some specific examples consistent with his remarks).

Title of Basic Financial Statement

In response to a question, Ms. Parlow said that the title of the basic financial statement in the Board's proposal was "Long-Term Projections for the U.S. Government" and that a majority of respondents concurred with that title.

> **Conclusions:** Staff will add language adapted from GAO's explanatory language about the distinction between projections and predictions.
>
> The requirements in paragraphs 41(e), 42 (a), 42(b), 42(c) and 42 (d) of the ED will remain as RSI permanently.
>
> The time horizon requirement in paragraph 34(a) of the ED will be changed to require a finite projection period sufficient to illustrate long-term sustainability for the basic financial statement, with an additional requirement to discuss in RSI the implications of the sustainability information after the finite period ends. This requirement could be met with infinite horizon projections.
>
> Staff should re-work the language in paragraph 42(d) to make it less prescriptive, but to retain the detailed illustration in Appendix B.
>
> The illustrative financial statement in Appendix B should be edited to add lines for "Major Program A" and "Major Program B" to more clearly reflect the reporting requirement regarding disaggregation on the basic financial statement.
>
> Illustrations 8a and 8b will be deleted from Appendix B and staff will re-draft paragraph 38 towards a broader requirement that fiscal cap should be explained and disclosed, for example: "Fiscal gap information should be disclosed, either on the face of the financial statement or in the disclosures."

Staff will work with GAO to finalize new language for paragraph 31 (consistency of economic assumptions with the SOSI) that would be more specific about potential exceptions.

Staff will research the SOSI requirements to see if the GAO recommendation for additional disclosure might be redundant to information already required for the SOSI. If the item is not redundant, staff will draft language to include it as an optional illustration of how to put the information into context in paragraph 41(e).

Staff will explore options to enhance the illustrations as well as convey options developed by Mr. Goss for consideration.

Members were asked to contact staff about any concerns that they believe were not resolved at the meeting.

- **Social Insurance**

The objective for the session on social insurance was to review the comments received in response to the exposure draft *Accounting for Social Insurance, Revised*, and consider issues raised by respondents. Mr. Fontenrose began the session by mentioning that the vote tallies from the comments received as of February 18, 2009, although merely "raw" data, indicated three "broad issues" that constitute the respondents' main areas of disagreement with the proposed standard, and with each other. They involve the appropriateness of (1) the closed group measure for social insurance, as a concept, and/or its display on the balance sheet or any basic financial statement or, indeed, anywhere in a financial report; and (2) the note disclosure of the accrued benefit obligation.

Mr. Fontenrose mentioned that the closing date for comments on the social insurance ED had been very recent, and that the staff had accelerated consideration of the social insurance in order to have a joint hearing for both EDs. Thus, a full staff analysis of all the social insurance issues had not been possible. On the other hand, the Board has considered many of the issues and might be ready to make some decisions on that basis. The exposure draft included an extensive basis for conclusions that explores the main issues raised by the respondents.

Balance Sheet Presentation

Mr. Schumacher asked whether any of the respondents had favored disclosing the open group measure on the balance sheet instead of the closed group measure.

Mr. Fontenrose mentioned that Mr. Gokhale had suggested displaying the open group measure along with the closed group measure and there were a few others.

Mr. Allen noted that this session would not analyze comments but respondents had objected to the closed group measure on the balance sheet from both sides of the spectrum. Some objected to the closed group measure in principle while others wanted a liability reported. He mentioned that there had been some interesting ideas regarding presentation. In that regard he noted that the members had received a copy of a table that Treasury used for the FY 2004 consolidated Financial Report (CFS) ["Overall Perspective", page 11, see immediately below].

Overall Perspective
(in billions of dollars)

	2004			2003			
	Balance Sheet	Additional Responsibilities	Combined Amounts	Balance Sheet	Additional Responsibilities	Combined Amounts	$ Change
ASSETS							
Inventory, cash	$ 359	$ -	$ 359	$ 372	$ -	$ 372	$ (14)
Property, plant & equipment	653	-	653	658	-	658	(6)
Loans receivable	221	-	221	221	-	221	(0)
Other	165	-	165	154	-	154	11
Total Assets	$ 1,397	$ -	$ 1,397	$ 1,405	$ -	$ 1,405	$ (8)
LIABILITIES & NET RESPONSIBILITIES							
Social Insurance							
Medicare (Parts A, B, & D) [1]	-	(24,615)	(24,615)	-	(15,006)	(15,006)	(9,609)
Social Security (OASDI)	-	(12,552)	(12,552)	-	(11,742)	(11,742)	(810)
Other (Railroad Retirement)	-	(112)	(112)	-	(110)	(110)	(2)
Subtotal, Social Insurance	-	(37,279)	(37,279)	-	(26,858)	(26,858)	(10,421)
Fed. empl. & veterans pensions/benefits	(4,062)	-	(4,062)	(3,880)	-	(3,880)	(182)
Federal debt held by the public	(4,329)	-	(4,329)	(3,945)	-	(3,945)	(385)
Other liabilities	(716)	-	(716)	(675)	-	(675)	(41)
Other responsibilities	-	(903)	(903)	-	(862)	(862)	(41)
Total Liabilities & Net Responsibilities	$ (9,107)	$ (38,182)	$ (47,289)	$ (8,500)	$ (27,720)	$ (36,220)	$ (11,070)
BALANCE (Total Assets minusTotal Liabilities & Net Responsibilities)	($7,710)	($38,182)	($45,892)	($7,094)	($27,720)	($34,814)	($11,078)

1 Part D's Medicare Prescription Drug & Transitional Assistance Accounts not included in 2003 because both established after fiscal year 2003.
Note: Details may not add to totals due to rounding.

Mr. Allen said this presentation was a potential way to get at what both sides want. He said one side does not want a liability and the other side wants fairly prominent display.

Ms. Fleetwood said she liked that display as well, in concept, and asked whether there was time to get people's reaction to it. She mentioned that it could be re-titled.

Mr. Fontenrose noted that the Board had considered a statement or table of "key measures" in association with the MD&A that he felt was similar to the "Overall Perspectives" table presentation, but that the Board had decided not to require it.

Ms. Fleetwood said she had read the proposal and the comment letters and had heard all the testimony and was uncomfortable with one line on the balance sheet. She said it had no context and did not mean anything to her. She said the Overall Perspectives table put the information in context; it was more meaningful; and it could be at the bottom of the balance sheet or the next document behind the balance sheet or otherwise displayed.

Mr. Allen said the Overall Perspective table could be re-titled and then there would be a meaningful statement of position that would capture assets, liabilities, commitments, etc. He said that would be a less ugly solution than the proposed compromise.

Mr. Patton said it was worth pursuing and questioned how that might be done.

Mr. Allen asked whether there were enough Board members that wanted to ask Mr. Fontenrose to pursue some alternative presentation.

Ms. Franzel said that the GAO was opposed to any kind of line below the balance sheet and that pursuing something else had a tremendous amount of merit. She mentioned taking many of the very good ideas heard yesterday and deciding what to do. She said one concern she had with the Overall Perspectives table was that there was one column called "balance sheet" and everyone has an understanding of what those numbers are and what they mean; and then you have "additional responsibilities," which are presented on a different basis; and then the two are added together. She said economists and statisticians have counseled GAO that you cannot add numbers with different bases. Thus, the issue of adding these items together for a total would have to be considered.

Mr. Allen agreed that would have to be considered; but he noted the Concord Coalition and David Walker and others who say they do not want to see them together, but then add them up. He cited full-page advertisements in newspapers where they are adding them up.

Ms. Kearney said there was a difference between these groups adding them up and the Board directing the preparer to add them up.

Ms. Franzel agreed.

Ms. Fleetwood said you would clearly identify them; for example, identify the second column as projections.

Ms. Kearney said you still run the risk of people taking the projections column for something more than what it is simply by bringing it together and adding it up. She said it could give a confidence level to that projection, something more like a true liability.

Ms. Franzel agreed. She suggested having three separate sections and letting someone else add it up.

Mr. Allen said he thought the Board needed to be sensitive to the benefit of adding the columns up. By adding them up, he said you could have in the summary and MD&A the change between these columns as a key measure. He added that he thought everything would need to be properly titled but that the change in commitments is an important perspective in addition to the cash deficit and the GAAP deficit.

Ms. Fleetwood interjected that the balance sheet could be done the current way and, in addition, there could be a separate table for projections. She said she was bothered by the assertion about not adding up the columns. She said that something like the "net present value of the closed group" that was proposed in the exposure draft would not meaningful; but if it is put in the context of the balance sheet, it would have an impact.

Mr. Jackson mentioned that that was Congressman Cooper's point.

Ms. Fleetwood added that it would not have to be displayed on the actual balance sheet if that is confusing. It could be called something else.

Mr. Allen noted that Congressman Cooper wanted the numbers up front so that readers do not have to search for them.

Ms. Fleetwood said that even if it were the second page, that would be all right. She said the Overall Perspectives table was fairly clear if the columnar headings were corrected. It could be on a second page or at the bottom of the first page.

Ms. Kearney said that the OMB agreed that one line at the bottom of the balance sheet was unacceptable.

Mr. Fontenrose mentioned that the exposure draft's basis for conclusions contained an argument that one line on the balance sheet was the beginning of a conceptual project. Social insurance commitments would be presented on the balance sheet for now and there might be other commitments in the future. However, he added that not many respondents were responsive to that argument, and that an approach like the Overall Perspectives table might be a better way.

Mr. Allen asked if there was any objection to asking Mr. Fontenrose to develop alternative presentations reflecting the Board's comments regarding the Overall Perspectives table.

Mr. Farrell asked where the Overall Perspectives table would be; for example, would it be a separate schedule.

Mr. Allen responded that that would be part of the discussion, for example, is it a separate schedule, does it replace the balance sheet, etc.

Mr. Jackson interjected that more schedules were not needed.

Mr. Allen said the communication issue would be open and that the key question would be how best to communicate. He said that, if the balance sheet was the Overall Perspectives table, properly titled, you would have a lot more people who would focus on the balance sheet.

Mr. Fontenrose noted that the subject of his project was social insurance and something like the Overall Perspectives involves much more than that.

Mr. Jackson added that the Overall Perspectives table was dramatically different than a traditional balance sheet.

Mr. Allen said that the Board had had suggestions as it started the financial reporting project that there should not be a balance sheet, that the Board had had a lot of different proposals, and that the Board needed to be sensitive to Mr. Fontenrose's concern that this is moving potentially beyond social insurance; but he said he saw this as a potential way to do more than move the social insurance ball down the field five more yards and still leave a bunch of discontented people. He added the Board could say it did not and will not deal with the issue of liability; that an Overall Perspectives table gives you the information in a prominent, key place, and is subject to audit – making sure it is properly titled etc. At that point he said the Board could say it was done talking about social insurance.

Mr. Jackson said something like the Overall Perspectives table, changed in its structure somewhat and called a "statement of financial position and social insurance responsibilities," would present a traditional balance sheet with a subset such as Mr. Gokhale mentioned yesterday. Mr. Jackson said Messrs. Gokhale and Congressman Cooper were supporters of something on the balance sheet because that makes the reporting visible and likely to be read. He said that way you are not in the liability business. He said the part at the lower end of the statement of financial position and social responsibilities would tie back to the SOSI and the statement of changes in social insurance.

Mr. Allen interjected that the statements would articulate.

Mr. Jackson continued saying that the statement would have two cohorts: it would have a traditional backward-looking statement and a subset that's forward-looking. He envisioned the statement interacting with the appropriate other statements. He saw the open group measure being displayed and also the closed group measure, if you want to.

Mr. Allen interjected that choosing the open group measure would be less controversial potentially than the closed group measure.

Mr. Jackson continued by agreeing with Mr. Allen on that point and saying that if you want to do something progressive here, if you change the name of the balance sheet, which title he said he did not like anyway, to "statement of financial position and statement of social insurance responsibilities," break the two pieces apart, tie them back to the SOSI.

Mr. Allen said it was interesting that Mr. Jackson said get rid of the balance sheet. He said nobody has [commented on that].

Mr. Jackson interjected that he was just talking about the words “balance sheet.”

Mr. Allen continued that FASB has dealt with not-for-profits about twenty years ago and got rid of the words “balance sheet,” and GASB Statement 34 does not call it a “balance sheet.” The noted that GASB has moved to a statement of position. He said that, in a not-for-profit, government environment, that is a more appropriate heading.

Mr. Jackson said that this approach seemed to be sensitive to a lot of folks’ concern. Mr. Jackson asserted that the Board is not in the liability business. He said, in the alternative, he would come back to the David Walker recommendation (i.e., deferred revenue for the trust fund balance), but he did not want to occupy the floor with it right now.

Mr. Allen suggested at least asking the staff to explore this issue, to consider in the future formats, presentations, location, etc.

Mr. Fontenrose mentioned that the Board has a project called the reporting model project.

Ms. Fleetwood said that if this were put there it would be lost. She asked Mr. Fontenrose whether he was suggesting dealing with it in that project.

Mr. Fontenrose responded that he was.

Ms. Fleetwood said that the social insurance project would be affected since the proposal to have a line item on the bottom of the balance sheet seemed dead in the water.

Mr. Fontenrose responded that that piece could be dropped but that there were other elements of the proposal.

Ms. Kearney said that as she understood what she was hearing today, the new proposal would potentially eliminate the balance sheet.

Ms. Fleetwood responded that it would not do so.

Mr. Allen said the Board was exploring others ways to present information. He said he understood the concern about the scope of individual projects, but said the Board would make progress this way. He noted the public hearing and the feedback received and that there was a desire to see certain information reported but not to commingle different types of things together, commitments and liabilities, etc. He concluded that there is at least the potential to make progress and he wanted to look at that.

Mr. Steinberg said the Board has overlapping projects.

Ms. Kearney said she thought one of the drivers of the reporting model project was to re-evaluate the balance sheet, and if the Board is looking at changing the balance sheet in the social insurance project, that definitely would be overlapping.

Mr. Allen agreed and said perhaps the two projects could run parallel or there could be additional feedback; but the proposal to add a line to the balance sheet arguably was an overlap.

Ms. Kearney said that the new proposal was much more than a line on the balance sheet. She said changes like this should be handled in the reporting model project.

Mr. Jackson said that if you wanted to hold off on this novel and interesting approach, you can certainly, within the context of the current balance sheet, recognize the amount held by the Social Security Trust Fund – $4 trillion give or take – within the context of the current model. He said you could recognize deferred revenue and bump the cumulative net position of the federal government by a like amount, as the former Comptroller General recommended yesterday. .

Mr. Allen offered that any subject can overlap another project. He said the Board doesn't have unique boxes of information.

Mr. Jackson said the Board keeps pushing this job down the road, which he did not think was responsible behavior. He mentioned that Congressman Cooper had testified that we need to get this in front of everybody and a well-acknowledged economist came in and to say he thinks this should be front and center.

Mr. Allen said there was at least a majority of the Board who would like to explore some alternatives.

Mr. Patton said the main reason he would be willing to consider a deferred revenue approach is if he believed that the idea of either a liability on the balance sheet or something like a liability on the balance sheet would be impossible. Mr. Patton asked for a vote on the notion of a liability on the balance sheet or a line item at the bottom of the balance sheet that we do not know exactly what to call.

A vote was taken on the question of whether there should be either (1) a liability should be recognized on the balance sheet [other than that based on the "due and payable" approach] or (2) a line item on the balance sheet for social insurance commitments as proposed in the exposure draft.

Mr. Patton	Yes
Mr. Schumacher	Yes
Ms. Franzel	No
Ms. Kearney	No
Mr. Allen	Yes
Ms. Fleetwood	No

Mr. Torregrosa	No
Mr. Steinberg	No
Mr. Farrell	Yes
Mr. Jackson	Yes

Mr. Allen said the vote was five to five and therefore neither the proposed balance sheet line item for commitments nor a liability [greater than the “due and payable” amount] would go forward.

Mr. Allen asked Mr. Patton whether, with that vote in mind, he would support looking at alternatives presentations.

Mr. Patton said he would.

Deferred Revenue

Mr. Allen then turned to the issue Mr. Jackson raised. He noted that Mr. Walker was not the first person to propose this; the Alternative View in the *Preliminary Views* document had proposed recognizing that liability.

Ms. Fleetwood mentioned that it was her understanding that the government recognizes the deficit at the level that it actually is, and recognizing this liability would require another debit or off-set, perhaps an expense. She said she thinking that, conceptually, the government would have failed to recognize expenses in the past and it would increase the deficit. She said it would increase the deficit, not the debt. There would be an immediate $4 trillion expense.

Mr. Allen agreed that that would be the effect.

Ms. Fleetwood responded that the Board needed to think about that.

Mr. Allen suggested perhaps a prior period adjustment would be in order.

Mr. Allen continued that GASB separated general government operations from its enterprise operations so liabilities back and forward could be shown. He said there was a potential to show a receivable asset and a payable liability.

Several members asked where the receivable would come from.

Mr. Allen said the general government owes the trust funds the $4 trillion. Alternatively he said it could be presented as deferred revenue. He said those are the two potential approaches. The receivable/payable is simply saying we borrowed the money.

Ms. Fleetwood said she saw the payable but not the receivable. She said the government already had the money. What’s the receivable?

Mr. Steinberg explained that social insurance has a receivable from the general fund.

Ms. Fleetwood said we were talking about the consolidated level.

Mr. Allen said an unconsolidated position would be shown. He said that if you look at the statement of social insurance [for the component entity, for example, Social Security, as proposed in the social insurance exposure draft as well as the SOSI in the FY 2008 financial report of the SSA and HHS/CMS] it comes down and then it lists the receivable. [At the bottom of the SOSI, the Treasury securities held by the social insurance entity are listed and are subtracted to yield the "unfunded obligation," on the proposed component entity SOSI. A similar approach is used by SSA for the FY 2008 SOSI. "Actuarial present value for the 75-year projection period of estimated future excess of tax income over cost, plus the combined OASI and DI Trust Fund assets at start of period" is listed and subtracted.] Mr. Allen said he thought the receivable/payable was a better presentation than actually to showing a deferred revenue; but different presentations could be explored.

Mr. Jackson said a key objective is to be able to get the liability for the debt on the face of the statements. He said he thought that was Mr. Walker's point; the question is, mechanically, how could that be done, because it is an intra-government transaction.

Mr. Allen said the Board had always said you could not report that way but if you have multiple columns you could.

Mr. Jackson said that that might be a thoughtful approach in the sense that social insurance programs are getting so much recognition. He noted that with the current SOSI he was not certain how the statements interact.

Mr. Allen said the statements would interact. The receivable would be in a separate column on the statement that would tie directly to the receivable on the SOSI.

Mr. Jackson said the multi-column approach would at least recognize debt.

Ms. Payne explained what was done in the earmarked funds standard. She said that after the Board amended the social insurance standard to make the SOSI basic information, the Board took up the issue of the big "Trust Fund" balances and the very confusing message being sent. The Board considered whether the Trust Fund balances themselves represented a liability and concluded they did not because, for example, if the situation were switched and there were enough payroll taxes to pay indefinitely and the Trust Fund balances were either going to be stable or rising over the horizon, the government would have no obligation to ever draw down the Trust Fund balance. It can literally hold the Trust Fund balances in reserve forever.

Ms. Payne said the Board had looked at the restricted asset concept that is used in the non-profit and state and local arena and concluded that the Trust Fund balances were restricted assets. The Board decided to call them "earmarked funds," because that terminology is used, and to report them as a line in the net position section of the balance sheet.

She noted that at the last meeting Mr. Dacey asked that we evaluate the earmarked funds standard. There are some Funds that book an accrual liability, for example, veterans and Civil Service retirement Funds. She said the fact that they are booking the liability causes their direction to switch. They do not actually have assets in reserve; they have liabilities in reserve. So when you net those against the Social Security Trust Fund, you end up with a much smaller impact; but [the earmarked fund amount reported in the net position section of the FY 2008 FR balance sheet] should have been about $8-9 trillion instead of the $704 billion. She added that, if it had, the reader would have seen that the non-earmarked fund, i.e., the general fund, had borrowed money from the earmarked part of government.

Ms. Payne said that the problem with treating these as deferred revenue in her view – and this has been discussed several times since the Board's inception – is that, as the payroll taxes are collected, if you net them against the benefits, you have zero change in your results during those periods; then when you get to the crossover point between revenue and benefit payments, you still look like you're netting to zero. You almost get to count the revenue twice. You get to defer the net operating costs pain or the change-in-operations pain until the point where the Trust Funds are exhausted. In addition, you have the odd thing of the liability going down during the period when things are getting dramatically worse, because your deferred revenue goes away as you use it to fund benefits.

Mr. Jackson said the federal government's liability is going to grow because the federal government has to sell debt to wipeout the deferred revenue; so on the general fund side, the liability is swelling.

Ms. Payne agreed; publicly held debt would grow.

Mr. Jackson said that the deferred revenue approach is simply recognizing the fact that the government has not earned it yet, but when the time comes to raise the cash to pay it, the national debt swells up. The deferred revenue approach portrays what is often heard, that is, when the Trust Funds debt has to be redeemed, one big event is going to occur. Treasury securities will be sold on the market to cover it, unless there is some big windfall of revenue.

Mr. Payne responded that that discussion is in the current MD&A.

Mr. Jackson said the financial statements do not seem to depict it.

Ms. Payne responded that that was the purpose of splitting net position between earmarked and non-earmarked funds. She said that if the Board does not feel that that approach is adequate and wants to re-evaluate whether deferred revenue is a liability, then that is the decision the Board is trying to make today.

Ms. Fleetwood said that this is what the Board was trying to do, in terms of what people are really interested in; they want to know whether the government has enough money to pay their Social Security benefits in the out years. She said, conversely, that figuring out how to do deferred revenue is not going to resonate with people. She did not think it was really what the Board was trying to do.

Open Group Measure for the Statement of Changes in Social Insurance Amounts

Mr. Patton said that, given that the Board apparently was not going to put the closed group obligation on the balance sheet for social insurance, he proposed that the statement of changes in social insurance amounts focus on the open group measure rather than the closed group measure.

Mr. Allen said you could even go with an open group measure in a multiple column presentation like the one Board had discussed, as long as it provided a useful perspective.

Mr. Patton said his proposal would change the example in Appendix E and certain paragraphs in the standard.

Mr. Allen asked if there were any objections to having a discussion at the next meeting about the open versus the closed group measure.

Mr. Patton asked for a straw vote to see if the Board needs to spend time on it in April.

Mr. Fontenrose said that one of the Questions for Respondents was whether the standard should focus on the closed group measure and perhaps the Board would want to address that sooner rather than later.

Mr. Allen said that the Board could take the question sooner but that there had been comments received and testimony and the first testifier yesterday wanted both reported.

Mr. Patton said his proposal was not on the question of featuring the closed or open group measure but rather to change a specific exhibit.

Mr. Allen said the issue seemed broader. He said if you are going to chose one, and he said there was value in doing that, then the Board should discuss the implications of having this flow as a consistent open group measure, if that is Mr. Patton’s proposal, through all of the illustrations and statements.

Ms. Fleetwood said the Board has received a lot of comments on that issue and she was ready to vote. She said most of the comments favored the open group.

Mr. Allen said that voting now at the end of the day versus at the being of the next meeting did not really matter. He said it has the potential to have broader repercussions than just the illustration and the Board ought to discuss it. He asked Mr. Fontenrose provide feedback on this issue.

Mr. Patton asked that Mr. Fontenrose's analysis include a "what if" regarding going to an open group approach.

Ms. Franzel suggested that this be a component of some of the things Mr. Jackson was discussing and that Mr. Fontenrose would be going to go back and drawing up. She suggested doing a full, highlighted statement where there is a summary negative position from the balance sheet, a summary social insurance promise chart, and a summary something else, these being the buckets that probably would not be added together; and they could all tie to the various statements of changes.

Mr. Jackson agreed. He said if you change the name of the statement, notwithstanding the reporting model project, a very simple thing, you are not calling it a liability, you have got a traditional balance sheet and a responsibility statement, and if you want to add them together, fine, but he would not add them together. He said this would get you to Mr. Gokhale's point; you would have closed and open group measures; they would tie back to the SOSI and the statement of changes in social insurance. He concluded that this would be a complete picture.

Mr. Patton recommended having an analysis of which changes would be doing without re-exposure, if any.

Ms. Fleetwood mentioned another thing that would be useful. She said there seemed to be hesitation about how many things to add up. She did understand the problem there and she certainly would like to have an option where everything does add up; and perhaps another option where they don't. She said it bothered her to not have it add up.

Mr. Allen said that Ms. Fleetwood's suggestion was a good one and that there were many possible format and measure options.

Messrs. Patton and Jackson volunteered to review the early draft of the "options paper."

Mr. Allen said that the early draft of the "options paper" should be sent to all Board members for comment and those members that had comments could provide them.

CONCLUSION

- The staff will explore some options. An early draft of the "options paper" will be sent to all Board members for comment and those members that have comments will provide them.
- The Board voted 5 to 5 that there should be (1) a liability recognized on the balance sheet [other than that based on the "due and payable" approach] or (2) a line item on the balance sheet for social insurance commitments as proposed in the exposure draft. Thus, those proposals do not go forward.

- The staff will provide feedback on the proposal that the statement of changes in social insurance amounts focus on the open group measure rather than the closed group measure. This will be a component of the options paper.

- **Economic Stabilization Activities**

Staff member, Ms. Melissa Loughan began the session with a brief introduction and overview of the Board's December request that staff conduct an analysis of the discrete Economic Stabilization Act (ESA) activities to identify potential voids or gaps within existing Federal Accounting Standards Advisory Board (FASAB) guidance. Staff explained that each ESA activity was compared to an existing FASAB standard in order to develop potential voids which the Board could pursue (refer to TAB 1). Attention was drawn to page three of the transmittal memo where options were outlined for the Board to review so it could advise staff concerning what the Board priorities were considered to be.

After Ms. Loughan's introduction, Mr. Allen then asked that both Messrs. Dacey and Werfel provide overviews of the most current ESA activities.

Mr. Dacey began by explaining that GAO has a 60 day congressional reporting requirement and therefore has been actively following events. Currently, the GAO is dealing with several FDIC activities. First, with a December 31 year end, the FDIC's liability measurement for failed banks is proving to be a challenge inasmuch as historical models used to develop estimates are currently being reviewed. The second issue addresses a new FDIC program where for a one-time premium both newly issued debt and commercial deposits would be guaranteed. Should any losses exceed the fees collected, additional levies on the banks would be required so that FDIC would not incur any losses. The appropriate accounting treatments for these activities have yet to be established.

The next issue discussed by Mr. Dacey dealt with the FY09 TARP purchases of preferred stock which were originally accounted for at cost in the budget (e.g., on a cash basis) and OMB is now changing the valuation to reflect a modified credit reform process using appropriate market risk-based interest rates. Mr. Werfel concurred with Mr. Dacey's synopsis. For financial statement purposes a target date of June 30 has been set in order to develop a preliminary set of financials for GAO to review which could then be updated for year-end reporting purposes.

Mr. Allen then asked about how mark-to-market accounting and related risk measurements were being addressed. Mr. Dacey stated that there are different ways to value the securities via the different interest rate assumptions one could (on comparable asset types) use. Mr. Torregrosa stated that for the initial capital purchase program, CBO looked at yields for the preferred debt and compared them to the yields being paid. In this way, CBO was able to develop a discount rate.

Mr. Werfel stated OMB is working through these issues on the budget side; however it seems that Treasury must now deal with (1) identifying an appropriate subsidy amount each time an investment is made and (2) developing a subsidy model(s) that can be defended, justified and audited.

Mr. Werfel noted that it is important for the Board to recognize that there will be a Federal government investment portfolio that will be accounted for in different ways; fair value for some financial assets and credit reform for others. Mr. Werfel stated that he did not believe that there was any particular action for FASAB to take at the moment. He explained that it could be important to understand what the implications of having the investment portfolio valued in different ways would be.

Mr. Werfel explained that many persons who have looked at this do in fact believe that credit reform is the appropriate model for the Federal government to use. It is important to understand the differences between cash and accrual accounting in this regard. Under the cash method, the inherent deficiency that exists is that you are not accounting for the potential value of the asset since you are only showing the cash outflow. Conversely, on the accrual side, this problem does not exist because of our balance sheet, and with the exception of an asset impairment or some other type of gain or loss, there would be no recognition of a cost in the statement of net operating costs. However, on the cash side everything is shown as going against the deficit. Since there is potential for value in these investments being made by the government, it makes sense for Congress to ask that the credit reform approach to be used in valuing the securities. Mr. Werfel explained therefore, there are resultant reconciliation issues which arise.

Mr. Allen then asked at what point does the practice of budgeting begin to drive the practice of accounting. He noted that although there is a general (FASAB) principle to try and align budget and accrual financial reporting, it is not intended to be a lockstep or rigid requirement. There is fundamental agreement that accrual accounting intentionally differs from cash accounting; both methods are different and serve different purposes and the link between the two probably should be addressed.

Mr. Werfel then stated that such discussions have been held with the Board before, however the “elephant in the room” problem that occurs (if FASAB goes in a different direction from the budget) is that a large reconciliation problem arises. This occurs if and when (1) the budget captures the subsidy amount as an outlay and not the actual payment and (2) FASAB maintains to the traditional fair value method which shows the full disbursement and not the subsidy outlay.

Mr. Jackson asked Mr. Werfel to clarify his understanding of this reconciliation problem and after the clarification both Mr. Jackson and Ms. Fleetwood did not agree that full accrual accounting created the reconciliation problem Mr. Werfel seemed to suggest existed on the statement of net costs. However, it was agreed that Mr. Werfel’s concern was valid to the extent this issue impacted the statement of budgetary resources.

Mr. Allen then discussed the GSE conservatorship issue in context to former Treasury Secretary Paulsen’s press release wherein, none of the options which were listed included returning these entities to normal operations. Mr. Allen stated that it is difficult to understand how anyone could defend the temporary nature of these relationships with Freddie Mac and Fannie Mae when the Treasury department does not even list as an option returning them to normal operations.

Ms. Loughan was then asked to proceed by the Chairman and she returned to the four (4) questions contained in the transmittal memo; i.e. concerning what staff should consider as priority in regards to the ESA activities. The first question was whether we should continue the Federal entity project as a priority. Mr. Allen responded by saying that this was originally envisioned as a long term project and as such, it was never a question whether or not this project was considered a priority but rather, whether it would be completed in sufficient time to provide any advice and counsel in regards to the ESA/GSE activities. Rather, it seems that the question should be are there elements within this project that need to be isolated and accelerated.

Mr. Farrell then addressed the Federal Reserve issue stating that the Federal Reserve has taken on functions or activities that are typically limited to the Federal government such as committing taxpayer monies to various entities. Mr. Farrell went on to say that the Federal Reserve is doing things today that are different then when FASAB issued Concept Statement 2, *Entity and Display,* which excluded them from being considered a part of the consolidated Federal reporting model. We should reconsider the Federal Reserve in light of its current activities and our conceptual framework. Mr. Allen agreed with Mr. Farrell however, he noted that not only is the issue politically charged; it would also require fast tracking the project schedule. Mr. Dacey cautioned the Board that he did not believe that taxpayer money was going to the Federal Reserve and that the Board needed to proceed carefully in this regard. Mr. Dacey did agree that a more robust conversation would need to be held in order to address this issue since many of the actions being taken by the Federal Reserve are consistent with its authorities/responsibilities regarding monetary policy. Mr. Allen concluded that the Board did in fact need to better understand the Federal Reserve's activities and where it in essence obtains its resources from before proposing changes to any of the FASAB projects. Ms. Fleetwood stated that she sees no issue or problem in looking at the Federal Reserve's role since in all likelihood, the Federal Reserve probably doesn't believe it has changed its role but rather sees itself doing more of what it usually does.

Ms. Fleetwood explained that what concerns her most is that with any one of these stabilization activities, due to the very deliberative nature of the Board, FASAB cannot respond fast enough to provide the type of guidance that some might suggest is now needed. It might be best for the Board to closely monitor these events as opposed to trying to figure out what might or might not be needed. Mr. Allen then responded by saying that although this is true, we can respond in a more timely manner through interpretations of the Board. However, this rests on individual members of the Board bringing matters to its attention that could represent a potential conflict (with existing standards) or issues (potential voids/gaps) that might need to be addressed or areas that would require (greater) clarification.

Mr. Werfel then stated that the Board does have to recognize its constraints (i.e. time) and that it will run into problems if it tries to get ahead of things. He agrees with Ms.

Fleetwood that it makes more sense to monitor matters closely. Mr. Werfel explained the Board should gather as many lessons as possible from these current activities in order to learn from them for future use such as the issuance of a standard. For example, the issue brought up earlier concerning the different methods that will be used regarding the investment portfolio. It could be beneficial for the Board to begin looking at that issue in order to address what to do in the future should similar events occur. Mr. Werfel also feels that this approach should be used concerning the conservatorship issue; i.e. what lessons have we learned not just from the recent GSE issue, but also FDIC's activities as well as other historical conservatorship-type issues. His last point was concerning the Federal Reserve. Mr. Werfel cautioned that there are both political and policy implications to even simply asking the consolidation question. As such, a first step could be to invite a representative from the Federal Reserve to sit down and talk with the Board about the pros and cons surrounding financial statement consolidation. In essence, the Board should avoid the appearance of being overly concerned in this regard.

Ms. Franzel stated that she agreed with Mr. Werfel's advice concerning the Federal Reserve. In particular, Ms. Franzel noted that there is a vast body of FASB literature which exists addressing how to deal with investments. Concerning the Federal Reserve, issues dealing with monetary policy are primarily a public policy call and accordingly, a vast amount of study would be required to include looking at international models before any substantive discussions could be held.

Mr. Jackson then made the point that many countries own, per se, their central banks and consolidation is a matter of course.

Ms. Loughan indicated that the current discussion, specifically Mr. Werfel's points, was consistent with what the Board decided to do as a result of its educational meeting concerning the Federal Reserve at the December 2008 meeting. Specifically, it was determined to complete the Federal entity project and address the Federal Reserve issue when compared to the final criteria of that project; i.e. final standard.

Mr. Allen then asked the Board to consider the second question proposed by the staff, specifically, does the Board believe that there are other potential voids (not addressed by staff) that would require immediate attention. The Chairman reiterated the Board's consensus that there appears to be sufficient accounting guidance to assist the parties in dealing with those issues that are currently foreseeable. Ms. Fleetwood indicated that not all of the Board members were totally comfortable with that understanding, however, there is very little that the Board can do now (this year) to assist.

Mr. Torregrosa sought clarification and confirmation concerning the valuation and presentation of these TARP investments on the financial statements. In a hypothetical situation where a $1 billion investment in preferred stock is made in Bank A which pays a ten percent dividend, and assuming the dividend is paid out, and further assuming that the investment is shown as an asset on the balance sheet, is there a corresponding reduction to another asset on the balance sheet? Meaning this, is the net effect zero on assets? Mr. Werfel suggested that cash would be the offsetting asset to which Ms.

Fleetwood disagreed stating that there was no cash available. Instead she stated, Treasury would have to use debt in which case it would need to borrow the funds and create a corresponding liability. Mr. Torregrosa then asked about the interest (dividend) income and confirmed that the interest would be shown as income. Furthermore, it was agreed that any impairment would then require a related adjustment to the financial statement figures. Mr. Werfel then pointed out that if credit reform accounting was used, there would probably be different answers to the questions posed by Mr. Torregrosa.

At this point the Chairman recognized Mr. Farrell who again wished to briefly revisit the Federal Reserve issue. Specific to AIG, Mr. Farrell asked where the $85 billion came from which resulted in the Federal government obtaining an 80 percent stake in the company. Mr. Farrell expressed concern that such a large dollar amount is in no way reflected on the Federal government's consolidated financial statements. Ms. Fleetwood attempted to provide some insight into this issue admitting that she was unaware of all the details. To the best of her knowledge, the Treasury has the right to provide funding (via loans) to the Federal Reserve and as a result, the Federal Reserve conducts its congressionally approved mandate such as it is in this case, shoring up AIG. The way Treasury reflects this transaction is part of the standard reporting process with the Federal Reserve. Mr. Werfel then reminded the Board that the Federal Reserve had set up a separate trust or trusts which made the Federal government the beneficiary in regards to the AIG work-out plan. Ms. Fleetwood reiterated that the Federal Reserve has an obligation to repay the loan back to Treasury.

Mr. Steinberg stated that the financial statements disclose that $300 Billion have been placed on deposit with the Federal Reserve for various ESA activities. Mr. Werfel likened this to the government's bank account. After some discussion, some members believed that the AIG activity was in fact part of the Federal Reserve's financial reporting and that any results or outcomes, would be settled through the standard process used to account for Treasury and Federal Reserve activities.

Mr. Farrell cautioned the Board to be careful in this regard since some might say the public might be misled regarding these complicated transactions. Some would argue that the Federal Reserve is doing things that it never did before. Furthermore, as documented in the clippings, certain media outlets are reporting that AIG may not be able to repay its loan to the Federal Reserve. Mr. Farrell then asked at what point in time does this impact the financial status of the Federal government? Mr. Werfel stated that that was a very good question best answered by assessing the ultimate risk to the Federal government. In his opinion, the Federal government does not bear a direct risk since the settlement process between the Federal government and the Federal Reserve revolves around a formula applied to the balance sheet and not on a purely transactional (i.e. dollar-for-dollar) basis.

Mr. Farrell likened this complex relationship to special purpose entities that were used by private companies in a manner that ultimately got them into trouble. As a result of these complexities, disclosures are going to be extremely important regarding the relationship between the Treasury and the Federal Reserve. Mr. Werfel concurred that this needs to be made clear in the financial statement disclosures. Mr. Farrell again emphasized his point by drawing a parallel to the GSE's, wherein originally the government took a position that it had no risk since it was not technically guaranteeing the debt of either Fannie Mae or Freddie Mac, however, now in hindsight, ultimately it is the taxpayer who is coming to the aid and responsible for their debt.

Mr. Allen then proceeded to address the third question posed by the staff; that is, does the Board wish to initiate a separate project or would the Board prefer to address the issues in the existing project entitled, *Evaluation of Current Standards*. Mr. Werfel began by speaking about the *Evaluation of Current Standards* project and that it was not progressing as he had originally envisioned. OMB was hoping that this project would have more of a cost-benefit type analysis approach to it. That is, where are the standards not producing desired results for financial reporting objectives. As a result, FASAB may be missing an opportunity in this project to address issues that could provide for some tangible benefits useful for decision making. As such Mr. Werfel does not believe that any of these ESA issues should be absorbed by the *Evaluation of Current Standards* project. Mr. Allen indicated that he would like to discuss this project at the next Board meeting in greater detail since it appears that the Board has added different issues to this project possibly weighing it down.

Ms. Loughan asked the Board to confirm whether or not it felt that there were other potential voids that needed to be addressed. The Chairman indicated that he did not believe that there were any other potential voids that the Board would recommend staff pursue at this time. Ms. Loughan then asked the Board to consider whether certain issues dealing with the valuation and measurement aspects of the ESA activities should be addressed within the measurements phase of the conceptual framework project. Mr. Werfel advised that he thought the timing for this discussion would be best after the fiscal year-end close is performed. His rationale is based upon the Board's already established consensus that there is not much it can do at this point in time to facilitate ESA accounting issues. If anything, what seems to be most appropriate to do at this point is to address the conservatorship issue. Addressing the broader ESA activities and related accounting would probably be best done later say in October of this year.

Mr. Allen stated that the Board first tries to be responsive and helpful, however at the same time, the Board does have an obligation to be the gatekeepers of proper accounting. What this means is that if the Board believes certain practices are in conflict with its standards or that if standards are not being appropriately applied or interpreted, it has an obligation to express its concern.

Mr. Jackson indicated that what has been done so far, vis a vis the staff analysis and related Board discussion, is important since it helps prepare the Board should Treasury require its authoritative assistance. In his opinion, the Board's intent should not be to delve into necessarily the details of what either the Treasury or Federal Reserve are doing, but rather, to be prepared to provide whatever advice and counsel might be sought as a result of the ESA activities. Again, it has been said before that events are moving faster than this Board can deliberate and events which have never been exercised before by the government are occurring in a manner that warrants time and reflection to adequately deal with.

Although Mr. Steinberg agreed with all that was being said, that in order to be intellectually honest, he pointed out to the Board that the reason there were no gaps or voids was because the FASB has sufficient literature dealing with many of the events falling under the ESA activities. He reminded the Board that Treasury did note at the December meeting that some of the FASAB standards could be reviewed with an eye towards improvement. For example, investments in non-Federal securities can be considered. Mr. Steinberg agrees that we cannot get ahead of the events and that trying to fold these ESA transactions into an existing project would undoubtedly overwhelm the project since the transactions in question are overly complex. However, at some point the Board needs to (squarely) decide if it wants to address the ESA accounting issues so the Federal government does not have to rely on outside GAAP or if it basically wants to make a statement that it is not the standard-setting body for these types of transactions/activities. Mr. Werfel notes that the question he would like to ask at that time concerns what the guiding principle should be for the Board to follow. That is, is the Board to take (immediate) action in an area never covered before or does it only take action when a problem arises.

Mr. Jackson's point of view is that certain events handled under FASB GAAP could in essence exacerbate the reconciliation problem previously addressed. In such cases, it might benefit the Board to address these transactions or events and ascertain how best they should be handled within the Federal government reporting model.

At this point the Chairman stated that he agreed with Mr. Steinberg's assessment that a decision point was coming, noting that the Board should just not look to fill holes, but rather make a conscious decision that there are certain significant events occurring which need to be addressed by this Board in order to achieve better accounting; this might also include referring certain matters to FASB. In this way, going to FASB is not a default position, but rather a conscious decision made by this Board.

Ms. Loughan stated that as a result of the Board's input, staff would continue to monitor the ESA activities and focus attention on the Federal entity as a priority project. In addition, Ms. Loughan stated that staff would attempt to get a representative from the Federal Reserve to speak to the Board at a future meeting. Ms. Fleetwood then asked about international reporting models and how they treat entities, Messrs. Farrell and Steinberg indicated that that analysis was already provided to the Board.

CONCLUSION: Staff will continue to monitor the ESA activities and focus attention on the Federal entity as a priority project. In addition, staff will request a representative from the Federal Reserve to speak to the Board at a future meeting.

- **Natural Resources**

The Board did not discuss natural resources due to time constraints.

- **Next Steps on General PP&E**

Ms. Valentine opened the discussion by noting that the meeting objective for the estimating G-PP&E discussion was to decide if a public hearing on the exposure draft was need and to identify major issues requiring further staff research. She noted the materials that were provided to the Board included staff's brief summary of the responses, a compilation of the respondent answers and comments by question, the full text of comment letters, and staff's analysis. Ms. Valentine reminded the Board that staff had received 31 comment letters on the ED as of the meeting date.

Staff had identified four broad issues for discussion with the Board. Those four issues were:

- ***Issue 1: The capitalization requirements for developed software as outlined in SFFAS 10 should be included in the scope of this proposed standard.***
- ***Issue 2: The standard does not clearly state if G-PP&E that is currently valued at historical cost (but no original transaction cost source documentation or other data is available) can be revalued using reasonable estimates as outlined in the proposed standard.***
- ***Issue 3: The standard should include more detail on acceptable reasonable estimation methods and those methods should be ranked in a hierarchy.***
- ***Issue 4: Broad qualifiers should be added to the standard to identify when the use of estimates is acceptable (i.e., criteria defining when estimates are acceptable).***

Ms. Valentine began the discussion of the broad issues with the first issue.

Issue 1: The capitalization requirements for developed software as outlined in SFFAS 10 should be included in the scope of this proposed standard.

Ms. Valentine explained that this issue was raised by one respondent, but was identified by staff as an issue for Board discussion because of the applicability of internal use software (IUS) to G-PP&E estimates. Mr. Schumacher asked staff if IUS was classified as G-PP&E. Ms. Valentine noted that if IUS meets the criteria for G-PP&E it should be classified as G-PP&E and the costs should be capitalized. Mr. Jackson noted that the problem was that IUS is G-PP&E but is covered in a separate standard (SFFAS 10) and just was not considered during the Board's earlier discussions. Mr. Allen asked if it was necessary to specifically mention IUS in this amendment. Mr. Jackson noted that excluding IUS from the text of the standard would lead to further confusion. Ms. Payne added that the definition of IUS in SFFAS 10 does not specifically identify IUS as G-PP&E; however it is classified as G-PP&E. Mr. Allen asked the members if there were any objections to include IUS into the scope of the amendment. There were no objections.

Issue 2: The standard does not clearly state if G-PP&E that is currently valued at historical cost (but no original transaction cost source documentation or other data is available) can be revalued using reasonable estimates as outlined in the proposed standard.

Mr. Jackson asked for clarification of the question in regards to whether the originally reported values had already passed audit scrutiny. Staff noted that the letters did not specifically state if the reported G-PP&E values had been audited. Ms. Fleetwood also noted that her interpretation of the letters on this issue related to when entities had groups of assets where some had supporting documentation and others did not, was the entity allowed to use estimates across the whole group of assets. Ms. Fleetwood, Mr. Schumacher, and Mr. Jackson all agreed that estimates should be allowed in either of those instances. Mr. Farrell noted that as he read the comment letters it was clear to him that there is significant disagreement between management and the auditors about how to use estimates when valuing G-PP&E. He also stressed the importance of reconciling some of the discrepancies between management and the auditor about estimating G-PP&E by making it clear in the standard that a variety of estimates is acceptable without the explanation of specific justifications.

Issue 3: The standard should include more detail on acceptable reasonable estimation methods and those methods should be ranked in a hierarchy.

Mr. Steinberg noted that in the comment letters there was a suggestion to provide a hierarchy of acceptable estimation methods in the standard. He also suggested that entities that use estimates be required to provide documentation and rational for their estimates. Ms. Payne noted that the notion of the hierarchy would cause more confusion since items listed higher in order would be preferred. She also stressed that one of the tasks of the AAPC's G-PP&E task force is to identify specific examples of estimation methods that have been accepted by both management and the auditor. Mr. Allen stated that the standard should be clear that reasonable estimates are allowed for G-PP&E and that entities should be allowed to move past being overwhelmed with the requirement to provide original transaction documentation for every G-PP&E asset.

Mr. Jackson noted one paragraph in the draft that may be causing some confusion as to when estimates are allowed. He referred to SFFAS 23 par 10 which states, "The initial capitalization amount for G-PP&E assets not previously reported on an entity's financial statements ~~assets previously considered ND PP&E~~ should be based on historical cost in accordance with the ~~asset recognition~~ provisions of SFFAS 6, as amended, and should be the initial historical cost for the base unit[4A] ~~items~~, including any major improvements or modifications."

He suggested that the term "initial" was misleading in this context. Staff explained that "initial" referred to initial capitalization of previous ND PP&E. Mr. Jackson explained that the use of "initial" and "not previously reported" G-PP&E assets gives the impression that estimates are not allowed for any assets previously reported that may not have some problem with its original transaction data, which is not the case. Mr. Jackson agreed to work with staff to clarify the amended language in SFFAS 23. Ms. Fleetwood reiterated the Board's position on allowing the use of estimates whether or not the G-PP&E assets have been previously reported. She stressed that the language in the standard should be made clear to reflect the Board's position.

> **Conclusions:** The Board agreed that staff would make the revisions to the draft standard to prepare it for pre-ballot review before the April Board meeting.

Adjournment

The meeting adjourned at 4:00 PM.