FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
April 25-26, 2012
Room 7C13
441 G Street NW
Washington, DC 20548

Wednesday, April 25, 2012

Administrative Matters

- **Attendance**

The following members were present throughout the meeting: Chairman Allen, Messrs. Dacey, Granof, McCall, Schumacher, Showalter, and Steinberg. Messrs. Dong and Reger were present during most of the meeting and were represented during their absences by Ms. Kearney and Mr. Bell respectively. The executive director, Ms. Payne, and general counsel, Ms. Hamilton, were present throughout the meeting.

- **Approval of Minutes**

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

Agenda Topics

- **Educational Session on Budgetary Reporting**

Mr. Mark Hadley, General Counsel at the Congressional Budget Office, briefed the members regarding the role of CBO and the legislative process. His presentation is presented as an attachment to these minutes.

Mr. Chris Fairhall and Ms. Teresa Tancre of the Budget Review and Concepts Division at the Office of Management and Budget briefed the members regarding key budget execution and reporting principles.

Members thanked Messrs. Hadley and Fairhall and Ms. Tancre for their informative briefings.

- **Federal Reporting Entity**

<u>Discussion Topic 1 – Draft Exposure Draft</u>

Staff member Melissa Loughan explained the objectives were to consider the component entity reporting section of the exposure draft (ED) and to approve changes since the last meeting to the government-wide portions of the draft ED. Ms. Loughan explained members should also bring up any remaining concerns with any other areas of the ED.

Ms. Loughan noted that there were Board comments received after the binder materials were distributed, and staff has incorporated many of those comments into a marked ED; a copy of which was provided to members.

However, before getting to those changes, Ms. Loughan explained the Board has reviewed a nearly complete ED (with the exception of Related Party which will be presented at the next meeting) and staff believed it would be a good opportunity to discuss any concerns the Board members may have—especially those related to previous decisions regarding the inclusion principles, core / non-core attributes and/or the disclosures as drafted.

Chairman Allen explained he had been copied on several emails that involved the Federal Reserve and concerns in that regard. Ms. Loughan explained that at least three members had noted concern with the current level of detail in the draft ED about the Federal Reserve.

<u>Federal Reserve</u>

Ms. Loughan explained the current draft mentions the Federal Reserve in the basis for conclusion. That text explains that SFFAC 2 identifies certain entities (like the Federal Reserve System) that should not be included in the government-wide reporting entity. Since the draft ED establishes principles that can be applied to the entities previously excluded and conclusions reached to include the entities (either as core or non-core entities) or to continue to exclude the entities, the SFFAC 2 text regarding the Federal Reserve would be deleted.

Ms. Loughan asked if the questions from the members about the Federal Reserve indicate a deeper question of the conclusions in the draft ED regarding the core and non-core attributes or the inclusion principles and that is why the question was posed.

Mr. Showalter explained he questioned the treatment and he actually wondered if it was possible to have a non-consolidated core entity. He explained he raised that because of the discussion with the Federal Reserve representatives. Mr. Showalter explained the representatives noted they did not have a related party option so that is why they chose to draft disclosures based on the non-core requirements. He explained this caused him to be concerned that the Federal Reserve ultimately could be classified as a related party and he does not believe that is appropriate.

Mr. Showalter explained he reviewed the document and became convinced that the Federal Reserve does not meet the criteria for non-core as currently drafted in the document. He was concerned that if not classified as core, it may fall to related party. Mr. Showalter explained he believed the Federal Reserve is closer to core than non-core, but he was concerned the Board may get an unexpected outcome – classification of the Federal Reserve as a related party.

Mr. Showalter clarified he doesn't have a problem with the non-core attributes; his concern is why isn't the Federal Reserve being caught earlier in the decision process. He recalled that the speakers in February indicated that they placed the Federal Reserve in the non-core category because it would be misleading to exclude it. He noted the misleading to exclude is for rare circumstances but he finds it difficult to consider the central bank rare.

Chairman Allen explained the inclusion principles are considered first to determine whether the organization is to be included in the GPFFR and then after that one considers the core and non-core attributes for presentation.

Mr. Showalter stated the Federal Reserve would not be picked up for inclusion because it is not in the budget. Staff asked Mr. Showalter if he believed it would be included based on the control inclusion principle. Mr. Showalter explained he was not sure if it would; especially based on the feedback and presentation at the last meeting.

Mr. Dacey explained that the Federal Reserve is currently reported as a related party today based on current practice and that may have been why the term was used by the representatives at the meeting. The current practice is based on audit standards since SFFAC 2 excludes the Federal Reserve. He noted he believed that there was receptivity by the Federal Reserve representatives for the disclosure requirements for non-core (with the enhancements discussed last meeting) based on what he has observed.

Mr. Reger explained he couldn't state how the Federal Reserve views itself or speak for them but he can say they have been working cooperatively since the last meeting to make improvements and enhancements to the draft illustration that was presented at the last meeting. While Treasury is not prepared to share a draft at this time, he noted they are still working towards meeting the non-core disclosures. Mr. Reger noted that with Related Party still an open item; things will be revisited once that is completed.

Chairman Allen explained Related Party consideration would only kick in if they were not included based on the inclusion principles. Chairman Allen explained to Mr. Showalter that if he believed the Federal Reserve may fall through all the inclusion principles to Related Party then there is definitely an issue that needs to be discussed.

Mr. Showalter agreed that this was his thought.

Chairman Allen asked how it would be possible that something the Congress created to carry out an integral federal mission would not meet one of the inclusion principles set forth in the Draft ED.

Mr. Reger explained he thought it might be able to fall through only because we don't have the definition established for related party. Chairman Allen explained that you wouldn't have to consider the definition unless you did not meet the inclusion principles.

Mr. Dacey explained the level of disclosure is open but Treasury is working with the Federal Reserve on expanding the note and making enhancements based on the feedback at the last meeting. This is a cooperative effort that has Federal Reserve participation. He believes the improvements will be included in the upcoming year's report. He doesn't believe there is any intention to avoid meeting the requirements and, for that reason, he believes extensive debate regarding classifying the Federal Reserve as related party is unnecessary.

Mr. Steinberg explained he agreed with Mr. Showalter's comment about the Federal Reserve being core. However there is one issue worth mentioning, there are really two organizations—there is the Board of Governors and the Federal Reserve Banks and perhaps some may view them differently. He explained based on the nature of what they do, there may be a level of disclosure that should be more than the other non-core entities. To do that in a principles-based way, if related party is one way to do that, then one should consider it but he believes certain members may have problems with that direction. Mr. Showalter and Mr. Schumacher acknowledged concern with the proposal of using related party as a means of capturing the Federal Reserve.

Mr. Dacey explained that is why he focuses on the non-core disclosure requirement and meeting those objectives.

Mr. Steinberg asked what the problem would be with the related party option. Chairman Allen explained he views related party as one more step removed, and a relationship less than non-core. Mr. Showalter and Mr. Schumacher agreed. Mr. Schumacher explained he doesn't believe we could have more disclosure for related party than what we require for non-core entity.

Mr. Dacey explained the ED provides objectives for the disclosures for non-core and also provides factors and guidelines to assist in determining how much you should disclose. He added the factors assist in determining the breadth of the disclosures. Mr. Dacey explained the critical pieces are in the draft—the more significant the relationship, the more significant the risk, etc. the more that should be disclosed for the non-core entity.

Mr. Dacey explained he believed the ED captured many of the thought processes relied on in the past in determining what should be disclosed for certain organizations. He believed the last meeting provided a lot of good feedback specific to the Federal Reserve illustration that Treasury will use—for example, there was agreement on integrating into one note and Treasury is working on that.

Mr. Steinberg explained he views the Federal Reserve as a core entity or an organization doing a lot of core things that we are trying to get to report as a non-core.

Mr. Reger explained the Board of Governors may be core and it is very small.

Mr. Steinberg explained the current draft doesn't go far enough to require a disclosure of an explanation of the working relationship of the Federal Reserve and how it is organized and operates. The disclosure he wants is a description of the relevant activity. He added that, for instance, the Federal Reserve Bank of New York is involved in considerable activity and there should be more disclosure of these activities on behalf of the government.

Mr. Granof explained one has to be clear the focus is on the Federal Reserve Banks. Mr. Granof explained he thinks we should be asking what type of disclosure do we want for the Federal Reserve and then we should be writing the standard to ensure that is the type of disclosure we get. He explained he is for a principles-based standard, but when you get to how to account for a central bank then it might be a principle that has to be explicitly stated.

Mr. Reger explained that he thought the Board discussed this at the last meeting and agreed improvements could be made to the draft disclosure but the non-core disclosures were the best manner to provide information about the relationship and activities versus consolidation or even condensed financial information.

Mr. Granof explained if he had his preference, he would consolidate, but he doesn't see the Board going in that direction so that isn't an option.

Chairman Allen explained he didn't want to state how the Federal Reserve should be presented. Chairman Allen explained the advantage of a principles-based standard is that we set the criteria and then it can be applied. It isn't the Board's decision regarding the Federal Reserve whether it is core or non-core or more broadly it isn't the Board's place to make that decision.

Chairman Allen explained the Board sets the criteria in the standards and then it is up to the auditor and preparer to come to agreement in applying those criteria. As of now, the only specific reference the Board has made to the Federal Reserve is in the basis for conclusions where it explains the change from SFFAC 2. SFFAC 2 identified certain entities like the Federal Reserve System that should not be included but the draft establishes principles that can be applied to the entities and conclusions reached to include the entities (either as core or non-core entities) or to continue to exclude the entities. He explained it is possible for an entity like the Federal Reserve to go either way and to change over time.

Chairman Allen explained that he believes the criteria for inclusion is sufficient that the Federal Reserve will be captured for inclusion as either core or non-core. If any member believes that is not the case, then they should speak up. Mr. Showalter explained he believes there could be a problem.

Mr. Granof explained if they are considered non-core, shouldn't we ensure the disclosures are adequate. Mr. Granof explained we want different disclosures for the Federal Reserve than we do for a museum. Mr. Granof explained he agreed with Mr. Showalter's earlier point, they are core but shouldn't be consolidated. Instead, more disclosures should be required.

Mr. Dacey reminded the members that par. 67 "Factors in Determining Non-Core Entity Disclosures" guides preparers in determining the nature, extent, and amount of disclosures for non-core. He noted that if properly applied, it should result in more disclosures for the Federal Reserve and less for a museum.

Mr. Reger explained that is how they have gotten to where they are in the draft disclosure now. He noted there appeared to more interest in the relationship and risk.

Chairman Allen explained the Board would take a lunch break then continue open discussion and return to review specific language.

~Lunch Break~

Ms. Loughan explained before the lunch break the Board had spent some time discussing the Federal Reserve and specifically the adequacy of the non-core disclosures if the Federal Reserve is determined to be non-core.

<u>Non-core Factors in Determining Disclosures and Non-core Disclosures (with specific discussion relating to the Federal Reserve)</u>

Staff explained the Board was having an open discussion and the plan was to discuss specific Board member recommendations and specific draft language. Staff noted the Board was looking at par. 67 “Factors in Determining Non-Core Entity Disclosures” and wanted to discuss revisions.

Mr. Steinberg explained 67d. ‘Complexity of the relationship’ could cover the Federal Reserve because it is complex, but he wondered if some wording could be added about it being core. However, Mr. Steinberg suggested that par. 70a. ‘Relationship’ should be expanded or tied back to par. 67d. to say the more complex relationships should be explained or somehow work in the notion that more should be explained.

Mr. Steinberg explained par. 70b. ‘Relevant Activity’ should be expanded to say it isn’t just with the core entity, but it is also with organizations outside the core entity or federal government, including those on behalf of the federal government. In addition, there should be a robust discussion of how we got here in the basis for conclusion because right now the basis for conclusion mentions the Federal Reserve once.

Mr. Reger confirmed that Mr. Steinberg is trying to improve the disclosures. Mr. Steinberg agreed.

Chairman Allen explained par. 67c ‘Non-core entity views/perspective’ raises concern because it deals with how the entity views itself but he doesn’t believe that is nearly as important as how the federal government views the organization in carrying out the mission.

Mr. Granof explained par. 71 is troubling because the wording “provides the necessary understanding of the non-core entity’s relationship, activities, and future exposures specific to the federal government.” He was concerned not only that they provide information about the information specific to the federal government but he would also like information about outside parties as well, especially if they are performing services or functions that would be associated with the federal government entity.

Chairman Allen noted that in par. 71a, there is the example “The name and description of the non-core entity, including information about its mission and organization” and this may be what he is referring to but it needs to be expanded to include the non-core portion as it relates fulfilling the mission. Mr. Granof explained it should also include information about outside parties.

Mr. Granof added we have a major entity that needs to summarize their financial statements or information. Mr. Dacey explained this relates to par. 71e. and he has concern with the potential audit costs for organizations that choose to include summary financial statements or condensed financial information for the non-core entity. He elaborated that he has concern with requiring the disclosure of numbers in another entity’s financial statements because of audit issues.

Mr. Granof explained he didn't see how one could avoid the disclosure of numbers in these types of situations. He suggested the possibility of a link to the financial statements.

Mr. Dacey explained links are fine as long as they don't appear to be incorporating information by reference.

Mr. Showalter stated if you require a link it could be construed as incorporating by reference. Mr. Dacey explained he doesn't have a problem with putting it in, but making it a requirement is where it creates challenges.

Mr. Granof asked if Mr. Dacey was concerned with the information being there or the cost of the audit of the information. Mr. Dacey stated he was concerned with the cost and he doesn't have a problem with it being there as long as it is meaningful information.

Mr. Granof stated that he believed the Federal Reserve's assets and liabilities would be meaningful considering they are in excess of a couple trillion dollars.

Mr. Dacey explained the disclosures are to be driven by risks and exposures and how they relate to the federal government—specifically how the Federal Reserve's operations and relationship with the federal government expose the federal government to risk . He added the same approach applies to all non-core entities.

Mr. Reger noted that "health" as used in par. 71e is not a good term and would be difficult to apply. Staff notes in the revised draft the term "health" has been replaced with 'indicators.'

Mr. Granof explained the Federal Reserve has the characteristics of a core entity but for certain reasons, which should be explained, we don't believe they should be consolidated. However, they still perform essential functions of the federal government and there are assets, liabilities, revenues and expenses that should be disclosed.

Mr. Dacey explained that at the last meeting he thought the Board decided disclosing such information would not tell the reader what the implications were for the federal government. He believed the key was to tell the reader about the nature of the relationship, the relevant activity, and future exposures—which may or may not be best represented by providing summary numbers for assets, liabilities, revenues, and expenses or summary financial statements. Mr. Dacey added that he believes the draft ED provides for this key information and the flexibility needed to convey meaningful information.

Mr. Reger added that even providing a link to the other entity financial statement won't provide a summary of the federal government's exposure; this is something that has to be done by the federal government.

Mr. Granof elaborated that the Federal Reserve as the central bank performs core functions that are integral to the federal government, therefore its liabilities would be important to the readers of the CFR. Mr. Reger stated he believed the nature of the risk of those liabilities on the federal government is important.

Mr. Reger reminded the Board that the Federal Reserve has strong collateral requirement for loans that they make. Mr. Granof explained he believes it is more than that, he believes they are part of the federal government.

Mr. Dacey explained the bulk of the liabilities for the reserve banks are the deposits of the member banks, Federal Reserve notes, and US Treasury Deposits—so he was not certain what risk to the federal government would be in these liabilities considering one of the largest is owed by the federal government.

Mr. Granof reiterated he believes it goes beyond risk because he views them as part of the government and there may be interest in monetary policy and so forth. Mr. Reger explained users interested in monetary policy can read the financial statements of the Federal Reserve because that is where you will find that detailed information.

Chairman Allen explained he doesn't see a disclosure related to all the assets and liabilities, shouldn't it be related to the mission it is carrying out or related to the federal government, such as the holdings. Mr. Dacey noted that these are currently disclosed in the statements.

Mr. Granof asked about the assets of the Federal Reserve and Mr. Dacey explained the major ones include US Treasury Securities and Mortgage Backed Securities and Mr. Dacey explained that is also disclosed.

Mr. Granof asked about the investments of the member banks. Mr. Dacey explained this isn't currently disclosed but it could be explored. He said that was a fair discussion as to how they are financed and capitalized, though it isn't as material as some of the other amounts.

Mr. Granof explained once this is covered, it appears most of the main assets and liabilities will be disclosed in a note, then everything has been addressed. There was discussion as to what is currently disclosed and not disclosed regarding the Federal Reserve Bank activity.

Mr. Showalter explained his concern is that if something happened to the Federal Reserve (despite its collateral stipulations) it would clearly come back on the federal government and ultimately the citizens.

Mr. Reger agreed it makes sense to disclose the risk associated with the relationship and the relationship should be described. Mr. Reger added that he thought that was where the Board ended last meeting as well, and that numbers would not necessarily provide that.

Mr. Showalter acknowledged he understood Mr. Granof's concern and believes some concern was due to the size of the Federal Reserve where trillions of dollars are discussed. Mr. Dacey noted approximately $1.6 trillion is from the member banks. Mr. Steinberg asked where that figure comes from, and the Chairman noted it was established in law how member banks join and pay in capital. Mr. Steinberg wondered if the federal government would intervene if there were financial problems.

Mr. Granof expressed a preference for a schedule of the summary data in the note. Mr. Reger explained that the information might better be conveyed in a narrative because sometimes a schedule can be misleading and the narrative could explain the information. Further this is consistent with what was discussed at the last meeting.

Mr. Dacey agreed and added he has concern with including any numbers that aren't meaningful because it will drive audit cost up. Mr. Dacey believes it is most important to explain the relationship, put any numbers in context with the relationship, and explain the impact on the federal government.

Mr. Granof said he was confused. He had thought that numbers were already in the financial statements, but now it appears there is a problem with including numbers. Mr. Reger clarified that he had not objected to including numbers in a narrative.

Mr. Dacey explained he has a concern with cost benefit. He is comfortable with the numbers already included in the CFR, but not a complete presentation of a balance sheet for a non-core entity. Mr. Dacey added that they include many of the Federal Reserve numbers as discussed and even some that are immaterial, like those related to gold. All balances between the federal government and Federal Reserve are disclosed, but we agreed it should be in one note or integrated through references. Mr. Dacey reminded the Board that the information will be close to 12 months old so that is another concern regarding the numbers.

Mr. Granof explained that putting it in a table or schedule format is not critical, so he believes the Board may be in agreement. However, he would like to see a sample note or illustration.

Chairman Allen suggested that Mr. Reger continue working on the disclosure and the Board will see another draft. At this point, the Board will continue to focus on the standards.

Ms. Loughan asked the Board to confirm if it wanted to make the suggested revisions to paragraph 70 as this relates to the objectives for the non-core disclosures. Staff noted these would change the focus slightly and wanted to be sure the entire Board approved the change since the objectives were approved several meetings ago.

Mr. Dacey noted concern with the expansion of the objectives. He stated the concern goes beyond the audit concern. He explained when he thinks of examples General Motors and AIG –it may be easy to describe the nature of the relationship with these organizations, but it may be difficult to describe how the organizations relate to the federal government mission or objectives.

Mr. Dacey explained he had concern with expanding beyond what the relationship is with the non-core entity. Chairman Allen suggested added the wording ‘where appropriate’ to describe the nature of carrying out the mission or functions and objectives of the federal government. Chairman Allen explained you wouldn’t want this type of disclosure for interventions, so there may be times when it wouldn’t be applicable.

Mr. Dacey explained that is why he views them as principles and they should be high level whereas the next paragraph offers examples of information that would meet the objectives.

Mr. Steinberg noted one of the requirements of the constitution is to “coin money and regulate the value thereof.” He believes the Federal Reserve is performing a federal function.

Mr. Dacey explained he isn’t trying to say whether that is true, he is trying to determine which information is most meaningful or more specifically—for the standard—what should be the objectives for the disclosures versus examples of information that meet those objectives.

Mr. Dacey explained his preference would be to keep them at high-level principles.

Mr. Showalter explained that several members believe there is more required when the entity fulfills a unique core purpose of the federal government. He asked if there is a way to allow for that without changing the objectives.

Chairman Allen asked if it would be preferred to leave par. 70 relating to the objectives as it is and make changes to par. 71 that provides the examples. Staff could work on wording to accomplish something related to core purpose of the federal government or contributes to the mission. Mr. Dacey preferred to use par. 71 to work in the wording.

Ms. Payne confirmed there may be a slight revision to the par. 71 by stating “if this applies then do this.” Staff will work on conditional requirements for the example information.

Ms. Loughan explained it could be similar to the language in the intervention paragraph 71.c. “For intervention actions, the primary reasons for the intervention and a brief description of the federal government’s plan relative to operating or disposing of the non-core entity (including timeframes) and/or a statement that the intervention is not expected to be permanent” The Board agreed this approach could be used.

The Board discussed the revised text should be clear that if the condition is met the disclosure is required.

Mr. Steinberg confirmed the Board would not be making any changes to par. 70, although for more complex relationships, paragraph 71 would require more, e.g., organization of the non-core. The Board confirmed and that staff would be revising par. 71.

Mr. Granof asked how we were going to explain we were treating the Federal Reserve differently. He believes the reader will think the Federal Reserve is core, especially if the report states it performs a core function.

Chairman Allen explained non-core entities can provide core functions—one can meet the inclusion principles and be non-core while still providing a core function. The preparer and auditor came to or will come to the conclusion how a particular entity including the Federal Reserve reports.

Mr. Showalter explained that the Board still had not resolved his concern about the inclusion principles and non-core.

Ms. Payne stated she wanted to clarify; it isn't the function of the entity that is non-core. It is the characteristics and attributes of the entity that make it non-core. All of these entities have been set up to meet a federal purpose. The non-core entities are more independently governed and they don't rely heavily or directly on taxpayer funding. These are the reasons they are not consolidated.

Mr. Showalter noted other core attributes relate to the risk and reward to the taxpayer and core goods and services on a non-market basis—these are the two that led him to believe the Federal Reserve would be core. He reiterated that his point before lunch is that he isn't convinced the Federal Reserve will be caught in the non-core.

Ms. Loughan asked if he still questions whether the Federal Reserve would be included through the inclusion principles. Mr. Showalter stated he was not sure it would be.

Chairman Allen explained that is the first step, an organization must meet the inclusion principles then they are assessed against the core and non-core attributes for determination. An organization must be either core or non-core once they are included. Mr. Showalter stated the standard is not that clear and should be clarified. Chairman Allen stated if he could read the inclusion principles and still have a question if the Federal Reserve is included, then there is a problem.

Mr. Showalter explained he has a problem with pulling the Federal Reserve in under the Misleading to Exclude principle, as the speaker in February indicated he had done, because it's anticipated to be a rare event.

Mr. Dacey noted there is the question of related party and where the line is drawn. Chairman Allen noted staff has explained related party will be addressed at the next meeting.

Component Reporting Entity Language

Ms. Loughan explained that at the February meeting, the Board unanimously agreed with the staff recommendation to further develop the administratively assigned approach for component reporting entities.

Ms. Loughan explained that in developing the component reporting language, staff met with representatives from independent public accounting firms to gather feedback from the audit perspective regarding how difficult it would be for component reporting entities to ensure all core and non-core entities were identified.

Ms. Loughan noted paragraphs 51-60 of the draft ED present the proposed language for the component reporting entity. Staff explained much of the additional language focuses on criteria for those organizations it would be misleading to include. Staff also captured the notion a non-core entity can be included in more than one component reporting entity if administrative assignments have been made to multiple component reporting entities.

Ms. Loughan explained after further consideration, staff determined the same consolidation and disclosure requirements should apply to the Component Reporting Entity and Government-wide Reporting Entity. Therefore staff put the Component Reporting Entity section before the Consolidation and Disclosure requirements.

Ms. Loughan explained another important aspect for consideration in developing the component reporting piece would be the need for a coordinated implementation approach.

Ms. Loughan explained staff recommended a long implementation period because it may yield better results, attain the goal of consistent application, and allow for development of any needed GAAP implementation guidance. Therefore, staff recommended an implementation period of 4 years and wished to obtain the Board's feedback on this.

Ms. Loughan explained this was chosen because staff believes the central agencies would need time to produce guidance to assist agencies (similar to the procedures for legal representation letters and closing packages – some central agency involvement is likely to be needed). Staff asked for board feedback on the draft language and/or the recommended implementation period.

Mr. Showalter explained he believed the implementation period was too long. Mr. Schumacher agreed with Mr. Showalter and believed four years was too long. Mr. Reger suggested it may be not be long enough, but it is too early to determine.

Mr. Dacey explained four years does sound long but in terms of identifying the entities of core versus non-core that should be a two year project for the components to get that completed. His concern is that we will find entities that will have to be consolidated and they don't have financial statements and we won't have a process in place to address that.

Mr. Showalter explained he would rather go with a shorter period of time and then if necessary have the entities come back and explain they need more time. If not, we will be at four years and still end up with them coming back and saying they need more time.

Mr. Granof explained that entities know this ED is in draft so they are aware it is coming in the near future. He doesn't believe a long period is necessary.

Chairman Allen stated he would rather expose it with a shorter implementation period because you can't tighten requirements.

Mr. Schumacher suggested we could ask a question regarding the process for implementation and/ or the implementation period.

Mr. Steinberg asked what would happen during the implementation period.

Mr. Dacey explained it would have to be a coordinated effort because the agencies can't decide what is core independent of the consolidated effort.

Mr. Reger explained there would be an assessment by the components. He isn't sure if it will take 3 or 4 years, but he agreed it will require a plan and coordinated approach.

Mr. Dong asked what our understanding is of the anticipated cost.

Mr. Reger explained if the entities from the assessment are basically all the known entities—presently consolidated, disclosed or related party—there would be minimal cost as we wouldn't be putting much additional costs other than those associated with some additional disclosures.

Mr. Dong confirmed that we don't anticipate significant cost from implementation of the standard. Mr. Reger explained the main question in determining the cost is if we know all the organizations that exist or must be considered and the effort to get them in the right bucket.

Mr. Dacey explained the importance in consistency in application. Mr. Reger noted the effort will be on the agencies. Mr. Reger believed at least 3 years would be needed and whether more time would be needed--that would depend on the first step in the process.

Chairman Allen explained that he would anticipate OMB would be an active participant in the guidance.

Mr. Reger noted there is still a public hearing and additional time and that he will be prepping agencies and getting the word out.

Ms. Payne noted the provisions that might allow for cost savings for entities such as the Tennessee Valley Authority (TVA) and asked whether a quicker implementation for such provisions might be warranted (meaning certain provisions would be implemented earlier than others).

Mr. Dacey noted that it is hard to pick a date at this point and thought it would be better to lay out a timeline that would incorporate all of the necessary steps that they foresee in the process.

Chairman Allen said he thought laying out a timeline would be a great idea. He encouraged Mr. Dacey to recommend the amount of time he thought agencies could implement the standard in and then expose that effective date for comment, rather than adding years to that time.

Chairman Allen said the board should expose the shortest reasonable amount of time so that users can have the information as soon as possible. If the board receives feedback that the implementation period is too short, then the board can extend it when they issue the final standard.

Mr. Dacey said he would hope that however long the time frame is, agencies would not start implementing at the end of that timeframe. He would envision that the timeline for implementation would start with day one when the standard is first issued.

Mr. Steinberg asked if that would be called an implementation period or pushing out the effective date. Chairman Allen said the time period between when a standard is issued and when it is effective should be viewed by agencies as an implementation period.

Mr. Dacey said the challenge is that this standard is not something that can be implemented early; it needs to be consistently implemented. There should be one implementation date for all agencies.

Mr. Steinberg responded that the standard should explicitly state that.

Mr. Reger asked the board to let them incorporate that into the timeline that they develop because there is some discussion about the Tennessee Valley Authority (TVA) and other organizations that may want to jump on the standard as soon as possible to reduce their burden.

Misleading to Exclude

Ms. Loughan directed members' attention to the revised ED that was placed at the members' table and incorporates comments received from members since the version that was distributed in the meeting binder.

Ms. Loughan stated that she welcomes comments from members on the entire ED but particularly wanted feedback on paragraphs 58 and 59 of the revised ED. She explained that the edits were made to address comments received on the prior ED since binder materials were distributed. She asked if the example provided in paragraph 58 for "misleading to exclude" should be maintained. Ms. Loughan noted that the example is intended to prompt the reader about the types of things to think about and is not meant to draw a certain conclusion.

Paragraphs 58 and 59 from draft ED:

Misleading to Exclude and / or Misleading to Include

58. There may be instances where an organization is not administratively assigned to the component reporting entity based on the principles in paragraphs 54-57, yet the component reporting entity GPFFR would be misleading or incomplete if the organization were excluded. If so, such organizations should be included in the component reporting entities' GPFFR.[31] For example, two organizations with a common mission may jointly plan and execute programs such that it would be misleading to separately report on the results of their activities.

59. There may be instances where administrative assignments of core entities based on the principles in paragraphs 54-57, would result in misleading presentation. For example, an organization may have been legally established within a larger entity while being authorized to operate independently. While such conditions are expected to be rare, if it would be misleading to include the organization in the component reporting entity GPFFR, the organization may be excluded so long as it prepares its own GPFFR which is consolidated in the government-wide GPFFR.

[31] Although such situations would be rare, this Statement provides for situations that may arise.

Chairman Allen said he was fine with the example in paragraph 58 but was not certain what staff was trying to convey in paragraph 59.

Ms. Loughan explained that staff revised paragraphs 59 and 60 to clarify that the "misleading to include" would only apply to core entities; she stated that staff did not believe there would be instances of non-core entities that would be "misleading to include."

Ms. Loughan noted that the revised ED (with marked changes provide at the Board meeting) also contained editorial changes from members that streamlined the ED and made the descriptions clearer.

Mr. Granof stated that he did not understand the example in paragraph 58.

Chairman Allen said he had never seen "misleading to exclude" defined. He noted that it had been there as a very brief "catchall." He stated that the more it is explained, the more likely it is to be misinterpreted. Chairman Allen said he believes that the mention of "misleading to exclude" should be as brief as possible. He asked other members if they had ever seen "misleading to exclude" defined.

Mr. Steinberg responded that he believes the example is an attempt to address a concern he raised about "misleading to exclude." He described a continually evolving relationship between the State Department and the Agency for International Development (AID) and stated that he does not know how the principle of "misleading to exclude" might affect that.

Ms. Payne stated that staff does not feel strongly about the example in paragraph 58 and if it is problematic, she suggested just deleting it.

Mr. Showalter noted that having a common mission as an example of misleading to exclude could be problematic because of how widely it could be interpreted.

Mr. Steinberg agreed with Ms. Payne's suggestion to delete the example.

Mr. Allen noted that illustrations and examples frequently drive output more than standards.

Mr. Granof noted that if we have an example, we should be setting a standard for it.

Since there were no objections, Chairman Allen directed staff to delete the example in paragraph 58 and be as concise as possible when referring to the principle of "misleading to exclude."

Consolidation of Core Entities

Mr. Dacey asked if the standard has a provision to ensure that the same core entity is not consolidated in the financial statements of more than one component reporting entity because it would create significant problems in the governmentwide consolidation. He noted that reporting of non-core entities is clearly explained but he was not certain that core was as clear.

Ms. Payne said she thought the standard contained language that stated that core should not be consolidated with more than one component reporting entity. She stated that staff would draft language to address that concern.

OMB Administratively Assigned Entities

Mr. Dacey noted that the board had discussed situations where OMB may administratively determine whether a core entity is consolidated under a particular component reporting entity but he was not clear how those situations fit into the criteria that were currently included in the draft ED.

Ms. Loughan responded that staff believed the example they had discussed in the past—Pension Benefit Guaranty Corporation (PBGC)—would be addressed by the "misleading to include" principle described in paragraph 59. She stated that staff had reviewed the factors that were considered in the OMB waiver that specifically addressed the decision about PBGC and looked at the criteria in the standard from that perspective. She asked if the board wanted more explicit guidance for situations where OMB administratively determines how an entity should be consolidated.

After a brief discussion by members, Chairman Allen asked staff to consider Mr. Dacey's concern and come back with a recommendation at the next meeting.

Paragraph 54 Wording

Mr. Allen noted that the wording in paragraph 54 seemed to be inconsistent with the requirement in paragraph 37 that all entities included in the budget are core entities. Ms. Kearney recommended the edits below (see strikethrough and underline).

54. Core and non-core entities subject to the budget approval and oversight process of the component reporting entity head should be included in the component reporting entity GPFFR. Each component reporting entity should include ~~all core and non-core reporting entities~~:

   a. all core reporting entities listed within its section of the Budget of the United States Government: Analytical Perspectives- Supplemental Materials schedule Federal Programs by Agency and Account unless they are non-federal organizations receiving federal financial assistance or

   b. all non-core reporting entities included within its Congressional Budget Justification.

The members agreed with Ms.Kearney's proposed revisions to paragraph 54.

Administrative versus Procedural

Ms. Kearney noted that the use of the term "administrative purposes only" in paragraph 60a may be confused with the term "administratively assigned" and suggested that the term be revised to "procedural purposes only." There were no objections to the suggestion.

<u>Use of Principles Issued by the Financial Accounting Standards Board</u>

Mr. Dacey noted that the last sentence of paragraph 63 reads "Consolidated reporting entities (i.e. the consolidated government-wide entity or a consolidated component reporting entity) should consolidate component reporting entity or sub-component financial statements for core entities prepared in accordance with SFFAS 34 without conversion for any differences in accounting policies among the entities." He expressed concern that differences in GAAP may result in material intragovernmental differences that will need to be adjusted. He provided the example of the U.S. Postal Service (USPS) expensing their pension cost as they make payments to their multiemployer pension plan rather than recording total accrued pension cost with an associated liability as the pensions are earned. He asked whether the requirement to provide the necessary information for material intragovernmental adjustments should be specifically addressed in the standards or just administratively required by Treasury as they prepare the consolidated governmentwide financial statements.

After a brief discussion by members, Mr. Allen directed staff to develop the wording and placement of a requirement that entities provide that information and come back to the board with a recommendation.

Description of Core Entities

Mr. Steinberg noted that paragraph 35 describes core entities as entities that “generally provide federal goods and services on a non-market basis. Such entities are financed primarily through taxes, fees, and other non-exchange revenues as evidenced by inclusion in the budget. Significant risks and rewards fall to the taxpayer for core entities.” He noted that there are federal entities such as TVA and USPS that do not meet the definition of core entity and asked if the board was comfortable if those entities became non-core.

Mr. Dacey pointed out that paragraph 37 states that entities listed in the budget are presumed to qualify as core entities so those entities would be considered core even though they do not meet the general description of core entities.

Mr. Steinberg responded that since being in the budget is the first test of whether an entity is a core entity or not, paragraph 37 should be before paragraph 35 that describes the general nature of core entities. He noted that placement would be more in agreement with the accompanying flowchart as well.

There was no objection to Mr. Steinberg’s suggested edit.

Paragraph 66

Mr. Steinberg stated that the negative language in paragraph 66— “Non-core entities need not be grouped by type”—seemed unnecessary since the board does not require entities to be grouped by type.

Ms. Loughan responded that the sentence had been included to address the board’s concern that entities may think they need to group the non-core entities by the types that are listed in the standard.

Ms. Payne suggested that the wording could be revised to state non-core entities may, but need not, be grouped by type.

Chairman Allen noted that grouping by type could be troublesome when significant and non-significant entities are grouped together by type since the standard requires additional disclosures for significant non-core entities.

Mr. Dacey responded that the necessary disclosures are well-described beginning in paragraph 68 and suggested that the first sentence in paragraph 66 is not necessary or could be incorporated into paragraph 68. The rest of paragraph 66 is just describing what is coming ahead in the standards.

Mr. Allen asked staff to combine paragraph 66 with paragraph 68 and work on wording to present to the members at the next meeting.

Paragraph 71

Mr. Steinberg stated that paragraph 71g—"Key terms of contractual agreements, statues or other legal authorities regarding potential financial impacts…"—should be placed further up on the list, probably after 71c, because he feels that it is important and should come before the rest of the disclosures.

Ms. Payne responded that staff did not move it up because the focus is on "potential financial impacts" which implies risk and is generally less concrete than financial statement elements.

Mr. Steinberg said he would want to know the key terms of contractual agreements, statues or other legal authorities, not just the potential impact resulting from them.

Ms. Loughan responded that used to be a separate disclosure but the two had been combined together.

Ms. Payne acknowledged that the list was to be revised given earlier decisions. Staff will consider the concern raised and perhaps it can be resolved in the re-write.

Management Policies versus Financial and Operation Policies

Mr. Steinberg questioned how paragraph 27c—"direct the governing body on the financial and operating policies of the organization," which is a persuasive indicator of control—differs from paragraph 28i—"establish, rescind, or amend the organization's management policies," which is not a persuasive indicator of control and must be considered in the aggregate.

Mr. Showalter said he read the two differently; 27c is more of the day-to-day responsibility for doing and 28i is establishing. He does not know if that was what was intended by the separation.

Mr. Dacey agreed that he saw the two the same as Mr. Showalter; the first is more about directly operating and the second is more about establishing.

Mr. Schumacher agreed that 27c seems to relate more to day-to-day operations.

Mr. Steinberg responded that one does not direct policies on a day-to-day basis; one directs operations on a day-to-day basis; paragraph 27c states that the federal government has the authority to "direct…policies."

Chairman Allen directed staff to reword the requirements in paragraphs 27c and 28i so that it clarifies the board's intent—the persuasive indicator of control is being more involved in operations (he would not use the term "day-to-day") and the non-persuasive indicator to be considered in the aggregate is the overarching policies.

Mr. Dacey pointed out that paragraphs 27a, b, and d have pretty significant involvement; c should be worded similarly.

Paragraph 69

Mr. Dacey stated that the language in paragraph 69—"Disclosures should be integrated, concise, meaningful and transparent"—is troubling to him as an auditor. He has trouble with the use of the words "concise, meaningful and transparent" in a "should" statement. He stated that he does not have suggestions but would propose new language for that paragraph for the next meeting.

TAB C – CONCEPTS STATEMENT

Ms. Loughan explained the objective of the tab was to decide how to present amendments to Statement of Federal Financial Accounting Concepts 2, Entity and Display, and discuss the areas identified for amendment. Staff noted early in the development of issues, the Board elected to establish standards and to address any improvements to the concepts as a secondary effort.

Staff considered procedures for amending the concepts and is seeking input from members regarding the appropriate means to propose amendments. Staff explained the memo offers two options-- Issue one Exposure Draft- Include the amendments to SFFAC 2 in the Exposure Draft (ED) Identifying and Reporting upon Organizations to Include in General Purpose Financial Reports with the new proposed standards. Staff notes the Board has used this approach before and modified Concepts Statements in previous Standards. The advantage to this approach is that it may be more efficient for respondents by only requiring one document for review and response. Further, it may be clearer to respondents as like issues are grouped in one document.

The second option is to issue two Exposure Drafts- Issue joint exposure drafts with one proposing standards and the other proposing amendments to concepts. An advantage to this approach is that it provides two shorter and crisp documents that are focused on either standards or concepts. A disadvantage is that it may not be as efficient to respondents who must respond to two EDs.

Staff explained the memo offered additional pros and cons for each approach, but staff believes because FASAB has modified concepts through standards before, it has set a precedence and a means that appeared to work. Staff noted we have not found that preparers or auditors are confused regarding the application of the GAAP hierarchy. Staff believes considering the resource constraints throughout the financial management community and at FASAB, the most efficient means of issuing the amendments and receiving feedback should be considered first. Therefore, the potential cost savings in providing one ED appear to make that the best alternative. Therefore, staff recommends issuing one ED that includes the amendments to SFFAC 2 along with the standards.

Ms. Kearney expressed a concern that the proposed amendments to the concepts statement may distract respondents away from the more important core requirements of the standard but noted that she was not opposed to including the amendments in the existing ED.

Chairman Allen responded that the questions for respondents could include a single question on the “conforming amendments” that specifically targets the amendments and the remaining questions would focus the respondents’ attention on the core requirements of the standard.

Mr. Dacey agreed that a single ED would be fine; he said he believes the questions could be targeted to “conforming amendments” so that respondents do not get confused with the central issue.

The members unanimously agreed that staff should incorporate the conforming amendments to SFFAC 2 into the existing ED on the federal reporting entity and specifically frame the section on “conforming amendments” and the related questions so that it is clear that these amendments are being made as a result of the proposed standards.

Chairman Allen then asked staff to address its second question: Does the board wish to make the minimal deletions to SFFAC 2 or would it like to consider other improvements to the language that remains?

Staff responded that initial changes that have been identified thus far are (1) more consistent use of the term entity versus organization and (2) deletions for material that will now be covered in the standards or has been included in the preamble to the concepts statement. The changes will be minimal even if they do a sweep for conforming language.

Members unanimously agreed that staff should make conforming changes to SFFAC 2 and clean up inconsistent terminology throughout SFFAC 2 as long as the effort spent beyond the required amendments is minimal.

Mr. Dacey then added that he agreed with the deletion of the old language from SFFAC 2 but asked if some of the language from the draft standard that might be considered conceptual in nature would also be included in SFFAC 2 to replace some of the text that is being deleted.

Ms. Loughan responded that staff envisioned one or two bullets would be incorporated into SFFAC 2 but not a lengthy discussion; they were planning to keep the changes to SFFAC 2 at a minimal level.

Mr. Dacey said he thought SFFAC 2 should include a couple of paragraphs to explain the concepts behind the standard being proposed.

Mr. Allen asked staff to consider proposing some language for SFFAC 2 in response to Mr. Dacey’s suggestion.

TAB D – ILLUSTRATIONS

Ms. Loughan explained Tab D presented draft illustrations in applying the standards of the Exposure Draft Identifying and Reporting upon Organizations to Include in General Purpose Financial Reports. She explained the objective is staff hoped to gather feedback on the depth of analysis included in the illustrations, whether any other illustrations that should be developed, and input on the specific decisions illustrated in the analysis and whether members might disagree with some conclusions reached.

Ms. Loughan explained that previously the Board had noted some concern with the format of the illustrations. The Board had expressed an interest in seeing a table presented and also believed the analysis should be brief.

Ms. Loughan explained the illustrations analyses were streamlined and a table was presented summarizing the analysis. Staff believes the concise analysis and table can be linked to the structure of the exposure draft and flow chart.

Staff believes the level of detail presented for each illustration provides the key information necessary to make decisions regarding the inclusion principles and core/non-core attributes while. Staff also kept in mind the Board’s concern that preparers may apply the illustrations literally and therefore did not use any known examples.

Ms. Loughan asked the members for specific feedback or suggestions.

Chairman Allen stated that he had trouble figuring out which agencies the illustrations were intended to represent.

Ms. Loughan responded that some of the illustrations were modeled after existing organizations but many variables had been changed to make unique illustrations that were representative of the different types of organizations but not exactly like any particular one; others were entirely made up with no basis in an existing organization. This was intentional because the illustrations are intended to be used as a guide in implementing the standard and not as a direct application for any particular organization.

Mr. Granof said he would like to see an example for the National Central Bank, the U.S. Mail Delivery Service, and Sarah’s Housing Finance Agency. There is an example that is based on the Smithsonian but that is a rounding error in the consolidated financial report (CFR); there should be illustrations that deal with what really matter in the CFR.

Chairman Allen said it is difficult to pick something that there is only one of and create a generic example.

Mr. Granof responded that is precisely his point; he thinks the board ought to address the Federal Reserve explicitly. He emphasized that the board cannot pretend that the Federal Reserve does not exist; it needs to be addressed either in the illustrations or the

Basis for Conclusions. He believes the board will lose credibility if it does not address the Federal Reserve explicitly.

Chairman Allen acknowledged that the draft standard does not tell every component reporting entity exactly how to apply the criteria, but he feels comfortable that they have drafted a standard that captures all of the organizations Mr. Granof mentioned.

Mr. Steinberg responded that Fannie Mae and Freddie Mac are captured as intervention activities, not as government-sponsored enterprises (GSEs).

Staff responded that a GSE could be classified as either a quasi-governmental (non-core) entity or a related party and would be captured under those standards.

Mr. Steinberg said there are many additional entities that may need to be considered in the illustrations, such as the Public Company Accounting Oversight Board, the Securities Investor Protection Corporation, and the U.S. Institute of Peace.

Ms. Payne responded that staff has not evaluated every entity to determine whether they should be consolidated or not. If the members want staff to develop an illustration for each entity, it would take a very long time.

Mr. Steinberg said he is looking toward the future and eliminating numerous telephone calls to FASAB with specific questions about how a particular entity should be reported.

Ms. Payne responded that when they get telephone calls now, it is frequently because SFFAC 2 has only one path: consolidation. The draft standard allows for disclosure in addition to consolidation depending on the criteria for core and non-core. Ms. Payne said she expects to get less calls in the future than they currently do because of the additional reporting options resulting from the core/non-core split.

Mr. Showalter said the illustrations should include a scenario that addresses each of the criteria in the proposed standard. He suggested applying the criteria to additional entities for the benefit of the board to determine if the standard is sound, but not necessarily for formal illustrations.

Chairman Allen stated that he had not previously thought that in applying the standard GSEs would be excluded. He said it would be a good idea to pick a GSE to informally run through the criteria and see how it applies.

Mr. Dacey said he has concerns about the wording of the illustrations because they have conclusions that use the word “should” even though the facts that are described to reach that conclusion are not all-inclusive and at times not very specific. He noted that the illustrations also use terms that are not exactly the ones that are used in the criteria in the draft standard. Therefore, the illustrations seem to be, in some cases, making assumptions that are subjective and not based on all of the facts one would actually need to come to an informed conclusion.

Mr. Dacey said he believes some of the answers will be clear-cut (in the budget) versus others that may be very complex and require a whole range of factors to be considered before reaching a conclusion. Therefore, he would like to find a way to make the illustrations useful while avoiding reaching conclusions that might be misleading and cause someone to make inappropriate decisions based on the examples.

Mr. Granof agreed that was a legitimate concern, stating that each of the decisions in the examples should follow the boxes on the flowcharts and if something is not clear, then the example should state “assume this.”

Mr. Dacey said that, if too simplified, would in effect be repeating the flowchart and perhaps not helpful.

Chairman Allen asked Mr. Dacey and the other board members to read the illustrations closely and help identify areas where they think the information is based on assumptions that are not clearly noted as such in the examples.

Chairman Allen also suggested that staff revise the examples to provide the key facts and circumstances and then, in the conclusion, describe how entities might reach a conclusion based on the key facts and circumstances provided (i.e., these facts and circumstances point to core while these facts and circumstances point to non-core), rather than coming to a bright line conclusion.

Mr. Dacey said that would be helpful; he is concerned that the bright line conclusions may mislead people.

Mr. Bell stated that the disclaimer in the preamble to the illustrations could also be beefed up to address the members’ concerns (e.g., “not knowing all the facts and circumstances, others may reach alternative conclusions…”).

Ms. Payne summarized that the board’s direction on including other entities in the sample illustrations was to include enough organizations to show variety but not to be all-inclusive.

Mr. Showalter clarified that the driver should be criteria rather than organizations; there should be enough examples to demonstrate how each of the criteria should be applied.

Mr. Dong asked if the examples should also include entities that are exceptions, meaning they meet the criteria but are an exception because, for example, they only exist because of an intervention.

Members agreed that the examples should be all-encompassing and address examples of items that are core and non-core, as well as neither because they are an exception.

Mr. Dong asked if Bicycle America Scenario B should explicitly state that the “government’s intervention with the company did not constitute intervention for exceptional circumstances.”

Mr. Dacey agreed that should be another item that should be clarified as they work through the examples.

Chairman Allen thanked staff and concluded the session.

Conclusion: The following decisions were made:

1. Treasury will provide the Board with another draft disclosure regarding the Federal Reserve.

2. Staff will present options for defining Related Party at the June meeting.

3. Staff will revise par 71 to make the listed items conditional requirements ("if this applies, then provide this").

4. Mr. Dacey will work with the other central agencies to develop a timeline that would incorporate all of the necessary steps and milestones that they foresee in the process for the implementation guidance; this will assist the Board in determining the appropriate implementation period.

5. Staff will add a provision to ensure that the same core entity is not consolidated in the financial statements of more than one component reporting entity

6. Staff will consider whether more explicit guidance is needed for situations where OMB administratively determines whether a core entity is consolidated under a particular component reporting entity.

7. Staff will consider the issue and provide a recommendation to the Board on whether the requirement for material intragovernmental adjustments resulting from the consolidated FASB core entities should be specifically addressed in the standards or administratively required by Treasury. If necessary, staff will develop wording and a requirement to provide the necessary information for differences in GAAP that may result in material intragovernmental differences that will need to be adjusted.

8. Staff will incorporate agreed upon wording changes and suggested language revisions into the ED. For example—the Board agreed to delete the example in paragraph 58. There were several other changes agreed upon and detailed in the minutes.

9. Members unanimously agreed that staff should incorporate the conforming amendments to SFFAC 2 into one ED on the federal reporting entity and specifically frame the section on "conforming amendments" and the related questions so that it is clear that these amendments are being made as a result of the proposed standards.

10. Members unanimously agreed that staff should make conforming changes to SFFAC 2 and clean up inconsistent terminology throughout SFFAC 2 as long as the effort spent beyond the required amendments is minimal.

11. Staff will ensure SFFAC 2 includes an explanation of the concepts behind the standard being proposed.

12. Staff will ensure the Illustrations cover all criteria (at least one for each inclusion principle and misleading to exclude) and a variety of non-core (interventions, quasi-governmental, receivership/conservatorship.), plus some exceptions.

13. Staff will revise the Illustrations to ensure only key facts and circumstances are provided and then, in the conclusion, describe how entities might reach a conclusion based on the key facts and circumstances provided (i.e., these facts and circumstances point to core while these facts and circumstances point to non-core), rather than coming to a bright line conclusion.

14. Staff will make other wording and organizational changes stated above.

- **Federal Reporting Model**

Overview

During the April 2012 meeting, staff proposed segmenting the reporting model project into three separate projects – improving the statement of net cost, performance reporting, and budgetary reporting. Conducting the three projects would not mean that the Board has concluded the reporting model project because the Board may choose to conduct other projects to enhance the model in the future. The Board discussed the proposed projects and agreed to move forward with each of them. Each of the projects engages a task force and, after discussing issues with the task forces, staff will provide the Board with more in depth plans for continuing the projects and the expected outcomes. This information will be provided during the October 2012 meeting. Details of the reporting model discussion follows.

Details of the Reporting Model Discussion

Mr. Allen noted that based on discussions with focus groups and the Board, staff has presented three proposals for going forward with the reporting model project. The proposals involve improving the statement of net cost, performance reporting, and budgetary information. Each project can make an important contribution to financial reporting, but each presents some challenges. Also, each will begin with a task force which can provide the Board with more information about each area. Mr. Allen asked members to prioritize each project to identify the most important focus.

Mr. Showalter noted that he was not sure how the three projects would fit into the big picture and, once completed, would the Board be satisfied that the projects accomplished what was intended for the overall reporting model project. The Board has been informed that the financial statements are confusing and do not articulate; however, the proposals only appear to focus on one statement – the statement of net cost. Also, the agencies plan to present a proposal for a statement of spending. The reporting model project began with the intent of determining how best to improve the overall model.

Mr. Allen noted that he sees the reporting model project as a broad, continuing project and that the three staff proposals are simply three specific segments within the overall reporting model project. He did not believe the reporting model project would be completed once the three proposed segments were completed. There are other projects that could also be conducted with respect to the reporting model.

Mr. Simms noted that, as part of the projects, a task force will consider how cost information should be presented, given that different users seek different perspectives. The Board has accumulated substantial feedback from users that the task force could use. For example, at the government-wide level, budget functions may be more meaningful than agency names. Also, during the February 2012 meeting, the Board noted that agencies are using a variety of presentations for reporting net cost. The task forces could help determine what presentations would be meaningful at the agency level and could help in providing a more meaningful analysis at the government-wide level.

Mr. Dacey noted that responsibility segments are intended to be driven by strategic planning and performance. The question may be whether there should be some supplementary information that could be presented that would break-down net cost in different ways. Mr. Simms noted that the project could look at basic financial statement presentations of cost information and supplementary schedules that provide different perspectives.

Mr. Simms noted that each of the projects would be conducted concurrently so that they could inform each other. Users appear to seek information that relates to what was planned for the period, what costs were incurred, and what was accomplished (outputs and outcomes). Also, managers may use cost information to develop their budgets for the next period. Thus, the three projects are interrelated.

Mr. Simms also noted that the statement of budgetary resources may be challenging for citizens and other external users to understand. Additionally, they may not be able to see matters such as the growing level of mandatory spending versus discretionary spending, which are governed differently. However, the statement of budgetary resources does subject certain budgetary items to audit and provides internal users (such as budget analysts) with some assurance as to the reliability of those items. Thus, if the Board would like to present budgetary information to citizens, some improvements may be needed.

Mr. Steinberg noted that there is a void in the information being provided. There is a desire to see how much was spent versus the amount of budgetary resources made available.

Mr. Dacey noted that disaggregation appears to be the issue in each of the projects. Users appear to want more detail, but the face of a financial statement is fairly aggregated. Are we really discussing ways of presenting information in a disaggregated format, such as in the notes, required supplementary information, or other means rather than a major restructuring of the statements?

Mr. Steinberg noted that form and content guidance for the statement of net cost requires reporting of expenditures so that they align with strategic goals. Office of Management and Budget Circular A-136 states that "the SNC should show the net cost of operations for the reporting entity, as a whole, by major program, which should relate to the major goal(s) and output(s) described in the entity's strategic and performance plans, required by GPRA." However, the guidance also states, "the term "major program" may describe an agency's mission, strategic goals, functions, activities, services, projects, processes, or any other meaningful grouping." This sentence may cause some confusion and results in about half of the agencies presenting cost by strategic goal while others report cost by other means such as organization, fund, program, and appropriation. Mr. Steinberg believes that cost should be presented by strategic goal on the face of the financial statements and disclosures could provide cost by programs. This would help improve cost accounting and performance reporting.

Mr. Granof noted that the way to address the issue of more detail is to provide links or drill-down capability.

Mr. Dong noted that if there is inconsistency in reporting net costs and there is a greater need to address the performance information, the statement of net cost and performance reporting projects could be conducted concurrently, while the budgetary reporting project could be conducted at another time.

Mr. Steinberg noted that he would prefer to work on the net cost and budget project because he could envision a statement that could address both. Ms. Payne noted that the Board's Reporting Model Task Force recommended a statement showing net cost and spending side-by-side. The statement could address the cost and budgetary perspectives.

In response to a question regarding the Board's role with respect to budgetary reporting, Ms. Payne explained that the Board would consider the minimum information needed for presentation in a basic financial statement. However, the Board would not say how to score the budget information and would not define terms. For historical context, members could consider Statement of Federal Financial Reporting Standard 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. The standard requires a statement of budgetary resources and a reconciliation of budgetary information to net cost. So, the Board would not change budgetary definitions and scoring rules but could ask for a presentation and audit of budgetary information.

Also, regarding the schedule of spending, Ms. Payne noted that the schedule primarily presents budgetary information and would be considered in the budgetary reporting project, including the results of agency pilot testing.

Mr. Steinberg agreed that the Board would not be setting budgeting standards, but reporting actual spending and comparing it with the budget enacted by Congress (using their standards and processes).

Mr. Dacey noted that the Association of Government Accountants (AGA) is engaged in a project to determine how to improve the preparation of the government-wide statement that reconciles the accrual basis net cost to the budget deficit. Part of the issue is that, currently, the statement is not driven from the outlays and receipts reported in the agencies' audited statements of budgetary resources. Members also discussed that the budgetary project could consider potential ways of reporting complex budget issues such as indefinite appropriations.

Members discussed their prioritization of the projects as follows:

Member	Statement of Net Cost	Performance Reporting	Budgetary Reporting	Comments
Showalter	1	3	1	Prefers linking the statement of net cost and budget projects.
Schumacher	1	2	1	Would like to see all three projects performed. They would not be the end of the overall reporting model project. The reporting model project is a continuous project.
Dacey	2	1	2	There is a need to improve the reporting on what we are getting for what we are spending. Prefers not to spend a lot of resources on statement of net cost and budgetary reporting.
Dong	2	1	2	The greatest need is in the area of performance reporting - being able to articulate what we are actually achieving for the dollars being spent.
Allen	1	2	3	Considered what projects would have the greatest chance of success.

Member	Statement of Net Cost	Performance Reporting	Budgetary Reporting	Comments
Bell (representing Mr. Reger)	1	1	2	There is a link between cost and performance. Also, budgetary information is important. A challenge may be determining how to define a program.
Steinberg	1	2	1	We have been hearing more concern about cost and budget information.
McCall	3	1	2	The task force for performance may be different from the others. Also, performance reporting may be less challenging at the federal level than at the state and local government level. There is one federal government, but many state and local governments. Additionally, the task force may be able to learn from the AGA Certificate of Excellence in Accountability Reporting program.
Granof	Integrating the statement of net cost and budget is doable and could be accomplished fast. Also, integrating cost and performance is a more interesting and imaginative project. With these projects, the Board has an opportunity to develop something truly progressive and should not be wedded to traditional reporting.			

Mr. Allen noted that there appears to be support for each of the projects. Also, each of the projects involves a task force and, at least for the next two meetings, Board resources would not be required.

The Board agreed that staff should go forward with each of the projects and, at the October 2012 meeting, report back with more detail on the plans for continuing them and their expected outcomes.

> **Conclusion:** Staff will proceed with the statement of net cost, performance reporting, and budgetary information projects and, at the October 2012 meeting, provide the Board with more in depth plans for continuing the projects and their expected outcomes.

- **Steering Committee Meeting**

The Steering Committee reviewed the updated budget information and the status of pending appointments. No decisions were reached.

Adjournment

The Board meeting adjourned for the day at 5:00 PM.

Thursday, April 26, 2012

Agenda Topics

- **Mission Statement**

Ms. Payne began the discussion of the draft mission statement by noting that the 1991 mission statement goes beyond a typical mission statement since it also addresses the process followed in meeting the mission. She suggested that members first focus on the single sentence conveying the mission in 1991 and in draft today.

> 1991: The mission of the FASAB is to recommend accounting standards to the JFMIP principals after considering the financial and budgetary information needs of congressional oversight groups, executive agencies, and the needs of other users of federal financial information.
>
> Draft: The FASAB serves the public interest by establishing generally accepted accounting principles for federal government reporting entities after considering the needs of external and internal users of federal financial information.

Mr. Allen noted that we have created documents since 1991 that identify users and those users are not reflected in the mission statement. Mr. Steinberg noted that he believes the only key difference is that we now issue standards and use of the term “recommend” may be outdated.

Mr. Showalter thought the wording was a great improvement but wondered if the term “financial information” could be read to exclude performance information. He referred to the fact that performance information is one of the three elements of the reporting model project the Board is considering to explore.

Mr. Granof disagreed – he views performance information as financial information. Mr. Showalter acknowledged Mr. Granof’s views and inquired whether that view is widely held by most preparers and users.

Mr. McCall noted that GASB believes financial reporting includes both financial statements and performance information. Mr. Showalter indicated that view has been challenged by others, such as the GFOA. Mr. Steinberg noted that we all support the notion that financial information includes performance information. He felt that taking up the challenge before it has been raised by others would give credence to the view that it does not.

Mr. Dong asked if there was a need to focus on the broader goal of improved financial reporting. He also asked about the term “establishing” versus the term “recommending.”

Ms. Payne noted the tension between the terms and indicated that the term “developing” was sometimes used as a substitute. Mr. Dacey suggested “issuing standards and guidance.”

Members agreed. A rough draft was provided as follows:

> The FASAB serves the public interest by improving federal financial reporting through issuance of accounting standards and guidance for federal government reporting entities after considering the needs of external and internal users of federal financial information.

Members agreed this captured all the key points but should be polished.

It was further decided that headings were needed for the two sections that follow the one-sentence mission statement.

Mr. Steinberg asked where performance reporting would be addressed. Mr. Schumacher pointed to the text addressing efficiency and effectiveness. He believed that this requires performance reporting.

Ms. Payne explained the final section addresses the qualitative characteristics and external mandates (or expectations).

Mr. Dacey asked if “consideration of stakeholders views” belongs in number one to guard against the appearance that other standards-setters views take higher priority than stakeholders. Members agreed to combine include stakeholders in item one.

Mr. Dacey noted that other standards-setters include an educational objective.

Mr. Steinberg inquired whether we should be concerned with meeting the expectations of the AICPA. Mr. Allen noted that the discussion of the structure we operate under accomplishes that goal. He doesn’t oppose including it but doesn’t see the need. Ms. Payne noted that each of the criteria for a GAAP standards-setting body (independence, due process, etc…) were mentioned in the draft.

Mr. Steinberg said it was odd to be explicit about abiding by the memorandum of understanding (MOU) without mentioning the AICPA.

Mr. Showalter noted that this is what is unique about us as a standards-setter. The other US standards-setters do not operate under an MOU but are subject to the same expectations from the AICPA.

Mr. Allen suggested deleting the final item – open meetings as required by the Federal Advisory Committee Act.

Mr. McCall questioned whether “responsibility” should replace “duty” in the second paragraph. He felt responsibility was more appropriate. Mr. Dacey endorsed the change since duty is an absolute requirement. He felt responsibility was more appropriate. Members approved the change.

Ms. Payne explained that she had included “education” but felt that it would be difficult given the resource constraints to “ensure” that goal is met. The items listed under “ensure” stems from mandates and there is no education mandate. Mr. Allen preferred to include education in the preamble. Other members suggested revising the word “ensure” to something else.

> **Conclusions:** Ms. Payne will circulate a revised draft mission statement for comment and seek approval before the next meeting.

- **Strategic Planning**

Ms. Payne explained that members had requested an update regarding the Department of Defense’s pending request to revisit accounting for military equipment. The update would assist the members in deciding whether the technical agenda should be adjusted. She noted that Mr. Reger and Mr. Dong would provide the update.

Mr. Dong explained that DoD plans to resolve their audit issues by 2017. The first priority is to address the Statement of Budgetary Resources. DoD does intend to come to the Board in 2013 to address military equipment. This should allow sufficient time to meet their goals.

Mr. Reger noted that he is not certain that DoD has a firm proposal regarding military equipment. A number of options are on the table. He expects them to have a firm proposal in late spring or early summer 2013.

Mr. Allen explained that he was concerned with the level of effort being undertaken. He thought the 90/10 rule applies to equipment—10% of the assets cover 90% of the value.

Mr. Dacey noted that it may be more complicated than that. He related that NASA had significant issues with developing a reasonable cost estimate and it was further complicated by contractor held property. Mr. Allen indicated that you could come up with policies that make it easier to track and over time come up with policies that meet management needs. He felt there were some poor reasons to shortcut management practices and that some practical solutions could lead to a clean opinion.

Mr. Dong indicated that they have a thoughtful plan to address the sequence of issues so they can get to a clean opinion. Mr. Reger noted that progress would build momentum but – at the same time – they needed to allow time to resolve standards issued.

Mr. Dacey noted that DoD is looking at existence and completeness of military equipment. He noted the challenge of doing that in the absence of valuation since valuation sets priorities for materiality purposes. He indicated that DoD does not view the valuation information as valuable to DoD personnel. He felt lessons will be learned in the process.

Mr. Allen noted that in the government, environment our concern with assets is more important in the cost of services context than in the balance sheet context. He is therefore very flexible about the balance sheet valuation. He said that was what drove the GASB 34 option to not depreciate assets you can demonstrate are being maintained.

Mr. Allen asked Ms. Payne what the next steps are. She indicated that the first question is whether the Board wishes to explore options in advance of any DoD request. Mr. Dacey asked what options could be explored.

Ms. Payne indicated that an inventory of options explored in the past was available and could be presented to members for preliminary discussions. Staff could begin foundational research regarding users needs. Questions to explore with users are whether they are interested in the cost of acquiring military equipment and the expected useful lives. In the past, roundtables with external users had been held.

Mr. Dacey indicated that background work was helpful but engaging in discussions in advance of DoD's request would not be helpful. He thought it would be helpful if DoD worked with Congressional staff to determine their information needs. He thought there was a user group on the Hill that would be interested. Such consultations would be an important part of DoD's own analysis.

Mr. Reger thought it would be helpful to remind DoD of the analytical process FASAB would expect to see. He was concerned if DoD thought an internal DoD decision was sufficient analysis, we may run into timeframe issues. He wondered if DoD understood the other steps and suggested a conversation regarding the calendar would be helpful. Ms. Payne noted that she has had these conversations with members of the FIAR staff in the past but would follow up in more detail.

Mr. Allen asked if there were other updates. Ms. Payne noted that the leases project is moving more slowly than anticipated. In addition, she explained that initial research regarding public-private partnerships had begun.

Ms. Payne advised members that staff is recommending that further effort on public-private partnerships (P3s) be deferred until such time as proposed standards are further developed in the leases and federal entity projects. Staff believes that many of the P3 structural and transactional issues will be addressed by the in-process projects mentioned above along with FASAB's existing accounting guidance. To that end, once we have proposed leases and federal entity standards in place, staff is recommending that the Board consider implementation guidance addressing application of those standards to P3s. Ms. Payne then went on to say that if the Board agreed with this approach she would reassign staff to work on the federal reporting model project.

Mr. Allen asked Ms. Payne to consider P3s as part of federal entity project's related party analysis. In this way, if a related party definition addresses P3s there may no need for this project to go forward.

Ms. Payne acknowledged the Chairman's request.

Mr. Dacey then asked if we knew to what extent these types of arrangements exist in the federal government. If we don't, a background project to solicit this information to ascertain its significance might be helpful.

Ms. Payne replied that staff has relied on existing reports such as GAO and CBO reports which reveal that most of the arrangements surround real property with the emphasis on how agencies are finding alternate ways to finance facilities construction and management operations. We do not have a federal-wide dollar figure available.

Mr. Dacey stated that he's interested in a general sense of the extent and nature of the arrangements in federal government; i.e., their significance. However, understanding what GASB and IPSASB have done in this area, beginning with a fairly broad range of arrangements, it turned out to be a time consuming and complex process.

Mr. Reger then asked if Mr. Dacey envisioned a survey document.

Mr. Dacey replied that he did not know the best way to gather such information. He noted that if other groups have already compiled this information we should consider those results. He does not advocate making this a big project but if there is some idle time, we should gather such data.

Ms. Payne noted that gathering dollar data will be problematic because of the inconsistent treatment afforded to these types of arrangements. For example, lease agreements that are structured as operating leases would not enable us to easily quantify such information. Ms. Payne then asked Mr. Dacey if he was asking the Board to postpone a decision to defer the P3 project.

Mr. Dacey replied in the negative. He does agree that the P3 project ties into the lease project and for that reason he agrees with the deferral, however, does deferral mean that we do nothing in this area in the interim? He suggested that information be presented to the Board on a gradual basis to help members better prepare.

Mr. Reger agreed with Mr. Dacey and noted that such information could also be helpful to the leasing project.

Mr. Showalter commented that he was surprised by the nature and diversity of these P3s relating back to the Chairman's earlier comment concerning related party definition and leasing. Getting additional information (i.e., an inventory) might be helpful in this regard.

Mr. Allen proceeded by asking members about government-to-government partnerships. He raised as an example the federal highway system. Are these arrangements between the federal government and a state a partnership or do we treat them as federal financial assistance? The specific question he found interesting is how states capitalize the entire infrastructure costs (inclusive of the federal contribution) and not just their share.

Mr. Steinberg asked how one would go about gathering the additional information (i.e., inventory).

Ms. Payne replied that some of the information will come from the leases survey. She noted that it will be very difficult to survey exclusively on P3s because they are so diverse and absent a definition or characteristics, we would be hard pressed to do an adequate inventory. The dilemma is that by expending effort to assemble this additional information (i.e., a sound inventory)), we treat this as a full project. However, when we expose the entity document, to the extent that there is (enough) control, agencies will uncover P3s that were created to, in essence, finance agency activities.

Mr. Steinberg agreed with Mr. Dacey that building such an inventory would be helpful to the lease and entity projects. A definition could be developed and sent out to our contacts. If we ask just about leases two things will probably come up; the concession arrangements at the national parks and IN-Q-TEL.

Ms. Payne replied that IN-Q-TEL is an important component to consider in the federal entity analysis which one may find as being a non-core entity. If so, would there be value in layering on a P3 standard when the entity standard would be sufficient to meet the reporting objectives via the non-core inclusion? This is why we are suggesting deferring the P3 project. Once the lease and entity standards are at a proposal stage, we can bring a P3 working group together to assess if the aforementioned standards are in fact sufficient and whether additional guidance might be necessary. Trying to develop an inventory without at least proposed lease or federal entity standards in place and without a P3 definition, it is unclear that we can have any confidence in the inventory.

Mr. Dacey then asked about the leases task force and if it was scheduled for this summer.

Ms. Payne replied in the affirmative.

Mr. Dacey went on to suggest that they might be able to address the P3 issues both from a private-public and public-public point of view.

Ms. Payne replied to the extent the P3s involved facilities and as such, she doubts getting a complete inventory from that task force. However, they can certainly be asked to provide information that would give us a piece of the picture.

Mr. Dacey thought that they might also extend to personal property. He made clear that he is not suggesting perfect knowledge or a complete inventory but rather a general sense of the type and nature of these arrangements so we can assess their significance. An inventory is more than what I was anticipating.

Mr. Allen stated that he could think of several examples of intra-governmental relationships such as concession agreements with national or state parks, drug enforcement programs, etc., where there are jointly funded efforts. Would this project look to cover such arrangements?

Mr. Reger noted that state and local governments are large partners but if the relationship is in the form of a grant, does that constitute a partnership for our purposes? What about a state government administering a federal program?

Mr. Allen replied by saying that most of those that Mr. Reger refers to are in fact grants. However, he clarified that he is referring to those relationships where there is a joint ownership or sharing of employees; e.g. drug enforcement programs.

Mr. Steinberg said that an example of what Mr. Allen was alluding to was the water reclamation projects in the western part of the country where formulas are used to establish contribution levels.

Mr. Allen went on to further state that in many of these cases, there is usually continued federal involvement.

Mr. Reger replied by stating that the Board may need to first define what a P3 is before proceeding, albeit a difficult task.

Mr. Dacey noted that we could approach the GASB staff to determine how exhaustive their definition is to see the nature of activities they consider to be representative of P3s.

Ms. Payne clarified that the GASB P3 project began broad but then concluded as a service concession standard. This could be precisely because it's an area that is difficult to get one's arms around.

Mr. Dacey acknowledged Ms. Payne's point but noted that because two Boards have already addressed this area there should not be a problem with issue identification. Although much of the discussions in these standards revolve around things like toll roads privately built or some other kind of revenue sharing arrangement, In application it might be broader.

Mr. Granof asked if the federal government ever built parking garages like many states do.

Mr. Allen replied that state capitols, like in Arizona's, case can be sold and then leased back and that New York has sold some of its prisons and highways as well.

Ms. Payne summarized by stating that it seemed as if the Board was reluctant to completely defer the P3 project and has a desire to see more illustrations of P3 arrangements.

Mr. Reger said that more discussion would be needed, but in the context of pre-work.

Ms. Payne stated that staff would come back at the next meeting with a suite of illustrations so the members can get a sense where the federal entity and leases project would be applied and to identify gaps, if any.

Mr. Allen clarified that Ms. Payne did not have to commit to the June meeting and that this is subject to having available resources and her judgment as to what is most important to accomplish. This can easily be on the August agenda for example.

Ms. Payne acknowledged that and noted that SFFAS 42, *Deferred Maintenance and Repairs*, Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32 was issued earlier in the day.

Ms. Payne asked whether members had other questions or suggestions regarding the technical agenda. Mr. Allen explained that some FASB projects have been deferred for many years. He asked if we are comfortable waiting indefinitely. Ms. Payne responded that she would offer periodic status reports and would make recommendations based on preliminary research if time becomes an issue.

Mr. Dacey noted that GASB is in the same position we are regarding leases.

Mr. Allen asked if we are interested in collaborating with GASB on this project and could arrange a joint meeting in the future. He specifically asked Mr. Granof to alert the members to an opportunity since he serves on both boards.

Mr. Dacey noted that the risk assumed project may align with a GASB project.

Mr. Allen noted that the board brings together people with diverse and relevant backgrounds. In the context of the three reporting model task forces approved yesterday, he suggested that members convey any ideas they have to staff for consideration.

Mr. Dacey asked about risk assumed. He indicated that the term "risk assumed" may be too broad. His concern is that we seem to be trying to convey the magnitude of risks and uncertainties. Such information may not fit well into the probable and possible categories. The draft definition may be too narrow.

Mr. Allen asked staff to discuss the task force approach. Ms. Ranagan noted that the scope of the project is broad. A comprehensive inventory of risk assumed is being developed. She is now starting with the low hanging fruit – explicit commitments made through grants and contracts. For example, grants are not reported in the accrual basis statements until the grantee performs under the grant despite the fact that the award means the funds will likely become outflows to the government. Another task force will be meeting soon to address insurance and guarantee programs. She expects to use the experiences in these categories to address the broader issues.

Mr. Dacey agreed with the approach. His real concern is use of the term risk assumed. He would rather focus more broadly on the risk information that would be helpful in several broad areas.

Ms. Ranagan indicated that the approach overall would be to identify risks to the government and determine whether sufficient information regarding those risks is provided in financial reports.

Mr. Steinberg noted that the reporting model is relevant. If we develop reports that show the obligations in the areas of grants and contracts, then we may not need risk information in those areas.

Mr. Allen then concluded this portion of the meeting thanking staff and members.

Adjournment

The meeting adjourned at 11:00 AM.