

**FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD**  
**August 28-29, 2013**  
**Rooms 1N37 & 7C13**  
**441 G Street NW**  
**Washington, DC 20548**

<i>Wednesday, August 28, 2013</i> .....	<i>1</i>
<b>Administrative Matters</b> .....	<b>1</b>
• Attendance .....	1
• Approval of Minutes .....	1
<b>Agenda Topics</b> .....	<b>2</b>
• Public Hearing - Reporting Entity Proposed Accounting Standards .....	2
<b>Adjournment</b> .....	<b>2</b>
<i>Thursday, August 29, 2013</i> .....	<i>2</i>
<b>Agenda Topics</b> .....	<b>2</b>
• Administrative Matters .....	2
• Leases .....	4
• Reporting Entity .....	10
• Public-Private Partnerships .....	25
• Reporting Model .....	37
• Annual Report and Three-Year Plan .....	37
• Steering Committee Meeting .....	41
<b>Adjournment</b> .....	<b>41</b>

***Wednesday, August 28, 2013***

**Administrative Matters**

• **Attendance**

The following members were present throughout the meeting: Mr. Allen, Messrs. Dacey, Dong, Granof, McCall, Reger, Showalter, Smith, and Steinberg. The executive director, Ms. Payne, and general counsel, Ms. Hamilton, were present throughout the meeting.

• **Approval of Minutes**

The minutes of the June meeting were approved in advance of the meeting.

## **Agenda Topics**

- **Public Hearing - Reporting Entity Proposed Accounting Standards**

Transcripts of the public hearing are available at [www.fasab.gov](http://www.fasab.gov) or by contacting the FASBA office at 202 512-7350.

## **Adjournment**

The Board meeting adjourned for the day at 4:30 PM.

***Thursday, August 29, 2013***

## **Agenda Topics**

- **Administrative Matters**

The Chairman, Tom Allen, noted that the public hearing was excellent and expressed thanks to all those involved. He noted especially the participation of the speakers and how much their input is appreciated.

Mr. Allen also acknowledged Harold Monk, attending as an observer. Mr. Monk is a member of the Appointments Panel. The panel helps with appointments to the Board and monitors our GAAP standard-setting body recognition on behalf of the American Institute of CPAs.

Ms. Payne announced that the next two meetings are likely to require two full days. She noted a preference for a longer first day so that members can make late afternoon flights. She also announced that Robin Gilliam will join the staff on September 9th. She is a very welcome addition to staff having formerly worked at Commerce, Treasury's FMS, and Labor. Recruitment for an analyst position will begin soon.

Mr. Allen asked if members had comments on the FASAB clippings. Mr. Granof noted that Mr. Dong was featured prominently in an article. Another member asked if the improvements to spending transparency including the Federal Award Identification Number could help identify the cost of programs.

Mr. Dong noted OMB has been talking about federal spending transparency and anecdotally knows there are a lot of issues in terms of the completeness and the quality of the data that agencies put on USAspending.gov. But, this is all anecdotal, and OMB does not have a good way, agency-by-agency, of judging the accuracy and the completeness of the data. An interim step is to ask agencies to do a comparison and a validation of the information that they have on USAspending.gov against their system of record, the information that is in their core financials. This is an effort to compare and contrast knowing that you are not going to be able to reconcile one for one because, for example, the information that appears on USAspending.gov only covers those grants

and contacts and loans that are above \$25,000. This comparison allows agencies to have a little bit more structure and control around the data that is appearing there. OMB has also noted the importance of using a unique identifier for award information. This helps us ensure the integrity of the information.

Mr. Dong continued with regard to program information and noted the expectation is over time as agencies tag the transactions with program information, in theory you will be able to aggregate spending on major programs. This will give visibility which does not exist today.

Mr. Granof asked who the users are. Mr. Dong noted that the sunlight groups and probably some congressional staff are users. He thought the public hearing highlighted the need to increase awareness of information available to average citizens.

Mr. Reger noted the article regarding the Data Act. He indicated that Treasury has been asked to come up with a philosophical approach to improve the data in USA spending. If that comes to fruition, USA spending reporting will move over to Treasury. It would reorient USA spending reporting to data that is subject to audit review and move guidance out of the procurement side and into the expenditure payment side.

Mr. Allen noted the relevance of these changes to the Board's efforts to come up with a longer-term ideal model – these efforts work well together given that you will eventually be able to address various formats for data and information.

Mr. Steinberg noted the role controls play and that they should be in place before the audit rather than as a result of the audit.

Mr. Reger noted that procurement records are not financial records. In discussion, he agreed the fundamental principles of control should be the primary basis for information in the USAspending systems.

Members noted the need to address the audit component. Mr. Dacey noted the reconciliation statements in the consolidated financial statements would be improved by tying to the outlays, which are audited at the agencies. There is an inter-relationship and addressing it should support reconciling to the cash basis deficit.

Mr. Reger mentioned that GTAS, a new government-wide system, was constructed between a group in Treasury and a group in OMB as a mechanism to build budgetary reporting more in line with what Congress is asking for. What we are trying to do is if Congress is mandating similar data exercises with more definiteness, instead of doing these two separate systems and upgrading both, how do we marry this process together and start to at least have them complement each other at various levels so reconciliation is doable.

Mr. McCall recalled Mr. Dong's comment about USAspending.gov. He noted that the university was asked to pay for marketing research data. As the university's internal

auditor, he wondered if the vendor was getting paid by the university at taxpayer's expense for his marketing. Years ago, he would have had to contact several offices to request information on the vendor's dealings with other governments and then decide whether to pay ten cents a copy or a dollar for each page that is certified. That is the process in the past but now he can go to the county website and "check awards." He entered the first two words of the vendor name and it showed that the vendor was paid by the county for the same information that the university was paying for.

- **Leases**

Mr. Allen opened the discussion by informing the Board that because the leases project is such an important project FASAB will be working closely with GASB as they begin its lease discussions. He also introduced Ms. Roberta Reese, GASB Project Manager, who would be discussing the tentative decisions discussed by GASB at its August meeting. Ms. Reese was speaking on behalf of the GASB Project Manager overseeing the lease project who could not attend the FASAB meeting.

Ms. Valentine, FASAB Project Director for the leases project, began the discussion by reminding the Board that the FASAB lease project had been on hold until the release of FASB/IASB's revised exposure draft (ED) on leases. The ED was issued in May and comments are due September 13, 2013. Ms. Valentine noted that she and Ms. Payne attended the August 6th GASB meeting to listen to their initial discussion on leases. GASB's lease discussion focused on the definition of a lease and the scope of the project.

Ms. Valentine stated that the GASB issued papers from their August meeting would be the basis for the initial FASAB discussion on leases.

- **FASAB Staff Question 1- Scope of the Lease project:** What topics should be considered within the scope of the FASAB leases project? Staff recommended that all of the topics tentatively agreed to be addressed by GASB should also be addressed in the FASAB project. Also, more research is necessary to determine the extent of sale-leaseback, leveraged lease, and SCA-like transactions within the federal community. Staff also recommends adding enhanced use leases to the project's scope.

Ms. Reese noted that the GASB has tentatively agreed to address those issues that were previously addressed in their current lease guidance.

Mr. Reger asked Ms. Reese if GASB will be addressing leasing activities between state & local governments and the federal government. Mr. Granof stated that there was no reason to believe those activities would be excluded from the scope of the GASB project. Mr. Dacey commented that the GASB list appeared to be a list of more unique issues and not an all-inclusive list. Mr. Allen noted that there are instances when a federal office is housed in a state or county court house or building. Mr. Reger gave the example of federal water quality projects where the projects are actually state and local government (S&L) projects but the facilities are federally-owned. Mr. Steinberg asked if

these are examples of public-private partnerships (P3). Ms. Valentine noted that she is coordinating overlapping issues with Mr. Savini on FASAB P3 project.

The Board tentatively agreed with staff's recommendation to address all of the topics tentatively agreed to be addressed by GASB.

- *FASAB Staff Question 2 - Definition of a Lease – “Agreement” vs. “Contract”*: Should the term “contract” or “agreement” be used in the FASAB definition of a lease? Staff recommended that the FASAB definition of lease use the term “agreement” as opposed to “contract” because using “contract” could narrow the scope of the lease standards and not capture all leasing transactions involving federal entities.

Ms. Reese noted that the FASB lease ED proposes a change in the definition from agreement to contract because of the legal enforceability inherent in using contract. GASB has also tentatively agreed to make the same definitional change.

Mr. Dong asked staff why “contract” would be more appropriate in the GASB setting and “agreement” more appropriate in the federal setting. Ms. Valentine responded that staff believes that legal enforceability is not the “driver” in federal leasing transactions. Mr. Dacey noted that FASAB should be looking more at sufficiency of the agreement since it could possibly be reported on the balance sheet.

Mr. Smith noted that his preference is the lesser term (i.e., agreement) to ensure that leases are viewed from a principle-based approach and not just driven by terminology (i.e., contract vs. agreement) which would be more of a rules-based approach. He also noted that intra-governmental leases may not be formally documented. Mr. Showalter asked staff to identify leases that it considered agreements but not contracts.

Mr. Granof noted that GASB's argument for tentatively deciding to use “contract” in the lease definition is primarily because of FASB's change and there was no compelling reason to be different. He also noted that there was not much of a distinction between agreement and contract and that accounting does not rely heavily on legalities. If there is an agreement in substance, it should be recognized as such for accounting purposes. Mr. Reger stated that the terminology will get flushed out as we learn more, but the bottom line is the substance of the transaction.

Mr. McCall noted that the FASB Lease ED defines a contract as “an agreement between two or more parties that creates enforceable rights and obligations.” We should look at the sufficiency of the transaction to lead all parties to abide to the terms and it should be appropriately recorded. Mr. Allen stated that the Board should understand why FASB, who functions in the commercial sector, would need “legal enforceability.” However, the government sector is more about the economic substance of the transaction than about legalities . If using a different term than FASB will better get us to the economic substance of the transaction, then we should be different.

Mr. Smith noted that using the stricter the term “contract” could inadvertently allow for exclusions that are in substance leases. Mr. Showalter added that the terminology could affect how fiscal funding clauses are viewed in relationship to the agreement. Mr. Granof stated that the Board should keep in mind that the FASB proposal is still an ED and there is strong opposition to the proposal.

The Board has tentatively agreed to leave the “terminology” question open and to concentrate on the substance of a lease.

- **FASAB Staff Question 3 - Definition of a Lease – “Asset” vs. “Capital Asset/Property, Plant & Equipment”**: Should the term “asset” or “property, plant, & equipment” be used in the FASAB definition of a lease? Staff agreed with GASB’s tentative decision to use the broader term “asset” as opposed to “property, plant, & equipment” which could narrow “leases” in a way that leads to similar activities being excluded from coverage of the standards. Staff believes narrowing should be accomplished through specific exclusions (the approach taken by the FASB and IASB) as they are likely to be clearer to the reader.

Ms. Reese noted that GASB has tentatively agreed to use “asset (the underlying asset)” in its definition of lease. The primary reason given was that the scope of an asset is broader and more inclusive than capital asset.

The Board has tentatively agreed with staff’s recommendations to use the broader term “asset” as opposed to “property, plant, & equipment.”

- **FASAB Staff Question 4 - Definition of a Lease – Addition of “in Exchange for Consideration”**: Should staff assess the prevalence of nonexchange and “exchange-like” leasing transactions and whether “control” of a resource is generally conveyed in such transactions in the federal environment? Staff recommended that we make this assessment. Staff believes “exchange-like” transactions are generally included in “exchange transactions” under the current federal standards.

Ms. Reese noted that the GASB has tentatively agreed to add the phrase — “in an exchange or exchange-like transaction” to the lease definition. She also noted that GASB has tentatively decided to exclude nonexchange lease transactions because they will be addressed in GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

Mr. Allen asked staff if it is possible to have a nonexchange lease transaction. He further elaborated on “less than arms-length” transactions, which the FASAB has not decided to exclude at this time.

Ms. Payne noted that in situations where we have one federal entity allowing another federal entity to use space free of charge – it is covered by the imputed cost standards and there is no asset or liability recognized. Intra-governmental nonexchange transactions capture the significant costs in the flow statements and nothing on the

balance sheet. Therefore, we should only need to address nonexchange lease transactions involving entities outside the federal government.

Mr. Allen asked how are nominal consideration transactions (not free and not market value) characterized. Mr. Dacey noted that FASAB's definition of exchange transactions includes instances of nominal consideration as opposed to GASB's definition of exchange transactions. He also commented that the question the Board will need to address is should nominal consideration lease transactions be accounted for differently than full value consideration exchange transactions. Mr. Smith stated that the Board should also consider how intra-governmental lease transactions should be accounted for to ensure consistency in reporting.

Mr. Reger shared the example of leasing activities involving private entities being given favorable tax treatment. The Board would initially have to determine how to account for a lease and then decide how nonexchange transactions should be accounted for. Mr. Dacey asked Ms. Reese how does GASB account for nonexchange lease transactions in GASB No. 33. Ms. Reese stated that GASB No. 33 provides criteria to guide the preparer in identifying reportable nonexchange transactions. Mr. Dacey suggested staff consider GASB's recognition of nonexchange transactions during the analysis of this issue.

Ms. Payne asked the Board if they wanted staff to address intra-governmental lease transactions in the scope of the project in light of the existing guidance which recognizes imputed cost for intra-governmental nonexchange transactions. The Board agreed that staff should include intra-governmental nonexchange transactions in the scope of the lease project to consider balance sheet recognition.

- **FASAB Staff Question 5 - Notions Supporting the Definition of a Lease – Explanatory Guidance:** Should the question concerning the explanatory guidance to assist in determining if an arrangement is a lease included in the FASB ED be deferred until the FASAB lease standards are further developed? Staff recommended that this question be deferred until the proposed lease standards are further developed. Staff believes that it is premature to decide whether this explanatory language is appropriate. Two key differences between GASB and FASAB may lead us to a different conclusion – FASAB establishes standards for a single reporting entity so more detailed guidance at the standards level may be cost-effective and FASAB does not publish a comprehensive implementation guide as is GASB's practice so timely guidance (as an illustration or within the standards) may be helpful.

Ms. Reese noted that the GASB tentatively agreed that this type of explanation is better suited for implementation guidance rather than text of a standard.

The Board agreed with staff's recommendation to defer the question until the proposed lease standards are further developed.

- **FASAB Staff Question 6 - Scope of Standards – Inclusions:** Should the scope of FASAB lease standards include agreements that reflect the substance of a lease even if they are not called a lease? Should FASAB defer the decision to include or exclude “heat supply contracts” as an example in the lease standards? Staff recommended that the scope of FASAB lease standards include agreements that reflect the substance of a lease even if they are not called a lease. Staff also recommended deferring the decision to include or exclude “heat supply contracts” as an example in the FASAB lease standards.

Ms. Reese noted that GASB has tentatively decided that the current inclusion continue for the agreements that are not called leases but are in-substance leases. GASB has also tentatively agreed to remove the specific “heat supply contract” example from the scope section of the lease standard.

The Board tentatively agreed with staff’s recommendation to include agreements that reflect the substance of a lease even if they are not called a lease in the scope of the lease project and to defer the decision to include or exclude “heat supply contracts” as an example in the FASAB lease standards

- **FASAB Staff Question 7 - Scope of Standards – Exclusions:** Should the scope of FASAB lease standards exclude the following four bulleted topics?
  - Agreements that contract for services that do not transfer the right to use an asset from one contracting party to the other would not meet the basic premise of a lease which transfers/conveys the right to use an asset.
  - Federal natural resources is defined in Technical Bulletin (TB) 2011-1: *Accounting for Federal Natural Resources Other than Oil and Leases* involving oil and gas are covered in SFFAS 38: *Accounting for Federal Oil and Gas Resources* and leases involving other federal natural resources is covered in TB 2011-1.
  - Intangible assets, other than internal use software (which is considered to be PP&E), are not addressed in the current FASAB standards. Additional staff research is necessary to determine the extent federal entities are involved in leasing activities of intangible assets other than internal use software.
  - Service concession arrangements (SCAs) will be addressed in the FASAB Public-Private Partnership project.

Staff recommended that the scope of FASAB lease standards exclude three of the above four bulleted topics, with the exception being internal use software and other intangible assets that will be further researched.

Ms. Reese noted that GASB has tentatively agreed to continue all existing GASB exclusions (contracts for services, oil/gas/etc., licensing agreements, and service concession arrangements), add an exclusion for biological assets, but not exclude all intangibles (keep the status quo where some are in scope and some are not).

The Board tentatively agreed with staff's recommendation that the scope of FASAB lease standards exclude three of the above four bulleted topics, with the exception being internal use software and other intangible assets that will be further researched.

- FASAB Staff Question 8 - **Draft Standard Language – Scope and Applicability**: Should the proposal of draft standard language related to the scope and applicability of the lease standard be deferred until the further staff research can be performed on those scope issues identified earlier in the paper? Staff recommended that the proposal of draft standard language related to the scope and applicability of the lease standard be deferred until further staff research can be performed to address the scope issues identified earlier in the paper.

Ms. Reese noted that GASB asked its staff to re-drafting the proposed language to make the necessary edits based on the Board's tentative decisions and other minor edits.

Ms. Payne gave the Board an update on the internal-use software working group.

The Board tentatively agreed with staff's recommendation to defer drafting standard language related to the scope and applicability of the lease standard until further staff research can be performed.

Mr. Steinberg asked the Board their thoughts on what FASAB's approach should be if FASB does not move forward with its lease project. He pointed out that early indications are that the FASB Exposure Draft is very controversial. FASB has had one false start, and one possible result is that there will either be no change or very little change. Furthermore, we already have a sense of the types of things the FASB ED is proposing and can conclude now whether they would make sense in the Federal environment or, considering the many differences between the federal environment and the private sector environment, they would be inappropriate for the Federal environment. Hence, since the reason FASAB was established was to recognize that the Federal government needs its own accounting standards, he wonders whether it makes sense for us to be bound by FASB's progress or whether we should keep proceeding with our standards project, while monitoring the FASB/IASB effort. Mr. Allen suggested that given the significant changes being proposed in the FASB ED, it would not be a good idea for FASAB to get too far ahead of FASB. Mr. Dacey further suggested that a decision on how FASAB should proceed if FASB does not move forward on the lease project should be deferred.

Mr. McCall reiterated that the standards should be clear and understandable to the reader.

**Conclusions:** Ms. Valentine identified the next steps for the lease project.

- Continue research to determine the types of lease transactions being used by federal entities (e.g., sale-leaseback, leverage, SCA-type leases, and enhanced-use leases).
- Identify any lease agreements that would not meet the criteria of a lease contract.
- Research nonexchange lease transactions and nominal consideration exchange lease transactions between federal entities and between a federal entity and a non-federal entity.
- Research the extent of federal leases involving intangible assets.
- Hold a task force meeting.
- Continue to follow the progress in both GASB and FASB's lease projects.

- **Reporting Entity**

Ms. Loughan began the Reporting Entity session by explaining the objective was to determine the high-level issues to be addressed. She added that the discussion would not relate to wording changes or specific restructuring changes because staff has not had a chance to provide specific options and recommendations. Ms. Loughan explained staff didn't feel it was appropriate to provide recommendations at this point considering we were still listening to testimony and getting feedback from the respondents.

Ms. Loughan explained there were three high-level questions presented for members. Staff explained the goal was to get feedback on those three questions and any other issues the Board wanted us to go back and gather more information or analyze further.

Ms. Loughan explained the first question is looking at the three inclusion principles and if you believe those should be retained. She noted it was a high-level question, but in substance if those should be retained, but wording modified for clarity.

Mr. Allen asked for clarification and whether staff was asking do you want to keep the basic structure the way it is because we all know we are going to start talking about the budget. Ms. Loughan acknowledged there were some issues and that some wording may need to be revised. But in essence, does the Board want to keep the three principles because there were some recommendations that we should perhaps move from three to two.

Mr. Dacey explained that he wasn't sure if he was ready to answer that question definitively without some further discussion and analysis of some of the points that were raised. He noted that along with some of the concerns surrounding the budget, there were a couple of letters suggesting that perhaps control was the primary issue and that perhaps the others were subsets of that.

Mr. Allen noted that there was one recommendation from KPMG that we rewrite the whole document. Mr. Allen explained he was comfortable with saying at a high level that we ought to maintain the two-cut approach that we have.

Mr. Showalter suggested that along with KPMG's concern regarding the organization of the document, he noted that Treasury mentioned it was difficult to understand. Mr. Showalter noted he questioned how some of the respondents arrived at their conclusion because it was not the point we were trying to make. He explained this led him to question whether the document is as clear as we want it to be. Mr. Showalter suggested the Board step back and look at the preponderance of the evidence to determine if it is as clear as intended. He suggested looking how we present and organize the proposed standard.

Mr. Steinberg asked what the understanding of what KPMG was saying was. Mr. Showalter explained their position was they distributed the ED to informed people and they got different answers back. Mr. Showalter explained he is not totally in agreement with everything KPMG suggested, but one can't discount if people did not understand the document. He questioned if they understood the document the way we intended it.

Mr. Reger asked if that is an organizational issue? Mr. Showalter said it appeared to be more organizational based on their testimony. Mr. Allen noted KPMG acknowledged that in the question that we asked them where they suggested that the notion of temporary be addressed up front. Mr. Showalter explained it appeared several respondents did not understand the whole section in the back that talks about temporary.

Mr. Granof explained that some of the misunderstandings were not readily explainable and he is not sure reorganization would change that or make it better.

Mr. Smith noted that many of the comments from respondents he could not understand. However, after hearing the testimony, it appears that perhaps some of the proposed language was not very clear. He suggested that we need to make sure that we are not so close to the document that we know what we expect as opposed to saying if we were just reading the document the first time. He added that he did not think that it is wholesale changing, but it could be some things need clarifying. Mr. Smith acknowledged we can't ignore that respondents were getting to some conclusions that were different than what we were. He suggested perhaps some of them were related to this being a principles-based document and they were trying to go through and look at it as direct guidance. Mr. Smith suggested that wording may be clarified. Mr. Granof agreed but reiterated that he believes it would be minor rather than total reorganization.

Mr. Allen explained he wanted to say something at a very high level that does not necessarily pertain exclusively to this project. He explained we have a very accommodating staff that makes certain changes at the request of individual Board members and he often questions if in the end if it makes the document clearer. He explained that we need some institutional discipline—especially for projects that span several years-- that when we come to have something as written that we are careful

when revising. Mr. Granof explained that is the danger of writing by committee-- everybody puts their two cents into staff and then it comes out a mish mash of the entire Board.

Staff explained some misunderstanding may have resulted because SFFAC 2 allows them to make an assessment from the component perspective. However, in the exposure draft, the inclusion principles are from the government-wide level--Can the government control? Does the government own? The KPMG recommendation was explicit to address the assessment in terms that could be from both perspectives at the same time.

Ms. Loughan explained that was a decision we visited early on in the project and we decided the government-wide perspective was the best for the inclusion principles. Staff does not think it could work in terms of capturing what the government does control with a component perspective. There would be things that an agency does not control and therefore they may disappear before you get to the government-wide.

Ms. Payne suggested that we can make things more clear in the document. But she wanted confirmation that the Board does not want staff to revisit the idea of writing inclusion principles that are from the seat of the CFO of a particular department or agency. Staff believes it would be extremely challenging to get where we want to be if we take that route.

Mr. Steinberg explained in reading the letters he noted respondents suggested the organization was a little confusing. He explained the document has six sections: the first section is in or out the government, the second section is how do you report consolidate or disclosure, the third is in or out for the component, the fourth is central banking, the fifth is related parties and the sixth is changes in SFFAC 2. Mr. Steinberg explained that he thought some of the people suggested we ought to talk about the in or out in its entirety, and then talk about the reporting, which would mean the first section would be in or out of government and then you would flow to in or out of the component. Mr. Showalter suggested KPMG was trying to get all the criteria up front and the disclosure in the back of the proposed standard.

Ms. Payne requested confirmation the Board members do not want to direct staff to change the inclusion principles to be from component's perspective. She suggested staff develop options for different flows and clarity.

Mr. Allen explained that it appeared nobody disagrees and we will start with the inclusion principles. He asked if any members believed it should be something other than three principles. Clearly, in the budget needs to be talked about but that can be at a later meeting. Ms. Payne suggested that be deferred until options for clarifying can be presented because then we can test the wording with task force members.

Mr. Allen explained that what most of the Board members said is it seems like when you are talking about in the budget, there needed to be some essence beyond just listed in

the budget. He suggested this would be fair guidance to provide staff as he thought that what this meeting was for is to give at least tentative guidance to the staff to go forward.

Mr. Granof explained it seemed some adjustment has to be made within the budget because we did not intend for the FASB to be in the government-wide statements. Some wording has to be incorporated to make sure that is not included.

Mr. McCall explained he thought in the budget should remain but we should try to deal with those non-federal agencies that do get federal funds. Mr. Smith explained we should review those where there is a special funding source that is not coming from the federal government. He suggested in doing so, we should go back and look at the budget and see if there are any other types of entities that are in the budget with some other special funding situation.

Mr. Showalter agreed with Mr. Smith's comment. We need to figure out how to identify where the federal government is a conduit, but it is not really appropriated money. Mr. Showalter asked that there was a challenge in SEC letter whether in the budget was even a principle or not. Ms. Payne explained the principle was shortened to "in the budget" but the principle that underlies it is that through the actions of elected officials, an organization is funded and the elected officials establish the boundaries of what they are allowed to do. The time, purpose, and amount of funding for an agency are established in the budget. Ms. Payne explained that in some venues there are other funding sources than the general tax revenues, but even the authorities are established by being in the budget.

Mr. Steinberg explained that we need to be careful with tying something to an appropriation because for example, all of the SEC's revenues come from the fees that they charge the registrants. It uses no tax monies whatsoever. It is no different, in that respect, than SIPC, FAF, and PCAOB.

Mr. Allen suggested that in the budget can be a more narrowly defined because much of what you were saying is in another criteria-- control. He explained that he doesn't believe you lose it if you narrowed in the budget and pick it up under control.

Ms. Payne acknowledged there is the possibility that you could combine it with control. However, for most you do not have to look at this laundry list to look through. Ms. Payne recognized that we have heard from SEC about three examples. However, there is another case that has come to staff regarding the audit for this year of an entity that has three non-profits that are 100 percent funded by appropriations. But because of a desire for them to appear independent, the money flows through a federal agency to the nonprofits. Ms. Payne noted there are odd incentives and odd structures that you simply would not see in the private sector. She cautioned against underestimating the number of permutations of entities that the budget eventually ends up funding.

FASAB's counsel, Ms. Hamilton explained that SEC receives an appropriation and then the fees that the SEC collect are considered off setting collections that are deducted off

that authorization for an appropriation. It is a form of budgetary authority; an appropriation is a form of budgetary authority.

Mr. Steinberg explained they are in the budget, but what makes them different, it ends up being an appropriation which goes to SIPC and FAF and so forth, and is treated by them differently so to speak. In other words, SEC has to stay within the time, purpose, and amount of the appropriation. Mr. Granof explained the FASB's revenues are dependent on what they collect, whereas the SEC gets its appropriation and then what is collected just simply offsets it.

Mr. Reger suggested the Board defaulted easily to the budget because we needed a north star. He suggested the focus has been where the federal government has control-risk and benefit. Therefore, we should have some inclusion or financial representation. He suggested the Board went to budget and then to the other criteria, but he asked if they are not the same. Mr. Reger explained the budget was an easier way of defining organizations that we all thought automatically had the three criteria.

Mr. Dacey suggested that when we put out the exposure draft we said 'in the budget,' which appeared similar to in the budget from SFFAC 2, and we were comfortable with that. Certain entities, even though they were listed in that document, were not considered 'in the budget' under SFFAC 2. He questioned if with a principle-based standard, is it sufficient to make exceptions for these arrangements and is it clear how you identify organizations that qualify? Mr. Dacey noted we put in the federal financial assistance wording from Single Audit Act, but even that was raised as an issue by a number of other commenter's. Mr. Dacey suggested he would like to explore addressing the budget within the control principle. He explained that unless we can come up with clear guidance it may continue to be a problem.

Mr. Steinberg explained that it is coming back to the control so that may be a direction to consider. Mr. Granof explained he believes control is much harder to define. Mr. Steinberg suggested tying "in the budget" to the three elements of an appropriation, i.e. you cannot exceed the time of the appropriation, purpose of the appropriation, and amount of the appropriation.

Ms. Payne explained the things that are in the budget are based on budgetary concepts and the desire to identify the boundaries of federal government activity, the activity that is authorized by elected officials. For example, but for the actions of elected officials, an entity would not have the authority to get the money. They typically include it in the budget because it is through the actions of elected officials that they can rake money in from people that they would not otherwise be able to get the money from. For budgetary purposes, they want to know the size of the activity that is managed by elected officials. That is why things like PCAOB or the standard-setting body get mentioned in the budget.

Mr. McCall explained that there should be authority to appropriate money and to spend that money and then there should be sufficient money in the Treasury to cover that. He

believes for the vast majority of what we are talking about here that that fits well. Mr. McCall said he believes if we have some anchor, the anchor is the budget document.

Mr. Dong asked if we are doing that because it is a shorthand for the control question or for some other purpose? Mr. McCall explained that it is the government.

Mr. Allen explained you could almost build from the three tiers: start within the budget, then move into another set of criteria, which would be control or something, however, you build it.

Mr. Dacey suggested it would be interesting to understand what is the delta between in the budget with the intended exclusions we have and control? Whether there is any type of principle conceptually. Whether there is anything that would be different. Mr. Dacey explained maybe there is a category or type of entity that would be in the budget, but not under control. If there wasn't much of a delta then you could go with presumptive decision. Ms. Payne asked about the judiciary branch--who are they controlled by? They are in the budget, but do we need to go through an analysis of are they controlled? Mr. Dacey explained he believes they are controlled as part of the federal government. Mr. Granof noted it raises a good point. They are part of the government-wide report because they are in the budget.

Mr. Showalter explained you can put the budget back into the control side as an indication of control. He believes it was a short cut because we did not want people to have to go through all those other criteria if it was obvious. Mr. Showalter suggested it could be the first item in determining control.

Mr. Reger explained that if it ever existed that in the budget was a control mechanism for something, we have lost that. Over the past 20 years, things are in the budget mostly because court suits have said if they are not in the budget, then you cannot do it. If the issue is really control then that may be a strong indicator, but I am not so sure that it really is the indicator. If you want to return to that, then we really do need to have conversations with OMB about once we do this, in the budget is going to mean a lot more.

Mr. Smith explained he does not think that we should break away from the budget to deal with the outliers. We should deal with the outliers because if we open up the control, we are less likely to get what we intend because you are putting an awful lot of items that people can go through and start making arguments about being in the budget versus what is control. Mr. Smith explained he would want to stay with in the budget because that way we know that the majority of the things are in the budget. He suggested we take a look at what type of things that could be in the budget that we want to exempt out.

Mr. Allen stated he was cautious about only relying on control since we structure control with risk or benefit and we don't have a complete definition and examples of "risk or benefits".

Mr. Steinberg suggested the indicator could be controlled by the budget--they cannot spend the money unless it is within the purpose, time, and amount defined by the budget.

FASAB's counsel Ms. Hamilton explained it is the individual statutes that define your purpose, amount, and time, not necessarily the budget. Ms. Hamilton explained there must be some form of budgetary authority. And that can come in the traditional appropriations, contract authority, or collections because there are different mechanisms to obtain budgetary authority.

Mr. Reger stated he believes the list is a great idea. He asked if we are at the fringes or is this the material items that we really do want to cover it by? It would at least leave us with the ability to identify the things that are in question. Mr. Reger suggested that staff would need help with this- possibly from the fiscal service and OMB. He also suggested that maybe the best way to do it is to go to the agencies. Ms. Loughan explained that it appears this would have been something GAO has probably looked at as part of their government-wide audit.

Ms. Hamilton agreed and stated GAO has looked at it before. She explained they get tapes from OMB that identify agencies, but there are even limitations with that because it is only up to a certain amount and only if statutes specifically mention them.

Ms. Payne suggested that staff review the budget looking for these outliers. Ms. Payne suggested staff bring an analysis of the outliers --ones that are black, white, and a few of the gray in between and look at the characteristics of them. She suggested through this process staff may be able to determine if there are characteristics that make them budgeted for, but not controlled. This type of approach may be preferred instead of a name like non-federal entity receiving federal financial assistance.

Mr. McCall stated the exercise could be helpful, but he thinks we already have determined in the budget covers ninety-eight percent of the federal government. As time goes on, these outliers may change so doing this exercise a year from now or five years from now could yield different results. He believes answering the cases you know about is helpful, but the idea that FASB and PCAOB should drive what we are doing doesn't seem appropriate. He believes the budget is still a good anchor.

Mr. Allen stated he liked the approach of determining if there a principle rather than dealing with the outliers name by name. Mr. McCall explained he agreed and perhaps those that we know about will lead us to the answer as opposed to searching for other organizations that might exist.

Mr. Dong asked with regards to in the budget, do we think that is the upper limit and we start to whittle down the list from there. And if that is the case, right now the principles are constructed A or B or C. He asked if it would simplify it in terms of A and/or B and/or C? Does that have that same effect? Mr. Dong suggested starting with the assumption that the budget is the upper limit and then you overlay the question of ownership

interest and you overlay the question of control and does that get you to the subset that you are looking for.

Mr. Allen replied he would not want to do that even though he agrees within the budget is the cleanest approach. He suggested there ought to be a principle that we are focusing on and gathering. He added that if in the budget is an indication of that principle or the concept as opposed to just using the words in the budget and then he considered looking to control.

Mr. Smith suggested that he could perceive something that does meet control clearly and should be in the entity, but it is not in the budget for some reason.

Mr. Dong explained that is why he asked the question--if you start with in the budget, does that capture the universe and more or are you missing part of the universe?

Mr. Allen explained the answer is both. It may capture something we do not want in and it may miss things that we do want in.

Mr. Reger stated he believes eventually you will fix that over time. But if you speak to the principles of control, risk, and benefit then it is just the order in which you do that whether that is a single test in budget and then a drop down test or is that the principle of why you started looking in the budget in the first place.

Mr. Allen stated that it appears most members agree in the budget is the primary indicator of these kinds of principles. Therefore the Board says yes to the first question.

Ms. Loughan explained she understood but reiterated the questions were high-level to open the door for comments and gather feedback. Mr. Allen agreed and stated the answer to that is yes, but staff has to do more work based on this discussion and recognizing that we have not even talked about some of the points.

Ms. Loughan directed the Board to question two and whether or not the Board still agreed with the distinction for consolidation entity and disclosure organization.

Mr. Allen suggested there was near universal support for that. He did wonder about the comment from TVA and their assessment of being a disclosure organization.

Mr. Dong explained the issue with the terms came up. He noted there was heartburn about the word disclosure and there was heartburn about the word organization. Mr. Reger suggested it would be great to have different words that everybody would clearly understand represent those things. Mr. Steinberg noted one suggestion was "non-consolidated entities."

Ms. Payne explained that we started with core and non-core. However, based on the feedback, it appears the Board would like to consider options for renaming them, but the other concepts and distinctions remain.

Mr. Reger asked why TVA believed their FASB-based statements would have to explain what their disclosure requirements are in the federal statements. Staff explained the requirement calls for intra-governmental amounts to be disclosed in their stand-alone financial statement. The disclosure would be the amounts under FASAB standards. For example, if they have investments in Treasury securities that are at market, they would have to show them using FASAB measurement.

Mr. Allen asked why we decided it had to be in their statements as opposed to them providing information.

Mr. Smith asked if it was they are doing FASB statements, their individual statements are out of FASAB's purview. Ms. Payne explained they are allowed to use FASB statements by virtue of the hierarchy in SFFAS 34. We have said organizations that were using FASB GAAP can continue. Mr. Smith asked if that that meant entities that we believe are government organizations, we could allow you to use FASB plus whatever else we decide to add to it? Mr. Allen explained the tentative conclusion was if you are using FASB, you can continue. Mr. Smith explained he would rather go and say they have to use FASAB than to go through and say you can be FASB, but then you are going to add these additional items.

Mr. Allen explained that decision was made in a different standard (SFFAS 34). The Board already considered and has allowed entities to continue using FASB. Mr. Allen explained for this project, we are saying what you need to do. However, he can't remember why we said the information had to be in the financial statements as opposed to providing it to Treasury. Mr. Smith explained he understands how it may be considered inappropriate or misleading to include FASAB information if the entity is following FASB.

Mr. Reger explained he thought the genesis of this paragraph was the whole discussion about which process they needed to follow and for consolidation purposes, Treasury needed the information for elimination purposes. He explained we needed to know the numbers under FASAB standards, and that started with the statement you must report to Treasury whatever the information is under our standards so we could do the elimination. Mr. Reger explained he is not certain how it became a disclosure requirement for their FASB-based reports. He explained there have been elimination and consolidation problems, so this was a means to give to Treasury that information. He suggested the TFM tell them what information they have to give Treasury on a regular basis. As long as you start from they are part of the federal government, they have to follow the TFM anyway.

Mr. Steinberg asked if Mr. Reger would be willing to accept it in the closing package. Mr. Reger explained as long as we get an audit opinion on it, I do not know why we would have to be in their FASB-based statements.

Mr. Dacey explained you have another issue that you have to deal with--you are thinking at the government-wide level, but what if you are down to an agency component level having a FASB-based component. There may be eliminations between

the two. Mr. Dacey explained under the proposed standard, the components could bring up the FASB-based information to their statements as well.

Mr. Allen questioned if the requirement was related to reliability of that information. Mr. Showalter suggested that the testifier stated that they have a special purpose report from their auditors covering their closing package.

Mr. Steinberg explained if you get the closing package audited at the government-wide level then the audit bulletin can say it should be audited to the component level.

Mr. Allen suggested staff explore this issue a little bit further. He suggested that we confirm we wanted information as opposed to having to have them include something in their separately issued financial statement. Mr. Showalter explained the Board was uncomfortable specifying the footnote to simply address information that should be provided to Treasury. He noted at one time we said provide the information to Treasury and we thought it should not be in our purview to do that in a FASAB standard. Mr. Showalter explained that is how we ended up with the current language—previous wording sounded like an OMB rule and not a FASAB standard. Mr. Reger explained that Ms. Loughan pointed out the TFM, which needs to be considered and whether this makes any sense in a disclosure.

Mr. Allen suggested staff explore it further and the history and bring back a recommendation to the Board.

~Lunch Break~

Ms. Loughan directed the Board to the last broad question. She explained it relates to the alternative view presented by Mr. Steinberg and if the Board would like to consider it further.

Mr. Allen explained that he recalled most of those that responded did not support the alternative view, though there were some key individuals who spoke in support of it yesterday.

Mr. Steinberg explained that he believed he phrased the question wrong in the exposure draft because the respondents that said they did not support it, basically said they believed there should be disclosure for the interventions, receiverships and conservatorships. Mr. Steinberg explained he believes these organizations should not be equated with disclosure organizations, but there should be disclosures. Mr. Steinberg explained several people discussed temporary, which is one of the basic tenets of his view. He also noted that FDIC's comment letter said they already report on the risks and the exposures of the receiverships and to add additional information and consider them part of the entity would, in their opinion, cause confusion.

Mr. Dacey asked Mr. Steinberg if the letters and the testimony provide any different reasons or issues than the Board had already identified and discussed before? Mr. Steinberg explained yes, for example the FDIC added additional reasons and then quite

a few of the letters talked about addressing “temporary.” While Mr. Dacey noted he appreciated that the explanation of temporary may need to be addressed or clarified. Mr. Steinberg explained the letters suggested they already have these organizations covered, but Mr. Dacey noted that the proposal would not require one to repeat the same information in another note.

Mr. Showalter suggested if we focus on temporary that may get to a little more clarity of what the alternative view was trying to get at. However, Mr. Allen suggested that one of the testifiers explained once they read the whole document, they later recognized we dealt with that. Mr. Dacey explained that some of the respondents may have believed temporary should be an absolute filter whereas the current proposal does not explicitly say that all interventions are disclosure entities. It suggests that strongly, but it does not say that. If you put temporary, it would be more than absolute threshold and we ought to consider that option. Mr. Allen recalled the downside is the difficulty in defining temporary. Mr. Steinberg explained he suggested it be defined when the legislature takes an action to do things that indicate that this is no longer temporary. He suggested if it is a question of what goes on for 30 years, one could consider the things in control criteria.

Mr. Smith acknowledged we need to give it more thought, but if you define what temporary is in the beginning so that the preparer would decide, then they would have to make a determination. He added they might say I think this is going to be five years and is temporary, and once you establish that in the beginning that becomes what is temporary. However, if it goes on longer than that, what is the trigger that you have to use because then it is no longer temporary. Mr. Smith explained that he believes we might have minced examples of how something is expected to be temporary, but then no longer became temporary.

Ms. Payne asked whether the Board wanted clarity around temporary in the context of it being the split between the disclosure organization and a consolidation entity. In this context, there are other characteristics that aid in making that call. When transitioning from an intervention that is temporary to a permanent relationship, you would see some movement in how it is governed by Congress and the President, the goods and services that it provides, and the risks and rewards that the federal government appears to be assuming. Ms. Payne explained the four characteristics plus temporary are a little bit of a failsafe if your temporary definition is not crisp and relies a bit on management's intentions. However, if more clarity about temporary as part of the inclusion principles is desired so that temporary organizations would be excluded rather than included then it would be fundamentally changing the inclusion principles.

Mr. Allen clarified he did not view it as part of changing the inclusion principles. Mr. Dacey explained that some of the commenter's suggested it be part of the criteria for inclusion but he wasn't saying he supported that but there were some discussion on that issue. Mr. Allen explained that he believes if you support the alternative view in question 12 then you are going to want it to be part of the inclusion principle in the front.

Ms. Loughan explained that the Board agreed the closest any discussion of relationships that aren't expected to be permanent would be in paragraph 44 when we introduce disclosure organizations.

Mr. Allen decided it was time for the Board to vote on whether the alternative view should be considered further. All members except Mr. Steinberg voted the alternative view should not be considered further. Mr. Steinberg explained he would be addressing it in the final document.

Ms. Loughan explained that on page 13 of the staff memo, there was a listing of other issues, but the floor was open for members to bring up other issues.

Mr. Dong explained he was surprised the donations and other funding sources issue was not covered yesterday, but he believes that merits further discussion.

Mr. Showalter noted that there was concern and questions raised with paragraph 72 and 73.

Mr. Granof suggested that he wants to make sure that we understand what the impact is on significant agencies such as TVA.

Mr. Showalter explained that a commenter mentioned the effective date and whether early adoption was appropriate or not. If we did allow early adoption, which we do, that would be problematic to have some entities adopting and some not. Mr. Reger suggested that may be an issue.

Mr. Steinberg explained he had provided a list to staff. One item was the Federal Reserve and he noted people did provide comments about the way we approach the Federal Reserve. He asked if any of the members had changed their thoughts on the Federal Reserve. Staff explained the Federal Reserve representatives would be available to attend the October meeting to answer questions. However, if Board members do not see a need, that invitation could be rescinded.

Mr. Allen noted that if you consider the people who actually addressed the question the majority or just as many said you ought to consolidate it. Mr. Showalter noted that two respondents said they could not see consolidation or disclosure.

Mr. Reger explained that he believed there is a difference between the view of the Federal Reserve and the view of Treasury and their auditor's. He explained Treasury and the auditor's view are much more restrictive than the view of the Federal Reserve regarding information that they would include in disclosure. He explained the Federal Reserve was willing to disclose more, but Treasury's auditors objected last year. Mr. Steinberg explained he believed it was because they thought it was beyond the scope of Treasury's financial statements, but it was more appropriate for the government-wide statement.

Mr. Showalter explained he was concerned about the fact that certain respondents stated they did not think they would meet consolidation or disclosure requirements, but instead would be a related party. He explained he thought it was strange that two people commented on it. Mr. Granof agreed and one could certainly debate whether it includes other organizations, but you cannot reasonably say we did not intend the Fed to be at least a disclosure entity. Mr. Showalter explained that misleading to exclude may be what keeps this in the reporting entity based on some interpretations. Mr. Reger explained he thought the issue related to why we singled out this one organization versus criteria. Mr. Steinberg explained it is hard to say the Federal Reserve is not included when we provide minimum disclosures, however as far as whether it is disclosure or consolidated entity that is not specific. Mr. Granof agreed.

Mr. Allen explained it is not up to us to decide whether it was a disclosure organization or a consolidation entity. He would be concerned if somebody can read our standard and then somehow come to the determination it wasn't included. Mr. Steinberg stated if he followed the reasoning through, he would determine they were a disclosure organization.

Mr. Reger explained Treasury had no issue about disclosing a relationship with the Federal Reserve, but they thought they were a related party as opposed to a disclosure organization. He added that the issue may be they didn't see disclosure because they didn't see a reason for the category.

Mr. Dacey explained he didn't get anything from the letters or the testimony that would provide additional facts that would change his position on the ED. He didn't believe it challenged our criteria for minimum disclosures. Mr. Dacey noted one point was raised, which not only related to the Federal Reserve, specific to paragraph 72 and 73 with whether certain types of information should be required or suggested to be disclosed.

Mr. McCall explained he noted most people thought the criteria were adequate for either consolidation or disclosure and could be applied to the Federal Reserve. However, one respondent was puzzled the Board did not make that determination. Further, everyone seemed to say yes that the criteria appeared adequate to make the determination, but nobody was willing to make that. Mr. McCall explained that he would like to know from the Federal Reserve how they consider themselves--either a consolidation entity or a disclosure organization.

Mr. Reger explained that is not a question that is up to the Federal Reserve. Although one can gather their feedback, this is not going to be the Federal Reserve that is going to decide that question. Mr. Allen noted that one consideration is how the disclosure organization viewed themselves. Mr. McCall asked if Treasury and GAO would be providing to the Board the reasons for the decision.

Mr. Reger explained the decision would be part of the normal process of putting together the financial statements based on the standard the Board has promulgated. Mr. McCall asked if the information provided by the Federal Reserve -- why they think they are one or the other--will be used in the decisions made by Treasury and GAO.

Mr. Reger confirmed he would use every piece of information in deciding. The Board at least has been fairly clear what the intent is. Mr. Reger explained he believed Treasury has been pretty clear at this point, about what they will do. There is some concern over that market piece expressed by Treasury and by their auditor about how you get that in Treasury statements. Could you get it in the consolidated if you didn't get it in the statements? At this point, they would come through Treasury because that is the only organization with which they have a relationship. Mr. Reger explained the Federal Reserve has not objected to providing us a lot of information that we thought we wanted to include. They have been forthright about what information is available, how you get to it, the age of certain data, the risk of market analysis of certain data.

Mr. McCall explained he would respect his decision, but he would still like to hear from the Federal Reserve about how they view themselves. Mr. Reger said they have offered to come back in October and we should give them advance questions. Mr. Allen agreed that staff would coordinate to have representatives from the Federal Reserve at the October meeting and provide advance questions.

Mr. Reger suggested there might be other organizations such as FFRDCs that may need more explicit guidance. Mr. Allen noted that FFRDCs are all different and disclosures would be based on those relationships. Mr. Reger recalled that the representative from NSF had expressed some concern. Mr. Dacey explained that the NSF representative did not suggest that the other FFRDCs should not be consolidated (that are currently consolidated.) Therefore, he agrees there are facts and circumstance based as the ED provides, but Board should decide whether or not our criteria are sufficient.

Mr. Dacey explained that the NSF representative also testified about related parties and situations with members of their Board. Mr. McCall stated that they had also requested an example scenario. Mr. Allen explained that was much less of a concern to him because they have the ethics policies and procedures. He also believes the individual transaction with an individual institute would not rise to a level of materiality. Mr. Dacey explained he had some concern with excluding them all together because there could be situations where you have members of your Board receiving material amounts of grants, it would be relevant to disclose that.

Ms. Payne reminded that members were asked to send Ms. Loughan a listing of their issues so staff can prioritize.

Mr. Allen asked if the Board wanted to deal with this misleading to exclude and/or include. He suggested one option if it causes so many problems, is to do away with it since it is only there as a catch-all anyway. It is such a slippery slope.

Mr. Steinberg suggested that a better explanation be provided in the basis of conclusions. Mr. Dong noted that he heard that it is creating a bias towards inclusion because it is so confusing.

Mr. Allen recognized it could remain as a caveat. It is often in standards and never defined.

Mr. Dacey explained you could discuss the types of factors considered in deciding whether it was misleading to exclude without defining it. However, the challenge will be producing standards that are objective and neutral and which can be applied consistently. Mr. Allen asked what factors are beyond the ones that we have already listed. Mr. Granof noted that the GASB pronouncement had one example in 25 years.

Mr. Dacey suggested since it was the sponsors' intention to assist agencies through this process (determine based on the criteria in the final standard which organizations were in and which were not), then the sponsors could come back to the Board and seek amendments to the standard as appropriate to address those issues. Mr. Dacey explained they will have to go through a fairly exhaustive process in implementing the standard. As part of that process, a decision can be made about misleading to exclude – either eliminating it or providing criteria. Mr. Allen agreed and said it sounds like the misleading to exclude should remain while the sponsor agencies go through the implementation process.

**CONCLUSION:** Recognizing staff will prepare detailed analysis of specific issues and recommendations of proposed language and other revisions, the Board agreed to the following high-level direction for staff:

- Staff will review organizations included in the budget but which may not be controlled to determine if there is a principles-based way to approach them versus dealing with them as a non-federal entity receiving federal financial assistance.
- Staff will revisit options for naming “disclosure organizations.” However, the Board appears to believe the distinction and other concepts between the two types are fine.
- Staff will explore the history of the Board’s decision of the intra-governmental required note disclosure for FASB based organizations and bring back a recommendation to the Board.
- Staff will not pursue issues presented in the alternative view based on the Board vote that is should not be considered further.
- Staff will coordinate to have representatives from the Federal Reserve at the October meeting and provide advance questions.
- Staff should include a reason to maintain the misleading to exclude principle is that it should remain while the sponsor agencies go through the implementation process. This could be subject to change but it would be helpful during that process.

- Staff will continue to address other issues presented by Board members in conjunction with the concerns presented by respondents and public hearing participants.

- **Public-Private Partnerships**

Mr. Allen invited Mr. Savini to introduce the next agenda topic on Public-Private Partnerships and because the Board was ahead of schedule, to feel free to take an appropriate amount of time to discuss the material. Staff began by noting 2 typos in the TAB D materials and issued two corrected pages, pages 3 and 7. Mr. Savini stated that the typos were not very substantial, but nonetheless apologized for any inconvenience they may have caused.

### **Brief Overview of the August 7th Task Force Meeting**

Staff then provided a brief overview of the August 7th Task Force meeting noting that the material presented in TAB D was vetted fairly thoroughly by the task force members. Because there are fair number of auditors providing input, staff noted that we are seeing a request for a lot of specificity in any suggested P3 standard that might be issued. Additionally, as a result of the June Board meeting, staff asked the taskforce to (1) streamline the P3-Centric reporting characteristics, (2) explain the risks associated with each characteristic, and (3) provide detail concerning the types of disclosures they'd recommend to the Board.

Staff then proceeded to Page 29 and reviewed each of the 4 questions being asked of the Board:

**Question 1** – The Task Force is providing the Board with a draft P3 definition/description of what a public/private partnership for federal reporting purposes should be. Staff noted that the draft definition/description is an initial draft. The Task Force borrowed from the 7 definitions shown on pages 4 through 6. Because there is no common definition, we take the approach that this initial definition/description will probably need to change. We have footnoted where many of the key elements come from or what other bodies have looked at P3s and what key characteristics or features they have identified.

Below the proposed definition you will see a two-sentence paragraph where we couch the proposed definition and say that as-written, the definition captures most of the P3s that probably exist. With that being said, we then want to take the preparer or the auditor down the Conclusive and Suggestive characteristics.

Mr. Granof suggested it is not a definition but rather, a description. Some of the terms are just far too vague to be a definition that fits in a standard. For example, terms like “typical contracts”, “highly complex”, and “sophisticated.” He suggested making the

definition very short and then at some point describe characteristics separately. When it comes to public/private partnerships, both the definition and the characterization are very hard to come by because you have a lot of different situations. We will probably need to specify the types of P3s that we want to address and as a result, we are going to just address a fraction of the whole.

Mr. Savini asked if Mr. Granof preferred any of the definitions or descriptions provided by some of these other organizations.

Mr. Granof said each had the same issues. He noted he is defining the word 'definition' in a narrow sense and does not believe words like typical and traditional are very helpful.

Mr. Savini agreed and noted that staff did not want to even look at a definition because it is like a 3rd rail trying to touch or define a P3. As a result, it focused on characteristics. When he last met with the Board he basically showed a binder-listing all the different types of characteristics that the Task Force identified. Subsequently we asked them to take some of those characteristics and incorporate them into a universal definition/description. This is similar to the process we used when we developed our Maintenance and Repair definition. We gave a very umbrella-like definition that most agencies could operate under. This is what the taskforce thought would at least be the initial description we would suggest to you.

Words like typical and traditional might not be helpful for us who sit at this table, but for those people in the field, program managers, procurement specialists, attorneys, etc., who understand federal procurement and pretty much know what traditional is versus nouveau shall we say, like these P3s are. He believed such terms could find a home especially if we consider using the Basis for Conclusion to explain what we mean.

As a matter of fact, let's look at the word "traditional." If we look at the second sentence that begins with "As a result," we list three different features that distinguish traditional partnering from P3 partnering. That is the taskforce's attempt to explain what we mean. That is the best we could do at least in this initial go-around.

Mr. McCall explained that when he initially read the first four sentences he hoped to get the gist of what we were trying to define. He was trying to obtain an understanding from the first four sentences. Although he did see characteristics, if you were to try to make a definition then the things in the first four sentences that he did not see should be considered such as involving risk, which we say allows for more private sector participation.

The second comment concerns the term "traditional." He was not sure about its use if we want the definition to hold up for a long time since tradition is going to change and might become the norm in the future. He did not see that this term added anything or the ensuing phrase "which allows for greater or more private sector participation". While he liked the four or five sentences somewhere, we need to talk about risk being involved.

Mr. Reger agreed with Mr. McCall. You have to think about these things in terms of the accounting entries that you want developed as you get into a P3. And then as you think about those accounting entries, why are they created and how are they different than an accounting entry for a dissimilar transaction. Then that, will lead you to unusual risks, unusual recordation of the ownership of the asset, sort of all the traditional things like if you were just doing a purchase or just doing a sale you might expect to see. Now, if it is a P3 for example, there could be ownership interests on different sides so the parties are going to each address recording issues. That might lead us to a little more of the uniqueness of the transaction that would help in the definition.

Mr. Reger asked about the debits and credits on this type of transaction and why is it different? Why am I treating these differently? That might lead you to a little easier identification of what the characteristics are that are then going to define a P3.

Mr. Savini agreed but noted that as we move the project forward our idea is that this is a malleable definition that will change as we get additional information and input from the taskforce.

Mr. Allen noted he had problems with the word 'traditional.'

Mr. Dong asked if we might be getting tripped up on terms that are vague or ambiguous like typical or traditional when maybe the focus should be how do we use clearer, more concise language that truly conveys its intent.

Mr. Dacey noted the definition sounded like almost every federal government contract so it was hard to differentiate P3s from any other procurement contract. His concern is that we are probably going to attach this applicability of this standard to a particular subset of P3 type organizations. He wondered if that should be part of our definition since we must say this applies to in the end.

He noted the GAO definition explains how a P3 is different than a regular contract. He noted we are likely to get down to specific subset of P3s and not all P3s.

Mr. Savini explained what we are doing here is we are presenting you with a universal description. Then the next step is to look at the conclusive and suggestive characteristics that better characterize what we are looking for from an asset and liability point of view, or a fiscal exposure point of view. We did not want to build all those characteristics and features into a definition or description because it would go on for probably pages. We attempted to start with the universal approach. Certainly we can change this anywhere the Board and the taskforce would like to see. But again, it was to start broad and then using the conclusive and suggestive characteristics ascertain which of the P3 arrangements would be included for disclosure.

Mr. Dong asked, as you looked at the six different definitions that are currently out there, was the intent to develop something that encompassed the best of all of those definitions, but have something unique or did you look at each one with the intent of maybe we could just adopt this in its entirety even if it is just kind of replicating a GAO

definition or a standard of some other board's definition. Did each one of these existing definitions fail the test that you had established for the definition?

Mr. Savini indicated they did not and we really did not have a test per se. He noted the advice from others who looked at this, that it is almost impossible to come up with one type, a one size fits all definition. For example, the GAO definition seems to be skewed towards real property and infrastructure, yet we know there are many P3s that are not infrastructure related.

Mr. Savini noted he tried to take attributes from each of these organizations that have looked at P3s and share them with the taskforce. We pored over them and this is what we came up as we tried to make it fit the federal environment that the taskforce believes exists.

Mr. Allen invited members who want to take a shot at writing a definition provide staff some feedback. Then, maybe staff could accumulate those comments and sort through them in a manner similar to how the draft definition was developed by taking some of the best features from different organizations to enhance our definition.

**Question 2** - We are taking the approach that once we have a definition of a federal P3 in-place; we want to subject it to 2 groups of characteristics with the first group being Conclusive where a "yes" answer to any would require disclosure. However, if an entity answered "no" to each of the Conclusive characteristics we would then require application of Suggestive characteristics that will also help an entity assess if P3 disclosure is required.

Staff proceeded to pages 8 and 9 to show the Board an example of how the language and guidance would look in a draft ED. Paragraphs 8 and 9 relate to the draft definition/description and paragraphs 10 and 11 take the preparer and the auditor down the Conclusive and Suggestive "checklists." What the taskforce did to get to these characteristics on pages 8 and 9 was to look at, as you might recall a pretty extensive list and pared it down to 5 conclusive and 8 suggestive. We did this using a modified multi-voting approach. Please note that we ranked them in an order of priority.

The 1st Conclusive characteristic asks the question after you fit or meet the P3 definition/description, is this P3 or any party to the P3 involved in the creation or conveyance of an asset or the incurrence of a liability? This gets to the point about debits and credits.

Then, the 2nd Conclusive characteristic asks if the federal entity is party to a P3 where there has been a special purpose vehicle established or that special purpose vehicle is involved in some type of financial leveraging. Whether implied or explicit, we want to know about it. Regarding disclosure this means we would require disclosure, and the P3 would not be excluded from reporting.

Conclusive characteristic #3 seeks to identify just a mere participation or sponsorship of an SPV partnership or trust whereas the 4th Conclusive characteristic asks if the

principal arrangement is exempt from the Federal Acquisition Regulations (FAR) or any other comparable laws such as other procurement or agency-specific procurement regulations. If it is exempt from those, we need to have disclosure. And the last Conclusive characteristic is if the arrangement is greater than five years it needs to be disclosed. Answering yes to any one of these, you are considered “in” for disclosure. And that is why the task force believes the definition/description should be broad.

Mr. Allen asked If the principal arrangement isn't exempt from FAR is it excluded from disclosure? If so, then do we assume it is part of the federal government and it is not a P3?

Mr. Savini responded no. We are just saying the risk profile is increased because you have exempted a P3 from the FAR which contains certain protections that the government would ordinarily have.

In response to member questions about debits and credits, Mr. Savini responded that some may not have entries. He indicated that he may have failed to adequately communicate that when it comes to fiscal exposure, there is no debit and there is no credit. It might be contingent liability. For example, in number 1 we are looking at something that could actually have accounting transactions and would result in a hard asset or a liability being booked. But in these others, we are talking more about fiscal exposure.

To further explain - the two overarching themes we are looking at in P3s are:

First, is an asset or liability involved that the government is basically keeping off its balance sheet?

Second, are there agreements such as those that might be exempt from the FAR that have potential or unlimited type of liabilities.

When people say, 'I do not see debits or credits'- his reply is that you are not going to see a journal entry with a Debit to: “Risk Expense” and a Credit to: “Risk payable”.

Mr. Reger asked if that means that the effort is to identify P3s because to some extent you think they are not being recorded at all at this point.

Mr. Savini answered yes, there are some that are not on the government's books that probably should be.

Mr. Reger said he was of the impression that these transactions were probably being recorded, but not recorded correctly because they were not identifying both the potential ownership interest and the potential risk that was created for the parties involved. But you are saying along with your group that you believe there are transactions that at this point there are no real transactions.

Mr. Savini said yes, creative techniques may keep these off the books. At the same time to be fair, you have agencies that try doing what needs to be done. Technically complying

with each existing standard might get the debits and credits right but you are probably going to have lack of comparability all around.

Mr. Dacey noted that the proposal seems to be that if it meets one of the conclusive characteristics, it is a P3 and we filter it through materiality and other things to decide whether we disclose it. But if that is true, I think these questions will yield things that are not P3s and that is my concern. For example, using number 1 (creation or conveyance of an asset or a liability) if we build a battleship then that seems to meet that question and it is not necessarily a P3 or involve SPVs. We had SPVs with respect to TARP, but it had nothing to do with a P3. He thought he might not be clear on how the answer to these questions go to the next step since you are clearly going to come up with things that are not P3s.

Mr. Dong noted that you must apply the definition/description first and then you are applying this second screening.

Mr. Savini agreed. He thought program managers know P3s. The point is to give them a definition and once they fit under that definition then they know they are eligible for P3-Centric reporting.

Ms. Payne elaborated on the point regarding the questions posed as characteristics. She noted the question helps you identify conclusively that you have risk in something that already met the P3 definition. You are saying if an entity answers one as a "yes" then that one demonstrates risk.

Mr. Dong and Mr. Dacey asked if what you are saying is that you do not go into these conclusive and suggestive questions unless it is a P3 to start with.

Ms. Payne indicated that is correct. The definition/description answers if it is a P3. We are going to improve that based on the earlier discussion. But once you have gotten in the universe of P3s, the question is then which ones need to be disclosed; certainly not all of them. But let's go through the conclusive characteristics to see which ones are risky enough that there should be disclosures.

Members noted that the term "conclusive" is being used differently than it was used in entity and staff agreed.

Mr. Dacey noted that materiality still kicks in afterwards so he was still confused slightly on the flow.

Mr. Showalter asked staff to revise these from questions to affirmative statements. He thought that would be clearer.

Mr. Granof and Mr. Showalter asked why the five years was used.

Mr. Savini noted that Mr. Michael Fischetti, the Executive Director of the National Contract Management Association, serves on the task force. He has about 30 years of federal service with his last stop at DoD as part of the SES. His recommendation is that

any procurement over five years is something you have to really be concerned about because it is not the norm.

Mr. Allen thought writing them as affirmative statements with why agreements over five years can have additional risk seems like a good idea. He did not want to use the term traditional, but maybe something more along the lines “arrangements greater than 5 years have more risk than those we normally do” and therefore there may be some ongoing risk or something to that effect.

**Questions 3 & 4** – These 2 questions both deal with the type of disclosure that we would be requiring agencies involved in P3s to make. Question 4 lists 9 broad areas and this is where the auditors on the Task Force really helped identify the areas where they would like to see disclosure.

Mr. Savini referred to the top of page 26 where we discuss some relevant factors concerning making judgments about P3 disclosures; i.e., relevance to reporting objectives, nature and magnitude of potential risks and exposures, and the complexity of the P3 relationship. Do members think there are any other factors or considerations the taskforce should take in looking at developing disclosures?

Mr. Allen wondered why the complexity of the relationship matters. Clearly, we want information that is relevant to our reporting objectives and is important such as the nature and magnitude of the risk and exposures. These are most important and he would probably list these first. However, in and of itself the complexity of the relationship does not relate to those other two. While it can be very complex, but it does not create a potential risk for exposure and it does not relate to our reporting objective.

Mr. Reger asked if staff is trying to talk about the complexity of the relationship as it creates risk. The fact that there is an unusual business relationship here similarly could generate other risks that you just hadn't talked about.

Mr. Allen thought it was written as a standalone; that is, I want to it disclose it only because it is complex.

Mr. Dacey noted at this point, you have already decided you are going to disclose and are now deciding how much you are going to disclose. He asked if the intent was if it were more complex you would have much more disclosure.

Mr. Savini responded yes. We already decided that we are going to disclose and are now deciding how much of this complex relationship we are going to disclose.

Mr. Smith noted when we talk about the risk or the benefit, is that just to the government or is that to the other parties also? He asked what if we are entering into one of these relationships, but do not present a significant risk to the government, but it really transfers the significant benefit to a third party. Is that something that we believe the public would need to be aware of? We took government assets and we enter into a P3 arrangement in which a lot of government value goes to the third party and the

government does not have a lot of risk for the services, but the public would want to know that this was a pretty nice deal for the third party. Do we believe that this should be part of the disclosure?

Mr. Savini said, looking at it from the government's point of view, the question is answered by the fact that we have the complexity of the relationship addressed here.

Mr. Smith thought it could be a simple relationship but with a huge benefit conveyed.

Mr. Savini agreed. These three factors we are discussing were the framework that served as a basis for the nine broad areas that we have in Question 4. There, we might actually address your concern in one of nine broad areas. For example, in item 7 on the list, we talk about risks to all the partners and in item 9 we discuss financial results of the P3 and how well the P3 arrangement is meeting its expected outcome. It might get at what you are talking about.

Mr. Smith said he had not even concluded whether it is appropriate or not because that would be the same as if the government took an asset just out right and sold it or there were very favorable terms to the purchaser. It is not a requirement to disclose such transactions within the financial statements. He was just asking whether we wanted to include it in the scope.

Mr. Allen asked if we are going through all 9 of these and, if so, he would like to eliminate about four of them.

Mr. Dacey asked about Question 3. In terms of the relevance to the reporting objectives affecting the extent of disclosures, what was envisioned there?

Mr. Savini explained that he looked at a lot of different sources for the types of disclosures that governments and organizations are looking for in P3s. A lot of them certainly do not fit our financial reporting objectives. He weeded those out. Looking at for example, the World Bank and what disclosures helped me identify what others say we would need to know. However, if they did not meet the reporting objectives I filtered them out.

Mr. Dacey noted that when we get to Question 4 though, we have a list of things you were suggesting be disclosed but how would that be varied by the relevance of reporting objectives since as it seems, one could look at the list of things saying we have already determined what is relevant by coming up with this list of items. He wondered how that varied the extent of your disclosures.

Mr. Savini said, for example, there were some disclosures being touted as important for P3s that dealt with things like actual project performance, project milestones, etc. He thought disclosure would vary to the point that had he not done the filtering we would have a longer list than the nine.

Mr. Dacey said these are the nine things you have to say about a P3. How does that characteristic affect how much you say about each of the 9 things?

Mr. Savini said: But isn't that a matter of judgment for the preparer and auditor to take a look and say, FASAB has a standard here that ties this requirement back to a reporting objective? Now it is management's assertion to look at and then to determine the extent of what they want to disclose I would think.

Mr. Dacey asked if that means these become an optional list rather than a required list.

Mr. Savini said we would propose this would be a mandatory list, but it is up for negotiation like most things in life are.

Mr. Allen suggested we move to the nine disclosures.

Mr. Savini suggested if members have any other factors you wanted us to consider on the taskforce, please send an email or call.

Mr. Granof asked about the relationship of the nine disclosures to the earlier text.

Mr. Savini explained these nine would be the output per se from answering "yes" to the suggestive characteristics.

Mr. Dong compared the approaches in the entity and P3 projects. He noted picking up on the conversation where you are saying that this would be a mandatory checklist and juxtaposing that against what we talked about yesterday where we explicitly said for a reporting entity, it would not be a checklist. He asked if there is a reason for being different.

Ms. Payne noted that she had asked for the objectives of the disclosure regarding P3s. In other words, what do you want the reader to take away from the disclosures? Because of the variety in P3s, a fairly exhaustive list resulted and then was worked through the taskforce to this refined list of nine broad areas. Some of them probably will not be as significant with less complex P3s so you would not have a 9-page addition to every agency's report for each P3. It is just that these are complex and diverse relationships. The taskforce is actually quite passionate about revealing the guts of these arrangements.

Mr. Dong noted that disclosure organizations also may be complex relationships but we are being less prescriptive in terms of the checklist.

Mr. Allen asked if we could add something like "as appropriate" or "if this is appropriate for the entity then we ought to disclose this area and if not, then don't disclose."

Mr. Dong said then the intent would be the same as the intent that we discussed yesterday.

Mr. Dacey explained that we have different approaches throughout the standards. We know specifically what we want to have enumerated and that is listed as in the case for the Federal Reserve. We said here are the things we want you to have and there are no exceptions. In other places, such as reporting entity, we establish objectives and then illustrated ways that you could achieve those objectives. Meeting the objectives is really the requirement.

Mr. Allen encouraged working towards examples and to keep the audit fees low and not waste paper. When you have this number of very specific items the footnotes are going to go on and on. For example, he pointed to number 2 - the nature, rationale and purpose for the arrangement – and asked what does that have to do with financial reporting.

Mr. Savini noted taskforce members believe P3s, at least initially, have been awarded by hand-selecting certain contractors. People want sunshine to see that there is a real full and open competition involved in the qualification of a potential private partner and then the selection of the partner.

Mr. Dong and Mr. Allen asked if this is the forum for that.

Mr. Showalter opined that you will get an answer such as “the agency went through a formalized process to pick the partner” period. He also noted some overlap in the disclosures that is confusing.

Mr. Savini suggested that members want the disclosures narrowed to the most relevant information.

Ms. Payne asked if members wanted to move away from narrative toward more fact-based objective information.

Mr. Reger said the volume of P3s may be much larger than anticipated. Sooner or later, you are going to have to go out to those agencies and ask those questions. Just how you get information to the form of a disclosure, regardless of the answer, is the question.

Mr. Allen noted you want to know why an entity entered into the agreement and what the risk is. He would be satisfied if the disclosures answer those two questions.

Mr. Showalter said he doesn't know what is meant by 'financial results of P3.' Does it imply a separate Profit and Loss statement on a P3. Further, he asked if it is possible “amounts to be paid” would end up being disclosed through lease disclosures.

Mr. Granof felt the draft definition of P3 means virtually every lease is a P3 and would lead to a huge amount of disclosure. The question is why did they enter into it.

Mr. Dacey said the agencies must have determined it is an advantageous to the government to enter into the arrangement in all cases.

Mr. Allen opined that it is not always advantageous. In the long term, many of these probably are not economically advantageous. What they are is they have a need and I do not have the budget resources to do it so they become creative. This is what he would want to know about P3s - Why did you do it?

Mr. Smith agreed but wondered how many people are going to candidly say that as opposed to coming up with a rationale as to why they believe the P3 was to their advantage.

Mr. Allen noted he would expect them to say we have a need for a service or whatever it happens to be, and that the P3 is a viable alternative. Then they would give the amount spent and the risk assumed. Further, this is our on-going commitment for this P3.

Mr. Granof asked how does that deal with the question that you asked a few minutes ago - are they going to provide this for every one of their arrangements, which may be in the hundreds?

Mr. Allen said that is a separate issue and goes back to Mr. Reger's point are there four or 3000?

Mr. Granof pointed out that this is not something that can be neatly summarized.

Mr. Smith noted that we will have those that create an asset, those that create a service, and then those that off-load a liability. And then you can do a catch all or something and explain the rest. Even if there are different types of facilities, if you are going through this arrangement to finance assets, do you really need to know about each asset? Do you need to know that this is how you are financing assets and this is what it is costing you over some period of time?

Mr. Reger noted the explanation is I entered into one of these because I did not have the money to do it. The real question is, what is this arrangement supposed to accomplish - like providing military housing.

Mr. Allen said he also wondered what is your on-going commitment or your risk.

Mr. Reger added knowing the amounts invested and the potential liability.

Mr. Smith added what happens at the end of the arrangement.

Ms. Payne noted the discussion was similar to the task force. While we would like to get down to two items but then the need for information expands for more items.

Mr. Dacey noted that what happens at the end also affects the risk and benefit.

Mr. Allen noted that in terms of duplication some on the list could be eliminated. Each item on the list should be clearly explained but he does not expect to have items related to the procurement process on the list.

Mr. McCall said he looked at this list and saw a mixture of financial audit purposes and performance audit purposes. A financial auditor wants to know what is being spent and was the building built for and those kinds of things. A performance auditor wants to ensure that there was a contract and what that contract is going to cost. We recorded all the transactions. This is what the building cost and therefore there it is on the financial statements. He opined the list is going very broad.

Mr. Reger suggested what you are looking for is exposure to risk. Do we have risk here that we have not disclosed?

Mr. Steinberg added that the comparative costs of the P3 versus if we did do it in a more traditional way is important and shows up in the newspapers.

Mr. Reger agreed but that is a performance requirement and not a financial statement disclosure.

Mr. Steinberg said the cost of the way you are doing it now and the a cost of the alternative are both financial.

Mr. Reger said he does not see that comparison anywhere else.

Mr. Smith thought that would be tough to audit. That would be no different than to say if they purchased a building that was very expensive or they could have purchased that building much cheaper. If it was an asset purchase, we would not make that evaluation judgment. He was not sure why we would be trying to do that in a P3 arrangement. If we disclosed it to the people, it is up to them for the reader to go and say let me go use that information now to try to make a performance comparison.

Mr. Steinberg said he did not know how we do it, but we see it in papers and we see it in criticisms of the P3s, they say we sold all the parking meters. But if we did not sell parking meters, it would add \$900 million or more revenue over 75 years. That is where the criticisms are. He did not know whether that is why we are doing disclosures.

Mr. Reger indicated that is like a half a story. You can hear the story and know there is half a story. Half the parking meters did not work anyway. They did not lose anything by selling the parking meters because people paid them for the parking meters and they got a contract under another P3 deal to come in and put in electronic meters which do all the collections. There is a ton more information that you are never going to get.

Mr. Steinberg asked why we would disclose anything then.

Mr. Reger thought the disclosure is what risks have you subjected your government to that the taxpayer may have to pay if this all unwinds.

Mr. Allen added commitments as well which we can say can be a little bit different than risk.

Mr. Smith added that another is to get the substance of a transaction so that we do not get into a P3 arrangement to get an off balance sheet financing or off balance sheet asset when you really look through it and you would say the government really has financed this asset. We do not want the legal term because you ran it through a P3. It stays on in the financial statements when it really should be on the financial statements because basically we have an asset and we have liabilities.

Mr. Allen indicated that question four seemed to have been addressed and asked staff if there are other questions.

Mr. Savini asked members to send any notations or suggestions regarding the draft to him.

**Conclusion:** Staff will continue to work with the task force to develop definitions and disclosure requirements based on the Board's input.

- **Reporting Model**

Staff has been consulting task force members on the ideal reporting model and has identified some challenges and opportunities. Mr. Allen noted that the task force members should not be constrained, but should start with a "clean sheet." Ideally, there are many possibilities over the long term. In addition, there is a broad range of users; therefore, the task force should consider the need for different perspectives other than traditional accounting measures. For instance, economists may like to see information framed in terms of gross domestic product. Also, the Governmental Accounting Standards Board (GASB) noted the need for two perspectives in their reporting model – a budgetary focus and a business-like, economic resource focus. Mr. Reger added that there is a challenge in getting information in the hands of users in a form that is most meaningful to them.

**Conclusion:** Staff plans to discuss a draft framework for an ideal reporting model at the October 2013 meeting.

- **Annual Report and Three-Year Plan**

Ms. Payne introduced the topic of the annual report and three-year plan. A revised version was provided and includes changes proposed by Mr. Steinberg and a member of the Appointments Panel.

She suggested that – given the survey results - the members identify any opportunities for improvement. Those opportunities would be summarized in the annual report. She noted that prior year recommendations for improvement – first identified in fiscal year 2011 are on page 10 of the draft.

Mr. Allen asked about items we have already done such as number three - establish an annual cycle for reviewing its technical agenda. Members discussed the merits of tracking accomplishments but agreed that items should not be repeated once they have been established as practice. Some suggested addressing items in the narrative rather than the table.

Ms. Payne noted that items three and four could be discussed in the narrative rather than the list. She noted that the initiative to “contact organizations sponsoring intern programs to coordinate opportunities” has not progressed well due to resource and timing constraints. Mr. Allen asked about the purpose of an intern program. Some use it as a recruiting tool but we work on highly technical issues that people coming in for a year or two could not see through. GASB has used their intern program effectively to recruit permanent staff but our size precludes that.

Ms. Payne agreed and indicated she does not view it as a recruitment tool. Her experience has been that college interns usually do well at basic research but that staff time is required to support the intern so it is often a net zero.

Mr. Showalter recalled this was added in 2011 when we first started seeing the financial constraints and this was viewed as a way to leverage resources. He noted that we have achieved the leverage in other ways – such as more reliance on task forces.

Mr. Allen agreed and added that the return is higher by having groups work on issues.

Mr. Showalter suggested removing the intern item.

Mr. Dacey observed that one recommendation was to increase efforts and asked if we still want to increase our efforts or have we increased our efforts.

Mr. Reger suggested the chart might need to go and we should find new ways to identify improvement efforts.

Mr. Allen suggested a narrative approach.

Ms. Payne agreed and solicited new ideas for improvement

Mr. Dacey asked if members are able to discuss specific items since the responses are confidential. For example, there were a couple of questions on delivery of materials.

Ms. Payne indicated that the first comment on delivery has been addressed by ensuring Saturday delivery is requested from FedEx. Regarding the second comment on delivery of materials shortly before a meeting, she noted that staff was trying to facilitate a vote on issues by responding to feedback. She acknowledged that members may come to the table and say staff has not met your needs and you are not prepared to vote. Staff will remove the item from the agenda and come back for another meeting. In some cases, it is a difficult judgment call to make – whether to defer a vote for two months or to provide alternatives.

Ms. Payne noted one of the ideas that came from a member was invite the taskforce members to the table sometimes. She asked if this was an idea for improvement to identify in the report?

Mr. Showalter suggested we could also do that in concert with our annual revisiting agenda. There are certain things that may help their people come and talk to us about. Then they actually inform us a little bit more in the discussion.

Mr. Allen agreed. He also asked if we should have more public hearings.

Mr. Dacey suggested being broad and “considering opportunities to have more contact between the board and other staff.” This would include public hearings, bringing staff here to the meetings.

Mr. Granof noted there are some agencies we have had no contact with at all since I have been on the board - the Defense of Department, for example.

Mr. McCall agreed it would be helpful if we have a taskforce that has been working hard at coming to conclusions, we ought to invite one or two of those people.

Ms. Payne pointed to the domain and authority portion of the survey. Members had discussed the FASB preparers and a desire to determine obstacles that need to be addressed so they can and will desire to follow FASAB standards in the future. The responses also mention the DATA Act. She asked if there were any ideas for improvement in this area.

Mr. Reger thought it might be appropriate when legislation is introduced on the Hill that has a potential effect on FASAB, that staff approach somebody from the Hill to come to the Board and talk about the legislation. He noted the importance of understanding the goal of proposed legislation.

Ms. Payne asked if he was suggesting more informal dialogue with the Hill staff to see what they envision.

Mr. Reger agreed but noted it could be someone other than Hill staff.

Mr. Steinberg noted two things. Number one is the congressional outreach program. Number two is OMB and GAO's outreach on proposals.

Mr. Dacey indicated that GAO's screening is for GAO or comptroller general references in bills and legislation. They do not always identify financial accounting issues.

Mr. Reger said there are not that many. He noted that Treasury does not catch the accounting proposals either and wondered who is watching for those.

Ms. Payne indicated that FASAB staff do not monitor legislation.

Mr. Allen said given our size, if they really want us to do something then they will ask us.

Ms. Payne noted that it could put FASAB in a slightly awkward position if we are perceived as advocating or trying to adjust legislation. Being sponsored by these three organizations raises the risk that they may be saying something different regarding the proposal.

The Board agreed general awareness was sufficient in this area.

Ms. Payne turned to the human and financial resources portion of the survey. As I mentioned, we have hired after an exhaustive search. In response to Mr. Allen's question about the lengthy recruitment process, Ms. Payne noted that there were several challenges. She related that of the dozen or more candidates interviewed, almost all asked about the long-term viability of such a small organization given the budget constraints. She also noted the significant reduction taken in prior fiscal years. She asked if members were comfortable with the draft regarding human and financial resources.

Mr. Dacey asked about the survey comment regarding a method of knowing misinterpretations or errors and the ability to implementing the standards. He noted that preparers and auditors bring issues to staff and wondered what was needed.

Ms. Payne acknowledged that staff has a filing system for contacts but does not convert that into any sort of data.

Mr. Allen asked if it would be hard to do and Ms. Payne indicated it would not.

Mr. Showalter suggested reaching out to the audit community and asking them where their clients are struggling.

Ms. Payne expressed concern regarding implementation guidance. The AAPC model relies on volunteers. We are aware that the community is going to have serious questions regarding deferred maintenance and we have not begun work on it yet because we need volunteers.

Ms. Payne indicated she would add something about outreach to the report. She noted another comment about international standards and being more engaged with international standards. Bottom of page 6. One benefit we have at the moment is that Bob Dacey is a member of IPSASB. She suggested one option to address the need is to ensure members get an update after each meeting – that would be four times a year.

Mr. Allen agreed.

Mr. Dacey noted there is communication between staff as well. He indicated an update is doable.

Ms. Payne indicated that members should send comments on the latest version to her and a new draft would be circulated during September.

Ms. Payne moved on to congressional outreach plans. A written update was circulated to the members. It includes an outline for two written documents. A draft will be circulated for comment. Member comments on the outline and the indication of how much space to give each topic can be submitted to Ms. Payne.

- **Steering Committee Meeting**

The committee discussed the budget, the recent hire, and the pending vacancy for an analyst level position. The committee supported the budget provided while noting the uncertainty of FY2014 and 2015 appropriations.

The committee deferred action on the CAM-I decision until the cost study is completed.

### **Adjournment**

The meeting adjourned at 4:00 PM.