FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
Minutes - October 24-25, 2012
Room 7C13
441 G Street NW
Washington, DC 20548

Wednesday, October 24, 2012

Administrative Matters

- **Attendance**

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

- **Approval of Minutes**

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

- **Clippings**

Mr. Allen noted that a number of the clippings and other reports presented are relevant to the February discussion of the three-year plan. He specifically noted that the lease accounting revisions planned by the FASB and IASB have not yet been proposed for public comment. This may affect the timing of our work on the lease project.

Members inquired about the letters from Mr. Zingher regarding cost accounting. Ms. Payne indicated that she had communicated with Mr. Zingher and would share some additional information regarding his efforts to encourage cost accounting and to develop a textbook. Mr. Zingher has been informed that his input will be considered in connection with project decisions and planning discussions

Mr. Allen asked if there were other administrative matters. Ms. Payne gave a status report regarding the Handbook. It is updated each year as of June 30th and usually released by September 30th. This year's release is delayed due to a change in the format necessitating further review. The change to a full-page format should facilitate on-line users as well as inclusion in electronic referencing sources.

Agenda Topics

- **Federal Reporting Entity**

Staff member Ms. Loughan explained the objectives for the October Board meeting were to approve a pre-ballot ED for the project. She explained to accomplish this optimistic goal, the Board will be required to approve changes agreed upon at the last meeting, consider other suggested changes and vote on 4 areas, including the final related party language and Federal Reserve Basis for Conclusion language. These actions will enable staff to make any needed changes for additional deliberation and review at Thursday's meeting. She explained this will allow staff to prepare a ballot ED for approval after the October meeting. Staff asked the members to address the areas identified in the staff memo.

Federal Reserve System Basis for Conclusions Language

Staff explained that initial draft language regarding the Federal Reserve System (how consolidation might obscure the financial effects of fiscal policies) was distributed after the August Board meeting. Staff received comments from approximately half of the members on the draft language. Members offered suggestions to the draft language for clarity.

Staff explained of those responding, certain members appeared to support the draft language, while certain members expressed some reservation with the draft language. Of the members noting concern, one member believed consolidation of the Federal

Reserve was appropriate and any obscurity that may occur could be made clear through the notes to the financial statements. Other members noting concern pointed out that obscurity is not one of the criteria for determining whether an entity is a consolidation entity or a disclosure entity. Staff revised the language based on the comments received. Staff directed the members to see par. A31 - A35 in the ED for marked changes.

The Chairman opened the discussion up for questions, comments and if the Board was prepared—a vote on the Revised Federal Reserve System language.

Chairman Allen explained he thought it was appropriate and reached the balance between reasons without saying that it is or it isn't consolidated. He added that it was written objectively.

Staff explained some additional editorial and other comments had been received and those would be included in the draft tomorrow.

Mr. Showalter explained that he was supportive of the wording and that he gave some edits, but it does not change anything substantive.

Mr. Smith explained he was also supportive.

Mr. Dacey explained he was supportive as well with a couple of edits.

Mr. Steinberg explained he had a few issues of concern. He explained that he is still not sure whether the Federal Reserve should be consolidated, but he does know whether the argument why they should not be consolidated is crisp enough. It appears the reason why they are not consolidated is it would distort financial statements and yet that was not one of the criteria for consolidation versus disclosure entities.

Mr. Steinberg further explained that another big issue he has is the disclosures may not get all the information about the Federal Reserve, namely the transactions they take on behalf of the government, and also as you read the paper nowadays it is taking actions in order to promote job creation. He acknowledged there are factors and objectives for disclosures, but he doesn't think they will result in the necessary disclosures.

Chairman Allen suggested his concern about disclosures be addressed secondly. He noted right now the Board is considering whether the wording and the basis of conclusions is appropriate to set the tone that there are reasons that someone may want to disclose versus consolidate.

Mr. Steinberg explained he was for disclosure versus consolidation on the basis of practicality, but what the standards say is we are not consolidating. We are going to disclose because it would distort the consolidated government's financial statements and that is not one of the criteria the standard proposes for differentiating between consolidation and disclosure entities.

Chairman Allen explained what the standard says is we are not going to specifically state a conclusion regarding any entity. This is a principles-based standard and we give criteria. We are not going to say whether it is or is not. But all this is trying to do is say there are reasons one may want to consider disclosure as opposed to consolidation.

Ms. Payne explained the logic or model in the basis for the conclusions is slightly challenging—it was helping people make the leap to the outcome from the criteria. She explained staff can make some editorial changes to make that crisper, but it is not that staff was trying to introduce a criteria. Staff explained it would be very difficult for practitioners to make an operational decision on what is understandable and what is obscuring. The discussion of “obscuring” is really a discussion of the quality of the outcome or the result, and the criteria are what help us avoid that outcome.

Mr. Steinberg explained that he interpreted it to mean the reason we are not consolidating the Federal Reserve is because it will distort the federal government’s financial statements. If that is the case then that should be one of the four criteria for the standards—we are not going to put something into consolidated if it distorts consolidated.

Chairman Allen stated it is only explaining the impact as it relates to a specific entity, but it is not changing those three basic criteria.

Mr. Steinberg explained the basis for conclusion may be different than our standards for reporting.

Ms. Loughan explained the way the standards are set up; you assess them based on the attributes that were established for a consolidation entity and disclosure entity. One makes that assessment and the results would be a consolidation and disclosure entity. Staff explained what we were establishing in the basis for conclusion more or less supports what that assessment is and it explains it further as it relates to the presentation. Ms. Loughan explained the way the standard is established the attributes are what determines what the entity is. The basis for conclusion was explaining the need for making a distinction between entities that have those criteria and entities that do not have those criteria.

Mr. Steinberg explained that he understood staff’s point, but reiterated that it comes across as if we have three criteria, but we do not want to consolidate it so now we will take the basis of conclusion and explain why it is not consolidated.

Mr. Allen suggested dropping the whole discussion in the basis for conclusion if it leads to this type of interpretation—with readers believing there is a fourth criteria. He explained the Board made a conscious decision that we are not going to specifically specify each of the entities and make a decision for them. The Board sets the criteria and it is up to the preparer and the attester as to how that criterion is applied.

Mr. Steinberg explained that he agrees with that. However, he believes that what we are also saying is if those criteria do not apply, in addition, you can say if it distorts the financial statements in the total government, then you can consider that reason.

Mr. Allen stated he hoped that wasn't how people read it. Mr. Steinberg explained that is how he read it.

Mr. Granof indicated that he agreed entirely with Mr. Steinberg. He explained that he thought the basis for conclusions does not support the standard and that we were adding another criterion in the basis of conclusion.

Ms. Payne explained staff intended it to explain why we pursued having the criteria. She explained it is comparable to qualitative characteristics--understandable, relevant, reliable information. Those are the reasons you lay out the standards the way you do.

Mr. Granof explained when considering the Federal Reserve, one would expect an explanation of why the Federal Reserve is not included. And one would expect an explanation that is consistent with the criteria; that is, it is independent, etc. Instead, the basis for conclusions explains that it distorts the financial statements, which are not related to one of the four criteria in the standard.

Chairman Allen explained we were not trying to do that. We were trying to say that here are the criteria and they should be applied using professional judgment. The board was not saying -- and the last wording changes tried to make it even clearer that we were not saying it is a consolidation or disclosure entity.

Ms Loughan explained the standard establishes two types of entities and they have two different types of presentations. Staff explained this was trying to explain why there are two different types of presentations.

Mr. McCall explained in the section we talk about what is disclosed and what is consolidated, but he does not really understand why we then start talking about the Federal Reserve. It seems like the basis should be the entities to be included and there are criteria for that. Mr. McCall stated the report preparer would make a determination of whether they are included or not. Mr. McCall questioned why we start making a case for why the Federal Reserve, if you consolidate that it would obscure everything. Mr. McCall explained that it seems that would be outside of the basis.

Ms. Loughan explained that previously there was not any language regarding the Federal Reserve, other than the sentence as to why we removed it from SFFAC 2. We added this after the discussion with the Federal Reserve representatives. It was at the board's request to add something regarding the Federal Reserve deliberations.

Mr. Showalter explained he was a little confused by this conversation because the Board directed the staff to write this.

Mr. Steinberg agreed that staff was directed to write it, but in doing so it appears a fourth criterion was written.

Mr. Showalter explained he did not see it that way. He explained that he saw it as a result and not a criterion. But if that is not clear, we need to fix that. When he read it, he saw it as a result.

Mr. Steinberg explained the words are, for example, in considering Federal Reserve System, some members believe that consolidation might obscure the financial effects of fiscal policies while disclosures might shed more light.

Ms. Payne explained the context for that sentence or the paragraph is the lead-in sentence—"the board considered whether the proposed principle-based standards were likely to result in fair presentation of certain significant entities." She explained that is specifically what staff was asked to document, that the board thought about how the standards and the criteria would play out with a significant entity like the Federal Reserve and to document why some thought it still would be fair presentation.

Chairman Allen asked Mr. Steinberg if his argument was to take the discussion out of the basis.

Mr. Steinberg explained people will ask why isn't the Federal Reserve in there. The standards are supposed to be clear.

Ms. Loughan explained the basis still has the paragraph that says the principles must be applied to the Federal Reserve. We do not say what the outcome is.

Chairman Allen asked Mr. McCall if he would propose taking that out of the basis for conclusions. If people are reading this saying this is the fourth criteria, then we have created something we did not want to create. It was only there because we had a lot of discussion of the Federal Reserve and we thought we should put something in the basis of the discussion that we had.

Mr. McCall explained the Federal Reserve is key to what we are talking about, but the whole standard is not just about the Federal Reserve.

Mr. Dong explained the basis is for illustrative purposes.

Mr. Dacey explained we might need to be clear that in testing the characteristics of the standard, the board considered whether the distinction is effective. But in making that decision, it is important because if you do not make that distinction properly, these are the potential outcomes of that. He explained it might be helpful to talk about the obscurities before you talk about the Federal Reserve and use the Federal Reserve as an example. Mr. Dacey explained if you do not separate these properly, you are going to have obscurities. There may be other things that may result if you start consolidating entities that should be disclosed and vice versa.

Mr. Smith agreed with Mr. Dacey and added that when you apply the criteria that you have to really apply judgment and think about it.

Mr. McCall explained when he looks at the criteria for consolidation and disclosure they are-- is taxpayer supported, governed by the Congress or the President, imposes or may impose risks and rewards to the taxpayer and provides goods and services on a nonmarket basis. He added that he did not remember a discussion of each one of those as it relates to the Federal Reserve.

Ms. Payne explained we did not go into that level of detail because we did not want to reinforce the notion that we were assessing the Federal Reserve to establish a firm classification; especially since circumstances may change over time.

Chairman Allen reminded the Board they were in the midst of a vote and with Mr. Steinberg's points—he had brought up two. And the second one would be discussed later regarding disclosures. However, the first regarding whether there is another criterion is something that needs to be considered now.

Mr. Steinberg explained either you have to add it as one of the criteria, which maybe we do not want to do, but then we have to come up with rationale as to why, despite the criteria the Federal Reserve is not consolidated. Mr. Steinberg explained that the Board is so hung up on this notion of principles-based, but the Federal Reserve is different.

Chairman Allen explained that is why we decided to put some language in the basis.

Mr. Steinberg explained that perhaps we need to address the entity specifically in the standards.

Chairman Allen suggested the Board finalize the vote on whether there is support for the proposed wording in the basis for conclusion.

Mr. McCall explained that he would say no.

Mr. Granof explained he would say no also. He added that if we have to justify why the Federal Reserve is going to be excluded, we have to justify why in terms that specifically relate to the criteria.

After other members had voted, Chairman Allen summarized the count by stating a majority of the board agreed with the language; however, the concern raised by three members is significant enough to address. Therefore, he requested staff to attempt to resolve and bring back revised language for the Board's consideration on Thursday.

Mr. Showalter commented that Mr. Granof had suggested that we concluded that the Federal Reserve is excluded, but he thought we had not concluded because we were not making a decision.

Chairman Allen agreed the board is not making decisions regarding any individual entities.

Mr. Granof explained that when we issue a standard like this, we had better know what the result is going to be and whether or not the Federal Reserve System will be included or not because we are talking about a couple of trillion dollars in assets and liabilities. He believes the Board should know the results since we appear to be making a decision. Mr. Granof explained when we issue a standard; we had better know what the implications are. We had better know whether the FRS would be included or not. He explained, based on our discussions, we have decided at least tentatively that our standard will be written so that the FRS will be a disclosure entity rather than a consolidation entity.

Mr. Showalter explained that his point was whether disclosures about the entity were appropriate for the user. The way it is written, we are giving the preparer the ability to decide. He added that he does not think it would drop out. Mr. Showalter explained it is either consolidated or disclosure. Further, he believes there will be adequate disclosures no matter which way they go and that the user will be informed . He is comfortable with the way it is worded in that the user will get the information they need. Mr. Showalter explained that he doesn't care which way it comes out as long as the information is there for the user to understand. He added it is up to the user to decide, but either way, disclosure to the public will be appropriate.

Mr. McCall explained that in reading the basis, it states Treasury's securities are a significant asset of the Federal Reserve banks that is consolidated and the securities held would be eliminated. The use of Treasury securities to conduct monetary policy may introduce volatility and variability and so on. He explained that as he read this, the board has made it a determination that disclosure is the way to go as opposed to consolidation and it seemed like we made a conclusion.

Mr. Smith stated he agreed with Mr. Showalter and he believed we were leaving this open and had not made a conclusion.

Mr. Steinberg explained that he always thought that the purpose of standards was to provide some explicitness so both preparers and users would know what to expect. He believes the Board should make up its mind one way or the other.

Mr. Showalter explained that the reason we want it worded this way is because we want to have a principle-based standard as entities change over time or evolve and we do not want to have to go back and change the standard every time the role of the Fed changes. It would be difficult to definitely say what the disclosures should be because what may be true today, may be different next year . He explained preparers need some flexibility.

Mr. Dacey explained that even in the standard language, we do not come to a definitive conclusion on specific entities or types of entities.

Mr. Dong explained that the material as presented leads the reader to believe that you actually have come to a conclusion just because of the balance of one type versus the other. Mr. Dong suggested if you want to follow the approach of not drawing any conclusions on any specific entity and if you do want to use the Federal Reserve for illustrative purposes, then we take an approach where we actually trim back some of the language because it is heavily weighted towards one side of the argument.

Chairman Allen agreed that was legitimate. He noted staff had made certain changes but more may be required.

Staff noted some members wanted to add more reasons as to why it should be disclosure and staff attempted to balance it out, while considering other members wanted to add something regarding consolidation. But when we first started, it was a shorter version. Staff believes at this point, we can either tone it down or remove certain references. It is up to the board.

Mr. Showalter explained that is what he was going to suggest--vote on being silent on the Federal Reserve.

Chairman Allen asked the three board members who object to this wording-- Would any of you support just being silent totally on this.

Mr. Granof explained he would not want to be silent.

Mr. McCall explained we need to continue to talk about the Federal Reserve. He added that when he read this and what the characteristics are for consolidation and the paragraphs, it says in contrast to consolidation, disclosure may aid users in understanding. He explained as a reader, he believes that we have already applied the criteria against the Federal Reserve and we come to the conclusion that disclosure is better. Mr. McCall does not think that we have looked at the criteria at all relating to the Federal Reserve.

Mr. Dong explained there appeared to be two questions at issue that are being mixed up or interrelated-- One is do we mention the Federal Reserve and two is do we draw a conclusion about the Federal Reserve.

Chairman Allen explained the second one we have already discussed a couple of times, that we were not going to reach a conclusion on the Federal Reserve. I think the board got comfortable with that.

Mr. McCall explained that the basis does not support that fact.

Chairman Allen explained the board does not make specific conclusions.

Ms. Payne explained staff could bring that language forward as an introduction and then include the following points or notions:

1. we did test to see if disclosure or consolidation could produce satisfactory results
2. describe the disclosure, the reasons for disclosure, and what you get with the Federal Reserve,

3. describe consolidation, the reasons for consolidation, and what you get with the Federal Reserve
4. present a more balanced, neutral presentation
5. explain that it is inappropriate for the board to attempt a complete analysis against the criteria (because that would require going into the field and talk to lawyers, talk to constituents, stakeholder) to see how the criteria play out
6. the board does not make a call on any one entity because it might change over time.
7. will make it clear that that has not been done and there is no implication that the board ruled upon the classification
8. language will capture that whether it was consolidated or whether it was disclosed, users probably get the information they need.
9. explain what you would get under each classification regarding the central bank -- pros and cons of each.

Staff committed to bringing this revision for tomorrow's discussion.

Chairman Allen asked if any members objected to Ms. Payne's proposal.

Mr. Steinberg explained that he believes the FRS should be disclosed but there has to be more information. He explained he would have written the standards such that he would talk about consolidation entities, disclosure entities, and also a section about central banks. Mr. Steinberg explained the section would be about central banks, which exist around the world and this is the way you would report a central bank as a disclosure.

Mr. Granof also expressed some reservation and explained that he has been consistent throughout this discussion. He consistently maintained that this project was mainly about the Federal Reserve; mainly because the Fed is so important and therefore he wants to make sure that the conclusion indicates that we have given careful consideration to the Federal Reserve. He added he did not want to leave doubt as to where we stand with respect to the Federal Reserve. He explained that he believes users want to know where this board stands with respect to the Federal Reserve.

Mr. Showalter explained that is where he disagrees with Mr. Granof's statement. Principle-based standards provide criteria in which the user makes an informed decision because they are in the best position to make that decision, not us.

Mr. Granof explained the standards-setting board has to know the results of what the standards are.

Mr. McCall explained that the principles should be clear enough that any user could make a determination of where they fit. In terms of the Federal Reserve, we all have views and opinions about it.

Ms. Payne explained staff never envisioned this project as being exclusively about the Federal Reserve. In fact, it was not frankly a major consideration until the financial crisis. But having now done a bit of reading about the Federal Reserve, if we were to do a project on how to report on the central bank, she would advise the Board to begin with the reporting objectives because our reporting objectives were written in the context of fiscal policy. Our reporting objectives really do not consider what user needs are regarding monetary policy. If this were a project about the central bank, staff would have a taskforce of economists, public policy experts, and fiscal policy analysts, and we would have approached this very differently and had different options on the table.

Mr. Showalter reiterated he was not that overly concerned about consolidation versus disclosure because either way the information should come out.

Mr. Steinberg explained that he believes we ought to write the standard to get us there—the specific disclosures we may want. Let's come up with some principles for a central bank.

Chairman Allen explained the revised FRS language would be discussed tomorrow but at this point, the Board would be moving on to staff's next issue.

Control Definition

Staff explained at the August meeting, Mr. Steinberg's alternate version suggested a slight change to the control definition by revising it to "Control with possible benefits or risk of loss" versus the August ED wording of "Control with expected benefits of risk of loss."

Staff explained another member requested staff to switch the order of 'expected benefits' and 'risk of loss' because the member believed the federal government more often deals with risk of loss so that should be more prominent when considering the control definition. While both suggestions have merit exclusively, it was difficult for staff to incorporate both suggestions.

Therefore, staff proposed the following revision to the control definition (see par. 10 of the ED for marked changes.):

> **Control with risk of loss or expectation of benefit** "Control with risk of loss or expectation of benefit" is the power to impose will on and/or govern the financial and/or operating policies of another organization with the potential to be obligated to provide financial support or assume financial obligations or to obtain financial resources or non-financial benefits.

Staff requested the Board's feedback on the proposed change.

Mr. Dacey questioned if the word "expected" applied to both risks and benefits such that there was some threshold that applied and it is not simply any risk of loss. He explained in changing the language to what was proposed, it does not put any qualification on risk and the expectation applies to benefits. It changes the tenor of what we are trying to say. He asked if it is whether expectation ties to both or only benefits; and if only benefits, why only benefits.

Chairman Allen asked if he was happy with the previous order.

Mr. Dacey explained he was fine with flipping the order.

Ms. Loughan confirmed that his concern was with the placement of expectation. He agreed that it might change the meaning slightly and wanted to see if the other Board members agreed or if they thought there was a change in the threshold. Mr. Dacey noted Mr. Steinberg had suggested 'possible', which is an even lower threshold and that is what triggered his thoughts because even lower thresholds means it would bring any possibility.

Ms. Payne asked if it was a dilemma when he read the short title, but when considering the longer definition of control perhaps it was clearer.

Mr. Dacey explained again, when you start changing a few words you start looking at everything in a different context. He questioned whether we are intending to say virtually any. And if that is what the board wants to go forward with, he is happy to entertain that. He just wanted to have a discussion to see if that was the true intention in writing that language.

Ms. Payne explained it is a two-part threshold. It is control and then you have risks and benefits, so it is not really that low. Staff moved expectation to be only with benefit because expectation of risk was redundant.

Chairman Allen called for a vote on the preferred language but noted he didn't see this as a big issue. The choices being: as presented in the revisions (current ED) or the previous wording (August ED.)

Mr. Dacey explained he did not have alternative wording so he would defer to where we were before. (August ED)

Mr. McCall explained he was okay with the way it is worded. He added he liked the first part of the definition--the power to impose. The key word for him in the whole thing was the word potential. (Current ED)

Mr. Granof explained he was indifferent.

Mr. Allen explained he was indifferent as well.

Mr. Showalter explained he was too but he was trying to help his fellow Board members. Therefore, if Mr. Dacey has concerns, he would opt to go back to the previous wording.

Mr. Smith explained he was fine with both as well.

Mr. Dacey explained this gets back to the issue as well and if the Board believes there is no substantive difference then he was not concerned either. He explained he was more concerned with whether someone might read something into that and somehow make a decision based upon that thought process, which was not intended. Mr. Dacey explained he was indifferent as well.

Mr. Smith explained that based on Mr. Dacey's explanation, he would like to vote for the Current ED wording.

Mr. Bell explained he was generally indifferent, but frankly, the argument with the light on risk first would be okay. The revision is fine. (Current ED)

Mr. Steinberg noted he would select the revised wording. (Current ED)

Chairman Allen explained the wording as presented in the staff memo and Current ED for the control definition was selected based on the Board vote.

~SHORT BREAK~

Related Party Language

Staff explained that at the August meeting, the Board considered a draft for related party that relied heavily on listing parties to be included and excluded. In addition, the proposal provided room for judgment by incorporating a misleading to exclude provision. While the Board did not have a formal vote on the language at the August meeting, it did appear there was general agreement with the direction.

The Board had provided staff with suggestions—such as to move the notion of misleading to exclude so it was more prominent in the language to guide preparers. The Board also had suggested that the ED provide examples of special interest groups. One member also had suggested that a question to respondents be considered so the Board could gather additional information if there are other organizations that should be excluded from related party reporting to better ensure there are no unintended consequences. Staff incorporated these and other suggestions by members. (See par. 74- 83 in the ED for marked changes.)

Staff explained that several members had provided comments and based on those, staff prepared a revised Related Party language section for the Board's consideration.

After taking a few minutes for the Board to review the revised language, the Chairman opened the discussion for comments and questions on the revised related party language.

Mr. Dacey asked what was the threshold at which organizations would be reported as misleading to exclude because when he was reading the original draft, it was less clear. He explained the question is what the filter is for misleading to exclude and deciding what to report as a related party relationship or not.

Ms. Loughan asked if the language in par. 79 helped to make it clearer.

Mr. Dacey explained that it did, but he believed it would be helpful if the whole discussion in deciding when you identify related parties and determine whether or not it is appropriate is also placed up front. He explained it would be helpful to identify upfront that related parties are appropriately based on the concepts of misleading to exclude. He explained a general framework in the beginning of the section of what we are trying to accomplish with the misleading to exclude would be helpful.

Mr. Dacey also noted some repetition of wording that could be eliminated.

Mr. Steinberg explained he had difficulties with how the related party was structured because his understanding is that related parties was a term coined in the for-profit world to evaluate the impact of non-arms length transactions. He explained that state and local government don't focus on related parties but GASB 14 discusses joint ventures, jointly-related organizations, etc. Mr. Steinberg questioned whether we should be using the term related parties. Instead, he suggested that we should say in addition to consolidated entities and disclosure entities, we also have joint ventures, joint-related organizations, etc. He explained that he has an overall problem with the direction.

Mr. Steinberg explained he realized it was late to bring up a problem with the overall approach, but he noted he did say right from the beginning that related parties is a profit-making concept or a concept in the profit-making world.

Mr. Steinberg explained that he provided certain comments to staff. For instance, in par. 79B it appears that it would include the United Nations, but paragraph 80E says no, it is not intended. He noted it appears to be a conflict about which to follow.

Mr. Dacey explained one of the reasons we got here was the AICPA and the other US standards-setters asked us to define related parties because they wanted to take the definition out of the auditing standards. He explained the purpose of the related parties when it came up in the auditing standards was to make sure that there was enough disclosure that it would not be misleading. He explained the AICPA said that should really be in the accounting standards, not in the auditing standards. Mr. Dacey explained that is why he was okay with the threshold of misleading to exclude because it tied into that. Mr. Dacey explained as far as concept wise, he believed it was important to retain the title.

Mr. Showalter explained he was on the losing side of the vote to change to related entities. He explained that the Board had concluded on this once already. Mr. Showalter explained related parties are a concept that is well understood by both preparers and auditors.

Mr. Steinberg asked why GASB didn't adopt it.

Mr. Showalter explained it wasn't in GASB 14 because it was included in the auditing literature at the time GASB 14 was issued .

Mr. Showalter explained the concern was if we did not address it, there would be a problem from the auditor's perspective of looking for it because auditors are trained to look for related parties. It is embedded in the auditing standards. Mr. Showalter explained that was one of our drivers in going down this route was related parties are a generally accepted term and though it does not apply in the same way in the federal government, we were trying to define it in our context.

Chairman Allen explained the challenge with the federal government is that following traditional related party definitions -- the federal government could be considered to have one with everybody because of the scope of the authority and responsibility of the federal government.

Mr. Showalter explained we have a choice--either we have to deal with it this way or we need to make a definitive statement that we don't believe there are related parties in the Federal reporting entity.

Chairman Allen explained the Board voted on that and decided to define it.

Mr. Steinberg asked why can’t we say this term does not have meaning to the federal government because the federal government has relationships with everybody.

Mr. Showalter stated as Chairman Allen acknowledged, the Board had previously voted on this issue, and Board agreed to address related parties.

Mr. Granof explained he has difficulty in reading the language because he does not have any framework on how to apply this. He added that he tries to think of an example of what a related party is and he has difficulty.

Staff explained at the June meeting staff offered two potential examples—the remaining GSE, and multi-lateral development banks, but staff made no assessment as to materiality in that context. In looking through and analyzing the relationship, there seemed to be influence and there seemed to be risk.

Staff explained in that context we do not expect there to be a lot of related parties. Staff also noted that questions come in from component reporting entities and the materiality may be lower so there is the potential for others and that is also why guidance may be needed.

Chairman Allen explained that is why he likes the focus on significant because if it is the component entities’ financial statements, their significance may change.

Mr. Dacey noted that may be worth adding is that the distinction is made by entity, something that may be a significant related party to a subcomponent is not necessarily significant for the component itself. There are sometimes issues to decide what is significant to the federal government in a number of areas. If it is in the standards, it helps to have language to make it clear.

Mr. Dacey asked why in par. 75 there was the addition of language about one party must be an entity not controlled or a majority owned by the federal government. He questioned with this framework of consolidation and disclosure entities, if it was something that is in relationship with the consolidated entity?

Ms. Payne explained that members had previously asked the staff to find a way to clarify that if you met the inclusion principles, you could not then be reclassified as a related party. Staff explained in the earlier version it said related parties are not controlled or owned by the federal government. A member commented that related parties are inclusive of both sides, so it was reworded. The point is simply that you cannot fall from inclusion principles into related party disclosures.

Mr. Dacey suggested that the question comes up is what happens if it is a related party to a disclosure entity and what we are getting at is semantics here. He explained that it doesn't appear you want to then suddenly talk about the related parties of the disclosure entities.

Ms. Payne suggested that she had a hard time imagining them crossing the significance threshold, but if they did and they were related to a disclosure entity, she would not want to define them out.

Mr. Dacey explained it may have nothing to do with the federal government. What if they have relationships with other parties outside of them? He suggested that maybe we do not need that sentence and it is clear otherwise.

Ms. Payne explained she would be okay dropping the sentence. If no members object, she suggested dropping the sentence.

No members objected.

Mr. Dacey explained that he has editorial changes that he would discuss with staff.

Mr. Smith asked why there was a change to the wording, in the new par. 80. He explained it has 'family-owned business,' and it seems like that would not be that significant. He explained that he preferred it the way it was and noted it wasn't clear why a small business was provided--it could be a family large business.

Staff explained it was added based on a member's question. Mr. Showalter also agreed with Mr. Smith and commented a very large family-owned business would probably be more concerning than the small ones.

The Board agreed, suggested the example wasn't necessary and should be removed.

Staff will make the agreed upon edits and bring the revised related party language for the Board's review at tomorrow's (Thursday) meeting.

Title of the Document

Staff explained the last issue for discussion presented in the memo is an issue that projects often revisit--the title of the final document. The title of the ED for the federal reporting entity project has been difficult to pin down due to the scope. The current title "Identifying and Reporting upon Organizations to Include in General Purpose Federal Financial Report" appears to be grammatically challenged.

Further, when the Board last discussed the title it acknowledged there were still open issues and therefore may still require revising. Staff presented several options for the Board's consideration.

After discussion, the Board determined brevity works best and that most users will refer to the document as the reporting entity. Chairman Allen asked for the Board to vote on Reporting Entity. Mr. Granof explained he preferred the longer the title.

With the exception of one member, all Board members voted to select Reporting Entity as the title of the Statement.

Other Issues Brought up by Members

Ms. Loughan explained that was all the staff issues to be discussed so the floor was open for any technical issues that members would like to bring up.

Mr. Steinberg explained he wrote Mr. Reger a memo based upon Don Hammond's presentation. He explained his concern with the transactions that the Federal Reserve enters onto on behalf of the government and what are the implications for the government. He explained his concerns are what are the risks involved with the transactions and what are the benefits with those transactions?

Mr. Granof asked if he was saying that we need more disclosure on that.

Mr. Steinberg explained yes. And Mr. Granof explained that he agreed. Mr. Steinberg explained that principles do not provide for these types of disclosures that might be required.

Ms. Payne asked if the objective for relevant activity was not explicit enough to satisfy his concerns.

Mr. Showalter suggested we don't want to pull in all the transactions.

Mr. Granof agreed. He added they engage in all sorts of transactions with outside parties and the nature of those have to be explained.

Ms. Loughan explained in paragraph 70A, staff added language and believes those types of activities would be captured because that involves significant involvements with outside parties—language was added about how its mission relates to federal policy objectives.

Mr. Steinberg explained he believes something needs to be added to the objective that requires the nature and magnitude of relevant activities during the period and balances at the end of the period and particular activities that have a significant effect on the consolidated entity. He added this would help with Mr. Granof's concern. He also explained you have to say whom it is relevant to.

Chairman Allen suggested they would be disclosure entities of the reporting entity.

Mr. Granof asked if the Federal Reserve provides assistance to AIG, would that be captured as it is written right now? It does not involve a transaction directly with the federal government.

Chairman Allen explained to the extent that it impacts the risk or reward to the federal government. He also acknowledged there is a challenge to write standards when those entities are not subject to FASAB standards.

Mr. Dacey explained he would prefer to be more general and principle-based in this particular issue because we keep focusing on one entity and not the broader issues. He explained the Board approved the language some time ago and he was comfortable with it.

Mr. Granof stated there should be certain disclosures about major revenues, and major transactions with parties outside the federal government .

Mr. Dacey explained relevance establishes some of that. He added if we go to other disclosure entities and their relationships with other parties like General Motors' suppliers – one has to be careful about how you are attaching requirements to these disclosure entities. He explained the decision would be made by the preparers as to what is relevant to the reporting entity.

Mr. Showalter suggested wording could be added to the example information to address the concern so if you are engaging in transactions on behalf or at the request of the federal government and they are significant, you should consider disclosing them.

After discussion regarding concerns about the risks involved with transactions that disclosure entities may enter into on behalf of the federal government with others, the Board agreed to add "actions taken on behalf of the federal government" to paragraph 70a as an example of the type of information that should be disclosed.

Mr. Steinberg explained he liked the change to the example but it is still just an example. He explained it needed to be changed in the objective as well.

Ms. Payne clarified that Mr. Steinberg had proposed language for the relevant activity objective in par. 69B-- particularly activities that have a significant effect on the consolidated entity.

Mr. Steinberg explained that in effect is we have an off balance sheet entity doing things that the federal government would have been expected to do.

Ms. Payne asked if it would be captured by the relevant activity objective. Mr. Steinberg said yes, but he questioned relevant to what.

Chairman Allen explained we have to frame everything we do based on the financial impact.

Chairman Allen suggested that he was not trying to cut off any debate, but there were probably other issues that might need to be discussed so he would like Mr. Steinberg to work with staff. He would like it framed so that the Board can vote specifically on his proposed wording versus the wording in the ED.

Ms. Payne asked for clarification as to what staff would be working with Mr. Steinberg on because if the technical issues are not resolved by tomorrow that would push the milestones out.

Chairman Allen explained the goal was to vote on issues today and that we would then tomorrow see the wording for that so that we would in essence be done tomorrow with technical areas. He explained this would have enabled a pre-ballot exposure draft to be finalized and ballot draft that could have been exposed by the December meeting. Chairman Allen explained with these milestones, the Board could have a public hearing in February.

Chairman Allen asked what the process is if there is an alternative view and how that would affect the process.

Ms. Payne explained that normally an alternative view comes in to staff for review and if we are comfortable with including it without comment from the majority, then we would send the full document with the alternative view back out to the Board. When conveying it, make a recommendation for any changes or response needed by the full Board. Ms. Payne explained the policy includes naming the board member that expresses an alternative view. Further, usually when we convey them to the full board, we ask explicitly if anyone wishes to join the alternative view and then we would name anyone who joins.

Mr. Steinberg expressed concern over the ambitious goal as he believed it may be difficult to complete all the changes have time for the Board to consider for tomorrow’s meeting in order to get to a pre-ballot. He suggested it was a lot to get done, especially when there were additional issues for discussion. Mr. Steinberg explained out of all the projects, this is very pervasive one that covers the total government so there should not be a rush if there are still important issues.

Chairman Allen agreed and stated if there is a need, the Board will return to the table for discussion. He noted that staff is accommodating of editorial changes.

Chairman Allen explained we are in the process of trying to get the right feedback so that we can write the best standard. He explained that if someone does not agree with a part of a proposed standard that has been voted on, they have an option of adding a question to the ED on the issue rather than writing a formal alternative view. Chairman Allen acknowledged that we could go three or four more meetings talking about wording and not be any closer.

Mr. Steinberg explained there are issues and principles that remain open, not wording.

Chairman Allen explained that should be the focus of the discussion after lunch.

Chairman Allen asked for consolidation entities (or if for example a significant entity such as the FRS became a consolidation entity) what disclosures would apply? In this proposal, we mention disclosures for disclosure entities, but there aren't any for consolidation entities. It is almost written so that if you consolidate you do not have to disclose anything.

Staff explained that other existing standards would always still apply. With the consolidation entities, they follow the existing body of FASAB GAAP. We have a project on risk assumed that will get to exposures for consolidation entities. In the meantime, we have standards on loan guarantee; there are general practices on commitments and contingencies, etc. Staff explained within the whole body of GAAP, there is a wealth of disclosures and we are addressing explicitly risk in an ongoing project. There is note one requirement that will cover the nature of the entity its organization. Further, MD&A requires an organization chart. Staff explained a reference could be added regarding the existing guidance for consolidation entities in the introduction to be clear.

The Board agreed a reference should be added to the introduction that provides guidance or directs consolidation entities that existing standards and required disclosures apply.

~Lunch Break~

Chairman Allen asked staff if they could move forward with a pre-ballot at Thursday's meeting after considering the issues thus far.

Ms. Payne agreed that was the plan.

Ms. Payne explained staff spoke with Messrs. Steinberg, Mc Call, and Granof to discuss their concern with disclosures. Staff explained that their main concern with paragraph

69B (relevant activity objective) was they wanted to capture unusual actions taken by the disclosure entities. Staff explained the exact wording could be worked out, but it appeared something along the lines of the following could be added to 69B to address their concern: Nature and magnitude of relevant activity during the period and balances at the end of the period and particularly focusing on unusual actions taken by the disclosure entity.

Chairman Allen suggested that one would need some context to that--what are you asking for when you are just saying unusual?

Mr. Showalter explained there is no way an auditor can audit to the standard. He added that how can you look for things outside their normal mission? He did not believe it was auditable.

Mr. Dacey expressed the same concerns. He asked is it particularly unusual events they wish to ensure are reported. Mr. Dacey explained that he may want to know about the usual too if they were significant and relevant to the entity. He believes it is may be appropriate to provide an example paragraph 70. However, if we try to put in paragraph 69 objectives, then it is carried across and applies to every single disclosure entity we have. Mr. Dacey explained that is a wide range of disclosure entities and it might be a challenge. For example, General Motors--what unusual activities does General Motors have that you want to know about? Mr. Dacey explained there might be a problem with trying to spread it out to everybody else and that is why it may not be appropriate to add the wording to the objective. He explained that he is comfortable with providing an example.

Mr. Granof used as an example the FRS bailout of AIG. How do we ensure that is properly disclosed? And the trouble is that obviously it is within their legal mission. Otherwise they could not have carried it out, but it is unusual.

Mr. Dacey explained that he understood his point but his concern is that it should somehow tie back to the potential impact on the reporting entity. Mr. Dacey explained his concern is if not, then you are just saying whatever they do whether or not it affects the reporting entity. He added there could be a number of activities that take place that have no real impact to the reporting entity.

Mr. Granof explained that is where there is disagreement. He believes what the FRS carries out affects the welfare of the country since it is part of the federal government in that it is a disclosure entity.

Mr. Dacey explained he was still trying to draw a relationship between the effects on the reporting entity in some way-- whether it is risks or some other nature, some other type of relationship that affects them.

Mr. Steinberg explained there is the reporting objective of stewardship --whether the actions of the reporting entity affect the well-being of the country.

Mr. Dacey explained he has a difficult time when he considers the other types of disclosure entities—for example, receiverships. He reiterated that is why he has more concern about putting it in par. 69 than in par. 70 because the principle needs to be fairly general and applied to a broad range of circumstances.

Mr. Steinberg suggested that is even more the reason as to why central banks should be addressed in the standards; they are so unusual.

Chairman Allen suggested that the Board vote on the proposal for the wording in paragraph 69B. After discussing the options and wording, there were three options for consideration:
(1) Option includes unusual activity added to language
(2) Option includes wording suggested by Mr. Steinberg
(3) No change—ED language remains as is

Mr. Granof voted for Option1. Mr. Steinberg and Mr. McCall voted for Option 2. The remaining members voted for Option 3 or to leave the wording for the objective as it is.

Based on the Board vote, the wording for the relative activity objective will remain as presented in the current ED.

Mr. Steinberg explained that he would like to propose new language for relationship objective in paragraph 69 A. He explained that at the last meeting, he had suggested organization as a separate objective. However, the decision was made by the board to combine organization with relationship. Therefore, he believes it should also be explained in the text. Mr. Steinberg explained that he has proposed wording to suggest what organization means. It says "the nature of the disclosure entity and entities' organization structure that provides them relative independence and insulates them from political influence" because that really is what makes it a disclosure entity and the nature of the entity or entities' relationship with the federal government. Mr. Steinberg explained it is the structure that provides them the independence and insulates them from political influence. If they did not have that independence and insulation from political influence then they really would not be a disclosure entity.

Mr. Dacey explained he had concern with the change because in a general sense across all the disclosure entities, we really want to know about the nature of the relationship and that would entail these other things about their structure as well. He added that he doesn't know getting into the details of the structure of receiverships or of our interventions and other things are as relevant. Mr. Dacey explained his concern is that we keep it at a fairly high principle-based level.

Mr. Dong suggested it is the relationship that matters, not necessarily the organization.

Mr. Granof suggested that he thought it would be important.

Chairman Allen stated unless there were comments, he would like the Board to vote. There were two options for consideration:
(1) Option includes wording suggested by Mr. Steinberg
(2) No change—ED language remains as is

Mr. Granof voted for Option 1. Messrs. Showalter, Steinberg and Mr. McCall voted for Option 1. The remaining 5 members voted for Option 2.

Based on the Board vote, the wording for the relationship objective will remain as presented in the current ED.

Mr. Steinberg explained the next issue is with museums.

Staff explained that museums are addressed most clearly in the basis for conclusion, but also in an illustration and a question was added based upon the discussion last meeting.

Mr. Steinberg explained he believes it must be addressed in the standard. He explained that it is the absence of something that leads to inconsistency in the reporting of the museums and performing arts organizations. Mr. Steinberg explained he is concerned that right now there is inconsistency in reporting among the museums and the fact that some of the museums are reporting only half of their activities to the Treasury Department. The consolidated financial statement report only has the appropriated funds and doesn't report on the activities which are financed by the donated funds.

Mr. Steinberg explained there should be explicit guidance whether organizations are funded with appropriations, but also receive a significant portion of their funding through donations, that states it should be included in the GPFFR in their entirety. He believes if we do not address that, inconsistent reporting will continue.

Staff explained they tried to make it clear based on the Board's direction and included a discussion in the basis for conclusion.

Mr. Granof explained he had the same concern and thought it appeared we were setting standards in the basis.

Ms. Payne explained it was drafted this way to explain the outcome of principle-based standards, but if the Board would like a paragraph in the standard that is explicit about museums or entities with other sources of funding, it could be added. She noted there are a lot of entities that are allowed to collect funds.

Mr. Steinberg explained it should be for significant ones -- significant to their operations.

Ms. Payne agreed, but noted that the Smithsonian is approximately 85 percent appropriated funds. Is 15 percent donations considered significant? Staff can spend time on it and draft wording if that is what the board wishes.

Mr. Dacey asked what we were accomplishing, if it meets the definition of a consolidated entity going through the whole process we set up here, then isn't the point though it has to be the entire entity. He explained the extent of other funding should have been considered in the decision about whether it is a consolidation entity. So it appears what Mr. Steinberg is trying to get is the language similar to A20 that it is the whole entity, not part of the entity—it just sounds as if he wants that into the standard. Mr. Dacey explained that the funding by other sources is not significant because we have already made a decision it is a consolidation entity.

Mr. Showalter agreed the funding source should not matter.

Mr. Steinberg explained you must be explicit.

Mr. Dacey explained if you made a decision that it is a consolidated entity then you need to consolidate the entire entity.

Chairman Allen asked if there was a way to get the concept into the standard within one of the existing paragraphs.

Mr. Showalter suggested in paragraph 61- It says “consolidated entities’ financial statement should be consolidated…. He further suggested adding a footnote there that the consolidated financial statements should include the amounts and operations from all sources, appropriated and donated funds-- wordsmith it. He explained it was to address the point and it seemed like a logical place since this is where we are talking about what consolidated financial statements mean.

Mr. Dacey agreed.

Chairman Allen agreed and asked if any members objected to the proposal. If no members objected, staff could bring back final wording for review at tomorrow’s meeting.

The Board agreed to add the footnote regarding funding by different sources--donations or appropriations to paragraph 61.

Mr. Steinberg explained the more he thought about it and plus some events he has seen and heard about since our last meeting, he feels fairly strong about certain views. He recognizes some people may think that he has pride of authorship of SFFAC 2.

He explained when SFFAC 2 was written, it was expansive on what the federal entity would be. There were some strong views that it should not include the GSEs and bailouts because that really was not the federal entity. That was not part of the sovereign responsibility of the US and not why the government was set up. He explained this was one of the indicative criteria--fill a sovereign responsibility.

Mr. Steinberg explained when he looks at the financial statements and he looks at all of the disclosures that are in there for the conservatorships, the receiverships, and the interventions, the disclosures are there because of other standards that exist. They are not there because they are part of the entity.

He explained that if we want to identify what is the reporting entity, we should limit it to those things that are part of the government of the United States because that is what the government of the US is set up to do and address the conservatorships, the receiverships, the interventions in a separate standard.

Mr. Steinberg acknowledged some may believe we won't get around to that until five years. It is not going to cause any harm because we have disclosures right now.

Mr. Steinberg explained by sweeping receiverships, interventions, conservatorships into the entity standard, we are not going to be sufficiently explicit of all of the kinds of reporting we want. Plus he believes we will muck up what really is the reporting entity. He explained the alternative view that he will prepare will be based upon this.

Chairman Allen asked if it was possible to ask a question to narrow the scope of the standard.

Mr. Steinberg explained in writing this standard, we should focus on what is part of the entity and here are the disclosures we want for the entity. The discussion we just went through is on what is going to be the impact on everything else if we get the wording in to cover the Federal Reserve? The standard on the entity is not going to identify all of the risks and disclosures we want for bailouts, interventions, for interventions, and conservatorships.

Chairman Allen explained he was trying to see if there was a question.

Mr. Steinberg explained if we look at the history, we started this project sometime around 2008. With the financial crisis, the focus became on the receiverships, interventions and the conservatorships. He explained he was questioning it then. For example, General Motors does not fulfill a sovereign responsibility of the US.

Chairman Allen explained this standard says we have those relationships with organizations such that in some cases, it ought to be consolidated and in others it ought to be disclosed. He does not think this standard makes any judgment about good or bad or expansion of government or not. It just says the nature of this relationship drives disclosure.

Chairman Allen reiterated he would be happy to consider a question in the ED, but Mr. Steinberg can write the alternative view and forward to staff per the process discussed earlier.

Ms. Payne requested any other editorial changes be provided to staff so they can be incorporated for tomorrow's meeting.

> **CONCLUSION:**
> **The Federal Reporting Entity project was also an agenda item for Thursday's meeting. As noted in minutes above, staff was to make the agreed upon changes to the ED as directed in the meeting. Staff was also provided editorial changes from Board members. Staff incorporated the changes and provided members with a pre-ballot by 8am for their review at Thursday's meeting. See Thursday's Federal Reporting Entity project session below for the continuation of the minutes and final conclusion.**

- **Reporting Model**

Overview

During the October 2012 meeting, FASAB discussed the preliminary recommendation of the task forces organized to determine improvements in reporting cost, budget, and performance information. The task forces recommended that FASAB revisit Statement of Federal Financial Accounting Standards (SFFAS) 4, Managerial Cost Accounting Standards and Concepts, to help ensure that the guidance is updated to support users of budget and performance information and provide cost information that meets the expectations of financial information users. The task forces noted that as part of the SFFAS 4 project, FASAB should consider the following:

1. Recent changes in legislative and administrative directives with respect to performance reporting;

2. Past implementation challenges related to linking cost, performance, and budget information;

3. The need to advance the appropriate use of terminology and economic measurement approaches regarding the use of resources and incurrence of liabilities; and

4. Approaches for requiring supplementary information where the benefits of providing the information will outweigh the costs of collecting and reporting such information, given the complexities of federal agencies and the different needs of stakeholders. Also, individual task force members provided additional matters for FASAB to consider in proceeding with the project.

The three FASAB Task Forces, which provided input to the project that led to this report and recommendation, and the members of each task force follow.

Statement of Net Cost Task Force
Owen Barwell, Managing Director, Grant Thornton LLP
Malena Brookshire, Branch Chief, Securities and Exchange Commission
Ann Davis, Senior Staff Accountant, Department of the Treasury
Jesse Ellman, Research Associate, Center for Strategic & International Studies
Chuck Fox, Assistant Director, Financial Management and Assurance, Government Accountability Office
Doug Glenn, Deputy Chief Financial Officer, Department of Interior
Jim Herz, U.S. House of Representatives, Committee on the Budget
Patricia Healy, Executive Consultant, CGI, and a Fellow of the National Academy of Public Administration (NAPA)
Regina Kearney, Senior Advisor, Office of Management and Budget
Louis King, Assistant IG for Financial and IT Audits, Department of Transportation
Scott Mabry, Deputy Director, Department of Interior
William Ransom, formerly Professional Staff Member, U.S. Senate Budget Committee
Doug Webster, Principal/Founder, Cambio Consulting Group and a NAPA Fellow

Budgetary Information Task Force
Ann Davis, Senior Staff Accountant, Department of the Treasury
Jason Fichtner, Senior Research Fellow, Mercatus Center at George Mason University
Christina Hsu, Assistant Commissioner for Government-Wide Accounting, Bureau of Public Debt
Craig Jennings, Manager of Federal Spending and Contracting Policy, OMB Watch
Regina Kearney, Senior Advisor, Office of Management and Budget (OMB)
Kaitlin Devine, Web Developer, Sunlight Foundation
Larry Malenich, Director, Financial Management and Assurance, Government Accountability Office
Ed Mazur, Senior Advisor, Public Sector Services, CliftonLarsonAllen
Shelly McAllister, Budget Methods Specialist, OMB
Teresa Tancre, Budget Methods Specialist, OMB
Drew Vogel, Software Developer, Sunlight Foundation

Performance Information Task Force
Richard Beck, Director of the Office of Planning and Performance Management, Department of Interior
Scott Bell, Senior Staff Accountant, Department of the Treasury
Jonathan Breul, Adjunct Professor, Georgetown Public Policy Institute, and a NAPA Fellow
Mark Bussow, Program Analyst, Performance and Personnel Management, Office of Management and Budget

Joseph O’Neil, Assistant Director, Financial Management and Assurance, Government Accountability Office
Joel Grover, Deputy Assistant Inspector General, Department of the Treasury
Harry Hatry, Director of Public Management Program for the Urban Institute, and a NAPA Fellow
Carrie Hug, Director of Accountability, Recovery Accountability and Transparency Board
Craig Jennings, Director of the Federal Fiscal Policy Program, OMB Watch
Regina Kearney, Senior Advisor, Office of Management and Budget
John Mercer, President, Strategisys LLC
Betsy Newcomer, Program Examiner, Performance and Personnel Management, Office of Management and Budget
Paul Posner, Director of the Public Administration Program, George Mason University, and a NAPA Fellow
Bonnie Stabile, Adjunct Professor, George Mason University
Jeffrey Steinhoff, Executive Director, KPMG Government Institute, and Managing Director, KPMG LLP, and a NAPA Fellow
James Taylor, Chief Financial Officer, Department of Labor
Kristin Lantz, Program Specialist, Department of Labor
Cynthia Simpson, Accountant, Department of Labor

Upon discussing the draft recommendations, FASAB members determined that additional information will be needed to help them determine the appropriate objective and scope for the reporting model project. In particular, members needed to know the most important items of information that task force members expect from financial statements. Accordingly, staff will follow-up with the task for members and provide results during the December 2012 meeting. Details of the discussion follow.

<u>Discussion</u>

Mr. Simms introduced the reporting model session and noted that the session objective was to discuss the draft report prepared by the task forces on cost, performance, and budgeting information. Mr. Simms also noted that he intends to use the Board’s feedback to propose a plan for the project. The Board could consider the proposal during the December 2012 meeting.

Mr. Simms noted that federal agencies are complex and have many different stakeholders who would like information aggregated in different ways. Consequently, agencies are presenting costs in different ways. For example, some present cost by strategic goal, while others present cost by organizational segment. Presenting costs in different ways seems to impact comparability.

Mr. Steinberg noted that Office of Management and Budget (OMB) Circular A-136 permits agencies to present cost by program, organization, fund, etc. However, the circular indicates that cost by strategic goal is preferred. Also, Congress passed the Government Performance Results Act (GPRA) which requires reporting on strategic goals. Accordingly, agencies should report the costs associated with those strategic goals. It is likely that the agencies that do not report by strategic goals are those agencies that do not have the cost accounting or the financial accountability to report costs in that manner.

Mr. Showalter noted that line item consistency is not necessary, but methodology consistency is. If the Board would like agencies to report costs by strategic goal that would be fine, but the strategic goals between the agencies would differ because agencies were established for different purposes. Other members agreed that methodology consistency is needed rather than line item consistency.

Mr. Bell noted a concern with the current approach for reporting costs at the government-wide level. The statement of net cost for the government- wide report (CFR) basically lists net cost by the title of the department or agency. This type of presentation limits their capacity to perform substantial cost analysis on a comparative basis. Rhetorically, is there a tiered approach or some other approach that goes beyond department or agency titles and helps in performing analyses?

Regarding a question on what issue the task force is addressing, Mr. Simms noted that some task force members believed that because departments or agencies are aggregating costs in different ways, it is difficult to compare costs among them and, in some instances; it may be difficult to compare costs within a department or agency.

Ms. Payne also noted that if users are interested in performance information, they may not be able to find the cost that goes with that particular performance. For instance, users who are interested in program evaluation would not know the cost of a program. The fact that cost is aggregated at a very high level on the statement of net cost hinders analysis of the cost of government activities.

In addition, Ms. Payne noted that the issue is a mixture of determining whether to require standardization or provide more detail. However, the taskforces did not come to an agreement on this issue and that is why, for example, the report illustrates a variety of possible approaches for presenting costs. There was some desire for standardization, but the greatest commonality was in providing better cost data, whether it can be compared or not. Some task force members believed that comparability over time is helpful, while others may want to compare costs to the outputs and outcomes of programs. In addition, some task force members were interested in comparability of methods and tight cost allocations, but that may not have been a consensus view.

Mr. Steinberg noted that the manner in which agencies classify their spending should be the same. If Congress is placing the emphasis on knowing what agencies are trying to do (goals), then that should be the preferred method of reporting. Also, lower levels of detail may help agency management determine whether they are delivering services for the least cost. However, reporting lower levels of detail could result in volumes of data that may not be meaningful to external users. The Board needs to decide how it could help agencies provide data to internal users.

Mr. Allen noted that comparability is important when you are comparing like entities such as similar school districts within a state. However, consistency is important when you have different or unique entities. If you are going to have a standard, it ought to make sure that you have consistent reporting each year. Also, based on our previous user needs study, users want to know the cost of a service, rather than cost by agency. However, it is likely that users will only be able to review cost by agency in the CFR.

Mr. Allen also noted that it would be helpful to ask the task forces what information they expect to obtain from financial statements. Usually, generally accepted accounting principles (GAAP) based reporting is structured to provide external users with information about an entity and organizations like the OMB can specify how data should be aggregated and presented for internal users. It appears that FASAB wants to provide credible and consistent financial reporting that helps citizens and other users of the financial statements, while acknowledging that management is a user of financial statements too. Although this is a good objective, it poses many different challenges.

Mr. McCall noted that although program performance information is important and could be useful for decision-making, the manner in which the entity budgets and controls funds dictate the accounting. He noted that his state budgets and appropriates by department and then controls funds at the department level by line item. Individuals focus on this level because they have the flexibility to move money between line items, but not necessarily the flexibility to move program monies between programs in different departments. Mr. McCall also noted that defining the term “program” is a challenge.

To improve budgetary reporting, one needs to convince the appropriators that there is a different way of looking at the issue rather than just organizational unit and line item. Legislators have a fairly short timeframe to work within and they may believe that they can control funds much easier on a line item basis because no one wants to cut out an entire program. As a result, they will require, say, a three percent reduction in salaries across the board.

Mr. Bell noted that the CFR can show how much an agency spent but cannot show how much was spent on a particular activity or program across the federal government. Presenting information on a programmatic basis is one possible perspective if programmatic reporting with cost information was available from each of the entities being consolidated.

Mr. Allen noted that a previous user needs study showed that citizens wanted to know something specific - the cost of the war in Afghanistan. If the Board is trying to provide information to citizens, is the cost of the war in Afghanistan in the realm of possibility, given that the budget for the Department of Defense may not be structured that way. What should the Board provide that citizen who wants to know the cost of the war in Afghanistan?

Mr. Steinberg noted that one possibility could be to format the statement of net cost to show some budget or spending information and then include a footnote that would present the cost of the ten most important programs or whatever programs that are most relevant to the entity’s constituency. If the auditor has to audit or give an opinion on the financial statements, which includes the footnotes, then we have a better chance to get reliable cost data. Currently, SFFAS 4 lacks an audit requirement which is needed to facilitate broader implementation.

Mr. Dong expressed concern whether external financial reporting is the best way to provide the information that citizens are seeking, such as the cost of the war. There are other sources of financial information within the federal government that are a little bit more efficient and effective in terms of being able to present that information, whether it is through the budget process or whether it is through our spending transparency infrastructure that we have on things like USAspending.gov. The spending transparency infrastructure is where program information is being integrated and later, we will be better able to answer citizens' questions. Not arguing with the objective of being able to articulate that information, but is external financial reporting the right approach when you have other potential vehicles that you could be leveraging.

Mr. Allen expressed concern about the accuracy of the spending data and that there are some challenges in reconciling GAAP with budgetary information.

Mr. Smith noted that the Board is trying to get more from financial statements than what they are intended to do. When trying to drill down and do some type of performance or cost efficiency analysis, it is almost impossible to try to get that information across organizations. Although it may be a good concept, the Board needs to focus on something that is actually doable now. To facilitate consistency, guidance on the categories is needed rather than hard-and-fast rules.

Mr. Showalter noted that there seems to be multiple levels of reporting. There is only one CFR and that report is not particularly helpful because the data is highly aggregated. However, there may be an opportunity for additional guidance at the component level because there appears to be some confusion or areas where FASAB permitted too much discretion. This may be the time to think about obtaining more consistency at least among the components. However, requiring more detailed cost information is not the Board's role, but management's role.

Mr. Granof noted that in general he would like more specific information from the agencies, but the question is, "how do you build that into a standard?" He noted that he just did not have any recommendations in that area.

Regarding the schedule of spending, Ms. Kearney noted that they are experimenting with the schedule to determine what would be the most meaningful display and, this year, the Chief Financial Officers (CFO) Act agencies will be presenting sections one and two of the schedule. Section one basically shows what resources are available and section two shows how the agency spent those resources, e.g., salaries, property, etc.

Mr. Dong noted that with respect to the future for USAspending.gov, there is a focus on being able to integrate program information and to tie the spending information to program information.

Mr. Allen noted that members seem to have expressed a high level of skepticism in terms of the definition of success for the project. It may be helpful to ask the task force to address some specific questions. The task force members have an incredible amount of experience, very diverse backgrounds, and represent preparers, auditors, and users of financial information.

Mr. Steinberg noted that the draft task force report provides the information needed and resources should not be spent finalizing it, especially given that it is only addressed to the Board.

Ms. Payne noted that the performance task force had a lot of issues but, in terms of what FASAB could contribute to resolving their issues, cost accounting was the one area that they selected. They did not want, for example, FASAB to develop qualitative characteristics of performance measures. They have sources to resolve issues or to get support on resolving issues. Ms. Payne also noted that the greatest area of consensus among the three task forces was the need to address the inconsistent use of terms. A tool could be developed that helps bridge the different disciplines of budget, accrual, and performance. Explanatory text and examples of how to use the terms may be helpful.

Mr. Allen noted that to be successful, the project would need to be the joint focus of FASAB and OMB.

Regarding the next steps for the project, Ms. Payne clarified that the project did not necessarily need to result in a standard. She noted that some of the potential projects are educational tools and decision frameworks to help people with the many judgments they have to make in cost accounting without being prescriptive. Also, a standard may be provided as a pathway to better disaggregation or there could be requirements for supplementary information (RSI). However, for the purposes of this discussion, staff would like to know whether the Board would like the task forces to spend time on any other issues before finishing their work.

Mr. Allen noted that he would like to ask them questions about the specific level of detail because when the Board started this project a number of years ago and staff conducted some roundtable discussions, there was a lot of discussion about level of detail and disaggregation. That was a very important driver to them at time, but is that still the driver today? Or do they have suggestions? Mr. Allen noted that it is a challenge for a board of an entity the size of the federal government to require disaggregated information at a level that is helpful to users.

Mr. Simms and Ms. Payne discussed that one of the challenges in talking about cost with the task forces was that they differed greatly on what level of disaggregation and detail they would want. There were some that wanted program level information and there were some that wanted an assertion that there were robust cost accounting systems to answer micro day-to-day questions. In addition, there were some task force members that wanted cost information by object class but others that did not. Staff did not pursue consensus at this point because it was not clear whether the Board would want to adopt a project that resulted in a standard requiring a particular level of disaggregation. Because of the diversity of views, achieving consensus among the task forces would require more than a few months.

In addition there are multiple options to address the issue. For example, instead of a hard requirement, there could be a framework that permits a complex organization with a lot of bureaus to present bureaus on the face of their statement of net cost and provide disaggregation in RSI. Also, a single mission agency could break out costs by their strategic goals and objectives and then maybe programs in RSI.

Mr. Allen noted that to proceed with the project, the Board needs to determine what it specifically would like to achieve or what would answer the specific questions of the users of the financial statements. He noted that while at the Governmental Accounting Standards Board (GASB), they developed some clear objectives that helped guide them through some challenging projects. For example, the GASB determined that they had to measure the cost of the service and how much of that service is being paid by the current taxpayers versus passed onto a future generation. That drove GASB to capitalizing infrastructure. Accordingly, FASAB needs to clearly define the principle that would drive the Board through challenges.

Mr. McCall noted that he would want to know the information needs from a budget perspective, program performance perspective and a cost accounting perspective. Also, he would like to know how those things are alike; how they are different; and what can be done to improve that process. Mr. Showalter and Mr. Granof expressed interest in knowing more about the statement of budgetary resources – is the statement useful and what budgetary information do users seek. Mr. Steinberg noted that the task force report provides the information he needs.

Members discussed the next steps for the project and determined that Mr. Simms would ask the task forces what are the, say, ten most important things they believe that a financial statement should tell them. Mr. Simms could report the results at the December 2012 meeting and begin developing the product – a standard or other form of guidance.

> **Conclusion:** Staff will follow-up with the task forces to determine the most important items they believe that financial statements should present and staff will report the results to the Board during the December 2012 meeting.

- **Long-Term Fiscal Projections**

Ms. Payne began the discussion by noting that members provided comments on the first draft and a revised draft—with changes marked—was available at the table. Before discussing the wording, she suggested a general discussion of the proposal to defer for one year the transition from required supplementary information to basic information.

Mr. Allen noted that the idea of a deferral had been raised at the previous meeting and expressed surprise that the request was for a single year.

Mr. Dong noted, from OMB's perspective, the one-year deferral request should not be taken as an indication that everything would be in place for the transition at the end of that year. The primary issue is what to do when you have two different points of view in terms of assumptions and both are valid.

Mr. Showalter said he generally believes implementation dates should be firm and dislikes deferrals, particularly preparer driven deferrals. Since this is related to a need for AICPA action, deferral is really outside of the preparer’s control and he could support it.

Mr. Smith asked whether a single-year deferral was the best option. Instead, he asked is it possible to defer it for a longer period and then accelerate it if appropriate?

Mr. Allen argued that you should defer it the minimal amount even if you have to do it twice because it provides incentive for progress on issues.

Mr. Steinberg asked how the difference of opinion between economists regarding assumptions could influence outcomes as basic information but not affect RSI.

Ms. Payne noted that if there is a difference of opinion on RSI, the preparer could still obtain a clean opinion on its financial report. Any problems with RSI would be described in the emphasis of a matter paragraph; this would not impact the overall opinion.

Mr. Steinberg clarified his question by asking what the reporting in RSI would be that would be different than the reporting in basic.

Ms. Payne responded that the reporting would most likely be the same, but the preparer would select which of the two economists' opinions they wish to present in the statement of long-term fiscal projections. The audit report would describe the circumstances in an emphasis of a matter paragraph.

Mr. Steinberg opined that if an organization puts out information, it should be reliable regardless whether it is RSI, basic, or not even audited.

Mr. Allen suggested there is in the normal friction between an auditor and auditee. This is to be expected when the auditor has to say that this is fairly presented. There is a lower level of friction than when the auditor is merely saying that the information is presented and we read it and it is not misleading in relationship to financial statements.

Mr. Steinberg asked does that mean you are going to get two presentations or does it mean that they will choose one or the other or compromise?

Mr. Allen said the preparer chooses one or the other.

Mr. Steinberg noted his concern that as RSI, it is possible the reader will not learn of the difference of opinion and the alternative assumptions. Another member indicated that was not necessarily the case.

Mr. Dacey explained that in the latest report on the statement of social insurance, the auditor indicated those same reasons for disclaimer, uncertainty applied to all the other information, as in RSI including fiscal sustainability. He reminded members that a substantial portion of the fiscal sustainability information is based on the statement of social insurance numbers.

Mr. Showalter noted that it appears the preparer has two sets of numbers that are described as reliable.

Mr. Dong agreed both are reliable -- they just differ in their assumptions.

Mr. Showalter added that you do not know which one at this point is more reliable.

Mr. Steinberg asked how the auditor would say something different if it were RSI than he would have said if it was basic.

Mr. Showalter responded the threshold of what the auditor needs for evidence is higher for basic.

Mr. Dacey noted also if the auditor cannot obtain sufficient evidence then the auditor disclaims an opinion.

Mr. Showalter explained the government would have to first pick one of the projections or the assumptions they believe is the more accurate projection. The auditor has the benefit of the preparer making the decision first and other information in arriving at an conclusion. The auditor would look at what the preparer has chosen.

Mr. Steinberg noted, for an auditor, this introduces uncertainty. If it is RSI, either they present both projections or if they present one, the auditor just says I have checked on measurement and method and presentation and leave it at that without saying there were two presentations.

Mr. Dacey responded that both numbers are in the report now. The question gets back to the disclaimer on the statement of social insurance and social insurance—they are in the report and that is the dilemma we are facing now.

Mr. Steinberg asked if this would be the case if it were RSI.

Mr. Dacey responded that some have asked whether ranges would be an answer to this possible reporting and whether there are any novel reporting approaches to consider that would clarify the information. Right now, you have a single number and alternatives but ultimately one set of assumptions showing up through the projections on the face of the statement. There is discussion of other potential outcomes. These options may need to be discussed in the future.

Mr. Allen asked if members are ready to vote.

Mr. Steinberg noted that if the AICPA task force completes its work and the preparer has not yet resolved this issue, another deferral may be needed. He wondered if including the preparer issues—which may be unresolved—as justification for the one-year deferral may be prudent.

Mr. Allen said he would argue no and, that once the auditor guidance is prepared, he might not support a deferral. He thought the information ought to be basic and if the auditor qualifies their opinion, so be it.

After a brief discussion of what the preparer might do during the deferral year, Mr. Allen called for a vote on the deferral before addressing specific wording.

All members voted in favor of the deferral.

Mr. Allen opened the discussion to specific wording.

Mr. Showalter noted he had one editorial comment and that is the table comparing basic and RSI should include the source of information as the FASAB does not establish auditing standards.

The following changes were agreed:

1. Identify the task force by name in the executive summary.

2. Identify in the executive summary the three things the auditor compares RSI against

Conclusions: Ms. Payne noted that the response due date would be on a date sufficient to allow responses to be considered at the February meeting. She will circulate a pre-ballot draft and then a ballot draft in the next two weeks so that the exposure draft can be issued before the next meeting.

- **Annual Report and Three-year Plan**

Ms. Payne noted the final agenda item is the annual report. She thanked members for their comments on the prior version and that a revised version was sent earlier in the week. A hard copy with revisions is at the table for members. She also noted the document would professionally formatted before it is issued. After a discussion about how comments were to be solicited, members agreed to:

1. add the due date to the cover.

2. change “cost” to “financial results.”

3. remove performance reporting as a potential project.

Ms. Payne explained that members would not see the annual report again. It will be formatted and issued as soon as possible.

- **Steering Committee Meeting**

The Steering Committee discussed the status of the staff vacancy. No decisions were reached.

Adjournment

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

Thursday, October 25, 2012

Agenda Topics

- **Federal Reporting Entity**

Staff provided members with revisions to the reporting entity exposure draft for review and approval. After a period of member review, Ms. Loughan identified three main areas in the revised document for discussion before opening the discussion to other areas:

1. the basis for conclusions for the Federal Reserve language,
2. the related party language, and
3. the questions for respondents.

Staff requested overall concerns before getting to editorial items.

Mr. Showalter noted the draft is well done and raised a conceptual question. He asked if conclusions regarding the Federal Reserve System should be indicated in the basis for conclusions. He would rather describe the consideration and say it assured members that the appropriate matters would be considered by preparers in arriving at their decisions.

Mr. Dong asked the conclusions being drawn in paragraph A37 relative to the previous two paragraphs which describe some of the shortcomings if you were to consolidate. He observed that when you get to paragraph A37, it says that whether you consolidate or disclose, you're moving the ball forward. He asked if he is reading that correctly?

Mr. Allen observed that both Mr. Showalter and Mr. Dong read the paragraph to imply it's okay to choose one or the other.

Mr. Dong noted the construction leads you to conclude the majority of the board says that whether you do one or the other, you're still advancing the cause.

Mr. Allen said he read it to say that we're not going to tell you which of these decisions to reach but that either one will result in appropriate disclosure. He suggested that was a little different nuance.

Mr. Steinberg suggested that at paragraph A33 at the end, where it says the board did not provide an illustration of the central bank it should say "Others believe that a Central Bank's role is so unique that applying the same principles that are applicable to other components could result in misleading or less than full disclosures." Then, somewhere after paragraph A37 he would suggest an alternative view that would say why a Central Bank is a unique component. This whole discussion—lasting for the last 5 years--is indicating why the central bank is unique. He believed we should then be specific as to what we think the disclosures in the GPFFR should be for the Central Bank.

Mr. McCall suggested deleting paragraphs A35 and A36 because paragraph A34 is sufficient. He noted that he does not agree that the central bank should be specifically addressed. He believes the users and the auditors should decide how it should be presented—as a consolidation entity or a disclosure entity. He noted the majority of the board believes it is the role of the preparers and auditors to assess each organization against the inclusion principles in paragraphs 17 through 33 and then either consolidate or disclose based on paragraphs 34 to 41.

Mr. Allen agreed.

Mr. McCall also suggested an edit to change "would result in meaningful disclosure" to "…meaningful information" because disclosure requires a decision on classification. He also endorsed a suggestion from Mr. Showalter regarding paragraph A34.

Mr. Bell noted that in paragraph A37 there is a little bit of inequity -- the first part of that paragraph is a general statement about the inclusion principle but then the second part specifically refers to the Federal Reserve. So in order to make that paragraph parallel shouldn't we simply say criteria in paragraphs 34 to 41 are sufficient to aid preparers in making decisions concerning consolidation or disclosure?

Some members agreed and Mr. Allen asked if Mr. McCall agreed.

Mr. McCall did and noted he really does not see the need for paragraphs A35 and A36; and possibly A34, because they present both sides and he was not sure that it is our role to decide.

Mr. Allen asked members about the need to keep paragraphs A35 and A36.
Mr. Showalter noted he liked the way staff set this up and referring back to the illustrations. So, he would keep it because he thinks it illustrates without having the authority of an illustration.

Mr. Dong noted the prior discussion about giving equal time to both sides of the argument and likes paragraph A34 because it does that. Paragraphs A35 and A36 seem to be focused on one side of the argument.

Ms. Payne agreed and noted the challenge of transitioning the discussion to disclosure without referring to the drawbacks some see in consolidation. The people who support disclosure seem to do so because consolidation obscures.
So when you get into paragraph A36, about disclosure, there's a little more compare/contrast. She suggested re-sequencing the points in the paragraph could improve on that and make it clearer that's why the paragraph comments on consolidation.

She further commented there was merit in the view that the paragraphs are not reaching a conclusion and seem out of place. The benefit of keeping them is if a respondent wants a start on making the analysis of whether to be troubled by the principle-based approach.

Mr. Allen suggested going back to the key things that require consolidation, you can have the discussion there without any point about whether it is misleading to consolidate versus disclose.

Mr. Dacey noted that he had not reached a definitive view at that point. On the one side, he wondered if it does create a problem – since the issue does not extend to all kinds of different agencies and the two organizations that are involved in this decision are sitting at this table. On the other hand, if this is not reaching a conclusion, he thought the factors that are considered are very clear and relevant to the decisions. He explained he isn't arguing to keep it or remove it at this point but asked who we are trying to communicate with.

Mr. Showalter agreed and indicated he was also struggling with that point. His one concern was that if the Board deliberates and had thoughts then why didn't the Board include them. He thought that was the unanswered question and Mr. Dacey agreed.

Mr. Bell suggested that the language could perhaps be softened a bit to reflect that in specific areas the Board felt this or that. As written it sounds fairly declarative that this or that would result. It seems to draw a number of conclusions when it's really not. The Board seems to come to conclusions for purposes of discussion but the text seems to read as an official conclusion.

Ms. Payne noted that staff had the impression, from the previous day's discussion, that the board wanted to say something about the quality of consolidation and the quality of disclosure and that with either outcome, one could be satisfied. However, this is not necessary and the text could simply explain what information would result from consolidation and from disclosure. Such a discussion might help respondents analyze whether they want to push for a specific conclusion on the Federal Reserve or agree that a principles-based approach is appropriate. If the text was stripped of the "belief" statements and just included a fact based description it might be helpful.

Mr. Showalter noted the other thing he thought was going to be in paragraph A34 that was not in there, was the fact that we haven't actually done an exhaustive analysis. Mr.

Dacey suggested prefacing it by saying these are some but certainly not all of the points that would be considered in an actual analysis.
Mr. Showalter said we want to encourage the preparers to do their own analysis and consider all the facts in arriving at a conclusion.

Mr. Allen asked if you lay out that the board had some discussion and two members believe the standards should deal with the central bank.

Mr. Steinberg objected. He thought the members holding that view should write up the reasons behind their view.

Mr. Allen agreed and suggested taking that sentence out of paragraph A34 so it would be a neutral account of points to consider.

Mr. Steinberg thought paragraphs A34, A35, and A36 present one side and then the text should present the side that Mr. Bell indicated. It would say you could go either way. Then he thought members with his view would write something that indicates it could be the other way.

Mr. Bell suggested deleting the last sentence of A34 to provide a better transition.

Mr. Allen asked if it would be better to move the A37 sentence to A34 because the last sentence of A34 was the driver of this whole discussion. He noted the Board had concluded that it did not want to specifically conclude on the Federal Reserve; nevertheless the majority of the Board did have this discussion to assure themselves that the standard would be appropriately applied. He liked conveying that message.

Ms. Payne explained that it was a transition to the analysis; stating why the analysis was done.

Mr. Bell suggested considering a sentence before that to say we are presenting potential implications of each possible classification.

Mr. Allen posed the question as whether you want paragraph A34. If we're not going to say anything at all in 35 and 36, you would consolidate some principle out of 34 and 37 to make a bland statement without going into any details. The other view would be to keep the information about the majority of the board believed that we shouldn't address this specifically and did have some discussion about the pros and cons to assure members they had reached the appropriate decision. And then the text would note "however two board members did believe it should be explicitly considered"—which is the alternative view.

Mr. Granof suggested that may be a bit disingenuous. He observed that the Board seems to believe the Federal Reserve is a disclosure entity but we want to say let's leave it up to the auditors and the preparers. He finds this an ambiguous position to present in the basis.

Mr. Allen believes the vote would not be unanimous --- a minority may believe it's a consolidation entity. However, such a vote would not be consistent with developing a principle-based standard.

A few members noted their views with some saying they are undecided.
Mr. McCall said our principles should be clear enough that we think those principles allow organizations to make decisions with some confidence they are making the right decision. Such organizations would have to document that decision. He thought the basis for conclusions could convey that with what we have in A37 with some addition maybe from what's in A34. If we chose to leave A35 and A36, he would take the last sentence of A35, which starts the opposing view, and move it to the next paragraph. It would then say compared to consolidation some members viewed disclosure as… This structure would offer more parity and avoid starting with a negative.

Mr. Allen suggested an initial vote on whether members want some generic discussion by consolidation of A34 and A37 or some details from A35 and A36 but in a neutral manner. After that, there would be some discussion of the other point of view offered by Mr. Steinberg.

Mr. Steinberg said his view would depend on the way A34 and A37 is once finalized. The reason he wrote the alternative point of view was that we had criteria for what gets consolidated and not consolidated. The text yesterday as he interpreted added fourth criteria to justify not consolidating it. Some members noted the text says you can go either way and everybody around this table, he believes, wants disclosure. If it can go either way, then he believes we can solve the problem by recognizing Central Banks are unique enough to be decided under a different principle. If somehow or another you can get from A34 to A37 to the Federal Reserve as a disclosure entity because of the criteria that are in the standard then you don't need a separate principle for Central Banks.

Mr. Allen noted the Board's decision yesterday to not add that fourth criteria.
Mr. Steinberg agreed and said now you've got to explain it in such a way that you're not using the fourth criteria, but are clear the Federal Reserve is a disclosure entity.

Mr. Dacey noted the discussion was helpful. He felt the Board agreed to make clear that it had not done a thorough analysis. Given that, it is inappropriate or unnecessary in A35 and A36 to say the Board believes. However, we do explain, in A33, the fact that we considered the illustrations and we also considered the Federal Reserve. So it is possible to just omit A34 and A37 but say the Board thought about all these things and we think that preparer has sufficient principles-based guidance to decide.

Mr. Smith asked about the history of the discussion and how we got to where we are. He thought we developed the standard and it looked like the Federal Reserve was discussed because it's unique. But, he noted we agree we don't have to make the call, the auditors and the Federal Reserve's got to make the call. He wondered why we would have such a lengthy deliberation about the significant judgments required about the Federal Reserve and then not document the discussion in the basis for conclusions.

Mr. Bell noted he thought the discussion was helpful in understanding the application of the principles—just as the illustrations are. The risk is the appearance that the Board deliberated sufficiently to decide and created an unintended requirement. Aside from that risk, he finds the discussion helpful.

Mr. Dacey noted, to Mr. Smith's point, the discussion of the Federal Reserve did provide insights as to whether the criteria were right and the disclosures sufficiently robust that it would provide the nature of information that would be appropriate for the user. So, he thought the discussion was informative. To Mr. Bell's point, if the text presents some of the considerations that were discussed, he would not view it as creating a requirement. His bigger concern would be coming to a conclusion as to what was the right answer by saying "members believe." Reporting some of the points raised during the discussion in a neutral way and should not create a problem.

Mr. Allen asked how we should modify A34 to A37.

Ms. Payne indicated that there seem to be two alternatives. One is to present a combined, and shorter, A34 and A37 (omitting A35 and A36). The other is to make A35 and A36 a presentation of some of the points raised but not attributing them to members.

With regard to the Federal Reserve basis for conclusion language, on Thursday the Board unanimously approved the second option to present some of the points raised but not attribute them to members.

Mr. Allen asked staff what the next steps would be.

Ms. Payne said staff would send a revised pre-ballot draft after the meeting. As long as there are no new technical matters that wouldn't have been discussed in public, a ballot draft would be provided after the next pre-ballot.

In discussing Mr. Steinberg's potential alternative view, Mr. Steinberg repeated his preference for a clear decision that the Federal Reserve would be a disclosure entity. He also noted that he would consider further what the required disclosures are and decide whether he thinks they would disclose what's important for a Central Bank.

Mr. Allen noted that staff had made clear that if you do consolidate -- even though we don't have specific disclosures in this document for consolidation entries -- we do have specific disclosures in other standards for consolidation entities.

Mr. Granof noted that if the preparer and auditor decide the Federal Reserve should be a consolidated entity there's no specific guidance as to what disclosures the Federal

Reserve should make. And because the Federal Reserve is unique, the disclosures that the Federal Reserve should make are not necessarily detailed in any other standard.

Mr. Allen suggested getting to that when we look at the paragraph two additions; if it's inadequate then maybe you want some additional disclosures for consolidated entities.

Mr. Dacey noted that what we're saying is if it were consolidated and the Federal Reserve had investments, the investment disclosure requirements, which we are getting ready to develop in another project, would apply.

Mr. Granof noted our discussions have always assumed that the Fed would be a disclosure entity— and that's reasonable. But, we're leaving it open and it's up to the preparer. If it's consolidated, he does not think that those other standards are adequate and that is a major issue.

Mr. Allen noted we have a risk assumed project and if we think there are some unique risks that would result from the relationship we could address them through that project.

Mr. Dacey and Mr. Allen indicated they understood Mr. Granof's point regarding disclosure of risks from monetary policy. Mr. Granof indicated classifying the Fed as a disclosure entity would ensure risks were disclosed.

Mr. Showalter noted he understood the point, but indicated that International Financial Reporting Standards do not address specialized industry issues—rather they rely on principles. He suggested adding a reminder, to the A34-A37 paragraphs, that unique relationships should be disclosed. Mr. Showalter asked Mr. Dacey's views.

Mr. Dacey responded that the standard setters, accounting standard setters by and large, have not clearly defined what their presentation means. However, he views it as compliance with GAAP plus additional disclosures to avoid the presentation from being misleading. He noted it is not clear in some of the standards that that additional disclosure is needed beyond what is specifically identified. He felt it would be appropriate to consider a broad requirement about the statements in their entirety and decisions made that some additional disclosures may in fact be necessary to avoid the statements from being misleading.

Mr. Allen summed up the next steps indicating that staff will rewrite A34 through A37, Mr. Steinberg will decide whether he has additional alternative views to provide clarity and remove uncertainty.

Ms. Payne noted that staff will make revisions and circulate a pre-ballot. If changes to the pre-ballot are editorial, a ballot will be provided to the members. The ballot indicates the final date for alternative views to be submitted. When an alternative view arrives, staff decides whether to recommend any counterpoints or clarifications in the body of the Board's majority basis for conclusions. If revisions to the body of the basis for conclusions are needed, then the Board would likely discuss them in December. If not, the balloting would continue.

Mr. Allen asked that discussion move to the next topic. Ms. Loughan indicated related parties revisions on page 29 paragraph 74 would be discussed next. She indicated that Mr. Dacey had some concerns.

Mr. Dacey noted the threshold for reporting on related party relationships is mentioned in five different places with slightly different wording in each. He preferred the wording in paragraph 16 because it focuses on the significance of the relationship.

Members and staff noted that the version that says 'significant related parties' may lead to consideration of the size of the related party; whereas 'significant related party relationships' may more broadly focus on the context of the federal government. Members also noted the placement of the "misleading to exclude" wording and preferred that phrase be included in paragraph 16. It should be clear that it is misleading to exclude information about the relationship and that is from the perspective of the reporting entity.

Members also decided to delete the first sentence of paragraph 79 since it is redundant. However, the footnote would be retained and placed with the first reference to significance.

Mr. Steinberg questioned the appropriateness of the description of significant influence saying that it may be exercised in several ways, sometimes by representation. He noted that there is an interchange of managerial personnel so federal officials are put into managerial positions in not-for-profit organizations or local governments. Also, many entities are dependent on technical information from the federal government. He asked if we need to exclude these types of relationships. The Board did not believe these involved material transactions or events involving both parties as described in the standards (rather they are broad), nor would these rise to the level of significance envisioned in the standards and did not make any changes.

Mr. Steinberg also asked about a potential conflict between 79B (which would bring in multinational development banks) and 80e. He wondered how the United Nations would be classified. Members and staff noted that 79B addresses financial commitments as well as significant relationships whereas 80e addresses insignificant entities. The Board decided not to change 80e or 79b.

Mr. Allen directed members to raise any concerns regarding the questions for respondents. Points made included:

1. Delete question 2c regarding consolidation entities
2. Break out the three parts of question 2d – factors, objectives and examples for disclosures
3. Change references in question 6 from 'consolidation entity' to 'reporting entity'
4. Capitalize "Funds" when referring to an organization

5. Sequence the questions to align with the proposed standards paragraph references
6. Ensure question 6 clearly focuses on entities with split funding sources

Mr. Allen suggested members raise any concerns that are other than editorial. The following items were discussed and noted changes were agreed:
1. Paragraph 35 is awkwardly worded and will be revised
2. The reasoning for saying ‘accountable to the President and/or the Congress’ was discussed and agreed
3. The heading for the disclosure requirements section of the disclosure entities section was discussed and no revisions made
4. Paragraph 2 – explaining that other standards require disclosures about consolidation entities – was shortened to say other standards require disclosures but not that the disclosures adequately address the relevant activities, future exposures, nature of the entity
5. Note in paragraph 61 that other standards require disclosures about consolidation entities.
6. Ensure that “accountability” is used in the context of included organizations and “governance” is used in the context of classifying organizations as consolidation or disclosure entities.

Mr. Allen requested that members send any editorial items to the staff. Staff thanked the members for reviewing the revisions so quickly.

CONCLUSION:

The Board approved the following:

- The wording as presented in the staff memo and Current ED
- *Reporting Entity* as the title of the ED
- Add “actions taken on behalf of the federal government” to paragraph 70a as an example of the type of information that should be disclosed
- Add guidance for consolidation entities that existing standards and required disclosures apply
- Relevant activity objective will remain as presented in the current ED
- Relationship objective will remain as presented in the current ED
- Add a footnote regarding funding by different sources--donations or appropriations to paragraph 61.
- Staff should revise the Federal Reserve basis for conclusion language by presenting some of the points raised but not attributing them to members.

Additional detailed changes to the pre-ballot were agreed to at Thursday’s Board meeting and are included in the minutes above. Staff plans to incorporate all of the agreed upon changes into the ED.

Staff plans to send a revised pre-ballot draft after the meeting. As long as there are no new technical matters that wouldn’t have been discussed in public, a ballot draft would be provided after the next pre-ballot. The goal is to issue an Exposure Draft before the December meeting.

Adjournment

The meeting adjourned at 11:30 PM.