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Non-Federal Investments
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BACKGROUND

This project is being undertaken by FASAB because existing FASAB standards are currently silent on the valuation of investments ("Non-Federal Investments") other than investments in Treasury securities.[1] Because existing FASAB standards are currently silent, federal reporting entities are currently determining valuation by analogizing from principles that were established by FASAB for other types of assets or by applying principles established by other standard setters.

In FY 2010, the major classes of non-federal investments reported on the consolidated Financial Report of the U.S. Government (CFR) totaled approximately $591 billion. (See Table 1) Most Non-Federal Investments are held by the Treasury Department ("Treasury").

The major types of Non-Federal Investments reported on the CFR are:

- Common and preferred stock
- Mortgage-backed securities
- Bonds
- Investments in governments-sponsored enterprises (GSEs)

Other investments held by the U.S. Government (not included in the $591 billion total in Table 1) may have characteristics of both equity and debt. Such investments would be brought to the attention of the Board and addressed as needed.

Source of Generally Accepted Accounting Principles (GAAP) for Non-Federal Investments

Currently, most of the Non-Federal Investments held by the U.S. government are held by Treasury, in particular the Office of Financial Stability (OFS). Because existing FASAB standards are silent on this type of asset, federal reporting entities must determine valuation by extrapolating principles that were established for other types of assets.

Some Non-Federal Investments held by the U.S. government (about $72 billion at 9/30/2010) are held by the Pension Benefit Guaranty Corporation (PBGC) and the Tennessee Valley Authority (TVA), both of which prepare financial statements in accordance with private-sector GAAP. At this time, sources of private sector GAAP in the U.S. are the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). The FASB and the IASB are currently working on a joint project to address the valuation of investments, although there is no guarantee that this project will result in fully consistent reporting requirements by the two organizations. Staff will monitor the development of private sector requirements for any issues that might be relevant to this project.

[1] Note: Existing FASAB standards (SFFAS 1, paragraphs 62-73) address investments in Treasury securities that are intended to be held to maturity.

Table 1: Major Non-Federal Investments (in billions of dollars)

Investment Type	FY 2010	FY 2009	Held By	Source of GAAP for Valuation of Asset
Mortgage-Backed Securities	172.2	184.4	Treasury Dept.	FASAB (SFFAS 2)
Capital Purchase Program - Senior Perpetual Preferred Stock & Subordinated Debentures	49.8	133.9	Treasury Dept.	(not stated)
American International Group (AIG) Investment Program	47.5	43.2	Treasury Dept.	FASAB (SFFAS 2)
Automotive Industry Financing Program (estimated direct loans excluded)	60.3	56.6	Treasury Dept.	(not stated)
Public Private Investment Program (estimated direct loans excluded)	4.9	0.0	Treasury Dept.	(not stated)
Debt & Equity Securities - Held by PBGC	49.5	43.6	PBGC	**FASB**
Debt & Equity Securities - Held for RRB by NRRIT	22.7	22.2	RRB	(not stated)
Debt & Equity Securities - Exchange Stabilization Program	12.6	13.6	ESF(Treasury)	(not stated)
Debt & Equity Securities - Held by TVA	8.2	8.0	TVA	**FASB**
Investments in GSEs	109.2	64.7	Treasury Dept.	FASAB (SFFAS 2 & SFFAC 2)
Regulatory Assets	15.2	14.4	TVA	**FASB**
Investments in International Financial Institutions	5.6	5.6	Treasury Dept.	(not stated)
Euro Bonds	4.6	4.9	Treasury Dept.	(not stated)
Japanese Government Bonds	7.7	7.2	Treasury Dept.	(not stated)
Beneficial Interest in Trust (AIG common stock)	20.8	23.4	Treasury Dept.	(not stated)
Total	**590.8**	**625.7**		

EXISTING RESEARCH

Background on National Railroad Retirement Investment Trust (NRRIT) from FASAB Survey of CFOs and IGs on Boundaries of Federal Reporting Entities

The National Railroad Retirement Investment Trust (NRRIT) was established by the Railroad Retirement and Survivors' Improvement Act of 2001 (the "Act"). The sole purpose of the NRRIT is to manage and invest Railroad Retirement assets. The NRRIT is a tax exempt entity independent from the Federal government. It is domiciled in and subject to the laws of the District of Columbia.

The Act authorizes the NRRIT to invest the assets of the Railroad Retirement Account in a diversified investment portfolio in the same manner as those of private sector retirement plans. Prior to the Act, investment of Railroad Retirement Account assets was limited to securities guaranteed by the United States. In addition, to carry out its mandate, the NRRIT's Board of Trustees ("Board") is authorized to make rules to govern its operations, to employ professional staff, and to contract with outside advisors to provide legal, accounting, investment advisory or other services necessary for the proper administration of the NRRIT. Administrative expenses of the NRRIT are paid out of NRRIT assets.

The NRRIT and the RRB are separate entities. The RRB remains a Federal agency and continues to have full responsibility for administering the railroad retirement program, including eligibility determinations and the calculation of beneficiary payments. The NRRIT has no powers or authority over the administration of benefits under Railroad Retirement. Under the Act, the NRRIT is required to act solely in the interest of the RRB, and through it, the participants and beneficiaries of the programs funded under the Railroad Retirement Act. The Act does not delegate any authority to the RRB with respect to day to day activities of the NRRIT, but the Act does provide that the RRB may bring a civil action to enjoin any act or practice of the NRRIT that violates the provisions of the Act or to enforce any provision of the Act.

Under the Act, the financial statements of the NRRIT are required to be audited annually by an independent public accountant. In addition, the NRRIT must submit an annual management report to the Congress on its operations, including a statement of financial position, statement of cash flows, a statement on internal accounting and administrative control systems, the independent auditor's report, and any other information necessary to inform the Congress about the operations and financial condition of the NRRIT. A copy of the annual report must also be submitted to the President, the RRB, and the Director of the Office of Management and Budget.

The RRB has been including the NRRIT net assets in its financial statements by reporting net line items. The Balance Sheet contains a line titled, "NRRIT Net Assets." The Statement of Changes in Net Position contains the lines, "Transfers in From NRRIT" and "Change in NRRIT Assets." The Railroad Retirement Board is the sole investor and would receive all proceeds should the NRRIT be dissolved. Such circumstances will be considered in this project.

EXCERPTS FROM EXISTING CONCEPTS, STANDARDS, OTHER GUIDANCE, AND LEGISLATION

Overview: Source of Generally Accepted Accounting Principles (GAAP) for Non-Federal Investments

Currently, most of the Non-Federal Investments held by the U.S. government are held by the Treasury Department ("Treasury"), in particular the Office of Financial Stability (OFS). Because existing FASAB standards are silent on this type of asset, federal reporting entities must determine valuation by analogizing from principles that were established for other types of assets.

For example, Treasury applies certain principles in Statement of Federal Financial Accounting Standards (SFFAS) 1, and SFFAS 2, as amended. Existing FASAB standards in SFFAS 1 are incorporated into the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, in particular Section II.4.3.3, "Assets." Treasury also cites SFFAS 7 and Statement of Federal Financial Accounting Concepts (SFFAC) 2 in the context of reporting investments in GSEs.

Some Non-Federal Investments held by the U.S. government (about $72 billion at 9/30/2010) are held by the Pension Benefit Guaranty Corporation (PBGC) and the Tennessee Valley Authority (TVA), both of which prepare financial statements in accordance with private-sector GAAP. At this time, sources of private sector GAAP in the U.S. are the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). The FASB and the IASB are currently working on a joint project to address the valuation of investments, although there is no guarantee that this project will result in fully consistent reporting requirements by the two organizations.

Existing Concepts

- SFFAC 2, *Entity and Display*, "Conclusive Criteria," paragraphs 41-42, and "Bailout Entities," paragraph 50.

In Note 1 of the Treasury OFS FY 2010 financial statements, Treasury cites paragraph 50 in SFFAC 2 in explaining that the OFS has concluded that TARP investments meet the criteria of "bailout entities" and as such should not be consolidated. Treasury also cites the conclusive criteria in SFFAC 2 as a further indication that TARP investments should not be consolidated.

SFFAC 2

Conclusive Criteria

[41.] There are two types of criteria that should be considered when deciding what to include as part of a financial reporting entity. The first is a conclusive criterion, i.e., an inherent conclusion that for financial reporting purposes, any organization meeting this criterion is part of a specified larger entity.

[42.] Appearance in the Federal budget section currently entitled "Federal Programs by Agency and Account" is a conclusive criterion. Any organization, program, or budget

account, including off-budget accounts and government corporations, included in that section should be considered part of the U.S. Federal Government, as well as part of the organization with which it appears. This does not mean, however, that an appropriation that finances a subsidy to a non-Federal entity would, by itself, require the recipient to be included in the financial statements of the organization or program that expends the appropriation.

Bailout Entities

[50.] The Federal Government occasionally bails out, i.e., guarantees or pays debt, for a privately owned entity whose failure could have an adverse impact on the nation's economy, commerce, national security, etc. As a condition of the bail out, the Federal Government frequently obtains rights similar to the authorities associated with the indicative criteria presented in paragraph 44. The existence of these rights does not make the bailed out entity part of the Federal Government reporting entity or any of the other reporting entities that are part of the Federal Government. Disclosure of the relationship(s) with the bailed out entity(ies) and any actual or potential material costs or liabilities would be appropriate.

- SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*, "Entity Concept" paragraphs 10-16 and "Assets," paragraphs 18-35.

Entity Concept

[10.] All elements defined in this Statement are defined in relation to the U.S. Government ("federal government" or "government"). That is, an item that meets the relevant definition is an asset, liability, net position, revenue, or expense of the federal government. An item that meets the basic recognition criteria established in paragraph 5 and the additional considerations for recognition decisions referred to in paragraph 7 is recognized in the consolidated financial statements of the federal government, except when it is eliminated in the consolidation process, as discussed in paragraphs 14 and 15.

[11.] The federal government is composed of component entities that control, manage, or are otherwise accountable for the government's assets and may be authorized to incur liabilities. Component entities include departments, independent agencies, and government corporations, as well as their agencies, bureaus, offices, administrations, corporations, and other organizational units. An item that meets the definition of an element of the federal government is also an element of a component entity. It is recognized in the component entity's accrual-basis financial statements provided it meets the basic recognition criteria and the additional considerations for recognition decisions.

[12.] Sometimes a question may arise as to which component entity should report a particular item. Typically, a review of the authorizing legislation establishing a government program or activity, the appropriations act funding it, and related federal laws, regulations or other executive issuances clearly identifies one component entity as having a comprehensive relationship to the program or activity. That is, the component entity is responsible and accountable for receiving, controlling, managing, and utilizing

government assets or incurring liabilities on behalf of the government in performing operations related to the program or activity. When a component entity has such a comprehensive relationship, the assets and other elements involved should be reported by that component entity.

[13.] When no component entity has a comprehensive relationship to a government program or activity, the assets and other elements involved should be reported by the component entity most responsible for managing them. For example, assume that two component entities support a single program to which neither has a comprehensive relationship. If one of the component entities has acquired and has some control over a government asset but the other component entity presently manages and utilizes the asset as part of its routine operations, the second component entity should report the asset. In other circumstances, a component entity's management responsibilities may be limited to, for example, collecting monies owed to the federal government and depositing them in the U.S. Treasury. Although the component entity has no authority or responsibility to retain or use the monies collected, it should report the assets and other elements involved in the collection activity.

[14.] While items that meet the definition of an element from the perspective of the federal government are assigned to component entities, some items recognized in the accrual-basis financial statements of component entities are not recognized in the consolidated financial statements of the federal government because they do not meet definitions of elements from the perspective of the federal government. Instead, they are items that would meet element definitions from the component entity perspective and are treated as such by the component entity. For example, component entities may exchange services for a fee and recognize the resulting intra-governmental assets, liabilities, and related elements in their financial statements. However, intra-governmental items offset each other when the government is viewed as a whole and are eliminated in preparing the government's consolidated financial statements.

[15.] Appropriations are another example of items reported in the accrual-basis financial statements of component entities but not in the consolidated financial statements of the federal government. For the component entities, appropriations are inflows of resources against which the component entity may incur obligations in support of authorized activities. Assuming an appropriation complies with the basic recognition criteria and additional considerations for recognition decisions, a component entity would recognize the appropriation as an increase in assets and revenues and would recognize the use of the appropriation as an increase in expenses and a decrease in fund balance with Treasury. However, from the perspective of the government as a whole, an appropriation is not a resource flow to the federal government or from the government to a component entity. Rather, it is a budgetary amount that constitutes legal authority for a component entity to incur obligations for specified purposes during specified time periods, and for the U.S. Treasury to liquidate the resulting obligations of the component entity. The actual liquidation will be from cash and other assets of the U.S. Treasury resulting from the inflow of resources from taxes and other financing sources. Therefore, appropriations recognized by component entities are eliminated in the process of consolidation and are not reported in the consolidated financial statements of the federal government.

[16.] The definitions of elements may refer to another entity or other entities. For the federal government, these terms describe entities external to the government, such as foreign, state, and local governments, business enterprises, not-for-profit organizations, and individuals. For a component entity, the terms another entity and other entities include other component entities of the government as well as entities external to the government.

Assets

Definition of an Asset

[18.] An asset is a resource that embodies economic benefits or services that the federal government controls.

[19.] The definition of an asset addresses only whether an asset exists. It does not address whether the asset is measurable and, if so, how it should be measured or whether or when it should be recognized in the federal government's or a component entity's balance sheet. Nor does the definition address whether or when the economic benefits or services embodied in an asset will be used. Basic recognition criteria for all elements of accrual-basis financial statements are set forth and discussed in paragraphs 5 through 9. Those paragraphs also indicate that measurement issues and other considerations for recognition decisions will be addressed in future pronouncements. In addition, paragraph 6 acknowledges the possibility of uncertainty about whether an item meets the definition of an element and the need for judgment based on the available evidence. However, this Statement does not establish a threshold to be assumed in applying judgment.

[20.] The definition of an asset derives from the nature of assets—that is, their essential characteristics. An essential characteristic of an asset is one that is inherent to all assets and, therefore, without it an asset would not exist. Paragraphs 21 through 35 highlight and discuss those characteristics. Also discussed are certain characteristics that are common to many assets but not to all assets. As such, those characteristics are not essential, but they may provide additional evidence that an asset exists.

Essential Characteristics of Assets

[21.] The federal government needs financial, economic, human, and other resources to help it achieve its mission. In this context, the term resource means "a useful or valuable possession or quality of a country, organization or person"3 or a "means of supplying a want."4 The government has numerous resources. However, those resources are not assets unless they have the essential characteristics of assets and, therefore, meet the definition of assets in paragraph 18.

[22.] To be an asset of the federal government, a resource must possess two characteristics. First, it embodies economic benefits or services that can be used in the future. Second, the government controls access to the economic benefits or services and, therefore, can obtain them and deny or regulate the access of other entities.

[23.] To illustrate the distinction between a resource that is an asset and one that is not, the federal government may obtain economic benefits or services from a resource but be unable to deny or regulate the access of other entities to those benefits or services.

If so, the resource is not an asset of the federal government. For example, outer space is a natural resource from which the federal government can obtain economic benefits. However, outer space is not an asset of the federal government because the government cannot deny or regulate the access of others. In contrast, natural resources under federal lands qualify as federal government assets because the government can obtain the economic benefits and regulate the access of other entities as provided under federal law. Such natural resources are assets of the federal government even if they are not measurable and therefore are not candidates for recognition in the financial statements.

[24.] In addition to the two essential characteristics identified in paragraph 22, many resources have other features that help identify them as assets. For example, they may be acquired at a cost and owned by the federal government. However, those features are not characteristics of all assets. Whereas access to economic benefits or services often is obtained through legal ownership of the underlying item of property, legal rights to economic benefits or services can be obtained without ownership of the property—for example, under certain lease arrangements.

[25.] The federal government's resources often are tangible and exchangeable, and the government often has legally enforceable rights of access to the resulting benefits. But the absence of those features is not sufficient to preclude an item from qualifying as an asset. For example, an intangible resource, such as an easement on property, is an asset if the federal government can benefit from it and regulate or deny the access of other entities. A resource may embody economic benefits even though the federal government cannot exchange it or sell it—for example a machine that continues to provide a needed service even though there is no market for the machine. Similarly, the fact that the government's ability to access or use a resource is not legally enforceable does not mean that the resource is not an asset, if the government nevertheless can obtain the economic benefits or services it embodies and deny or regulate other entities' access to or use of those economic benefits or services.

Economic Benefits or Services

[26.] A characteristic possessed by all assets is the ability to provide economic benefits or services. Some sources use the terms economic benefits and services (or service potential) interchangeably. However, as used in this Statement, economic benefits may result in inflows of cash, cash equivalents, goods, or services to the federal government, whereas the services embodied in an asset may benefit the government in other ways. For example, assets such as public parks, museums, and art galleries often provide recreational, educational, and research opportunities to the public at no charge or for a reduced fee or voluntary contribution, thereby assisting the federal government to achieve its objectives and meet its mission to provide public services.

[27.] The economic benefits or services that a property can provide can be distinguished from the property itself, whether it is tangible or intangible, such as a right. Not all properties embody economic benefits or services and the assumption that a particular type of property will always be an asset is not justified. For example, whereas equipment normally is expected to provide economic benefits or services, sometimes it

has become unusable and has no scrap value. If so, it no longer embodies economic benefits or services and does not meet the definition of an asset.

[28.] The economic benefits or services embodied in resources may be shared by the government and another entity through specific arrangements. For example, the government and another entity may enter into a joint venture and share an interest in the resources committed to the joint venture. If so, each party may possess assets comprising its respective share of the benefits or services. Similarly, lease agreements unbundle the economic benefits or services embodied in leased property and may, for example, give the lessee the right to hold and use the property and the lessor the right to receive rentals and any residual value. Thus, both parties may have assets corresponding to their respective rights.

Control by the Federal Government

[29.] The second essential characteristic of an asset is control, which refers to the ability of the federal government to obtain the economic benefits or services embodied in a resource and to deny or regulate the access of others. It is possible that the government does not actively exercise control. Nevertheless, as long as the government currently has the ability to exercise control, the item is an asset of the government. In exercising control of the economic benefits or services, the government may, depending on the nature of the resource, hold the resource; exchange it; use it to obtain cash, cash equivalents, goods, or services; exact a price for other entities' use of the economic benefits or services; or use it to settle liabilities. Many resources are subject to certain legal or other external constraints, such as public land subject to preservation requirements. Such restrictions on the use of a resource do not negate the government's control of the economic benefits or services embodied in the resource.

[30.] The ability of the federal government to control access to the economic benefits or services embodied in a resource normally stems from legal rights and may be evidenced by title deeds, contractual agreements, possession, or other devices that protect the government's interests. However, legal enforceability of a right is not a prerequisite to the establishment of control of access to economic benefits or services, because the government may be able to exercise control in some other way.

[31.] Possession or ownership of a resource normally entails control of access to the economic benefits or services embodied in it, but that is not always the case. Whereas control of access is an essential characteristic of an asset, possession or ownership is not. For example, the government may grant another entity, acting as an agent of the government, physical possession of goods for sale and retain the right to receive the proceeds of sale. The goods are assets of the government because it controls access to the economic benefits embodied in the goods. The agent has physical possession of the goods, but they are not the agent's assets because it does not control access to the economic benefits. Also, as discussed in paragraph 27, through a lease arrangement the government may control access to the economic benefits or services embodied in a resource that it does not own.

[32.] Sometimes the federal government cannot control the economic benefits or services that it obtains from a resource because it cannot deny or regulate the access of other entities. In those circumstances, the resource does not meet the definition of an

asset of the federal government. Public goods are an example. Public highways provide economic benefits to the entities that use them. However, they are assets only of the entity that has the capacity to control their use or regulate other entities' access to them by, for example, the use of tolls or other restrictions. Similarly, natural resources, such as air and water do not qualify as assets of the federal government when it has only general access to them along with all other entities, even if the government has incurred costs to help clean the environment.

[33.] The federal government obtains most of its resources from cash or credit transactions. The government may acquire resources in exchange for other resources or for an obligation to transfer resources or provide services in the future, or resources may result from the exercise of the government's powers, such as, for example, the imposition of taxes, penalties, fines, and forfeitures. Government resources also may result from events such as accretion and discovery.

[34.] Implicit in the definition and essential characteristics of assets is that the event giving rise to the government's ability to control access to the economic benefits or services embodied in a resource must have occurred. The government's intent or ability to acquire a resource in the future does not create an asset. For the resource to qualify as an asset, the government already must have acquired the resource or otherwise obtained access to the economic benefits or services it embodies to the exclusion of other entities. For example, the mere existence of the government's power to tax is not an asset because, until the government has exercised that power by imposing a tax and has access to benefits by virtue of completion of a taxable event, no event has occurred to generate resources and there are no resulting economic benefits that the government can control and use in providing programs and services.

[35.] Once acquired, a resource that meets the definition of an asset continues to be an asset until the government transfers it to another entity or uses it up, or until some other event or circumstance destroys the economic benefits or services previously embodied in the resource or removes the government's ability to obtain them and deny or regulate the access of other entities.

<u>Existing Standards – FASAB</u>

- SFFAS 1, *Accounting for Selected Assets and Liabilities*, "Scope," paragraph 62
- [62] This standard does not apply to investments by federal entities in securities (debt and equity) and other financial instruments issued by other than the U.S. Treasury.

- SFFAS 2, *Accounting for Direct Loans and Loan Guarantees,* "Accounting Standards," paragraphs 22-61

Important citations include:

[22.] Direct loans disbursed and outstanding are recognized as assets at the present value of their estimated net cash inflows. The difference between the outstanding principal of the loans and the present value of their net cash inflows is recognized as a subsidy cost allowance.

[24.] For direct or guaranteed loans disbursed during a fiscal year, a subsidy expense is recognized. The amount of the subsidy expense equals the present value of estimated cash outflows over the life of the loans minus the present value of estimated cash inflows, discounted at the interest rate of marketable Treasury securities with similar maturity to the cash flows, applicable to the period during which the loans are disbursed (hereinafter referred to as the applicable Treasury interest rate).

[30.] The subsidy cost allowance for direct loans is amortized by the INTEREST METHOD using the interest rate that was used to calculate the present value of the direct loans when the direct loans were disbursed, after adjusting for the interest rate re-estimate. The amortized amount is recognized as an increase or decrease in interest income.

[32.] Credit programs should re-estimate the subsidy cost allowance for outstanding direct loans and the liability for outstanding loan guarantees as required in this standard. There are two kinds of re-estimates: (a) interest rate re-estimates, and (b) technical/default re-estimates.2a Entities should measure and disclose each program's re-estimates in these two components separately. An increase or decrease in the subsidy cost allowance or loan guarantee liability resulting from the re-estimates is recognized as an increase or decrease in subsidy expense for the current reporting period.

(A) An interest rate re-estimate is a re-estimate due to a change in interest rates from the interest rates that were assumed in budget preparation and used in calculating the subsidy expense to the interest rates that are prevailing during the time periods in which the direct or guaranteed loans are disbursed. Credit programs may need to make an interest rate re-estimate for cohorts from which direct or guaranteed loans are disbursed during the reporting year. If the assumed interest rates that were used in calculating the subsidy expense for those cohorts differ from the interest rates that are prevailing at the time of loan disbursement, an interest rate re-estimate for those cohorts should be made as of the date of the financial statements.

(B) A technical/default re-estimate is a re-estimate due to changes in projected cash flows of outstanding direct loans and loan guarantees after reevaluating the underlying assumptions and other factors that affect cash flow projections as of the financial statement date, except for any effect of the interest rate re-estimates explained in (a) above. In making technical/default re-estimates, reporting entities should take into consideration all factors that may have affected various components of the projected cash flows, including defaults, delinquencies, recoveries, and prepayments. The technical/default re-estimate should be made each year as of the date of the financial statements.

[33.] The criteria for default cost estimates provided in this and the following paragraphs apply to both initial estimates and subsequent reestimates. Default costs are estimated and reestimated for each program on the basis of separate cohorts and risk categories. The reestimates take into account the differences in past cash flows between the projected and realized amounts and changes in other factors that can be used to predict the future cash flows of each risk category.

[34.] In estimating default costs, the following risk factors are considered: (1) loan performance experience; (2) current and forecasted international, national, or regional economic conditions that may affect the performance of the loans; (3) financial and other relevant characteristics of borrowers; (4) the value of collateral to loan balance; (5) changes in recoverable value of collateral; and (6) newly developed events that would affect the loans' performance. Improvements in methods to reestimate defaults are also considered.

[35.] Each credit program should use a systematic methodology, such as an econometric model, to project default costs of each risk category. If individual accounts with significant amounts carry a high weight in risk exposure, an analysis of the individual accounts is warranted in making the default cost estimate for that category.

[36] .Actual historical experience of the performance of a risk category is a primary factor upon which an estimation of default cost is based. To document actual experience, a data base should be maintained to provide historical information on actual payments, prepayments, late payments, defaults, recoveries, and amounts written off.

[37.] Interest accrued on direct loans, including amortized interest, is recognized as interest income. Interest accrued on the liability of loan guarantees is recognized as interest expense. Interest due from Treasury on uninvested funds is recognized as interest income. Interest accrued on debt to Treasury is recognized as interest expense.

[38.] Costs for administering credit activities, such as salaries, legal fees, and office costs, that are incurred for credit policy evaluation, loan and loan guarantee origination, closing, servicing, monitoring, maintaining accounting and computer systems, and other credit administrative purposes, are recognized as administrative expense. Administrative expenses are not included in calculating the subsidy costs of direct loans and loan guarantees

Existing Standards – GASB

The GASB has issued standards for different categories of investments, for example: common stock that is held by governmental external investment pools, defined benefit pension or other postemployment benefit plans, Internal Revenue Code Section 457 deferred compensation plans, investments in joint ventures or component units, and all other investments in common stock.

. The following GASB standards apply to investments in common stock other than the categories listed.

202 Paragraphs 202–210 establish accounting and financial reporting standards for investments in common stock. Those paragraphs do not apply to investments in common stock held by (a) governmental external investment pools, (b) defined benefit pension or other postemployment benefit plans, or (c) Internal Revenue Code Section 457 deferred compensation plans. Paragraphs 202–210 also do not apply to investments in joint ventures or component units as provided in Statement 14, as amended. Paragraphs 202–210 also do not apply to investments in common stock other than those described in those paragraphs.

203 A summary of the two methods of accounting for the investments in common stock discussed in paragraphs 202–210 are as follows:

a. The cost method. An investor records an investment in the stock of an investee at cost and recognizes as revenue dividends received that are distributed from net accumulated earnings of the investee since the date of acquisition by the investor. The net accumulated earnings of an investee subsequent to the date of investment are recognized by the investor only to the extent distributed by the investee as dividends. Dividends received in excess of earnings subsequent to the date of investment are considered a return of investment and are recorded as reductions of cost of the investment. A series of operating losses of an investee or other factors may indicate that a decrease in value of the investment has occurred that is other than temporary and should accordingly be recognized.

b. The equity method. An investor initially records an investment in the stock of an investee at cost and adjusts the carrying amount of the investment to recognize the investor's share of the earnings or losses of the investee after the date of acquisition. The amount of the adjustment is included in the determination of the changes in net assets by the investor. Such amount reflects adjustments including adjustments to eliminate inter-entity gains and losses, and to amortize, if appropriate, any difference between investor cost and underlying equity in net assets of the investee at the date of investment. The investment of an investor is also adjusted to reflect the investor's share of changes in the investee's capital. Dividends received from an investee reduce the carrying amount of the investment. A series of operating losses of an investee or other factors may indicate that a decrease in value of the investment has occurred that is other than temporary and that should be recognized even though the decrease in value is in excess of what would otherwise be recognized by application of the equity method.

204 Investments in common stock that do not have readily determinable fair values and that do not meet the criteria in paragraphs 205–208 for applying the equity method should be accounted for using the cost method. Statement 31 should be applied to investments in common stock that do not meet the criteria for applying the equity method and that have readily determinable fair values as described in that Statement.

Criteria for Applying the Equity Method

205 The equity method of accounting for an investment in common stock should be followed by a government whose investment in voting stock gives it the ability to exercise significant influence over operating and financial policies of an investee even though the government holds 50 percent or less of the voting stock. Ability to exercise that influence may be indicated in several ways, such as representation on the governing body, participation in policy making processes, significant intra-entity transactions, interchange of managerial personnel, or technological dependency. Another important consideration is the extent of ownership by a government in relation to the concentration of other shareholdings, but substantial or majority ownership of the voting stock of an investee by another investor does not necessarily preclude the ability to exercise significant influence by the government. Determining the ability of a government to exercise such influence is not always clear, and applying judgment is necessary to assess the status of each investment. An investment (direct or indirect) of 20 percent or more of the voting stock of an investee should lead to a presumption that in the absence of evidence to the contrary, a government has the ability to exercise significant influence over an investee. Conversely, an investment of less than 20 percent of the voting stock of an investee should lead to a presumption that a government does not have the ability to exercise significant influence unless that ability can be demonstrated. 80

206 A government's voting-stock interest in an investee should be based on those currently outstanding securities whose holders have present voting privileges. Potential voting privileges that may become available to holders of securities of an investee should be disregarded.

207 Evidence that a government owning 20 percent or more of the voting stock of an investee may be unable to exercise significant influence over the investee's operating and financial policies requires an evaluation of all the facts and circumstances relating to the investment. The presumption that the government has the ability to exercise significant influence over the investee's operating and financial policies stands until overcome by predominant evidence to the contrary.

208 Examples of indications that a government may be unable to exercise significant influence over the operating and financial policies of an investee include:

a. Opposition by the investee, such as litigation or complaints to governmental regulatory authorities, challenges the government's ability to exercise significant influence.

b. The government and investee sign an agreement under which the government surrenders significant rights as a shareholder.

c. Majority ownership of the investee is concentrated among a small group of shareholders who operate the investee without regard to the views of the government.

d. The government needs or wants more financial information to apply the equity method than is available to the investee's other shareholders (for example, the government wants quarterly financial information from an investee that publicly reports only annually), tries to obtain that information, and fails.

e. The government tries and fails to obtain representation on the investee's board of directors.

This list is illustrative and is not all-inclusive. None of the individual circumstances is necessarily conclusive that the government is unable to exercise significant influence over the investee's operating and financial policies. However, if any of these or similar circumstances exists, a government with ownership of 20 percent or more should evaluate all facts and circumstances relating to the investment to reach a judgment about whether the presumption that the government has the ability to exercise significant influence over the investee's operating and financial policies is overcome. It may be necessary to evaluate the facts and circumstances for a period of time before reaching a judgment.

Applying the Equity Method

209 The procedures set forth below should be followed by a government in applying the equity method of accounting to investments in common stock that qualify for the equity method:

a. Intra-entity profits and losses should be eliminated until realized by the government or investee.

b. A difference between the cost of an investment and the amount of underlying equity in net assets of an investee should be accounted for as goodwill and amortized in a systematic and rational manner.

c. The investment(s) in common stock should be shown in the statement of net assets 81 of a government as a single amount, and the government's share of earnings or losses of an investee(s) should be shown in the flows statement 82 as a single amount except for the extraordinary items as specified in (d) below.

d. The government's share of special and extraordinary items and its share of prior-period adjustments reported in the financial statements of the investee should be classified in conformity with Statement 34, paragraph 55 , and paragraphs 45–50 and 58–62 of this Statement, respectively.

e. Sales of stock of an investee by a government should be accounted for as gains or losses equal to the difference at the time of sale between selling price and carrying amount of the stock sold.

f. If financial statements of an investee are not sufficiently timely for an investor to apply the equity method currently, the government should record its share of the earnings or losses of an investee from the most recent available financial statements. A lag in reporting should be consistent from period to period.

g. A loss in value of an investment that is other than a temporary decline should be recognized the same as a loss in value of other long-term assets. Evidence of a loss in value might include, but would not necessarily be limited to, absence of an ability to recover the carrying amount of the investment or inability of the investee to sustain an earnings capacity that would justify the carrying amount of the investment. A current fair value of an investment that is less than its carrying amount may indicate a loss in value of the investment. However, a decline in the quoted market price below the carrying amount or the existence of operating losses is not necessarily indicative of a loss in value that is other than temporary. All are factors that should be evaluated.

h. A government's share of losses of an investee may equal or exceed the carrying amount of an investment accounted for by the equity method plus advances made by the investor. The government should discontinue applying the equity method when the investment (and net advances) is reduced to zero and should not recognize additional losses unless the government has guaranteed obligations of the investee or is otherwise committed to provide further financial support for the investee. 83 If the investee subsequently reports net income, the government should resume applying the equity method only after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

i. When an investee has outstanding cumulative preferred stock, a government should compute its share of earnings (losses) after deducting the investee's preferred dividends, whether or not such dividends are declared.

j. An investment in voting stock of an investee company may fall below the level of ownership described in paragraph 205 from sale of a portion of an investment by the government, sale of additional stock by an investee, or other transaction, and the government may thereby lose the ability to influence policy, as described in that paragraph. A government should discontinue accruing its share of the earnings or losses of the investee for an investment that no longer qualifies for the equity method. The earnings or losses that relate to the stock retained by the government and that previously were accrued should remain as a part of the carrying amount of the investment. The investment account should not be adjusted retroactively under the

conditions described in this subparagraph. However, dividends received by the government in subsequent periods that exceed its share of earnings for such periods should reduce the carrying amount of the investment (see paragraph 203a).

k. An investment in common stock of an investee that previously was accounted for by other than the equity method may become qualified for use of the equity method by an increase in the level of ownership described in paragraph 205 (that is, acquisition of additional voting stock by the government, acquisition or retirement of voting stock by the investee, or other transactions). When an investment qualifies for use of the equity method, the government should adopt the equity method of accounting.

l. The carrying amount of an investment in common stock of an investee that qualifies for the equity method of accounting as described in subparagraph (k) may differ from the underlying equity in net assets of the investee. The difference should be accounted for as goodwill and amortized in a systematic and rational manner.

Disclosures

210 The significance of an investment to the government's financial position and results of operations should be considered in evaluating the extent of disclosures of the financial position and results of operations of an investee. If the government has more than one investment in common stock, disclosures wholly or partly on a combined basis may be appropriate. The following disclosures generally are applicable to the equity method of accounting for investments in common stock:

a. Financial statements of a government should disclose in the notes to financial statements: (1) the name of each investee and percentage of ownership of common stock, (2) the accounting policies of the government with respect to investments in common stock, 84 and (3) the difference, if any, between the amount at which an investment is carried and the amount of underlying equity in net assets and the accounting treatment of the difference.

b. For those investments in common stock for which a quoted market price is available, the aggregate value of each identified investment based on the quoted market price should be disclosed.

c. When investments in common stock accounted for under the equity method are, in the aggregate, significant in relation to the financial position or results of operations of a government, it may be necessary for summarized information about assets, liabilities, and results of operations of the investees to be presented in the notes to the financial statements either individually or in groups, as appropriate.

d. Conversion of outstanding convertible securities, exercise of outstanding options and warrants, and other contingent issuances of an investee may have a significant effect on a government's share of reported earnings or losses. Accordingly, significant effects of possible conversions, exercises, or contingent issuances should be disclosed in notes to the financial statements of a government.

Existing Standards – IPSASB

IPSAS 29, FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT

Initial and Subsequent Measurement

IN10. Financial assets and financial liabilities are initially measured at fair value. Where an entity subsequently measures financial assets and financial liabilities at fair value, transaction costs are not included in the amount initially recognized.

IN11. An entity subsequently measures financial assets using four categories:

 Financial assets at fair value through surplus or deficit – assets are subsequently measured at fair value with changes in fair value recognized in surplus or deficit.

 Held-to-maturity investments – assets are measured at amortized cost less impairment losses. Impairment losses are recognized in surplus or deficit.

 Loans and receivables – assets are measured at amortized cost less impairment losses. Impairment losses are recognized in surplus or deficit.

 Available-for-sale financial assets – assets are measured at fair value, with changes in fair value recognized directly in net assets/equity. Impairment losses incurred on available-for-sale instruments are recognized in surplus or deficit and not in net assets/equity.

IN12. Investments in equity instruments that cannot be measured at fair value, because fair value cannot be determined reliably, are measured at cost less impairment losses.

IN13. Financial liabilities are measured at amortized cost, except for financial liabilities at fair value through surplus or deficit, financial guarantees, loan commitments, and liabilities arising from transfers of financial assets. IN14. An entity may only reclassify financial instruments between the various categories under certain circumstances.

IPSAS 30,FINANCIAL INSTRUMENTS: DISCLOSURES

11. The carrying amounts of each of the following categories, as defined in IPSAS 29, shall be disclosed either in the statement of financial position or in the notes:

(a) Financial assets at fair value through surplus or deficit, showing separately (i) those designated as such upon initial recognition, and (ii) those classified as held-for-trading in accordance with IPSAS 29;

(b) Held-to-maturity investments; (c) Loans and receivables;

(d) Available-for-sale financial assets;

(e) Financial liabilities at fair value through surplus or deficit, showing separately (i) those designated as such upon initial recognition, and (ii) those classified as held-for-trading in accordance with IPSAS 29; and

(f) Financial liabilities measured at amortized cost.

Existing Guidance - OMB

- OMB Circular A-136, *Financial Reporting Requirements*, Section II.4.3.3, “Assets”(**bold added)**

Cash and Other Monetary Assets. Cash consists of: (i) coins, paper currency and readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in transit for deposit; (ii) amounts on demand deposit with banks or other financial

institutions including nonconfirmed collections and disbursements; (iii) investments held outside of Treasury; and, (iv) foreign currencies which, for accounting purposes, will be translated into U.S. dollars at the exchange rate on the financial statement date. Other monetary assets include gold, special drawing rights, and U.S. Reserves in the International Monetary Fund. This category is principally for use by the Department of the Treasury. The amount of cash and other monetary assets the reporting entity holds and is authorized to spend is entity cash. The cash and other monetary assets a Federal entity collects and holds on behalf of the U.S. Government or other entities are non-entity cash[13] and other monetary assets. The components of cash and other monetary assets will be disclosed in the notes to the financial statement (Note 4).

Investments. Investments in Federal securities will be reported separately from investments in non-Federal securities. Investments in Federal securities include non-marketable par value Treasury securities, market-based Treasury securities, marketable Treasury securities, and securities issued by other Federal entities**. Non-Federal securities include those issued by State and local governments, Government-Sponsored Enterprises, and other private corporations. Investments are normally reported at acquisition cost or amortized acquisition cost (less an allowance for losses, if any).** The components of investments, including the market value of market-based and marketable Treasury securities, will be disclosed (Note 5). (See SFFAS No. 1 for further information on investments in par value Treasury securities and in marketable and market-based Treasury securities expected to be held to maturity.) Reporting entities with material investments in Treasury securities attributable to earmarked funds must include in the required Note (Note 5) on Investments as described in SFFAS No. 27, paragraphs 27 and 28.

[13] See Note 40 (Section II.4.10.40) for changes in FY 2009 based on SFFAS 31 Accounting for Fiduciary Activities.

- OMB Circular A-136, *Financial Reporting Requirements*, Section II.4.9.5 “Note 5, Investments” (**bold added**)

The illustrative table in Section II.4.9.5 requires the disclosure of the following data for each class of non-federal securities, for the current fiscal year and the prior fiscal year:

- Cost
- Amortization Method
- Amortized Premium or Discount
- Interest Receivable
- Investments, Net
- Other Adjustments
- Market Value Disclosure

Section II.4.9.5A - Investments in Non-Federal Securities

Agencies with Non-Federal Securities should consult FASB Statement of Financial Accounting Standards No. 115,[2] Accounting for Certain Investments in Debt and Equity Securities, for applicable disclosure requirements. However, FASB 115 should not be applied to non-federal securities that are accounted for in a manner comparable to the accounting treatment of SFFAS No. 2. Non-Federal Securities are issued by a non-Federal entity, including State and local governments, private corporations, and Government-sponsored enterprises, regardless of whether the securities are federally guaranteed. This includes investments by Federal agencies in money market as well as mutual funds, even if the money market or mutual fund's assets consist entirely of Federal securities. Investments in Federal securities through the secondary market by Federal agencies are not considered Non-Federal Securities.

[2] ***FASAB staff note***: FASB 115 has been extensively amended since its issuance in May 1993. Please see the section "Existing Standards – Private Sector" below for a summary of current FASB requirements.

Existing Standards – Private Sector

Summary

At this time, sources of private sector GAAP in the U.S. are the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB).

The FASB and the IASB are currently working on a joint project to address the valuation of investments, although there is no guarantee that this project will result in fully consistent reporting requirements by the two organizations.

Although the project is a joint project, the FASB and the IASB have structured their work on this project differently. The IASB has been conducting its work in separate phases (classification and measurement of financial assets; classification and measurement of financial liabilities; impairment; and hedge accounting. In contrast, the FASB has issued a single comprehensive exposure draft on financial instruments.

International Financial Reporting Standards (IFRS) 9, *Financial Instruments*, was issued in November 2009 and contained requirements for financial assets. The IASB's exposure draft, Financial Instruments: Impairment, was issued in January 2011. The comment period closed on April 1, 2011 and deliberations are on-going.

IFRS 9, effective January 1, 2013, provides that all investments in equity instruments and contracts on those instruments must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value

The requirements in FASB's Statement of Financial Accounting Standards No. 116, *Accounting for Certain Investments in Debt and Equity Securities,* have been amended extensively since its original issuance in May 1993.

On May 26, 2010, the FASB issued an exposure draft, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities,* with comments due September 30, 2010. Over 2,800 comment letters have been received and posted on the FASB website.

Under the proposed FASB requirements, most financial instruments would be measured at fair value in the statement of financial position each reporting period. For financial instruments for which an entity's business strategy is to hold for collection or payment(s) of contractual cash flows, the proposed guidance would require a reconciliation from amortized cost to fair value on the face of the statement of position.

Staff will monitor the development of private sector requirements for any issues that might be relevant to this project.

Excerpts from IASB and FASB issuances

IFRS 9, *Financial Instruments*

5.1 Initial measurement

5.1.1 At initial recognition, an entity shall measure a financial asset or financial liability at its fair value (see paragraphs 5.4.1–5.4.3 and B5.4.1–B5.4.17) plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

5.1.2 When an entity uses settlement date accounting for an asset that is subsequently measured at amortised cost, the asset is recognised initially at its fair value on the trade date (see paragraphs B3.1.3–B3.1.6).

5.2 Subsequent measurement of financial assets

5.2.1 After initial recognition, an entity shall measure a financial asset in accordance with paragraphs 4.1.1–4.1.5 at fair value (see paragraphs 5.4.1, 5.4.2 and B5.4.1–

B5.4.17) or amortised cost (see paragraphs 9 and AG5–AG8 of IAS 39).

5.2.2 An entity shall apply the impairment requirements in paragraphs 58–65 and AG84–AG93 of IAS 39 to financial assets measured at amortised cost.

5.2.3 An entity shall apply the hedge accounting requirements in paragraphs 89–102 of IAS 39 to a financial asset that is designated as a hedged item (see paragraphs 78–84 and AG98–AG101 of IAS 39).

…..

B5.4.14 All investments in equity instruments and contracts on those instruments must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may be the case if insufficient more recent information is available to determine fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

B5.4.15 Indicators that cost might not be representative of fair value include:

(a) a significant change in the performance of the investee compared with budgets, plans or milestones.

(b) changes in expectation that the investee's technical product milestones will be achieved.

(c) a significant change in the market for the investee's equity or its products or potential products.

(d) a significant change in the global economy or the economic environment in which the investee operates.

(e) a significant change in the performance of comparable entities, or in the valuations implied by the overall market.

(f) internal matters of the investee such as fraud, commercial disputes, litigation, changes in management or strategy.

(g) evidence from external transactions in the investee's equity, either by the investee (such as a fresh issue of or by transfers of equity instruments between third parties.

FASB Exposure Draft, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities

What Are the Main Aspects of the Proposed Guidance?

The proposed guidance focuses on providing the most useful, transparent, and relevant information to investors about the financial assets and financial liabilities of an entity. Financial statements have traditionally focused on providing information about how an entity manages its business to provide information to help present and potential investors and creditors and other users in assessing the amounts, timing, and uncertainty of future cash flows. For financial instruments, in addition to obtaining information about how an entity manages its business, information about the risks inherent in the instruments also is important for assessing the amounts, timing, and uncertainty of future cash flows.

Under this proposal, most financial instruments would be measured at fair value in the statement of financial position each reporting period. For some financial instruments, this represents no change. However, for certain other financial instruments for which this represents a change, the proposal acknowledges that amortized cost information also is relevant and would require its presentation along with fair value information.

For derivatives and financial instruments for which an entity's strategy is trading the instruments, fair value would continue to be required, with all changes in fair value recognized in net income each reporting period. Changes in the fair value of equity securities, certain hybrid instruments, and financial instruments that can be contractually prepaid in such a way that the holder would not recover substantially all of its investment also would be recognized in net income each reporting period regardless of an entity's business strategy with respect to those financial instruments. The Board believes that this better reflects the risks presented by volatility associated with those financial instruments.

Financial instruments for which an entity's business strategy is to hold for collection or payment(s) of contractual cash flows, the proposed guidance would recognize the utility to financial statement users of both fair value and amortized cost information by requiring a reconciliation from amortized cost to fair value on the face of the statement of position. By continuing to reflect a "business strategy" approach to what is recognized in net income, the proposed model would enable entities to preserve most of the existing aspects of reporting net income and earnings per share. Financial instruments for which an entity's business strategy is to hold for the collection or payment(s) of the contractual cash flows, net income would remain relatively unchanged because only changes arising from interest accruals, credit impairments, and realized gains and losses would be recognized in net income each reporting period. With the exception of certain liabilities that qualify for the amortized cost option, all other changes in fair value from these instruments would be recognized in other comprehensive income each reporting period.

A consistent measurement model for all financial instruments should improve both comparability across entities and consistency in how an entity accounts for different financial instruments. Many have said that there should be symmetry between the accounting for financial assets and the financial liabilities funding those assets. This

may be particularly relevant for financial institutions as financial liabilities are incurred in order to support related financial asset activity. Asset-liability management is core to the business strategy and analysis of financial institutions. Changes in market variables affect valuations of both financial assets and financial liabilities. Accordingly, like financial assets in the proposed model, many financial liabilities of financial institutions would be measured at fair value (with amortized cost also being presented for certain financial liabilities). In addition, core deposit liabilities would be remeasured each period using a current value method that reflects the economic benefit that an entity receives from this lower cost, stable funding source. Thus, under the proposed model for a financial institution, the effects of changes in market interest rates would be transparent on core deposit and other financial liabilities and the financial assets that they fund.

By presenting both fair value and amortized cost information on the face of financial statements for instruments that are being held for collection or payment(s) of contractual cash flows, investors can more easily incorporate either or both in their analyses of an entity. Fair value would provide users with the best available information about the market's assessment of an entity's expectation of its future net cash flows, discounted to reflect both current interest rates and the market's assessment of the risk that the cash flows will not occur. Amortized cost would provide users with information about the instrument's contractual cash flows. Additionally, the Board believes the proposal would improve the timeliness of fair value information because the Board believes that fair value information would likely be available for public entities at the same time as other material financial information, rather than only being disclosed later in the notes to the financial statements included in regulatory filings. The proposed guidance also would continue to provide, if so desired, prudential regulators with the information necessary to compute regulatory capital using either fair value or amortized cost amounts.

The proposed guidance would remove the existing "probable" threshold for recognizing impairments on loans and proposes a common approach to providing for credit losses on loans and debt instruments. Interest income would be recognized after considering cash flows that are not expected to be collected. This should better reflect a financial instrument's interest yield. By replacing highly complex, quantitative-based hedging requirements with more qualitative-based assessments that would make it easier to qualify for hedge accounting, the economic effects of hedging should be reported more consistently over multiple reporting periods. An entity could continue to designate particular risks in financial items as the risks being hedged in a hedging relationship, with only the effects of the hedged risks reflected in net income each reporting period. In addition, eliminating the shortcut method and the critical terms match method would result in a more consistent model for assessing hedge effectiveness. Hedge accounting would be discontinued only if the criteria for hedge accounting are no longer met or the hedging instrument expires, is sold, terminated, or exercised. Eliminating the ability to discontinue hedge accounting simply by removing a hedging designation would contribute to both increased comparability and transparency.

LEGISLATION

- Emergency Economic Stabilization Act of 2008
- Federal Credit Reform Act of 1990
- Railroad Retirement and Survivors' Improvement Act of 2001

Emergency Economic Stabilization Act of 2008

Section 116(b)

(b) COMPTROLLER GENERAL AUDITS.—

(1) ANNUAL AUDIT.—The TARP shall annually prepare and issue to the appropriate committees of Congress and the public audited financial statements prepared in accordance with generally accepted accounting principles, and the Comptroller General shall annually audit such statements in accordance with generally accepted auditing standards. The Treasury shall reimburse the Government Accountability Office for the full cost of any such audit as billed therefor by the Comptroller General. Such reimbursements shall be credited to the appropriation account ''Salaries and Expenses, Government Accountability Office'' current when the payment is received and remain available until expended. The financial statements prepared under this paragraph shall be on the fiscal year basis prescribed under section 1102 of title 31, United States Code.

Section 123

SEC. 123. CREDIT REFORM.

(a) IN GENERAL.—Subject to subsection (b), the costs of purchases of troubled assets made under section 101(a) and guarantees of troubled assets under section 102, and any cash flows associated with the activities authorized in section 102 and subsections (a), (b), and (c) of section 106 shall be determined as provided under the Federal Credit Reform Act of 1990 (2 U.S.C. 661 et. seq.). (b) COSTS.—For the purposes of section 502(5) of the Federal Credit Reform Act of 1990 (2 U.S.C. 661a(5))—

(1) the cost of troubled assets and guarantees of troubled assets shall be calculated by adjusting the discount rate in section 502(5)(E) (2 U.S.C. 661a(5)(E)) for market risks; and H. R. 1424—27

(2) the cost of a modification of a troubled asset or guarantee of a troubled asset shall be the difference between the current estimate consistent with paragraph (1) under the terms of the troubled asset or guarantee of the troubled asset and the current estimate consistent with paragraph (1) under the terms of the troubled asset or guarantee of the troubled asset, as modified.

Federal Credit Reform Act of 1990

TITLE V--CREDIT REFORM

SEC. 500. SHORT TITLE.

This title may be cited as the "Federal Credit Reform Act of 1990";.

SEC. 501. PURPOSES.

The purposes of this title are to--

(1) measure more accurately the costs of Federal credit programs;

(2) place the cost of credit programs on a budgetary basis equivalent to other Federal spending;

(3) encourage the delivery of benefits in the form most appropriate to the needs of beneficiaries; and

(4) improve the allocation of resources among credit programs and between credit and other spending programs.

SEC. 502. DEFINITIONS.

For purposes of this title--

(1) The term "direct loan" means a disbursement of funds by the Government to a non-Federal borrower under a contract that requires the repayment of such funds with or without interest. The term includes the purchase of, or participation in, a loan made by another lender and financing arrangements that defer payment for more than 90 days, including the sale of a government asset on credit terms. The term does not include the acquisition of a federally guaranteed loan in satisfaction of default claims or the price support loans of the Commodity Credit Corporation.

(2) The term "direct loan obligation" means a binding agreement by a Federal agency to make a direct loan when specified conditions are fulfilled by the borrower.

(3) The term "loan guarantee" means any guarantee, insurance, or other pledge with respect to the payment of all or a part of the principal or interest on any debt obligation of a non-Federal borrower to a non-Federal lender, but does not include the insurance of deposits, shares, or other withdrawable accounts in financial institutions.

(4) The term "loan guarantee commitment" means a binding agreement by a Federal agency to make a loan guarantee when specified conditions are fulfilled by the borrower, the lender, or any other party to the guarantee agreement.

(5)(A) The term "cost" means the estimated long-term cost to the Government of a direct loan or loan guarantee or modification thereof, calculated on a net present value basis, excluding administrative costs and any incidental effects on governmental receipts or outlays.

(B) The cost of a direct loan shall be the net present value, at the time when the direct loan is disbursed, of the following estimated cash flows:

(i) loan disbursements;

(ii) repayments of principal; and

(iii) payments of interest and other payments by or to the Government over the life of the loan after adjusting for estimated defaults, prepayments, fees, penalties, and other recoveries; including the effects of changes in loan terms resulting from the exercise by the borrower of an option included in the loan contract.

(C) The cost of a loan guarantee shall be the net present value, at the time when the guaranteed loan is disbursed, of the following estimated cash flows:

(i) payments by the Government to cover defaults and delinquencies, interest subsidies, or other payments; and

(ii) payments to the Government including origination and other fees, penalties and recoveries; including the effects of changes in loan terms resulting from the exercise by the guaranteed lender of an option included in the loan guarantee contract, or by the borrower of an option included in the guaranteed loan contract.

(D) The cost of a modification is the difference between the current estimate of the net present value of the remaining cash flows under the terms of a direct loan or loan guarantee contract, and the current estimate of the net present value of the remaining cash flows under the terms of the contract, as modified.

(E) In estimating net present values, the discount rate shall be the average interest rate on marketable Treasury securities of similar maturity to the cash flows of the direct loan or loan guarantee for which the estimate is being made.

(F) When funds are obligated for a direct loan or loan guarantee, the estimated cost shall be based on the current assumptions, adjusted to incorporate the terms of the loan contract, for the fiscal year in which the funds are obligated.

(6) The term "credit program account" means the budget account into which an appropriation to cover the cost of a direct loan or loan guarantee program is made and from which such cost is disbursed to the financing account.

(7) The term "financing account" means the non-budget account or accounts associated with each credit program account which holds balances, receives the cost payment from the credit program account, and also includes all other cash flows to and from the Government resulting from direct loan obligations or loan guarantee commitments made on or after October 1, 1991.

(8) The term "liquidating account" means the budget account that includes all cash flows to and from the Government resulting from direct loan obligations or loan guarantee commitments made prior to October 1, 1991. These accounts shall be shown in the budget on a cash basis.

(9) The term "modification" means any Government action that alters the estimated cost of an outstanding direct loan (or direct loan obligation) or an outstanding loan guarantee (or loan guarantee commitment) from the current estimate of cash flows. This

includes the sale of loan assets, with or without recourse, and the purchase of guaranteed loans. This also includes any action resulting from new legislation, or from the exercise of administrative discretion under existing law, that directly or indirectly alters the estimated cost of outstanding direct loans (or direct loan obligations) or loan guarantees (or loan guarantee commitments) such as a change in collection procedures.

(10) The term "current" has the same meaning as in section 250(c)(9) of the Balanced Budget and Emergency Deficit Control Act of 1985.

(11) The term "Director" means the Director of the Office of Management and Budget.

SEC. 503. OMB AND CBO ANALYSIS, COORDINATION, AND REVIEW.

(a) IN GENERAL.--For the executive branch, the Director shall be responsible for coordinating the estimates required by this title. The Director shall consult with the agencies that administer direct loan or loan guarantee programs.

(b) DELEGATION.--The Director may delegate to agencies authority to make estimates of costs. The delegation of authority shall be based upon written guidelines, regulations, or criteria consistent with the definitions in this title.

(c) COORDINATION WITH THE CONGRESSIONAL BUDGET OFFICE.--In developing estimation guidelines, regulations, or criteria to be used by Federal agencies, the Director shall consult with the Director of the Congressional Budget Office.

(d) IMPROVING COST ESTIMATES.--The Director and the Director of the Congressional Budget Office shall coordinate the development of more accurate data on historical performance of direct loan and loan guarantee programs. They shall annually review the performance of outstanding direct loans and loan guarantees to improve estimates of costs. The Office of Management and Budget and the Congressional Budget Office shall have access to all agency data that may facilitate the development and improvement of estimates of costs.

(e) HISTORICAL CREDIT PROGRAMS COSTS.--The Director shall review, to the extent possible, historical data and develop the best possible estimates of adjustments that would convert aggregate historical budget data to credit reform accounting.

(f) ADMINISTRATIVE COSTS.--The Director and the Director of the Congressional Budget Office shall each analyze and report to Congress on differences in long-term administrative costs for credit programs versus grant programs by January 31, 1992. Their reports shall recommend to Congress any changes, if necessary, in the treatment of administrative costs under credit reform accounting.

SEC. 504. BUDGETARY TREATMENT.

(a) PRESIDENT'S BUDGET.--Beginning with fiscal year 1992, the President's budget shall reflect the costs of direct loan and loan guarantee programs. The budget shall also include the planned level of new direct loan obligations or loan guarantee commitments associated with each appropriations request.

(b) APPROPRIATIONS REQUIRED. --Notwithstanding any other provision of law, new direct loan obligations may be incurred and new loan guarantee commitments may be made of fiscal year 1992 and thereafter only to the extent that--

(1) new budget authority to cover their costs is provided in advance in an appropriations Act;

(2) a limitation on the use of funds otherwise available for the cost of a direct loan or loan guarantee program has been provided in advance in an appropriations Act; or

(3) authority is otherwise provided in appropriation Acts.

(c) EXEMPTION FOR MANDATORY PROGRAMS.--Subsections (b) and (e) shall not apply to a direct loan or loan guarantee program that--

(1) constitutes an entitlement (such as the guaranteed student loan program or the veteran's home loan guaranty program); or

(2) all existing credit programs of the Commodity Credit Corporation on the date of enactment of this title.

(d) BUDGET ACCOUNTING.--

(1) The authority to incur new direct loan obligations, make new loan guarantee commitments, or modify outstanding direct loans (or direct loan obligations) or loan guarantees (or loan guarantee commitments) shall constitute new budget authority in an amount equal to the cost of the direct loan or loan guarantee in the fiscal year in which definite authority becomes available or indefinite authority is used. Such budget authority shall constitute an obligation of the credit program account to pay to the financing account.

(2) The outlays resulting from new budget authority for the cost of direct loans or loan guarantees described in paragraph (1) shall be paid from the credit program account into the financing account and recorded in the fiscal year in which the direct loan or the guaranteed loan is disbursed or its costs altered.

(3) All collections and payments of the financing accounts shall be a means of financing.

(e) MODIFICATIONS.--An outstanding direct loan (or direct loan obligation) or loan guarantee (or loan guarantee commitment) shall not be modified in a manner that increases its costs unless budget authority for the additional cost has been provided in advance in an appropriations Act.

(f) REESTIMATES.--When the estimated cost for a group of direct loans or loan guarantees for a given credit program made in a single fiscal year is reestimated in a subsequent year, the difference between the reestimated cost and the previous cost estimate shall be displayed as a distinct and separately identified subaccount in the credit program account as a change in program costs and a change in net interest. There is hereby provided permanent indefinite authority for these reestimates.

(g) ADMINISTRATIVE EXPENSES.--All funding for an agency's administration of a direct loan or loan guarantee program shall be displayed as distinct and separately identified subaccounts within the same budget account as the program's cost.

SEC. 505. AUTHORIZATIONS.

(a) AUTHORIZATION OF APPROPRIATIONS FOR COSTS.--There are authorized to be appropriated to each Federal agency authorized to make direct loan obligations or loan guarantee commitments, such sums as may be necessary to pay the cost associated with such direct loan obligations or loan guarantee commitments.

(b) AUTHORIZATION FOR FINANCING ACCOUNTS.--In order to implement the accounting required by this title, the President is authorized to establish such non-budgetary accounts as may be appropriate.

(c) TREASURY TRANSACTIONS WITH THE FINANCING ACCOUNTS.--The Secretary of the Treasury shall borrow from, receive from, lend to, or pay to the financing accounts such amounts as may be appropriate. The Secretary of the Treasury may prescribe forms and denominations, maturities, and terms and conditions for the transactions described above, except that the rate of interest charged by the Secretary on lending to financing accounts (including amounts treated as lending to financing accounts by the Federal Financing Bank (hereinafter in this subsection referred to as the "Bank") pursuant to section 406(b)) and the rate of interest paid to financing accounts on uninvested balances in financing accounts shall be the same as the rate determined pursuant to section 502(5)(E). For guaranteed loans financed by the Bank and treated as direct loans by a Federal agency pursuant to section 406(b), any fee or interest surcharge (the amount by which the interest rate charged exceeds the rate determined pursuant to section 502(5)(E)) that the Bank charges to a private borrower pursuant to section 6(c) of the Federal Financing Bank Act of 1973 shall be considered a cash flow to the Government for the purposes of determining the cost of the direct loan pursuant to section 502(5). All such amounts shall be credited to the appropriate financing account. The Bank is authorized to require reimbursement from a Federal agency to cover the administrative expenses of the Bank that are attributable to the direct loans financed for that agency. All such payments by an agency shall be considered administrative expenses subject to section 504(g). This subsection shall apply to transactions related to direct loan obligations or loan guarantee commitments made on or after October 1, 1991. The authorities described above shall not be construed to supersede or override the authority of the head of a Federal agency to administer and operate a direct loan or loan guarantee program. All of the transactions provided in this subsection shall be subject to the provisions of subchapter II of chapter 15 of title 31, United States Code. Cash balances of the financing accounts in excess of current requirements shall be maintained in a form of uninvested funds and the Secretary of the Treasury shall pay interest on these funds.

(d) AUTHORIZATION FOR LIQUIDATING ACCOUNTS.--(1) Amounts in liquidating accounts shall be available only for payments resulting from direct loan obligations or loan guarantee commitments made prior to October 1, 1991, for--

(A) interest payments and principal repayments to the Treasury or the Federal Financing Bank for amounts borrowed;

(B) disbursements of loans;

(C) default and other guarantee claim payments;

(D) interest supplement payments;

(E) payments for the costs of foreclosing, managing, and selling collateral that are capitalized or routinely deducted from the proceeds of sales;

(F) payments to financing accounts when required for modifications;

(G) administrative expenses, if--

(i) amounts credited to the liquidating account would have been available for administrative expenses under a provision of law in effect prior to October 1, 1991; and

(ii) no direct loan obligation or loan guarantee commitment has been made, or any modification of a direct loan or loan guarantee has been made, since September 30, 1991; or

(H) such other payments as are necessary for the liquidation of such direct loan obligations and loan guarantee commitments.

(2) Amounts credited to liquidating accounts in any year shall be available only for payments required in that year. Any unobligated balances in liquidating accounts at the end of a fiscal year shall be transferred to miscellaneous receipts as soon as practicable after the end of the fiscal year.

(3) If funds in liquidating accounts are insufficient to satisfy obligations and commitments of such accounts, there is hereby provided permanent, indefinite authority to make any payments required to be made on such obligations and commitments.

(e) AUTHORIZATION OF APPROPRIATIONS FOR IMPLEMENTATION EXPENSES.--There are authorized to be appropriated to existing accounts such sums as may be necessary for salaries and expenses to carry out the responsibilities under this title.

(f) REINSURANCE.--Nothing in this title shall be construed as authorizing or requiring the purchase of insurance or reinsurance on a direct loan or loan guarantee from private insurers. If any such reinsurance for a direct loan or loan guarantee is authorized, the cost of such insurance and any recoveries to the Government shall be included in the calculation of the cost.

(g) ELIGIBILITY AND ASSISTANCE.--Nothing in this title shall be construed to change the authority or the responsibility of a Federal agency to determine the terms and conditions of eligibility for, or the amount of assistance provided by a direct loan or a loan guarantee.

SEC. 506. TREATMENT OF DEPOSIT INSURANCE AND AGENCIES AND OTHER INSURANCE PROGRAMS.

(a) IN GENERAL.--This title shall not apply to the credit or insurance activities of the Federal Deposit Insurance Corporation, National Credit Union Administration, Resolution Trust Corporation, Pension Benefit Guaranty Corporation, National Flood

Insurance, National Insurance Development Fund, Crop Insurance, or Tennessee Valley Authority.

(b) STUDY.--The Director and the Director of the Congressional Budget Office shall each study whether the accounting for Federal deposit insurance programs should be on a cash basis on the same basis as loan guarantees, or on a different basis. Each Director shall report findings and recommendations to the President and the Congress on or before May 31, 1991.

(c) ACCESS TO DATA.-- For the purposes of subsection (b), the Office of Management and Budget and the Congressional Budget Office shall have access to all agency data that may facilitate these studies.

SEC. 507. EFFECT ON OTHER LAWS

(a) EFFECT ON OTHER LAWS.--This title shall supersede, modify, or repeal any provision of law enacted prior to the date of enactment of this title to the extent such provision is inconsistent with this title. Nothing in this title shall be construed to establish a credit limitation on any Federal loan or loan guarantee program.

(b) CREDITING OF COLLECTIONS.--Collections resulting from direct loans obligated or loan guarantees committed prior to October 1, 1991, shall be credited to the liquidating accounts of Federal agencies. Amounts so credited shall be available, to the same extent that they were available prior to the date of enactment of this title, to liquidate obligations arising from such direct loans obligated or loan guarantees committed prior to October 1, 1991, including repayment of any obligations held by the Secretary of the Treasury or the Federal Financing Bank. The unobligated balances of such accounts that are in excess of current needs shall be transferred to the general fund of the Treasury. Such transfers shall be made from time to time but, at least once each year.

Railroad Retirement and Survivors' Improvement Act of 2001

Summary of provisions:

"The Railroad Retirement Board (RRB) has a novel relationship with the National Railroad Retirement Investment Trust (NRRIT). The NRRIT was established by the Railroad Retirement and Survivors' Improvement Act of 2001 (the "Act"). The sole purpose of the NRRIT is to manage and invest Railroad Retirement assets. The NRRIT is a tax exempt entity independent from the Federal government. It is domiciled in and subject to the laws of the District of Columbia.

The Act authorizes the NRRIT to invest the assets of the Railroad Retirement Account in a diversified investment portfolio in the same manner as those of private sector retirement plans. Prior to the Act, investment of Railroad Retirement Account assets was limited to securities guaranteed by the United States. In addition, to carry out its mandate, the NRRIT's Board of Trustees ("Board") is authorized to make rules to govern its operations, to employ professional staff, and to contract with outside advisors to provide legal, accounting, investment advisory or other services necessary for the proper administration of the NRRIT. Administrative expenses of the NRRIT are paid out of NRRIT assets.

The NRRIT and the RRB are separate entities. The RRB remains a Federal agency and continues to have full responsibility for administering the railroad retirement program, including eligibility determinations and the calculation of beneficiary payments. The NRRIT has no powers or authority over the administration of benefits under Railroad Retirement. Under the Act, the NRRIT is required to act solely in the interest of the RRB, and through it, the participants and beneficiaries of the programs funded under the Railroad Retirement Act. The Act does not delegate any authority to the RRB with respect to day to day activities of the NRRIT, but the Act does provide that the RRB may bring a civil action to enjoin any act or practice of the NRRIT that violates the provisions of the Act or to enforce any provision of the Act.

Under the Act, the financial statements of the NRRIT are required to be audited annually by an independent public accountant. In addition, the NRRIT must submit an annual management report to the Congress on its operations, including a statement of financial position, statement of cash flows, a statement on internal accounting and administrative control systems, the independent auditor's report, and any other information necessary to inform the Congress about the operations and financial condition of the NRRIT. A copy of the annual report must also be submitted to the President, the RRB, and the Director of the Office of Management and Budget.

ABBREVIATIONS

AIG	American International Group
CBO	Congressional Budget Office
CFR	Consolidated Financial Report of the U.S. Government
EESA	Emergency Economic Stabilization Act of 2008
ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
GSE	Government-Sponsored Enterprise
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standard
IPSASB	International Public Sector Accounting Standards Board
NRRIT	National Railroad Retirement Investment Trust
OFS	Office of Financial Stability (Treasury Department)
OMB	Office of Management and Budget
PBGC	Pension Benefit Guaranty Corporation
RRB	Railroad Retirement Board
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
TARP	Troubled Asset Relief Program
TBD	To be detemined
Treasury	U.S. Treasury Department

KEY TERMS

Non-federal Investments – Investments, other than investments in Treasury securities, that meet the definition and essential characteristics of assets in SFFAC 5.

TARP —The term ‘‘TARP’’ means the Troubled Asset Relief Program established under section 101.of the EESA. *(Source: Emergency Economic Stabilization Act of 2008, Section 3(8))*

Troubled Assets.—The term ‘‘troubled assets’’ means—

(A) residential or commercial mortgages and any securities, obligations, or other instruments that are based on or related to such mortgages, that in each case was originated or issued on or before March 14, 2008, the purchase of which the Secretary determines promotes financial market stability; and

(B) any other financial instrument that the Secretary, after consultation with the Chairman of the Board of Governors of the Federal Reserve System, determines the purchase of which is necessary to promote financial market stability, but only upon transmittal of such determination, in writing, to the appropriate committees of Congress. *(Source: Emergency Economic Stabilization Act of 2008, Section 3(9))*