Federal Accounting Standards Advisory Board

August 5, 2011

Memorandum

To: Members of the Board

From: Eileen W. Parlow, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Non-Federal Investments Project Plan – **Tab G** [1]

OBJECTIVE

The objective of this session is to **approve the attached project plan** for the project on Non-Federal Investments, **so that staff may take action on the next agreed-upon step**.

BRIEFING MATERIAL

The proposed Project Plan is attached to this transmittal memorandum. In addition, there is a separate Appendix containing reference material that provides additional information should you desire more details. You may electronically access all of the briefing material at http://www.fasab.gov/board-activities/meeting/briefing-materials/.

MEMBER FEEDBACK

If you require additional information or wish to suggest another alternative not considered in the staff proposal, please contact staff as soon as possible. In most cases, staff would be able to respond to your request for information and prepare to discuss your suggestions with the Board, as needed, in advance of the meeting. If you have any questions or comments prior to the meeting, please contact me by telephone at 202-512-7356 or by e-mail at ParlowE@fasab.gov with a cc to PayneW@fasab.gov.

Attachments:

Project Plan
Appendix

[1] The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

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NON-FEDERAL INVESTMENTS

PROJECT PLAN

AUGUST 2011

Why

Why is a project on non-federal investments needed?

- Existing FASAB standards do not address non-federal investments.
- The U.S. government may hold non-federal investments to benefit the U.S. economy as a whole rather than to maximize direct return on the investment.
- Private sector standards assume that investments are made to generate a profit and may not adequately meet federal reporting objectives.

What

What questions / issues does the non-federal investments project plan to address?

Questions may include:

- What types (or categories) of investments should be addressed?
- What information about investments is needed to meet reporting objectives?
- What is the best way to convey that information consistent with existing FASAB concepts?

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NON-FEDERAL INVESTMENTS

PROJECT PLAN

Purpose: This project is being undertaken by the Federal Accounting Standards Advisory Board (FASAB) because existing FASAB standards are currently silent on the valuation of investments ("Non-Federal Investments"), other than investments in Treasury securities, that meet the definition and essential characteristics of assets in Statement of Federal Financial Accounting Concepts (SFFAC) 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*.

Federal reporting entities are currently determining valuation by applying, by analogy, principles that were established by FASAB for other types of assets or by applying principles established by other standard setters. This project will consider whether a significant factor in the valuation of investments should be the purpose and intended use of the investments. For example, private sector standards assume that investments are held as part of an organization's business strategy, to sell or hold to maturity with the goal of maximizing profits. However, in many instances the U.S. Government purchases investments to benefit the nation as a whole – for example, to promote liquidity, to stabilize the financial markets, or to preserve the solvency of financial institutions or industries that are important to the U.S. economy. These actions are unique to the government and do not occur in the private sector and warrant consideration.

For additional information, please see the Appendix to this Project Plan.

Applicability: This project applies to all federal entities that present general purpose financial reports in conformance with Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

Objectives: The primary objectives of this project are to address how Non-Federal Investments should be reported in order to assist report users in determining:

a) Operating Performance: What and where are the important assets of the U.S. government, and how effectively are they managed?

b) Stewardship: Did the government's financial position improve or deteriorate over the period?

The specific objectives of this project are:

a) Establish definitions and meaningful categories of investments

b) Develop recognition and measurement guidance, including remeasurement

c) Develop disclosure requirements

Assigned staff:	Eileen W. Parlow
Other resources:	Staff will work with a task force with the proposed representatives: • One representative from the Government Accountability Office (GAO) with audit expertise in the government's non-federal investments • One representative from the Office of Management and Budget (OMB) with subject-matter expertise • One representative from Treasury Office of Financial Stability • One representative from the Congressional Budget Office (CBO) with subject-matter expertise • One representative from Railroad Retirement Board/NRRIT • Other federal subject matter experts TBD • Non-federal subject matter experts TBD The task force would consider existing FASAB concepts and standards as well as relevant legislation. The task force will also consider relevant standards in other domains such as the international public sector, US state/local governments, and the US and international private sectors. Similarities and differences between existing private and public sector principles will be assessed in developing proposed standards for Non-Federal Investments held by the U.S. government.
Timeline:	Per the Technical Agenda discussion at the April 2011 Board meeting, a conservative estimate for the completion of this project is three years. In addition, task force meetings must accommodate task force members' availability on conjunction with the federal reporting cycle. This schedule is also subject to potential change if necessary to finalize the Earmarked Funds reporting standards. Comments on the Earmarked Funds exposure draft are due August 22, 2011. **August 2011 meeting** ● Staff presents proposed project plan for Board review and approval. **September 2011 – January 2012** ● Staff recruits task force members and prepares briefing materials for a preliminary task force meeting to be held in mid-December. **February – March 2011** • Staff continues to work with the task force on recommendations **April 2012 Meeting** ● Staff briefs Board on task force progress and continues to work with the task force on recommendations. **June and August 2012 Meetings** ● Staff presents issue paper with recommendations on all major issues for Board decisions and seeks concurrence before drafting an exposure draft.

October 2012 Meeting

- Staff presents preliminary draft ED for Board review and discussion.

December 2012 Meeting

- Staff presents revised draft ED for Board review and discussion with planned task force meeting to review revised draft ED in January 2013.

February 2013 Meeting

- Staff presents revised draft ED with task force comments and recommendations for Board review and discussion.

April 2013 Meeting

- Staff presents revised draft exposure draft for Board review and discussion.

June 2013 Meeting

- Staff presents preballot draft ED for Board review and discussion.

August 2013 Meeting

- Staff presents ballot draft ED for Board approval.

September 2013

- ED issued, with comments due in November 2013.

December 2013 Meeting

- Staff presents issue paper with analysis of comments received and staff recommendations, including preliminary draft SFFAS.

February 2014 Meeting

- Staff presents issues and recommendations for Board decision.

April 2014 Meeting

- Staff presents revised draft SFFAS.

June 2014 Meeting

- Staff presents preballot draft SFFAS for Board approval.

August 2014 Meeting

- Staff presents ballot draft SFFAS for Board approval.

September 2014

- SFFAS transmitted to FASAB principals for approval.

December 2014

- Final SFFAS issued.

PROPOSED APPROACH

I. <u>Consider Existing Concepts, Standards, Other Guidance, and Legislation:</u>

Existing concepts

- SFFAC 2, Entity and Display, "Conclusive Criteria," paragraphs 41-42, and "Bailout Entities," paragraph 50.
- SFFAC 5, Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements, "Entity Concept" paragraphs 10-16 and "Assets," paragraphs 18-35.

Existing standards – FASAB

- SFFAS 1, Accounting for Selected Assets and Liabilities, "Scope," paragraph 62
- SFFAS 2, Accounting for Direct Loans and Loan Guarantees, "Accounting Standards," as amended by SFFAS 18 and 19, paragraphs 22-61

Existing standards – other standard setters

- The Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) are currently engaged in a joint project to address the valuation of investments.
- The IASB has been conducting its work in phases and has issued International Financial Reporting Standard 9, "Financial Instruments."
- The FASB has issued an exposure draft, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities."
- 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. FASAB staff will work with the task force to consider what categories of the U.S. government's Non-Federal Investments should be addressed in this project.
- The International Public Sector Accounting Standards Board (IPSASB) International Public Sector Accounting Standard (IPSAS) 29, *Financial Instruments: Recognition and Measurement*, is drawn primarily from International Accounting Standard (IAS) 39, *Financial Instruments: Recognition and Measurement,* and International Financial Reporting Interpretations Committee (IFRIC) Interpretations. IPSAS 30, *Financial Instruments*. *Disclosures,* is drawn primarily from International Financial Reporting Standard (IFRS) 7, *Financial*

Instruments. *Disclosures,* published by the International Accounting Standards Board (IASB).

- The IPSASB also addresses investments in joint ventures (IPSAS 8) and investments in "associates," (IPSAS 7) with "associates" defined as "an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence, and that is neither a controlled entity nor an interest in a joint venture."
- The public sector standard setters of other nations may have issued relevant standards which will be researched, reviewed, and considered.

Existing Guidance - OMB

- OMB Circular A-136, *Financial Reporting Requirements,* Section II.4.3.3, "Asset," and *Financial Reporting Requirements,* Section II.4.9.5, "Note 5, Investments"

Legislation:

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

II. <u>Resources</u>

Staff will work with a task force of no more than 12 individuals with the proposed representatives:

- One representative from the Government Accountability Office (GAO) with audit expertise in the government's non-federal investments
- One representative from the office of Management and Budget (OMB) with subject-matter expertise
- One representative from Treasury Office of Financial Stability
- One representative from the Congressional Budget Office (CBO) with subject-matter expertise
- One representative from Railroad Retirement Board/NRRIT
- Other federal subject matter experts TBD
- Non-federal subject matter experts TBD

The task force would consider existing FASAB standards and applicable legislation, as well as the similarities and difference between private sector and public sector concepts and standards in developing proposed standards for investments in non-federal securities held by the U.S. government.

With the Board's approval, staff will recruit task force members and prepare briefing materials for a preliminary task force meeting to be held after the CFR is issued.

At the April 2012 meeting, staff will present a briefing paper with task force comments and recommendations to members, with discussion of questions for the Board.

Staff will also ask the task force for comments during the ED development process, in particular prior to the finalization of a preballot draft ED.

III. Research Steps

A. To achieve the primary objectives of this project, staff will work with the task force to develop a preliminary inventory of significant types of non-federal investment, such as stocks and bonds, and identify the various public policy objectives sought through investments.

B. Staff will work with the task force to consider how to meet the reporting objectives and concepts from SFFACs 1 and 5 for the diverse investments held. The task force may consider whether distinct categories should be established in meeting reporting objectives. The task force will consider the extensive literature available in existing standards (see Section I and Appendix for preliminary reference material) as well as the experiences and practices established through recent stabilization activities.

C. Staff will work with the task force to develop comprehensive proposed standards that would address a broad spectrum of non-federal investments.

POTENTIAL PROJECT MANAGEMENT CONCERNS

This schedule for this project is subject to change if necessary to finalize the Earmarked Funds reporting standards. Comments on the Earmarked Funds exposure draft are due August 22, 2011.

In addition, task force meetings must accommodate task force members' availability on conjunction with the federal reporting cycle.

The objective of this session is to approve this project plan for the project on Non-Federal Investments, so that staff may take action on the next agreed-upon step.

If you require additional information or wish to suggest another alternative not considered in the staff proposal, please contact staff as soon as possible. In most cases, staff would be able to respond to your request for information and prepare to discuss your suggestions with the Board, as needed, in advance of the meeting. If you have any questions or comments prior to the meeting, please contact me by telephone at 202-512-7356 or by e-mail at ParlowE@fasab.gov.