



February 21, 2014

Memorandum

To: Members of the Board

From: Melissa Loughan, Assistant Director

Wendy M. Payne

Through: Wendy M. Payne, Executive Director

Subj: **Reporting Entity--Tab B2 Central Bank**¹

MEETING OBJECTIVES

- To review the outstanding issues related to the Central Bank (Federal Reserve) based on staff's analysis of the comment letters and public hearing participants' testimony on the *Reporting Entity* exposure draft as well as Board member input at the December meeting.

BRIEFING MATERIAL

The transmittal memorandum includes a discussion and analysis of the status of issues and recommendations related to the Central Bank, beginning on page 3 under Staff Analysis and Recommendations. A full list of Questions for the Board appears on the final page. In addition the following items are attached:

Appendix 1: Federal Reserve Comment Letter

Appendix 2: Relevant Board Minutes

You may electronically access all of the briefing material at <http://www.fasab.gov/board-activities/meeting/briefing-materials/>

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.

BACKGROUND

As you may recall the Board discussed the comment letters and public hearing participants' testimony regarding the Central Bank issue at the December meeting. The Board explored high level questions related to:

- Whether the criteria and principles can be applied to the central bank.
- Whether the central bank minimum disclosures are necessary, necessary in both the government-wide and the component reporting entity GPFRR? And if necessary, whether there any adjustments needed regarding the wording of the disclosure requirements?

While the Board discussed these issues at length, no specific decisions were made. Instead, members requested staff meet with Treasury and their auditor to follow-up on their comment letter and gain additional feedback on the comments related to the central bank. For example, there was concern because both organizations commented that when applying the inclusion principles to the central bank one may conclude it is not included in the reporting entity.

NEXT STEPS

Based on the Board's decisions at this meeting, staff would anticipate finalizing the Central Bank issue item and presenting it along with the remaining items for discussion at the April 2014 meeting. This would be consistent with the goal of a pre-ballot at the June meeting. However, as noted in the previous transmittal, this is contingent on the Board's progress on resolution and voting on this and all remaining issues. The goal is to finalize a ballot by the August 2014 meeting so that it may be forwarded to the sponsors.

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 202-512-5976 or by e-mail at loughanm@fasab.gov with a cc to paynew@fasab.gov.

STAFF ANALYSIS AND RECOMMENDATIONS

Central Bank Issue

While this project is focused on the entire reporting entity, most would agree there has been considerable Board time devoted to the Central Bank. There have been lengthy Board deliberations about the central bank (Federal Reserve) including whether the proposed inclusion principles and attributes for determining consolidation entities and disclosure entities could be applied to the Federal Reserve and what, if any, the minimum required disclosures should be. In addition, the Board spent considerable time reviewing the language in the basis for conclusion that relates to this topic during meetings to most accurately explain the Board's position. We also had the opportunity to have representatives from the Federal Reserve brief the task force and the Board on several occasions.

Staff has provided the Board pertinent Board Meeting excerpts related to the Central Bank Issue at Appendix 2.

As you may recall, the Federal Reserve's comment letter (see Appendix 1) conveyed the following:

- The Federal Reserve System provides a variety of transparent financial reports to the public that exceeds the reporting requirements of the proposed standard.
- Classifying the Reserve Banks and the Board as disclosure organizations provides the most transparent information to the public.
- Consolidation of the Federal Reserve System would reduce transparency and would increase the cost and administrative effort associated with producing the GPFFR.
- The provisions related to minimum disclosures for the central banking system are unnecessary. [They are inconsistent with the objective of principles-based standards and the appropriate level of disclosure would result from applying the inclusion principles and requirements applicable to all other organizations.]
- The authority over the financial accounting and reporting practices of the Board and the Reserve Banks is vested with the Board of Governors.
- They disagree with the proposal to include forward-looking financial information in the audited financial statements for the Federal Reserve System.
- The characterization of the Bureau of Consumer Financial Protection (CFPB) in the proposal is incorrect, and should be revised.

However, even considering the above deliberations, the following issues appear to remain for the Board:

1. Are the three inclusion principles capable of being objectively applied to the central bank? (Note that “misleading to exclude” is a failsafe but is not intended to apply to known cases – the theory being if we “know” of a case we can adjust the three main inclusion principles appropriately.)
2. Are the specific disclosures proposed regarding the central bank really needed?
 - a. If so, are they needed only at the government-wide level or also at a component reporting entity level?
 - b. If needed, what edits to the requirements are appropriate?

Can the inclusion principles be objectively applied to the central bank?

At the December meeting, the Board reviewed the responses to the ED in detail and recognized most respondents that answered the question agreed the principles could be applied. Specifically eighteen respondents² indicated that the principles “could be applied to all organizations, such as the Federal Reserve System, Federally Funded Research and Development Centers, Government Sponsored Enterprises, museums, and others, to determine whether such organizations should be included in the government-wide GPPFR.”

In addition, fifteen respondents³ indicated assuming the organizations are determined to be organizations included in the GPPFRs, “the attributes are adequate to make a determination of whether organizations such as the Federal Reserve System, Federally Funded Research and Development Centers, museums, and others are consolidation entities or disclosure organizations.”

At the December meeting, members requested staff meet with Treasury and their auditor to follow-up on their comment letter and gain additional feedback on the comments related to the central bank. For example, there was concern because both organizations commented that when applying the inclusion principles to the central bank one may conclude it is not included in the reporting entity.

Meeting with Treasury and KPMG

As noted above, the Board requested that staff meet with Treasury and KPMG representatives to gain a better understanding of the responses to the Reporting Entity exposure draft specific to the central bank. Specifically, there was interest in their response that indicated when applying the inclusion principles to the central

² See the December meeting materials for the full analysis, but 3 respondents indicated they could not be applied (18 did not answer the specific question).

³ See the December meeting materials for the full analysis, but 3 respondents indicated they could not be applied (21 did not answer the specific question).

banking system; one could conclude that the central banking system would not be a consolidated entity or disclosure entity.

From the meeting, staff gathered that the Department of the Treasury comment letter was a response from the departmental perspective rather than from the perspective of the federal government. We believe the meeting clarified that the latter perspective is proposed in the ED. Their position, which is also consistent with their letter, was framed around the misleading to exclude principle / related party as a means for considering the Federal Reserve. Treasury had responded that they believed the misleading to exclude should be considered as a means for an organization to be considered for related party reporting rather than as an inclusion principle.

It was unclear if their views had changed by the end of the meeting, though staff had explained the history of the misleading to exclude principle and the board deliberations related to it and the board's current views. Because Treasury representatives indicated they had not assessed whether the inclusions principles presented in paragraphs 25 thru 31 are met, FASAB staff indicated that having a Treasury assessment of each of these principles would be helpful. .

We requested the assessment in light of some members' interest in such an assessment. However, staff does not believe the assessment is essential to moving forward. Ultimately one must have reliance on the principals and the professionals that apply them. As a reminder, the Board believed it was inappropriate to explicitly classify the Federal Reserve in the standard—because it is the role of preparers and auditors to do so based on the principles. In doing so, the Board recognized at different points in time different conclusions could be reached due to the unique and changing role of the central bank. Staff is unclear as to the importance of the assessment of this point in time because the Board earlier recognized it would be inappropriate to classify a particular organization as it may become outdated when circumstances change.

None of the answers to the questions in the ED or the meeting with Treasury leads staff to believe the inclusion principles or attributes for consolidation / disclosure could not be applied to the central bank. Staff believes greater emphasis can be placed on the need to apply the inclusion principles from the perspective of the federal government as a whole. When the Board next reviews a complete document, staff hopes editorial changes will provide the needed emphasis.

As noted above, there have been lengthy Board deliberations about the FRS. The Board discussed how the proposed inclusion principles and attributes for determining consolidation entities and disclosure organizations would be applied. Further, much time was spent on crafting language in the basis for conclusion that discusses the role of preparers and auditors and standard setters, as well as what the Board considered while deliberating the central bank and the decision not to specifically classify the FRS. Staff recalls the language was vetted over several meetings.

Question for the Board:

1. Does the Board agree the inclusion principles and attributes can be objectively applied to the central bank?

Minimum Disclosure Requirements

The Board proposed minimum disclosures regarding the central bank that would be integrated with any other relevant disclosures. As discussed at the last meeting, the majority of respondents agreed with the minimum disclosures--15 respondents agreed with the minimum disclosures proposed for the central banking system (22 respondents did not answer the specific question). While additional comments were provided, there was a mixture of comments. Some respondents suggested additional disclosure or consolidation; and some respondents suggested the other end of the spectrum. Several respondents noted there may be a need for additional disclosures. For example, they agreed with the minimum disclosures for the central banking system but noted additional disclosures may be necessary due to the unique nature of reporting requirements for the central banking system.

While staff is not drawing any specific conclusion, it should be noted those organizations most familiar with current reporting within component level reports and directly affected by the proposal (Treasury and its current auditor) were the organizations offering suggestions to reduce disclosures. For example, Treasury noted concern with paragraph 77c and recommend removing the phrase "and changes in those actions" because they disagree with disclosing specific details about how monetary policy is executed or even changes in these actions or tools used to effect monetary policy. Treasury believed that audit assurance of this information could be difficult and costly to obtain. Further, Treasury explained that they believed the entire section of minimum disclosures should be removed and the disclosure entity objectives and examples should be relied upon as is for other organizations.

Another question is if the Board wants to maintain the minimum disclosures as at the last meeting certain members noted the disclosures were redundant of the disclosure entity disclosures. Staff recalls the history of the minimum disclosures—the Board had previously considered having them in but removed them because they were considered redundant. The disclosures were introduced again before the ED was released as a compromise when several members presented an alternative view related to the Federal Reserve. Most recently, discussions for maintaining the minimum disclosures have been centered on a safety to ensure the disclosures are provided if the preparer does not assess the Federal Reserve to be at a minimum a disclosure entity. Staff does not believe the responses – viewed in their entirety – substantially impact the original rationale for the minimum disclosures.

Question for the Board:

2. Does the Board wish to maintain the minimum disclosures for the Central Bank?

Government-wide versus component-level

It has also been suggested that paragraph 77 should be clarified (or reconsidered) regarding its applicability at the government-wide versus component-level. Staff notes revisions to paragraph 77 were made in February 2013 to include somewhat broader component entity language.

There are certain schools of thought that all statements in the government wide statement should flow from a component reporting entity and not directly to the government-wide statement and based on the way the standard is proposed, this should be true in most cases. Staff notes this may not always be the case.

The appropriate question to ask is if the Central Bank would meet the criteria to be administratively assigned to a particular component reporting entity—Department of Treasury. While drafting the ED, it was agreed to expand paragraph 77 to state “may primarily associated with or administratively assigned” to address the concern that determining administrative assignment of the central bank may be difficult.

Question for the Board:

3. Does the Board wish to maintain the language for the Central Bank minimum disclosures at both the component and government-wide levels?

Potential revisions to the requirements

Staff believed it was relevant to show the most recent disclosure for the Federal Reserve before considering changes to the minimum disclosures. It was included as a Related Party in Treasury’s FY 2013 Report. See the page 12 of the memo for the excerpt; it is included just before the listing of Questions.

Paragraph 77c of the minimum disclosure requirements— and specifically the phrase “changes in those actions” – has been identified as problematic by some respondents and in Board discussions. The full text is:

- c. A discussion of the significant financial actions, and changes in those actions, undertaken by the central banking system to achieve monetary and fiscal policy objectives, such as adjusting the discount rate, purchasing securities (for example, Treasury securities and mortgage backed securities), or undertaking central bank liquidity swaps. [emphasis added]

As noted above, there has been particular emphasis on paragraph 77c. Treasury noted concern with paragraph 77c and recommend removing the phrase “and changes in those actions” because they disagree with disclosing specific details about how monetary policy is executed or even changes in these actions or tools used to effect monetary policy. Treasury believed that audit assurance of this information could be

difficult and costly to obtain. Further, Treasury explained that they believed the entire section of minimum disclosures should be removed and the disclosure entity objectives and examples should be relied upon as is for other organizations.

Staff notes that in board meetings, concern has been raised that the information required by paragraph 77c may be outside the purview of existing information that is furnished in any way other than directly from the Federal Reserve websites. There was also concern over the level of detail and the intrinsic information required in paragraph 77c and how the auditor would get comfortable with that. Staff believes the minutes from the December 2013 meeting provide much history on the issues in this area and the minutes from the February 2013 meeting provide much history on the deliberation leading to the approval of the wording in 77c. (See Appendix 2 for relevant minutes.)

Staff would like to better understand the Board's intent of the requirement for "changes in those actions." Since the financial reports are comparative, annual changes may be apparent from the discussion of transactions between the central bank and the reporting entity. What other types of changes are members most interested in being discussed? For example, is there interest in:

1. Legislated changes in the monetary policy goals (now relating to unemployment and inflation)
2. Types of transactions (purchases of different types of securities)
3. General approach to managing the money supply
4. Relative volume of transactions

Better understanding what types of changes members believe should be reported in GPFFR may clarify the disclosure.

Question for the Board:

4. What types of changes are intended to be revealed by the separate "and changes in those actions" as opposed to changes highlighted in comparative disclosures?

5. Are there other modifications members wish to propose to the wording?

Based on the responses to these questions, staff will propose any additional necessary changes to the minimum disclosures.

Proposed Language from the ED (with previously agreed changes for other issues MARKED):

Minimum Disclosures Regarding the Central Banking System⁴

77. The following information regarding the central banking system should be disclosed⁵ in the government-wide GPFFR and the GPFFR of any reporting entity to which it may be primarily associated or administratively assigned:
- a. Governance structure with particular emphasis on matters affecting its independence and insulation from political influence
 - b. Significant roles and responsibilities (and how these relate to federal policy objectives)
 - c. A discussion of the significant financial actions, and changes in those actions, undertaken by the central banking system to achieve monetary and fiscal policy objectives, such as adjusting the discount rate, purchasing securities (for example, Treasury securities and mortgage backed securities), or undertaking central bank liquidity swaps
 - d. Amounts of significant types of transactions and balances between the central banking system and the reporting entity
 - e. A description of any significant financial risks or benefits to the federal government (including significant changes) and, if possible, the amount of the federal government's exposure to gains and losses from operations
 - f. The availability of annual financial reports and how they can be obtained

Basis for Conclusions

A32. While principle-based standards do not explicitly classify specific organizations as consolidation entities or disclosure entities, the Board considered the need to illustrate how the inclusion principles and the criteria for classification as a consolidation entity or disclosure entity might be applied to certain significant individual organizations or classes of organizations. For many classes of

⁴ Central banking system functions are currently carried out by the Federal Reserve System (FRS). The FRS comprises the Board of Governors, the Federal Open Market Committee, the regional Federal Reserve Banks, and the Bureau of Consumer Financial Protection. The Bureau was established in 2010 as an independent bureau within the FRS pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, however, by law; the Bureau's financial statements shall not be consolidated with the financial statements of either the Board of Governors or the Federal Reserve System.

⁵ Depending on the circumstances, some of the listed information may be disclosed due to other requirements. The resulting disclosures should be integrated so that concise, meaningful and transparent information is provided and information is not repetitive.

organizations, illustrations are provided in Appendix C of this exposure draft. With respect to certain significant organizations with particularly unique characteristics, such as the central banking system (Federal Reserve System (FRS)),⁶ a majority of the Board did not believe illustrations would be appropriate because the illustrations might become de facto requirements regarding that entity's classification.

A33. The role of preparers and auditors is to assess each organization against the principles in paragraphs 20 – 53 and reach their own conclusions. In contrast, the role of standards-setters is to set accounting standards and consider the potential implications. In doing so, the Board acknowledges some members believe the Board should explicitly address inclusion and classification (as a consolidation entity or disclosure entity) of the FRS in GPFFRs because of the magnitude of its operations. While different individuals could reach different conclusions due to the unique and changing role of the central banking system, most members believe explicitly classifying the FRS, or any entity, at a point in time would be inappropriate and result in the Statement becoming outdated as circumstances change.

A34. Despite the decision not to explicitly classify the FRS, the Board considered each possible classification of the FRS. This consideration did not take into account all the facts and circumstances that would be considered by the preparer and auditor. Instead, like the illustrations in Appendix C, high-level facts were considered in sufficient detail to provide reasonable assurance to the Board that preparers and auditors would consider the appropriate matters in making decisions. The majority of the Board believes the principles are sufficient to aid preparers and auditors in assessing any organization, including the FRS, and in making decisions regarding inclusion and classification as a consolidation entity or disclosure entity.

A35. If the assessment of the FRS resulted in its classification as a consolidation entity, the government-wide consolidated financial statements and related notes would present information as if the FRS and other consolidation entities operate together as a single economic entity. Any balances and transactions among the consolidation entities would be eliminated. For example, all Treasury securities held as investments by the FRS and reported as liabilities by the Department of the Treasury would be eliminated. Significant additions to the government-wide balance sheet as a result of consolidating the FRS would be liabilities for deposits of depository institutions and Federal Reserve notes outstanding as well as assets for investments in non-federal organizations. Consolidation would also affect the reported operating results of the government; interest expense would be reduced by the amount paid by the U.S. Treasury to the FRS and revenue would be reduced by the amount paid by the FRS to the U.S. Treasury.

A36. If the assessment of the FRS resulted in its classification as a disclosure entity, disclosures regarding the FRS would aid users in understanding the FRS, its relationship with the federal government, any significant activities, and any risks posed to the federal government. Such

⁶ The FRS comprises the Board of Governors, the Federal Open Market Committee, the regional Federal Reserve Banks, and the Bureau of Consumer Financial Protection. The Bureau was established in 2010 as an independent bureau within the FRS pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, however, by law; the Bureau's financial statements shall not be consolidated with the financial statements of either the Board of Governors or the Federal Reserve System. For simplicity, the basis for conclusions discusses the system as a whole rather than its individual components.

disclosures would allow the reader to consider monetary policy and fiscal policy as distinct activities. The government-wide consolidated financial statements would present the results of fiscal policy. Consolidation of fiscal and monetary policy financial information, as described above, would result in elimination of some Treasury securities. Thus, the use of Treasury securities to conduct monetary policy and their elimination upon consolidation could obscure the Treasury securities (debt) that result from the fiscal policies of the federal government. Further, liabilities for Federal Reserve notes outstanding and deposits by depository institutions differ in character from liabilities arising from fiscal policy. In contrast, disclosures may provide an understanding of the relationship between monetary and fiscal policy and support consideration of these distinct activities.

A37. The Board recognizes the FRS performs a unique federal function—central banking—and there is only one organization of this type. The FRS is unique not only in its mission, but also in its governance, structure, activities and the need to maintain independence in practices. Its responsibilities are broad reaching because of the impact of monetary policy on the country (government, businesses, and citizens) thereby leading to great interest in its activities. The magnitude of its role and transactions led the Board to require certain minimum disclosures about the FRS. The minimum disclosures recognize that there is special interest in the activity of the central banking system. The minimum disclosures are in addition to any other reporting requirements in the government-wide financial report and any reporting entity to which it may have been administratively assigned. The minimum disclosures focus on governance, significant roles and responsibilities, actions to achieve monetary and fiscal policy objectives, transactions with the reporting entity, risks to the federal government and future exposures to gains and losses. The disclosures should be integrated, and depending on the circumstances, also may be required by other provisions in this Statement or other GAAP requirements.

Also under ***Amendments to SFFAC 2, Entity and Display***

A88. Paragraphs 47-50 of SFFAC 2 identify certain organizations or types of organizations (the Federal Reserve System, Government Sponsored Enterprises, and Bailout Entities) that could be included in the government-wide reporting entity based on the SFFAC 2 concepts but that should not be included. This Statement establishes principles to ensure users of GPFFRs are provided comprehensive financial information while recognizing the complexity of the federal government and its relationships with varied organizations. The principles can be applied to the organizations previously excluded and conclusions reached to include the organizations—either as consolidation entities or disclosure entities—or to continue to exclude the organizations. SFFAC 2 is being amended to ensure that concepts provide a framework for standards-setting but do not themselves establish standards by listing specific exclusions.

Federal Reserve System

The Federal Reserve System (FR System) was created by Congress under the Federal Reserve Act of 1913. The FR System consists of the Federal Reserve Board of Governors (Board), the Federal Open Market Committee (FOMC), and the FRBs. Collectively, the FR System serves as the nation's central bank and is responsible for formulating and conducting monetary policy, issuing and distributing currency (Federal Reserve Notes), supervising and regulating financial institutions, providing nationwide payments systems (including large-dollar transfers of funds, automated clearinghouse (ACH) operations, and check collection), providing certain financial services to federal agencies and fiscal principals, and serving as the U.S. government's bank. Monetary policy includes actions undertaken by the FR System that influence the availability and cost of money and credit as a means of helping to promote national economic goals. The FR System also conducts operations in foreign markets in order to counter disorderly conditions in exchange markets or to meet other needs specified by the FOMC to carry out its central bank responsibilities. The FR System is not included in the federal budget. It is considered an independent central bank, and its decisions are not ratified by the executive branch of the U.S. government.

The Department interacts with the FRBs in a variety of ways, including the following:

- The FRBs serve as the Department's fiscal agent and depository, executing banking and other financial transactions on the Department's behalf. The Department reimburses the FRBs for these services, the cost of which is included on the Consolidated Statements of Net Costs
- The FRBs hold Treasury and other federal securities in the FRBs' System Open Market Account (SOMA) for the purpose of conducting monetary policy (Note 16)
- The FRBs hold gold certificates issued by the Department in which the certificates are collateralized by gold (Note 6)
- The FRBs hold SDR certificates issued by the Department which are collateralized by SDRs (Notes 5 and 12)
- The FRBs are required by Board policy to transfer their excess earnings to the Department on behalf of the U.S. government (Notes 13 and 23)

The Department also consults with the FR System on matters affecting the economy and certain financial stability activities (Notes 7). The above financial activities involving the Department are accounted for and disclosed in the Department's consolidated financial statements. In accordance with SFFAC No. 2, *Entity and Display*, the FR Systems' assets, liabilities, and operations are not consolidated into the Department's financial statements.

Federal Reserve System Structure

The Board is an independent organization governed by seven members who are appointed by the President and confirmed by the Senate. The full term of a Board member is 14 years, and the appointments are staggered so that one term expires on January 31 of each even-numbered year. The Board has a number of supervisory and regulatory responsibilities for institutions including, among others, state-chartered

banks that are members of the FR System, bank holding companies, and savings and loan holding companies. In addition, the Board has general supervisory responsibilities for the 12 FRBs, and issues currency (Federal Reserve Notes) to the FRBs for distribution.

The FOMC is comprised of the seven Board members and five of the 12 FRB presidents, and is charged with formulating and conducting monetary policy primarily through open market operations (the purchase and sale of certain securities in the open market), the principal tool of national monetary policy. These operations affect the amount of reserve balances available to depository institutions, thereby influencing overall monetary and credit conditions. The 12 FRBs are chartered under the Federal Reserve Act, which requires each member bank to own the capital stock of its FRB. Supervision and control of each FRB is exercised by a board of directors, of which three are appointed by the Board of Governors of the FR System, and six are elected by their member banks. The FRBs participate in formulating and conducting monetary policy, distribute currency and coin, and serve as fiscal agents for the Department, other federal agencies and fiscal principals. Additionally, the FRBs provide short-term loans to depository institutions and loans to participants in programs or facilities with broad-based eligibility in unusual and crucial circumstances when approved by the Board.

Federal Reserve System Assets and Liabilities

The FRBs hold Treasury and other securities in the SOMA for the purpose of conducting monetary policy. Treasury securities held by the FRBs totaled \$1.9 trillion and \$1.6 trillion at September 30, 2013 and 2012, respectively (Note 16). These assets are generally subject to the same market (principally interest-rate) and credit risks as other financial instruments. In the open market, the FR System purchases and sells Treasury securities as a mechanism for controlling the money supply.

The FRBs have deposit liabilities with Treasury and depository institutions. The FRBs issue Federal Reserve Notes, the circulating currency of the United States, which are collateralized by the Treasury securities and other assets held by the FRBs.

Financial and other information concerning the FR System, including financial statements for the Board and the FRBs, may be obtained at <http://www.federalreserve.gov>.

FRB Residual Earnings Transferred to the Department

FRBs generate income from interest earned on securities, reimbursable services provided to federal agencies, and the provision of priced services to depository institutions as specified by the Monetary Control Act of 1980. Although the FRBs generate earnings from carrying out open market operations, via the earnings on securities held in the SOMA account, their execution of these operations is for the purpose of accomplishing monetary policy rather than generating earnings. Each FRB is required by Board policy to transfer to the Department its residual (or excess) earnings after providing for the cost of operations, payment of dividends, and reservation of an amount necessary to equate surplus with paid-in capital. These residual earnings may vary due to, among other things, changes in the SOMA balance levels that may occur in conducting monetary policy. In the event of losses, or a substantial increase in capital, an FRB will suspend its payments to the U.S. Treasury until such losses or increases in capital are recovered through subsequent earnings. The FRB residual earnings of \$75.8

billion and \$82.0 billion for fiscal years ended September 30, 2013 and 2012, respectively, are reported as custodial revenues on the Department's Statements of Custodial Activity. They constituted 2.6 percent and 3.1 percent of the Department's total custodial revenues collected in fiscal years 2013 and 2012, respectively. "Taxes, Interest and Other Receivables, Net" includes a receivable for FRB's residual earnings which represents the earnings due to the U.S. Treasury as of September 30, but not collected by the U.S. Treasury until after the end of the month (Note 13).

Questions for the Board

- 1. Does the Board agree the inclusion principles and attributes can be objectively applied to the central bank?**
- 2. Does the Board wish to maintain the minimum disclosures for the Central Bank?**
- 3. Does the Board wish to maintain the language for the Central Bank minimum disclosures at both the component and government-wide levels?**
- 4. What types of changes are intended to be revealed by the separate “and changes in those actions” as opposed to changes highlighted in comparative disclosures?**
- 5. Are there other modifications members wish to propose to the wording?**

FRS Comment letter

July 2, 2013

Ms. Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6H19
441 G Street, NW, Suite 6814
Washington, DC 20548

Dear Ms. Payne:

We appreciate the opportunity to comment on the Federal Accounting Standards Advisory Board's (FASAB) proposed Statement of Federal Financial Accounting Standards entitled *Reporting Entity*. Defining the boundaries of the federal government for purposes of financial reporting is a challenging task and we appreciate the FASAB's effort to enhance the understandability, relevance, and transparency of financial information provided to the public in the federal government's general purpose federal financial reports (GPFRR).

The Board of Governors of the Federal Reserve System (Board) has statutory authority to establish the accounting and financial reporting practices of the Board and the Reserve Banks (collectively, the Federal Reserve System) and, as a result, we believe that it is important to provide comments on this proposed standard, which has implications for Federal Reserve System financial reporting.

The Board shares the FASAB's commitment to financial reporting transparency that underlies the *Reporting Entity* exposure draft. We have no concerns continuing the current GPFRR practice of including substantial information about the Federal Reserve System's financial interactions with the federal government in the footnotes. Similarly, we have no objections to including within the GPFRR additional information sourced from our audited annual financial statements. We do not object to the requirements of the proposed statement that would result in the Reserve Banks and the Board being treated as disclosure organizations with limited disclosure requirements (as opposed to consolidation entities). We do have concerns, however, if the provisions of the proposed standard were to suggest that the Board or the Reserve Banks should consolidate their financial statements with those of the rest of the federal government. Consolidation of this nature would unnecessarily reduce transparency, undermine the statutorily protected independence of the Federal Reserve System, distort the statements of the U.S. Government, and increase the costs of preparing and auditing the GPFRR.

I. The Federal Reserve System provides a variety of transparent financial reports to the public that exceeds the reporting requirements of the proposed standard.

The Federal Reserve System provides a substantial amount of information to the public, and its financial reporting practices are particularly robust. Each week, the Board publishes the balance sheet of each Reserve Bank along with other significant

financial information on their assets and liabilities. The Board also publishes an annual independent audit of the financial statements of the Board, each of the twelve Reserve Banks, and the combined Reserve Banks.¹ The Board began publishing an unaudited quarterly combined Reserve Banks' financial report in 2012. The annual audited Board and Reserve Bank financial statements, and the Reserve Banks' weekly and quarterly financial reports can be accessed from the Board's public website at

. We believe that the information we provide to the public demonstrates our ongoing commitment to transparency and should be sufficient for meeting the purposes of the standard without incurring additional costs.

II. Classifying the Reserve Banks and the Board as disclosure organizations provides the most transparent information to the public.

Disclosure of financial information in the GPFFR footnotes, as opposed to consolidation in the federal government's financials, will provide relevant financial information while avoiding misleading perceptions about the relationship between the federal government and the Federal Reserve System. In particular, classifying the Board and the Reserve Banks as disclosure organizations recognizes the Federal Reserve System's independence as a central bank under the Federal Reserve Act, while including focused and relevant financial information in the GPFFR.

Although we understand that the proposed standard intends to provide a broader definition of the federal reporting entity, we believe that the evaluation of each entity should give appropriate weight to those functions and activities that most significantly affect the financial operations of the entity.

The *Reporting Entity* exposure draft recognizes that the federal government achieves its objectives through a wide range of organizations, which fall at different points on the control continuum. The Federal Reserve System performs many functions that fall at different points on the continuum described in the exposure draft. For example, the Reserve Banks interact closely with the federal government in their role as fiscal agents and depositaries for the federal government. In that role, the Reserve Banks auction Treasury securities; process electronic and check payments for the Treasury; collect funds owed to the federal government; maintain the Treasury's bank account; and develop, operate, and maintain a number of automated systems to support the Treasury's mission. The Treasury Department pays the Reserve Banks for these services from appropriated funds that are reflected in Treasury's financial statements. That role, however, accounts for a relatively small portion of the financial operations of the Reserve Banks.

At the other end of the continuum, by statute, the Federal Reserve operates independently with respect to determining and implementing monetary policy, and that function has a much more significant effect on its financial condition and operating results. The Federal Reserve Act provides the Board, the Reserve Banks, and the Federal Open Market Committee with specific separate authorities and responsibilities and is designed to preserve the independence of the Federal Reserve System entities from other

¹ Annual financial statements of the Board of Governors, the 12 Federal Reserve Banks, and the combined Reserve Banks are prepared on a calendar-year basis.

government departments and agencies, including the U.S Treasury. The current FASAB Statement of Federal Financial Accounting Concepts 2: Entity and Display recognizes the independence of the monetary policy authority, stating that the Federal Reserve System’s “organization and functions pertaining to monetary policy are traditionally separated from and independent of the other central government organizations and functions in order to achieve more effective monetary and fiscal policies and economic results. Therefore, the Federal Reserve System would not be considered part of the government-wide reporting entity.” Further, Reserve Banks are not government agencies, and the treatment in the GPFRR should be consistent with their character.

III. Consolidation of the Federal Reserve System would reduce transparency in the GPFRR.

Consolidation of the Federal Reserve System’s financial information in the GPFRR would partially eliminate assets and liabilities stemming from both fiscal and monetary policy in a way that would reduce the transparency of the government’s fiscal operations. For example, the Reserve Bank’s holdings of Treasury securities acquired in the conduct of monetary policy would be eliminated along with the U.S. Treasury’s debt liabilities after consolidation, obscuring the federal debt resulting from the federal government’s fiscal operations. The portion of interest expense paid on the Reserve Bank’s holdings of U.S. Treasury securities would also be eliminated. Consolidation would also result in presenting deposits of private financial institutions held at the Reserve Banks as obligations of the federal government, which they are not.

IV. Consolidation of the Federal Reserve System would increase the cost and administrative effort associated with producing the GPFRR.

Because the Federal Reserve System reports financial information on a calendar-year basis, its audited financial information would be stale by the time it was included in the fiscal year based GPFRR dated as of September 30. Although the information could be updated by performing a nine-month “walk-forward” of Federal Reserve System financial information, the cost to the federal government of auditing this information would be significant.

In addition, the U.S. government, the Board, and the Reserve Banks apply different sets of accounting principles (FASAB, U.S GAAP for public companies, and Board of Governors established principles, respectively).² Reconciling these principles for reporting purposes would involve additional cost to both the federal government and the Federal Reserve System and could potentially increase financial reporting risk without any material benefit. These costs and efforts may also exist to a lesser extent if the Board and the Reserve Banks were to be classified as disclosure organizations under the standard.

² The Board’s and Reserve Banks’ accounting and reporting policies are governed by the Board. The Reserve Banks apply accounting standards developed by the Board of Governors, which are documented in the *Financial Accounting Manual for Reserve Banks* <http://www.federalreserve.gov/monetarypolicy/files/BSTfinaccountingmanual.pdf>

V. The provisions related to minimum disclosures for the central banking system are unnecessary.

The disclosure requirements for the central banking system described in paragraph 77 are inconsistent with the FASAB’s objective of providing a principles-based standard. We believe that applying the proposed standard’s inclusion principles and disclosure requirements that are applicable to all other organizations will result in an appropriate level of disclosures of Federal Reserve System financial information. The proposed disclosures for disclosure entities and the minimum disclosures for the central bank are very similar, even though the two sets of disclosures are described somewhat differently. For example, paragraph 73a, which is applicable to all disclosure organizations, requires disclosure of “information about how its mission relates to federal policy objectives, actions taken on behalf of the federal government, its organization and any significant involvements with outside parties.” That requirement is substantially the same as the minimum disclosure requirement for the central bank described in paragraph 77b, which requires disclosure by the central bank of “significant roles and responsibilities (and how these relate to federal policy objectives).” We recommend deleting paragraph 77 in its entirety.

VI. The authority over the financial accounting and reporting practices of the Board and the Reserve Banks is vested with the Board of Governors.

FASAB’s authority, which is derived from statutory authorities of the OMB, GAO, and Treasury, does not include authority to impose reporting requirements on the Board and Reserve Banks, given that (1) the Board is an independent entity in the executive branch; (2) neither the Board nor the Reserve Banks have reporting or other relationships to FASAB; and (3) Congress has separately established the financial reporting requirements applicable to the Federal Reserve System and vested final authority over those reports in the Board without directing the Board or the Reserve Banks to issue financial statements in accordance with FASAB requirements.³ To the extent requirements to report about the Federal Reserve System would be imposed on another entity, such as the Department of the Treasury, it is unclear how the Treasury can be expected to fulfill this obligation when the requested information pertains to the central bank, not the Treasury, and the central bank does not report to the Treasury.

The Board’s statutory powers and reporting requirements largely address the issues in the proposed statement. These statutory provisions take precedence and the proposal would be in conflict with them. For example, Congress has addressed its expectation regarding transparency of Federal Reserve System financial information.

Public Access to Information- the Board shall place on its home Internet website, a link entitled “Audit”, which shall link to a webpage that shall serve as a repository of information made available to the public for a reasonable period of time, not less than 6 months following the date of release of the relevant information, including—

³ The Federal Reserve Act requires the Board to order an annual independent audit of the financial statements of the Board and the twelve Reserve Banks. 12 USC section 248b (1999).

- (1) the reports prepared by the Comptroller General under section 714 of title 31, United States Code;
- (2) the annual financial statements prepared by an independent auditor for the Board in accordance with section 11B;
- (3) the reports to the Committee on Banking, Housing, and Urban Affairs of the Senate required under section 13(3) (relating to emergency lending authority); and
- (4) such other information as the Board reasonably believes is necessary or helpful to the public in understanding the accounting, financial reporting, and internal controls of the Board and the Federal reserve banks. [12 U.S.C. 225b.]

In addition, as required by statute, the Board includes in its annual report to Congress a full account of its operations.⁴ To the extent the information you seek in the proposed statement is included in the Board's existing reports, we suggest that you reference these reports in the GPFRR.

VII. We disagree with the proposal to include forward-looking financial information in the audited financial statements for the Federal Reserve System.

The proposed disclosures and the minimum disclosures both include a requirement to disclose future exposures to gains and losses from future operations. Such information about future events is very difficult to audit and including such information in audited financial statements provides a false sense of reliability to such information. Further, preparers of the financial statements are unable to predict future monetary policy actions or when they will occur. Although it may be possible to report on contingencies arising from past events, it would not be feasible to report relevant and reliable financial information about pre-decisional future operations of the central bank that could be audited. The Federal Reserve System does not include forecasts and forward-looking information in the financial statements of the Board and the Reserve Banks. Instead, as it deems appropriate, such information is provided through other means. We recommend removing the disclosure requirements related to future exposures from paragraphs 72 and 73 of the proposed standard.

VIII. The characterization of the Bureau of Consumer Financial Protection (CFPB) in the proposal is incorrect, and should be revised.

Paragraph A32, footnote 57, in the proposed standard describes the Federal Reserve System as comprised, in part, of the CFPB. When Congress created the CFPB as a part of the Federal Reserve System, it provided that the CFPB's financial statements "shall not be consolidated with the financial statements of either the Board of Governors or the Federal Reserve System." The proposed standard should be clarified in

⁴ The Federal Reserve Act Section 10. Board of Governors of the Federal Reserve System. 12 USC 247b.

this regard and, specifically, the references to the CFPB should be removed from the footnote.

In conclusion, we thank the FASAB for the opportunity to comment on the proposed standard and respectfully ask for consideration of the recommendations and suggestions in this letter. If you have any questions or would like to discuss these comments, please contact Greg Evans at 202-452-3945 or Larry Mize at 202-452-5232.

Sincerely,

Louise L. Roseman
Director
Division of Reserve Bank Operations
and Payments Systems Division

Donald V. Hammond
Chief Operating Officer

Board Minutes Related to Central Bank**Dec. 2013**

Ms. Loughan explained the last issue relates to the Central Bank. Staff explained there have been lengthy Board deliberations about the central bank (Federal Reserve System-FRS) including whether the proposed inclusion principles and attributes for determining consolidation entities and disclosure organizations could be applied to the FRS. In addition, the Board spent considerable time discussing what should be included in the basis for conclusion language that relates to this topic including reviewing specific language during meetings to most accurately explain the Board's position in the basis. Staff explained the binder materials summarized some of the comment letters and also the commenter letter from the Federal Reserve, and included an excerpt from the Board minutes that were applicable to this issue.

With this particular issue, staff did not have any recommendations as far as changes to the language. Instead, staff wanted to solicit some of the Board members' views on two issues. One, we wanted to find out what you believed to be concerns or comments regarding whether the criteria and principles could be applied to the Central Bank. And two, members were asked to consider the questions related to the Central Bank minimum disclosures and raise concerns.

Mr. Reger explained that Treasury's position would be that we do not need to apply these to the Central Bank.

Mr. Dacey asked if Mr. Reger was talking about the disclosures or the basic concept of the criteria. In other words, does our general discussion of 'in the report' and discussion of consolidation and disclosure apply appropriately to the Federal Reserve and the other type of entities that we put in our question to respondents? Mr. Dacey noted he did not see a need for the separate identification of the Central Bank required disclosures.

Mr. Allen explained to him that would probably lead to a yes answer on 1A and then a detailed discussion on 1B.

Mr. Showalter explained both KPMG and a part of Treasury commented that they did not see the Central Bank included based on the criteria. He would like to understand how they reached that conclusion. He does not necessarily mean there needs to be anything addressed in here, rather he wonders if there was something that wasn't clear. He believes we should follow-up with them to find out why. Ms. Payne suggested that the question was asked at the public hearing, but she did not recall if they gave a definitive answer. Mr. Showalter stated as he recalled Treasury did not and he was not sure if KPMG did either.

Mr. Steinberg asked if they were they referring to a Treasury statement or the government-wide statement. Mr. Showalter explained the response is not clear.

Ms. Loughan noted Treasury had different responses in different places, but staff will follow up with them. For example, if you look at Treasury's 1D, they agree with 1D. Staff believes a key point may be their response to 2, they state they believe the Federal Reserve should be a related party. Treasury also submitted that revised flowchart that put 'misleading to exclude', after related party, so we can go back to them for more clarification.

Mr. Granof explained he was puzzled by that.

Mr. Showalter explained that is his point because that is different. Related party is not the same thing as a disclosure entity.

Mr. Allen explained if there are really two respondents that went through the exercise and determined the Central Bank wasn't included-- they don't fit either as a disclosure entity or consolidated entity, then of course minimum disclosures are necessary. He believes if our standard is sufficient to include important central banking information, then maybe the minimum disclosures are not near as necessary.

Mr. Dacey agreed that we should ask them for clarification. He noted that he has been involved in some discussions where some have argued that it is not part of the component unit Treasury. He has not heard an argument that it is not part of the consolidated financial statements.

Mr. Showalter recalled that KPMG particularly had problems with the organization of the standards. Their position may be that they did not understand.

The Board agreed staff would contact Treasury and KPMG for clarification about their comment letter response that indicated when applying the inclusion principles to the Central Banking system, that a reporting entity could conclude that the Central Banking system would not be a consolidated entity or disclosure entity.

Mr. Allen suggested the Board provide for minimum disclosures.

Mr. Reger explained it still goes back to the over-arching question of what information we want disclosed and what information we can obtain. He explained that it is the forward-looking information that is problematic. He added the Federal Reserve publishes financial statements and update certain financial information quarterly that is on the web. He explained they have significant issues with certain market information. In addition, KPMG may have concerns about expressing an opinion on things other than that they garnish by the existing relationship between Treasury and the Federal Reserve Bank--meaning when you cross into things that are the purview of just the Federal Reserve then that is where there is issue.

Mr. Showalter asked Mr. Reger if he was referring to the information in relation to all of par. 77 or just par. 77C. Where does the forward-looking information requirement come from?

Mr. Reger explained that the background information, the connection of information, and the transactions back and forth between us as a party and them is currently documented and we can express it almost any way you want. However, par 77C is outside the purview of existing information that is furnished in any way other than directly from the Federal Reserve websites.

[Staff note, the language of Par 77c: A discussion of the significant financial actions, and changes in those actions, undertaken by the Central Banking system to achieve monetary and fiscal policy objectives, such as adjusting the discount rate, purchasing securities (for example, Treasury securities and mortgage backed securities), or undertaking Central Bank liquidity swaps]

Mr. Allen confirmed in this case, it does not matter whether you are talking about the agency level or the consolidated level, you would have the same concern. Mr. Reger confirmed and this is a big concern expressed by the preparer of the Treasury statements and the auditor of the Treasury statements.

Mr. Showalter asked if there was any part of 77C that Mr. Reger felt comfortable with. Mr. Reger

said he would go back and look through 77C and see if in the next iteration there was anything.

Mr. Dacey explained an important point is we want something auditable. The information in the notes says the “The Federal Reserve said this,” and essentially, “Federal Reserve reported this.” Whether or not that is valuable information if our disclosure limit is what they told us their programs are doing and what they announced, there is no way to determine if that is a complete set of everything they have done. To make direct statements that the Federal Reserve is doing something would be a problem for the auditor and the preparer because of their ability to say whether it is accurate and all of the other things that are there.

Mr. Reger added that another concern is the Federal Reserve fiscal year ends on the calendar year. He explained as we come into September 30 for ours, for instance the current agency statements were published Monday; our statements are scheduled for February 27. If they included Federal Reserve information from their most recently approved financial package it would be for last December so that leads to concerns about the freshness of data especially when you are going to start talking about market. It is either going to be absolutely useless to the reader or it has got to be carried forward and updated until the most recent timeframe. Mr. Reger stated that he believes pointing people to their financial statements and website seems like a wonderful idea.

Mr. Allen explained he was not one who felt that we needed a great level of detail, but he did support the concept of the direction of 77C, and what they are trying to accomplish. He asked if it would be possible to move the information out of note disclosure and into MD&A. It seems like it is information similar to what we have in MD&A that relieves the auditors from the challenges. If one asks them to address a MD&A, you would think they could talk about their significant financial actions or changing in those, policy objectives or whatever it ends up being. Those ought to be reflecting the most current ones at the time, so the MD&A isn't necessarily linked as hard to one fiscal year or another fiscal year.

Mr. Reger explained that to the extent that we are describing programs and processes relating historically to the Federal Reserve, he believes it should be maintained and captured in a note disclosure for the reader. If you want to know the current effect of any of those policies or activities, he believes the best thing we do is refer the reader to the website of the Federal Reserve. He explained that they can include language about how those programs were created, what they are fundamentally set up to do, etc. He noted it is the current intent that is difficult.

Mr. Allen explained it is a very changing world and that if someone is to get value, the information should be as current as possible.

Mr. Reger commented it is very unlike any other disclosure because we tend to look at a historical trend or it is sustainability based on current law and activities. We do not discuss current activities other than in the last couple of years in a note that says events which had an effect on the financial representations for the period.

Mr. Dacey noted it is an indirect effect on the economy as a whole .

Mr. Allen explained that is why he does not see any need for those kinds of discussions in Treasury's financial statements, but he does see the need for those in the government-wide financial statements.

Mr. Reger reminded the Board of the discussion yesterday of whether the statements should

represent financial information on the federal government, the economy and how the federal government is supporting changes in the economy, which was that third criteria from yesterday.

Mr. Steinberg explained he thought this sounds like we are taking a step backwards from the disclosures for the government-wide statement. You can refer them to other statements, but that does not make them part of the consolidated statement for the federal government. While he isn't saying that Treasury should consolidate the Federal Reserve, it should provide the fullest picture one can get and it shouldn't force the reader to look at some other document to find important information.

Mr. Steinberg explained he understood Mr. Dacey's audit concerns. However, he believes there are some procedures that could be done that would give you sufficient comfort, even if that footnote has to have some explanatory paragraph as to how the Federal Reserve is also part of stewardship.

Mr. McCall explained his concern has been are the criteria for consolidation and disclosure adequate. He noted that we had a response from the Federal Reserve System and they believed they were a disclosure entity, but they did not say how they either met disclosure or consolidation. He believes the decision is to be made by Treasury and GAO. Looking at paragraph A34, it talks about the majority of the board believes the proposed principles are sufficient to aid preparers and auditors, in assessing any organization, including the FRS. Mr. McCall explained in the next two paragraphs we say, if it is the disclosure entity, it is this way, and these are things that would be disclosed. If it is a consolidation entity, these are things that would be consolidated. That seems to me to say that we agree the criteria are adequate to make a decision but yet rational and reasonable people have looked at it two different ways. When we talk about paragraph 77, it addresses disclosure, but it still doesn't get back to is this a consolidation or a disclosure entity?

Mr. McCall explained that he would like Mr. Reger to confirm that enough clarification has been provided in our criteria so that a disclosure or consolidation entity decision can be made. He is just looking for some assurance that the criteria can be used for the Federal Reserve.

Mr. Allen stated he thought it was an important the discussion especially if there were people who had concern at the agency level. However, he suggested that we put off that discussion until we get more information from Treasury and their auditor as planned.

Mr. McCall asked if the Board believes the criteria are adequate to make a decision.

Mr. Allen confirmed the Board has said that they do feel that it is, but they asked staff to follow up on the two responses.

Mr. Showalter discussed that he compared paragraph 77 to paragraph 73. He asked Mr. Reger how comfortable he was with paragraph 73. He acknowledged par. 77 would be minimum requirements if the Central Bank somehow was not captured as a disclosure entity.

Mr. Reger then acknowledged that they had done a similar exercise as Mr. Showalter and they could map the disclosure requirements. Mr. Reger stated he wanted to answer Mr. McCall's question and his opinion is that we believe that the Federal Reserve is a disclosure entity and it is already covered by what we disclosed. Mr. Reger elaborated that they have had discussions about how the FRB fits and it is more than clear enough that they would be a disclosure entity. The problem is you had the agency that they would report through and their auditors disagree

and that is a little baffling. Therefore, at this point he agrees we should have staff have follow-on discussions with them. Mr. Reger explained as far as disclosures, there is concern on the level of detail and the intrinsic information required in paragraph 77C and how the auditor would get comfortable with that.

Mr. Granof asked in doing the crosswalk between paragraphs 77 and 73, where does 77C fit?

Mr. Showalter stated it fits into 73h but acknowledged all of this is subject to the reader. For example, he believes Mr. Granof may expect much more information for 77c than others. Mr. Granof agreed that he may not be satisfied but he would be content. Mr. Reger agreed that the hard part of implementing this portion is going to be agreement on the level of detail in paragraph 77C and because some might read 77C to be public information. He explained the issue is if you accept the interpretation that information that is currently available on other public sources is just summarized into financial information that we would publish here.

Mr. Granof stated that there is a lot of information that we provide that comes from another or better source, such as Social Security, for example, you are better off going to the Social Security Trustees Report. Mr. Reger agreed but it is summarized to provide the Social Security and the Affordable Care Act information and lots of other things in the government-wide statement. Mr. Reger explained that SFFAS 17 provides for certain information and descriptive information, some of which is taken from other publicly available documents like the Trustees Report and some that is not.

Mr. Reger explained he is comfortable with information about the confines of the audit period and a subsequent event note. Mr. Granof concurred and that he did not envision projections about monetary policy that would be unreasonable.

Mr. Dacey suggested that perhaps some have read paragraph 77C to be more comprehensive than simply here are the things the Federal Reserve reported they did last year. Mr. Granof noted it says a significant discussion that was undertaken and that is past-tense.

Mr. Dong noted he was a little unclear in terms of what the Board's position was related to paragraph 77C. Mr. Reger elaborated that it was not an issue of a description of things in paragraph 77C and he was not requesting that it be taken out. He just wanted to bring up the concern of those involved. He noted, in fact, if there was no paragraph 77C, there wouldn't be a need for minimum disclosure for the Central Bank.

Mr. Granof confirmed that he is saying paragraph 77 is redundant. Mr. Showalter and Mr. Reger agreed it was redundant. However, Mr. Granof explained he had no problem with being redundant because it emphasizes certain things and it is a statement of the Board. He did not believe redundancy did harm.

Ms. Payne rebutted that there is a cost to redundancy. For example, the Board took certain precautions in SFFAS 17 to deal with the cost of redundancy. There is a note that explains the minimum things that you need to understand the statement itself and then RSI allows for a storytelling and there is a lot of information in RSI that does not need the robustness of the audit, like the cross-over point, the year that the trust fund is exhausted.

Ms. Payne asked the Board if they would like to consider the Central Banking system disclosure requirement as RSI as an option. Mr. Granof stated he did not have problem with that.

Mr. Dacey expressed concern and stated he did not believe it solves the problem. He believed whether you like par.77 or par.73 with exception of possibly par. 77C, it seems appropriate to include in the notes. He does not believe putting some information in another place will add that much value if we are only talking about the actions the Federal Reserve is taking to affect monetary policy. He has concerns about the fleeting nature of some of these decisions and how instantaneous they are, even 60 days after the fact or 75 may not be relevant anymore.

Mr. Allen suggested that he was open to the proposal of RSI but it appears Mr. Dacey may object to it and not like the idea of doing more of a story and not be as confined to a specific period of time and maybe make it more current.

Mr. Reger explained that describing it like that also scares him. If making it RSI allows it to be more descriptive that is fine, but if that allows for projections, that is a problem. Mr. Allen explained he did not mean for projections, he meant subsequent event discussions in RSI.

Mr. Dacey explained that he also believes par. 77 is redundant of 73 and unnecessary. However, he doesn't see the incremental value of putting something in RSI. He elaborated that we are still limited by whatever the Federal Reserve report is and we are constrained with here is what they said they did. He believes that is part of the issue.

Mr. Granof explained that does not trouble him because he is looking for the story of what happened. If you want a picture of what goes in the federal government that is critical--just like Social Security--and for the same reason, put the story in RSI. He explained he would be fine with the historical information because he is not looking for projections in RSI.

Mr. Smith asked if we put the requirement in RSI, might we have it disclosed at two places, and then it appears we have not accomplished anything. As he recalled we added par. 77 to ensure it was disclosed if by chance someone got to the point that the Central Bank was not in the reporting entity. If we put this in RSI, if a person got to the conclusion that it really was in the entity then we have disclosed in both places.

Mr. Allen explained par. 77 could be clearer although he thought it was clear. Staff will review ways to make par. 77 clearer by beginning it with "If not otherwise disclosed," or something like that.

He suggested the Board focus on resolving issue 77C. The Board compared it with the language in par. 73H and acknowledged that 77c called out more specific things because these were discussed and specific to the Central Bank. The concern with paragraph 77C is it focuses on things the Central Bank reports or says they have done and the fact this information or more current information may be more readily available. Mr. Dacey suggested that par. 77C be revised to focus on the "discussion of actions and changes in actions reported by the Central Bank" and that would provide a tie. Mr. Showalter acknowledged that as an auditor it removes the uncertainty of "Undertaken by the Central Bank." because one doesn't know there have been things undertaken that weren't reported. Mr. Dacey agreed but asked if there was any objection to changing the word to report and believed staff should seek input on that from Treasury and their auditors to see if that makes a difference.

The Board agreed at this point there is no recommendation that par. 77C be eliminated but revised as the interpretation of that is broad, until after staff discusses some of the issues further with Treasury and their auditors.

Mr. Reger acknowledged it is important to get the feed back from Treasury and the auditor regarding their response. As of now, they are not sure the Central Bank is a disclosure entity, and then we probably need to have a discussion about whether the Central Bank should report through a component.

Ms. Payne agreed it may be beneficial for staff to have the meeting with Treasury and their auditor on these issues before the next meeting and provide a recommendation that will help support the Board's decision in this area. The Board agreed with that approach.

August 2013 Minutes

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

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

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

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

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

Mr. Reger explained Treasury had no issue about disclosing a relationship with the Federal Reserve, but they thought they were a related party as opposed to a disclosure organization. He

added that the issue may be they didn't see disclosure because they didn't see a reason for the category.

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

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

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

Mr. Reger explained the decision would be part of the normal process of putting together the financial statements based on the standard the Board has promulgated. Mr. McCall asked if the information provided by the Federal Reserve -- why they think they are one or the other--will be used in the decisions made by Treasury and GAO. Mr. Reger confirmed he would use every piece of information in deciding. The Board at least has been fairly clear what the intent is. Mr. Reger explained he believed Treasury has been pretty clear at this point, about what they will do. There is some concern over that market piece expressed by Treasury and by their auditor about how you get that in Treasury statements. Could you get it in the consolidated if you didn't get it in the statements? At this point, they would come through Treasury because that is the only organization with which they have a relationship. Mr. Reger explained the Federal Reserve has not objected to providing us a lot of information that we thought we wanted to include. They have been forthright about what information is available, how you get to it, the age of certain data, the risk of market analysis of certain data.

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

February 2013 (includes detailed discussion on minimum disclosures)

Ms. Loughan noted the first item for discussion was the proposed minimum disclosures for the Central Bank. Staff explained the Board directed staff to start with the staff proposed disclosures presented at the December 2012 meeting for the Federal Reserve but also incorporate Board member suggestions from the meeting. After considering the feedback and follow-up discussion with members, staff proposed the disclosures as listed in paragraph 76 of the ED draft.

Staff noted most feedback from members was positive and suggested the floor be open for Board discussion. Ms. Loughan also pointed out there was a small change presented in this morning's version based on a member suggestion. Staff noted "may be primarily associated or" was added before "administratively assigned" to address the concern that the Central Bank may not be officially assigned. Further, "may" was added because staff

was under the impression the Board did not wish to express that the central bank was definitely included and only things that would be included would be "administratively assigned" as the ED is currently structured. Staff noted that they did not want to give the impression that staff doubt that the Central Banking System would be included, but rather is trying to toe the line of principle-based and not imply that something is firmly included. The additional edit to add "primarily associated with" would cover the case where it is not an included entity.

Mr. Showalter confirmed that even if for some reason we concluded it was not included the financial statements, all of these disclosures would still be required for the central bank. Ms. Payne agreed.

Chairman Allen explained he would like to raise a point with Question 6 to respondents.

He asked if we should say these are minimum disclosures regardless of whether the

Federal Reserve is a consolidation entity or a disclosure entity. He noted that we ought to clarify that this is regardless --we saying we want these disclosures and that is why they are called minimum.

Mr. Dacey noted that, as drafted, the Board would want these disclosures to apply even if the central bank is determined to be a related party, which he thought would be unlikely. Chairman Allen agreed.

Chairman Allen explained that we framed minimum disclosures for this specific entity because of the specific relationship. He also noted that we have asked if the standard provides the appropriate guidance on whether it is included and, if so, how it is included.

He explained that begs the other question of, what if you have decided you don't want to include it.

Mr. Dong explained that he thought it was our discussion last time to have this information regardless of how they were classified.

Chairman Allen agreed but stated it should be clarified here. He noted that it was theoretically possible that a financial statement preparer could decide it is neither a consolidation nor a disclosed entity?

Mr. Dong asked regarding this specific entity, and he questioned what the likelihood of that was. Chairman Allen agreed that it would be close to zero

Mr. Reger also agreed and shared confusion over what it is we are trying to now clarify by suggesting this question be added.

Chairman Allen explained that we don't say it is included, we only say there are minimum disclosures. Therefore, the question should cover that as well.

Mr. Dacey questioned whether the ED as drafted currently says that these are the minimum disclosures because of the unique relationship or does the standard imply a specific treatment of the central bank. After discussing the wording, the Board agreed to simplify it as much as possible and only refer to the minimum disclosures in the standard language.

The Board believed the question covered too many topics and should be split. Mr. Dacey suggested moving the issue of whether any organization should be specifically identified as included or excluded for consolidation or disclosure. He noted the Board has spent a lot of time on the issue of principles-based standards and that could be addressed in a question, with specific examples of entities. The Board discussed the sequencing of Question 6 and agreed that it should focus solely on the minimum disclosures for the Federal Reserve and the narrative would need to be revised so the narrative and preamble fit the questions that remain. The Board noted question 6b was not written in a way to solicit responses, so staff would revise and determine the best location for this question. It was agreed staff would revise question 6 by splitting and/or moving portions to other questions for the Board's consideration. It was agreed the Board would review the revised questions at Thursday's session. Ms. Loughan asked if there were any other comments on the minimum disclosures for the Central Bank.

Mr. McCall noted that he had a comment on paragraph 76b. He noted the description "risk and benefits," but he believes it should say "any significant financial risk or benefits to taxpayers and to the federal government." He explained that in his view; it is not the relationship between the Federal Reserve and the federal government solely. It is also the relationship between the Federal Reserve and taxpayers. Mr. McCall noted that in various parts of the standard, we used taxpayer—such as in paragraph 37, which is under consolidation entity, one of the criteria is imposing or "may impose risk and rewards on the taxpayers." He also noted in paragraph 42, it says "limited risk and rewards fall to the taxpayer." He explained that both disclosure organization and consolidation entity use the word "taxpayer" in the criteria.

Chairman Allen asked if there was a catch-all phrase that we could use in all of these instances, because it appears they all apply. Mr. Dacey wondered what is meant by the "taxpayer" and "impacts the taxpayer" and how Mr. McCall perceives it. Mr. Dacey explained that he believes we are talking about things that affect the government and that the term "to the taxpayer" may be used in many cases to equate to "to the government." He asked if there is a difference between how you perceive affecting the government, risk or rewards to the government versus risk or rewards to the taxpayer?

Mr. Dacey noted he was a little concerned if we are starting to go into indirect effects, such as affecting the economy. Mr. McCall noted that our criteria for consolidation entities and disclosure organization refers to the taxpayer. Therefore, when we get back to the disclosures for the Central Bank, we forget about the taxpayer there. We say "risk to the federal government" and that isn't consistent in our wording.

Mr. Steinberg noted he agrees with Mr. McCall and believes it gets back to the objectives of federal financial reporting that is in our concept statement--the third objective is stewardship. He noted that it explicitly says that the country is something broader than the government. He explained it doesn't use the word "taxpayer," but it uses the word "country" and "nation." Mr. Steinberg explained the financial reports should enable people to assess whether the government contributed to the well-being of the country and whether it left the country better off or worse off. The Federal Reserve can take actions that have no impact on the government per se, but because of monetary policy, could have a tremendous influence on the country.

Mr. Reger explained that he was a little concerned that we are talking about significantly modifying the purpose of the report. The discussion of what the report's basis or intent was, and remains, is kind of significant. He explained the report does not report out on every single policy action taken by the Congress or the government might make that affects the citizens of the country.

Mr. McCall explained that he wanted to point out the criteria the Board agreed on are not consistent.

Mr. Showalter explained he was in agreement with Mr. Reger's concern. He believes when we refer to citizen, we meant indirectly citizens have to pay through increased taxes to the federal government. He explained we can't open this up to any possible ramification of federal policy on the taxpayer or citizen that would not be auditable from that perspective and we need to be clear what we mean by impact on the taxpayer. He explained he believes we mean burden on the taxpayer through the responsibility to the federal government, not any impact. Mr. Dacey agreed and believed he personally preferred saying "to the government" where we say "to the taxpayer."

Mr. McCall noted he was thinking along some of the comments that Mr. Steinberg made and there are probably actions that the Federal Reserve makes regarding unemployment and those types of things that could directly affect the taxpayer, maybe indirectly.

Mr. Dacey noted he understood but that might open up a Pandora's box. For example, if the sequestration causes a reduction in TSA agents at the airport, it is going to affect my economic welfare by having to stand longer and not be productive for a longer period of time to get on an airplane. So, it would have an effect on me. So, he was concerned about that indirect effect. He agreed we should be consistent.

Mr. Granof noted that we have already broadened it somewhat when we added paragraph c for discussion of actions taken by the Central Bank with respect to monetary and fiscal policy, which goes beyond relations with the government itself.

Mr. Dacey explained that he does not have a concern with what we added because it is describing the actions they are taking; whereas the other is the effect of those actions on the taxpayer and he would have concern with that.

Mr. Smith asked for an example of a risk that would be to the taxpayers that is not to the government that we would be trying to say this is what we would lose in the standard if the wording was not included. He was trying to understand exactly what we want to capture by adding taxpayer. He explained that he sees that as broadening this, that someone could go interpret it now that could be further than what we want.

Mr. Steinberg suggested the example of the Federal Reserve has adopted the policy of buying \$85 billion a month of mortgage-backed securities and, also, issuing bonds of \$85 billion. If they all go bad, somebody needs to pay off. If the thought is that the Federal Reserve will just issue more money because they are the ones that issue the money in this country, if they do issue the money, and you increase the money supply, then it causes a tremendous rate of inflation, much more than you have otherwise. It wouldn't affect -- well, it would affect the interest rates. It would affect the average citizen a lot more.

Mr. Dacey noted we address this by saying "the government."

Mr. Smith agreed and thought that we get that disclosure now.

Mr. Steinberg noted that as Mr. Granof pointed out paragraph c addresses a lot of this as well.

Mr. Reger agreed there is a general discussion of monetary policy in c. He noted the questions are in 76 e ("significant financial risks or benefits to the federal government") because it is even more variable in terms of predicting eventual effects on the economy.

He explained he doesn't think we really have a way of telling the reader what the short- or long-term effect of that monetary policy is, especially if we are going to follow the example in terms of an event that I don't think would occur anyway. But let's say the mortgage-backed securities decreased in value to the point where you would want to increase the monetary supply. That might be the best action in the world we could take right at that second, depending on thousands of other things that would be going on. He did not see how such a requirement is possible or auditable.

Mr. Dacey noted he would like to clarify a point. If the value does go down and they sell them at a loss, then you are not creating money supply at that point; you just sell them at a loss and the Federal Reserve records a loss. It reduces the amount that gets transferred to the federal government from that payment.

Mr. McCall noted we increased the money supply when we bought the mortgage-backed securities.

Mr. Dacey explained the impact still gets back to the government. Although there is an indirect effect of all of this on the economy and on the citizens, but, again, the indirect part is the part that he was very concerned about bringing into the disclosures.

Chairman Allen wanted to recap that the Board had been discussing the issue of "federal government" versus using "taxpayer and federal government." And the reason it is best to use the word "the federal government" is that, if possible, we would like you to describe these policies and, government is of the people, for the people, and therefore, the government is the people, so to speak. But, in this case, "the amounts of the federal government's exposure" is preferable to taxpayer or citizen's exposure. Chairman Allen asked Mr. McCall if he was Okay with the explanation thus far.

Mr. McCall explained he was okay with it. However, he just wished in consolidation entity and disclosure organization we would use the federal government only in the criteria. He noted there is inconsistency between our criteria and how we are now using.

Mr. Dacey agreed and asked if we could make it consistent and use "federal government" throughout?

Ms. Payne suggested that in paragraph 37, what you are really looking at is how operations are financed through the process of taxation. The Congress' appropriations from tax revenues with financing eventually paid through taxes to cover any deficit. She suggested staff would replace "supported by the taxpayer" with "financed through general taxation and other non-exchange revenues."

Mr. Reger suggested if that is what the Board agrees then staff will have to search the entire document to ensure it is used correctly. Staff will have to search through the document for these two terms and ensure that every time they are mentioned that we have a consistency of what we are intending to say.

Ms. Loughan asked for the Board's confirmation on making the change.

Mr. McCall noted he would be okay leaving but he wanted the other members to understand his concern. He believes there is some merit to using the word "taxpayer," but it just seems inconsistent.

Mr. Showalter explained when you use "taxpayer" in concert with "risk and benefit" there is concern. I don't think we need to scrub "taxpayer" out of the whole document, but instead ensure the context that is limited.

Ms. Payne asked if the Board was comfortable with where it is used in the context of who is financing the operation but not in the context of risks. Mr. Showalter agreed.

Chairman Allen directed staff to read through the document and use their best judgment based on the input from the Board to determine the changes necessary to make consistent.

Mr. Granof explained he was concerned that paragraph 76c ("A discussion of the actions

undertaken by the central banking system to achieve monetary and fiscal policy objectives including significant actions such as adjusting the discount rate, purchasing securities (for example, Treasury securities and mortgage backed securities), or undertaking central bank liquidity swaps") in that this discussion of the actions undertaken by the Fed will be boilerplate from year to year. He explained they engage in the same actions every year.

What is significant is the difference in the magnitude of those actions. Mr. Granof explained they are always going to buy Treasury securities, but what matters is how much Treasury securities are they going to buy each year. He added that it is critical that we include in there some mention of the dollar amounts along the lines of "discussion of the actions, including dollar amounts, when appropriate." Mr. Granof explained these amounts are in the public domain and they are audited, in the Federal Reserve's financial statements. He noted that it seemed to him that the cost would be minimal and the benefit substantial.

Mr. Dacey explained that he believed the cost would be substantial. He noted there is an opinion on the financial statements as a whole, not on specific line items in those statements. Mr. Dacey noted he has explained his concerns at prior meetings. [Staff notes these issues have related to audit cost with respect to benefit. See prior minutes for detailed discussions.]

Mr. Granof noted he appreciates Mr. Dacey's comments but this is a general comment on standard-setting. He believes the role of the standard-setter is to do what is best for the users of the statements and then, you bring in the cost by balancing that with the cost to the preparers and the auditors. Mr. Granof explained it is a meaningless statement without some sort of indication as to the magnitude of those amounts.

Mr. Dacey explained that even before one considers the audit cost, there is also the fact you are looking at financial statements which are 12-months old at that point. He explained there is the issue of relevance and he wasn't sure without substantial disclosures that you could even attempt to explain to the reader how those actions had an impact on things since it is 12-months old. Mr. Dacey explained this was disregarding for a moment the potential additional cost that would be incurred because it is a very complex subject.

Mr. Granof explained he understood the argument about the 12-month old information and that it may be stale information, but that, of course, is a problem with the entire report.

Mr. Showalter asked Mr. Granof if his concern was more in regards to the change in policy. Mr. Granof agreed. Mr. Showalter suggested that the language be modified to indicate a change or the extent of the modification. He explained then, you may not have a number, but rather a percentage or something. Mr. Granof explained that is what he was going to suggest because he is not concerned with specific auditable amount. For example, he wanted to know what is going on, that this year we engaged in QE2s.

Mr. Dacey explained he didn't have a problem with that general discussion of magnitude.

His concern is dollar amount.

Mr. Reger noted he agrees with Mr. Showalter. In addition, he believes the value in the discussion of item c is to know what has changed this year and to ask the Federal Reserve annually in this to provide a synopsis of the changes or alterations in policies which would have a significant effect.

Chairman Allen explained when he reads paragraph 76c, he envisioned there would be amounts. He noted it says, "What significant actions did you take," which is adjusting the discount rate. I think it doesn't mean anything to say, "I adjusted the discount rate."

Purchasing/undertaking Central Bank liquidity swaps, we undertook that. Well, that doesn't say anything. You have to say something like, "We increased from \$10 billion to \$50 billion the amount of liquidity swaps."

Mr. Dacey noted that he doesn't necessarily agree as you could explain with narrative. He noted the purpose is to describe monetary policy or to give a description of the interaction between the federal government and the Federal Reserve. It is to give the risks and rewards that it provides back to the federal government. Mr. Dacey explained putting amounts would be a challenge in this disclosure.

Chairman Allen explained that without amounts, he would drop paragraph c. Mr. Granof explained that is why he would say "if appropriate." Mr. Dacey said that would be okay.

Mr. Reger asked does it make a difference if the Federal Reserve doubled or halved the discount rate, or do you want to know the effect of that action. Mr. Reger explained the words are more important than the numbers to the less-than-expert reader in terms of saying what that cost.

The Board briefly discussed the issue of perspective and relevance how it is important in understanding information presented. The Board also discussed the examples of discount rates and debt presented in the financial statements.

Chairman Allen explained the example of discount rates--you might report you raised the discount rate one-fourth of 1 percent. But what does the word "raise" mean? One must provide some perspective.

Mr. Dacey explained it gets back to trying to give the reader a basic understanding of the operations of the Federal Reserve during the year. There are public policy statements addressing actions they have taken and what they were intended to achieve.

Mr. Showalter noted that he believes 76c could be answered with or without numbers.

Chairman Allen stated that he now agrees, but some things may result in a number.

Mr. Dacey explained he looks at this from the standpoint of the direct relationship or if the Board is trying to explain the impact on the government that is very broad. He agreed appropriate disclosure could be accomplished with what is in paragraph 76c. He noted that the Board could add the word "change" as discussed earlier to clarify.

Mr. Granof explained that since the Federal Reserve is part of the federal government, we want to know what have they did. He explained we have to stop thinking of the Federal Reserve as affecting the government, because he believes the Federal Reserve is the government.

Mr. Reger asked if that means the effects of monetary policy should be disclosed. He asked how that is different from telecommunications regulation.

Mr. Granof explained a critical difference is that what the Federal Reserve does (as opposed to telecommunications) has an impact on fiscal policy. He added it involves liabilities of the government and when they are buying and selling Treasury securities it is critical because it affects the government, and it affects the economy as well.

Mr. Dacey explained information regarding buying and selling of Treasury securities will be audited and disclosed in the financial statements. Mr. Granof explained that is what he wants assurance of.

Chairman Allen asked if there was proposed wording that needed to be considered or voted on.

Mr. Granof explained his alternative wording was "including dollar amounts when appropriate" but it was suggested to change it to "including an indication of the magnitude as appropriate."

Ms. Payne directed the members to the wording on the screen which was another option.

After briefly discussing the wording, the Board unanimously agreed to the following language to paragraph 76c. "A discussion of significant financial actions, and changes in those actions,

undertaken by....” There were no other comments on the minimum disclosures for the Federal Reserve, so the Board moved on to the second topic in the staff memo.

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Staff explained the first item of discussion would be Alternative View #1 regarding the Federal Reserve System (FRS) and to make sure that all Board members have a clear understanding of the AV. Ms. Loughan noted the first question would be if the authors of the alternative view intend for the FRS to be a disclosure entity. When staff first read it as presented, that was our understanding. However, based on feedback, perhaps that’s not correct, and staff would like one of the AV authors, to explain the AV to ensure all are on the same page and how it should be interpreted.

Mr. Granof explained it is hard to answer, because we have to step back and look at the document as a whole. He explained some of his concerns are from a more basic position going back to what we’re trying to accomplish in this document. Mr. Granof explained that the document doesn’t set forth what the overall problem is and what it is that we’re trying to resolve in this document. He explained in his view the major problem has always been the Federal Reserve.

Mr. Granof added as he read the document, the Board never really discussed all of the consequences of the document. He believes it in many ways is left to the auditors and the preparers to make the ultimate decision. He explained that he would rather know is how it’s going to affect certain key entities, such as the Postal Service for example.

Mr. Granof explained as it is now; it seems that the intent is that the Federal Reserve System should be a disclosure entity. And yet one of the reasons as explained in the basis, there are complexities in consolidating the Fed. However, that’s not the reason we’re excluding the Fed and that’s inconsistent with the standard. Mr. Granof explained we don’t consolidate the Fed, not because it would distort the financial statements but rather that it doesn’t meet the criteria that are specified. He explained the proposed standard should be clarified exactly why we’re excluding the Fed.

Mr. Allen explained that the key question is if the alternative view specifically intends to make the Federal Reserve a disclosure entity.

Mr. Steinberg explained the alternative view as written does not take a position either way. The alternative view focuses on the disclosures.

Mr. Allen explained it is a little confusing. He added the first sentence or two it looks like what you’re saying is that this is a disclosure entity. If the intent isn’t to do that then we need to be clear on that point.

Mr. Dacey explained that the preamble suggests that regardless of whether it’s a disclosure or consolidation entity, that this disclosure would be required. He explained that FASAB doesn’t require disclosure of similar information for other consolidated entities. If FASAB did so, it would extend the financial statements significantly.

Mr. Allen suggested that may relate to the second question, and the focus is on whether the intent of the AV is to state that this is a disclosure entity. It appears the wording would have to be clarified.

Mr. Showalter explained the alternative view currently is the majority view. So the standard would be worded as proposed by the AV.

Mr. Allen explained he believed there was uncertainty among members supporting the AV on the point we are discussing and it doesn't appear that a majority of the board supports that point. Mr. Allen explained if the intent of those supporting the AV is not to require the Federal Reserve be a disclosure entity, then the reader would rely on the framework as currently set forth in the ED.

Mr. Granof explained that there are different views on that.

Mr. Allen explained that the full Board should understand that point before so they can determine if there are additional disclosures that are necessary.

Mr. Steinberg explained he would agree it is not the intent of the AV as it is written to require the Federal Reserve to be a disclosure entity.

Mr. Granof explained to get five people onto an AV, there was a lot of compromising. He added that his view differs from some of the other members. He explained he is probably in the minority view that the Board does have an obligation to specify whether the Federal Reserve is a disclosure entity or a consolidation entity.

Mr. Allen explained that he could go into a longer discussion on how one can vote with an AV, but in essence what we're really trying to do is to gather feedback that will help us deliberate to a standard. Mr. Allen explained if there is a point a member feels strong enough about, they can focus in on it as a question or as an alternative view. He noted that to specify the Federal Reserve as a disclosure entity seems like such a fundamental question that it would be necessary to have an AV. However if we are focusing on additional disclosures we can obtain due process feedback on that issue with a question without an AV.

Mr. Granof explained that he agreed. He added that if the only issue is more disclosure then that's probably something we can resolve very quickly.

Mr. Allen asked if that is what the issue is for the other four AV people. Mr. Granof explained that he believes certain members are uncomfortable with the document as it is that it doesn't quite justify the position and there are certain inconsistencies.

Mr. Steinberg explained five members believe there should be additional disclosures. He added the five members agree with the original majority of the Board. Mr. Steinberg explained they can make the AV more clear and have the additional disclosures; but that doesn't mean that there's not going to be Board members that are still uncomfortable with the direction it's taken. Mr. Steinberg added Mr. Granof explained he thinks the role of a standard setting body is to be more precise. Mr. Steinberg stated that he agrees with him on that. He added that Mr. McCall has always considered consolidation, so he may have an alternate view on that issue.

Mr. Allen asked if it could be addressed with a specific question that says while the majority of the Board feel this way, there are individual Board members who believe that it should be

consolidated or that the Board should specify that it's consolidated, or should specify that it's a disclosure entity, and to provide feedback on those points. Mr. Allen asked if that would get the feedback necessary to deliberate a standard. He explained he did not want to miss an opportunity to get all the feedback so that the Board has a basis for making a decision.

Mr. Showalter explained he would support requesting feedback. He explained the reason he joined the alternative view was really that we needed more feedback. Mr. Showalter explained he doesn't agree with Mr. Granof because the nature of the Fed is changing, and where we sit today will change tomorrow. Mr. Showalter explained he supports a principles-based standard because of the nature of the Fed; otherwise we would be amending the standard every time the Fed does something differently. However, he believes the Board should be open to get feedback. Mr. Showalter added the Board is split on some of the issues related to this, so we ought to get feedback.

Mr. Dacey asked for which parts of the document should feedback be requested.

Mr. Showalter explained he believed there are three issues: One is whether there are enough disclosures on the Fed. Two (which most will debate with Mr. Granof) is whether the Board should be specific about the type of entity the Fed is. Three is potentially the interventions and AV provisions we haven't talked about. [The second AV, to be discussed.]

Mr. Granof explained on the issue of consolidation versus disclosure, he wasn't sure that the Board had considered all of the implications of consolidating. He noted this was Mr. McCall's point.

Mr. McCall explained he believes that the auditor and the preparer should make the determination whether an entity is a consolidation or disclosure entity. He added he doesn't believe the criteria we have are sufficient. He also noted the Board has had enough discussions on whether consolidation is a viable alternative. Mr. McCall proposed adding a question that would give feedback from the people that read the exposure draft that would satisfy concerns. He explained he wanted to know if the criteria are specific enough or clear enough that you would have an idea of how the Federal Reserve should be disclosed or consolidated. Mr. McCall added that he agreed that it can be a disclosure or a consolidation entity with additional disclosures, but would like additional feedback on that question.

Mr. Allen asked staff if to capture the points discussed in one or two questions.

Mr. Granof explained he wasn't sure that his issue had to be asked because the Board has discussed that. Mr. Allen explained that he understands that not all members will support the standard. However, in the end we can still have somebody who dissents but there should be some feedback on the issue. Mr. Allen explained therefore, let's ask for some feedback so we can have some discussion that may persuade you or persuade us. Mr. Granof agreed that he believed it could be a legitimate question-- should the Board specify whether there should be a disclosure or consolidation?

Mr. Reger explained it seems that in an exposure draft we're supposed to take a position and propose it, and then ask questions of people about things that they think we should take into consideration in deciding what the rule is. He explained the more fundamental question is we've voted over and over to go to a principle-based standard, and yet every time we come up to this we sort of want to back away from the principle. Mr. Allen asked if he thought asking a question

is backing away from the principle. Mr. Reger stated no, but he believes the questions should focus on the disclosure and that may drive us to a different discussion about the principle.

Mr. Dacey explained in his view he believes we have a fundamental agreement as a Board but some members want to add more disclosures. He added, with the alternative view there are some more requirements and the question is how we get feedback on whether people think more disclosure should be required. Mr. Allen noted that there was some concern if there was total agreement with everything aside from the additional disclosures, as Mr. Granof and Mr. McCall had raised at least some other questions.

Mr. Steinberg explained we are proposing a principle that the Federal Reserve can be reported either way. There are some members that would like feedback on that--it would be do you think the Board should be more specific in saying either one way or the other, or laying out the guidelines in such a way with the principles that it's pretty clear which way to go. Mr. Steinberg explained he understands that situations may change, but it seems that's the role of standards, so that when situations change then you see you go from this side to that side.

Mr. Showalter explained if you say the central bank is consolidated, the criteria are basically taken off the table because the Board has made the decision for the issuer.

Mr. Steinberg explained that he is not saying it should be consolidated or disclosed. He explained the standard should be clear enough that everybody reading would come to the same conclusion. Because right now he believes it is written such that it could go either way.

Mr. Showalter explained that may be true, but people are making those decisions because they have personal belief in where it goes, not necessarily because they've applied the criteria to arrive at that conclusion.

Mr. Reger added that it may be based on the circumstance that we're in today. Mr. Showalter agreed and that's why he is trying to be flexible. The Board concluded these criteria should be appropriate for all the entities. He added, that a question could be added to the ED asking "do you agree the central bank's role was so different that (to Mr. Granof's point) you need to look at it differently than we've looked at it because of the role of the central bank?"

Mr. Reger suggested that it not be limited to just the central bank, but ask if there are entities that are so unique that they need to be considered outside the current draft standard; for example, the central bank.

Mr. Smith explained his position was similar to Mr. Showalter and he agreed to the alternative views because he thought there were some unresolved issues. He added that he wasn't in agreement with Mr. Granof. He supports the idea of getting feedback as suggested. He also agreed we should keep it broad and ask if there are other entities that are special. Mr. Smith also agreed the Board needs to discuss the merits of the disclosure.

Mr. Dong asked if the protocol was to take a position. He asked if we can make the statement whether there are other entities that are special and get feedback on that, or are we asking the question open-ended?

Mr. Reger stated if we believe the standard as drafted is not encompassing enough to reach a conclusion, then we should ask the question--Should there be other criteria that should be

applied in the standard? Are there enough criteria in the exposure draft that allows us to make determinations about specific entities?

Mr. Allen explained the questions appeared consistent with what Mr. McCall proposed. It appears we could cover the issues in one or two questions. Mr. Allen noted there could be some challenge with addressing special entities, and you may have to say 'such as the central bank.' However, he noted a question about whether the criteria are sufficient to help those who prepare and audit financial statements to arrive at the appropriate GAAP answers is what we should strive to articulate.

Mr. McCall explained he believes the preparer and the auditor should make that decision. However, he notes the central bank's financial statements are over two trillion dollars in assets which is basically equivalent to what's on the federal government's financial statements. Mr. McCall explained he wants to add a question that asks respondents do you agree or disagree that the criteria are sufficient and adequate to apply to a central bank in making a determination whether the entity should be reported as a consolidation entity or as a disclosure entity.

Mr. Allen suggested we may want to use the central bank as an example, but who says that's the only unique organization out there where the criteria are not sufficient enough?

Mr. Reger agreed and suggested that it should be broader. Others may consider organizations such as the post office, museums, Amtrak, and the boy scouts. Mr. McCall agreed that it would be okay to say such as the central bank. Mr. Granof noted there are other unique organizations but the Fed is really unique; it has been treated as unique. It is specifically called out as an exception in SFFAC 2, so he believes there is justification for at least mentioning the Fed.

Mr. Dacey explained that he believes we should give more than one example because we don't want respondents to think that because it relates to the central bank, it doesn't apply to them. Otherwise, they may ignore the question. Mr. Dacey agreed a general question about the adequacy of the criteria may be appropriate. He noted if we're going to apply this to other entities, and if it suddenly changes the dynamics of what we currently have, we ought to know about that, even if they're not unusual entities. Mr. Granof explained that's exactly his concern, we don't know how it is going to affect lots of entities.

Mr. Allen explained staff would work on wording to capture the questions agreed upon and the Board would review at the next meeting. He directed the Board to discuss the next issue.

Ms. Loughan explained the next issue would be determining whether the Board is in agreement that additional disclosures are necessary for disclosure entities. Staff directed the members to page 5 of the staff memo, which provided a snapshot of the additional proposed AV draft disclosures, and also staff proposed disclosures.

Mr. Allen suggested the members first discuss whether they want to have additional disclosures. He noted that we're talking particularly about one entity, but that doesn't mean that there couldn't be others

Ms. Loughan agreed and noted the ED as written, one relies on the objectives along with examples to determine the information to present for disclosure entities. Staff explained an earlier version of the ED had more specific required disclosures for entities that perform sovereign functions but the Board voted to take those out.

Mr. Allen asked the Board members to explain their position regarding the issue for additional disclosures.

Mr. Reger asked if the discussion is whether we believe that it is important to have additional disclosure requirements of any disclosure entity or are there classes of entities that meet certain criteria for which the current disclosure requirements are not sufficient? Mr. Reger explained he had concerns because there may be considerations, like timing and report dates, because they could have an effect on disclosures for some entities.

Mr. Granof explained that he is concerned with the Federal Reserve and hopes it will come through in the alternative view because he believes it is unique entity. He noted it has three or four trillion dollars in assets; therefore, he has no trouble specifying disclosure requirements for that one entity.

Mr. Showalter explained he supported the AV because there are unique activities related to the Fed which won't get properly disclosed. He noted this is not a reflection on what is currently being disclosed because we're trying to establish standards that go beyond what is currently being done. Mr. Showalter explained there are some unique responsibilities that would not get picked up in the current disclosure. He explained the AV is trying to fill in the gap because the role of the central bank cannot be ignored because there is only one central bank.

Mr. Dacey asked (conditionally) if the decision were made to consolidate, do the AV authors still feel the additional disclosures would be necessary and appropriate? Mr. Showalter explained that it would probably be more important because if you go back to the other FASAB standards they probably did not consider the role of the central bank. Mr. Granof agreed.

Mr. Dacey explained that his concern is what makes the central bank so unique that we shouldn't be applying similar requirements for a wide variety of entities that we consolidate. Mr. Showalter explained that it is driven by the magnitude. Mr. Dacey explained that his concern was that we do not talk about the organizational structure of the Defense Department, how it operates, what its mission is, etc. Therefore, if we don't go down that path for other consolidated entities, how does one make the distinction?

Mr. Granof explained that it is not just the magnitude of the dollars, but also the unique aspects of the transactions in which it engages.

Mr. Dong noted the Board should be clear in terms of what the focus and objective is--the need and nature for additional disclosures. There seems to be a lot of conversation in terms of the Federal Reserve, but then we say other entities may be unique. Mr. Dong explained if we broaden the discussion to other entities that changes the substance of what has been identified in terms of additional disclosure. Mr. Showalter noted the AV position is only about the Fed.

Mr. Allen explained there may be other federal entities (railroads) that probably played even a more important part in expanding our nation at some point in time, and there is something unique about them.

Mr. Granof explained what is unique about the Fed is its impact on monetary and fiscal policy. In other words, financial statements are directly concerned with things such as interest rates and the Fed has a dominant role. Mr. Granof explained that the Federal Reserve is different than the Defense Department because it has a more direct impact on fiscal and monetary policy.

Mr. Showalter explained if you look at it another way, we could have just incorporated it into all our disclosures but that would be overkill disclosure on the rest of the population. He added what we are trying to do is carve out a particular entity and deal with that and not lay it across all the entities. Mr. Showalter explained the Board could ask the question do you believe there are similar entities. Mr. Reger agreed it was important to frame a question.

Mr. Allen agreed that a question may help, along the lines of --do we view disclosures as potentially inadequate in any other circumstance? And the answer for some board members has been yes for the Federal Reserve. One of the challenges is that we have some existing standards that require broad disclosures. Mr. Allen also noted the disclosures for disclosure entities are quite principles-based. Therefore, you may not get some of the specific things listed in the AV and would that be sufficient.

Mr. Smith explained he believed we could ask a question if respondents believe the central bank is unique and based on the present standards, what we would miss and would the statements be deficient related to the Federal Reserve. Based on the feedback the Board could determine what we need to incorporate into the standard, because otherwise we could have a deficient standard.

Mr. Reger asked if we need to have that discussion in relationship to all the other entities that we report on for instance, the agencies. Mr. Smith explained he thought this discussion related to the Federal Reserve because it was unique, probably due to the fiscal crisis but he doesn't believe it changed the significance of the Federal Reserve. It just might have brought it to light. But the fact now is that we know that the Federal Reserve is a big issue, and warrants looking into further.

Mr. Steinberg explained the proposed language in the alternative view is pretty critical and he noted a difference in the staff proposal subparagraph D - "A discussion of the nature and purpose of significant monetary and fiscal policy activity during the period, and significant balances between the central bank and the reporting entity during and at the end of the period." Mr. Steinberg explained the second part of that, he interprets to mean that it is the nature and purpose of significant monetary activity by the Fed with the rest of the government. However, he noted in the second bullet of the alternate view—the disclosures are not those just with the government, it is those kinds of transactions that they are doing that will affect more than the government but will affect the economy and the country.

Ms. Payne explained it is possible to read that in multiple ways and it was not staff's intent to limit the first half of that bullet to intragovernmental transactions. She noted staff could separate them, but the discussion would still be broad. Mr. Granof asked for clarification and if it was the intent of staff that transactions with outside parties would be disclosed?

Ms. Payne explained the intent was that there would be a discussion of transactions with outside parties. The balances, the requirement to report balances, would simply be the Treasury's securities and any other intra-governmental balances. Staff further explained if this were classified as a consolidation entity there would be no problem with getting the balances and subjecting them to audit. The Board had discussed presenting amounts for disclosure entities and concluded that it did not expect to see amounts. Further, the Board was careful about the reference to audited financial statements to ensure it was not including these statements within the scope of the reporting entity's audit because for many of these disclosure entities, the auditor will have limited reach in the audit. Staff was trying to not violate the

decision that the Board had made earlier while creating a disclosure requirement to satisfy both circumstances - a consolidation or disclosure entity.

Mr. Showalter asked for clarification if the amount the Treasury engaged with a third party would not be subject to audit. Mr. Dacey explained that, for example, the purchase of mortgage-backed securities by the Federal Reserve wouldn't be part of GAO's audit of the federal government if it wasn't consolidated. Mr. Showalter noted the auditor of the Fed is auditing those transactions, so it is subject to audit. Ms. Payne explained the transaction is subject to audit, it is a matter of whether the government-wide auditor would have to take responsibility. Staff was relying on the prior decision of the Board to be very careful in writing the disclosure requirements for disclosure entities such that you did not expand the scope of the federal auditors.

Ms. Loughan directed members to paragraph 72a. Staff noted when this issue came up before; language was added about significant involvements with outside parties. Staff explained the language that was added was added as example information, but the Board had talked about this issue regarding involvements with outside parties, and that's what had been agreed upon to be added to paragraph 72a.

Mr. Allen noted the disclosures are about disclosure entities, what if the decision is made to consolidate-- then 72a doesn't necessarily apply unless it's picked up in some other standards. Therefore, that would be one of the reasons of requiring key disclosures that we want regardless of how you treat this entity. However, if we do, we still have the same audit challenges. Are we somehow binding the auditor so that there is no chance we are ever going to get an opinion on these financial statements because there are numbers that he's not even authorized to audit or can't audit.

Mr. Dacey explained that he thought we had reached a balance of telling people where the financial report can be obtained, and pointing them to the website, which he thought was the agreement on that issue. Mr. Allen explained the Board should have a good understanding of where we stand on that, but apparently that doesn't go far enough for certain members.

Mr. Steinberg noted that if that were the case, this notion of saying there are statements available by reference, is there a need to produce a CFS because every agency in the federal government puts out a financial statement. Mr. Dacey noted there are references to other statements for more detail.

Mr. Steinberg explained if it is a financial statement for the US government to show what the US government has done and how has it affected us or will affect us in the future, then it should encompass all of those things that have affected us and should affect us in the future. As far as the audit is concerned, he recognizes the cost/benefit on audit, but right now the statement is not audited, because there is a disclaimer on it.

Mr. Dacey explained that will change someday and our decisions should not be predicated on that. He noted when we get to a point of having a clean opinion, GAO would need to rely on the work of other auditors, and will have to coordinate with all the other auditors in carrying out the audit. He explained based on auditing standards, the auditor has responsibility to audit the numbers in the notes..

Mr. Dacey explained as soon as you are associated with a number, it would entail a significant cost to get satisfactory evidence about that number. He also explained numbers for the Fed

would be 12 months old, which may be misleading. Mr. Dacey explained providing information on the balances with the government would at least be relatively current. He noted this issue presents a cost/benefit problem, and he thought the Board had deliberated and resolved it at a prior meeting.

Mr. Steinberg noted that he did not agree because it appears since we cannot give them current information, we will not give them any information. Mr. Dacey explained that he was saying that some information that is old and stale may be misleading or not worth telling the reader about. Telling the reader where they can obtain more information that is current may be more meaningful.

Mr. Steinberg asked how we could refer readers to get more current information because it's going to be as current as what you would have put in the report. Mr. Dacey explained the Federal Reserve has unaudited information available quarterly.

Mr. Dacey recapped that it increases audit costs to put otherwise unaudited information in and have to audit it because we are associated with it. Mr. Steinberg noted the statement right now is unaudited. Mr. Dacey disagreed and explained that there is a lot of information that is audited (at the agency level)—he referenced the Treasury Department note which is included in the binder materials and the additional information.

Mr. Reger explained this year as a result of the Board's discussions, Treasury tried to enhance disclosure for the Federal Reserve. Mr. Reger noted the AV document said that the Fed has business with multiple other agencies, and yet his inquiries at the Federal Reserve say they have no business relationships of any material thresholds with any other federal agency.

Mr. Reger explained what he did through Treasury was disclose the Treasury relationships with the Federal Reserve. He noted the Treasury auditor is somewhat uncomfortable with the preparer at this point because they are including a lot of detail in the Treasury statements. Mr. Reger noted the other important issue is this is the first time there are disclosures in the consolidated which do not come up through other entities and that is a significant change of approach and policy.

Mr. Allen explained that is what we're trying to clearly understand and what we're trying to figure out now is can we leave it at that point or is it necessary to say here's the unique information we want that wouldn't otherwise be provided. Mr. Allen noted his concern was the specificity in the AV, for example, some of the investments that they were holding. He asked Mr. Reger whether he had envisioned the disclosures would be to that level of detail.

Mr. Reger explained he was not concerned about the general discussions of things, of missions, policies, even current conditions to the extent he can get current condition. However, he noted concerned about numbers, carrying numbers that he would have to rely on that may be six, nine, or twelve months old or information that isn't in the public arena already. Mr. Reger explained he was concerned about the timeframes, especially at the end of the period. We have to be careful about the fundamental issues of audit and not to violate that. And fundamental discussions about the nature of not only this but other reporting entities like TVA who we accept numbers from which are quite old. He noted there are other organizations that are going to fall into that category.

Mr. Granof asked when you consolidate another entity and that other entity is audited by an independent auditor, how do you accept those, what assurance do you have or what disclosures do you make?

Mr. Dacey explained at a high level, the auditor decides whether you're going to refer to their reports, or take responsibility, which takes a higher level of involvement by the auditor.

Mr. Granof noted that if you consolidate the Fed, then presumably you wouldn't take responsibility for auditing them, you would rely on their auditor. But if you had to disclose certain figures, couldn't you say we have not audited this, we do not accept responsibility for it, and it is based on the work of whoever audits it.

Mr. Dacey agreed that while it is technically possible, there is a cost. Mr. Granof asked for clarification. Mr. Dacey explained the new standard requires more involvement of the auditor, even when you refer to other auditors. Mr. Reger added the subsequent auditor has some responsibility for due diligence over numbers that are reporting from a previous audit.

Mr. Dacey explained the auditor under the new standards, even if you refer, is responsible nonetheless for the group audit opinion on the entire set of financial statements, and that would increase the effort and cost to another auditor.

Mr. Granof noted we are debating cost. Mr. Granof asked if certain disclosures that are based on the audited financial statements of the Fed would involve significant cost.

Mr. Dacey stated it could, depending on the nature of the disclosures. However, Mr. Dacey explained if you disclose policies and general directions they're taking, you can likely obtain that kind of audit evidence at no significant cost.

Mr. Granof explained it appears if we are talking about a specific number, like purchases of mortgages, realistically it could be a lot of time and money. He added this is very significant because we are talking about a cost/benefit issue here, and I do not have any sense of the benefit, let alone the cost.

Mr. Dacey explained part of the cost/benefit is the relevancy of data that is 12 months old. Mr. Reger agreed and stated realistically, part of the reason we are talking about the Fed is the actions the Fed is taking currently. So is it going to be relevant to have nine- or 12-month old data, other than policy level discussions which the Board has already agreed to?

Mr. Granof explained it is relevant because it gives you a sense of the magnitude of what is involved. He added he believes in the last few years the Fed has engaged in massive transactions, not only with mortgage securities, but even with foreign banks. Mr. Granof believes that information is relevant to a reader. However, he does not know how to quantify the benefit and the cost is difficult to quantify.

Mr. Dacey explained it would be a significant effort because that number needs to be supportable and audited.

Mr. Dong questioned the incremental benefit of the additional disclosures when there's more timely information available by referring readers to information already in the public domain.

Mr. Allen explained he would let the AV authors answer that question, but before we get to that, there were requests for a break.

~ (Break) ~

Mr. Allen explained the Board was discussing whether the uniqueness of the Fed and/or other organizations is such that we should have a requirement that we specify additional disclosures. Mr. Allen noted this was a challenge because we are not sure exactly which disclosures we would get by the existing standards and the proposed standards. He asked members if they were comfortable as a Board exploring the possibility of additional disclosures.

Mr. Granof agreed because of the unique nature of the Federal Reserve, there are things which should be disclosed, and if not disclosed based on current standards, there are things that should be required.

Mr. Showalter noted the staff proposal on page 5 states "The central bank is a unique federal organization. Whether classified as a consolidation entity or a disclosure entity, the reporting entity must disclose, at a minimum, the following regarding the central bank..." Mr. Showalter noted it addresses the issue of whether it's a consolidation or disclosure entity, by ensuring the disclosures apply even for consolidation entities. He believed the staff proposed wording should be used as a starting point.

Mr. Allen explained he wanted to first ensure the full Board wanted to have the additional disclosures. And then if the answer to that is yes then we will consider what disclosures.

Mr. Showalter explained he was part of the AV, so yes and the lists appeared reasonable.

Mr. Smith stated he was supportive of additional disclosures but the Board needs to decide what they need to be.

Mr. Allen asked if the answer is just for the Fed, or would you broaden it to use the Fed as an example? In other words would you say because of the uniqueness of other organizations such as the Fed, additional disclosures may be necessary to cover them, or would you keep it to the Fed because the unique nature of the Fed?

Mr. Showalter explained he was sensitive to overload, and getting back to Mr. Dong's earlier point, he would say the Fed or any other organization you think is appropriate.

Mr. Smith stated he would also focus it to the Fed, but he would want comments back if somebody else believed another organization or entity was of the same level of significance, identify what that entity is and what disclosures they think that would be needed.

Mr. Allen explained the standards are applied to both the government as a whole and the department and agency level. So should we define this disclosure as only being appropriate for the government as a whole?

Mr. Dacey explained there are a number of factors weighing into his mind in this whole area-- one is it would be ideal if we had more of a consensus on a position. Therefore, to help achieve that consensus he has some sympathy to add requirements for the Federal Reserve, depending on what those requirements are. Conceptually, he does not think it is harmful but he is unsure whether it is still a principle-based standard. Therefore, he sees merit in asking appropriate questions, but they should be limited to the Fed only. He does not believe there is a need to ask questions about whether there are others; he believes the current standard is sufficiently flexible to achieve the objectives and have adequate disclosures.

Mr. Dacey noted, as he stated before, that he does have concerns about the cost benefit of certain information, if that was expected. He explained it should be consistent with our framework and applicable for the governmentwide and for component entities, if they are administratively assigned to a component entity that would be relevant — he said the only entity with transactions with the Fed at this point appears to be Treasury.

Mr. Allen asked for Mr. Dacey's clarification that we should not specify that it's only a government-wide.

Mr. Dacey stated that he would prefer that we included it where it was administratively assigned as well, which would be consistent with the framework. At this point, that is Treasury Department's financial statements. They are the ones that record the balances and transactions.

Mr. Dong explained he would support additional disclosures and the staff proposed language on page five as a starting point. He also agreed that we should focus on the Fed only for the reasons described earlier.

Mr. Reger explained he would support additional disclosures. He noted the Fed is trying to be more transparent in their dealings and there were improvements in the note. Mr. Reger agreed the staff proposal was a good place to start, but there are some concerns.

Mr. McCall explained he supported additional disclosures. His support is because if we were to look at the consolidation entity criteria and everyone around the table perform an assessment against these criteria some would say it's consolidation, some would say it's disclosure entity. Therefore, he supports additional disclosure because the Federal Reserve seemed most problematic and we could not make a call. He noted when he looks at disclosure entities, limited risk/rewards fall to the taxpayer, and Federal Reserve does not meet those criteria to him. On the contrary, when he looks at consolidation entities, imposing risk/rewards on taxpayers, he thinks it is very important.

Mr. McCall explained regarding staff's proposal 5A through E --A through C seem to say it is a disclosure entity, it talks about mission, relationship, and independence. While D is the only one that seems to be an additional alternative view comment and there may not be a proper balance and he believes we are still mixing aspects of consolidation and disclosure.

Mr. Granof explained we are faced with a cost benefit issue. And the problem that we as a Board face, and this is typical of most standards setting Boards, people do a fantastic job of articulating the costs, but the benefits are much more elusive. Mr. Granof stated that the Board should keep that in mind and also recognize that there are outside interests who are not going to speak up.

Mr. Allen explained we schedule a public hearing which helps more than just written comments. Mr. Granof noted even there, you are not going to get too many citizens.

Mr. Allen explained the majority of the Board agreed to explore additional disclosure and several members have said to start with the staff recommendation on page 5 of the staff memo.

Mr. McCall noted some concern or that it might have been leading you one way or the other. Mr. McCall explained that A through C is similar to what's already there for disclosure entities. Mr. Allen acknowledged and asked if he was comfortable with the approach because the whole

premise of this is we are saying regardless of the decision that one makes about whether it is a disclosure entity or a consolidation entity, these are disclosures that we feel are necessary.

Mr. Showalter acknowledged there are fewer issues to worry about with disclosure entities, but if you consolidate there will be more issues.

Mr. Dacey explained as he recalled when we first drafted the paragraph (similar paragraph in an earlier version that the Board took out), the idea was that we would apply this list separately. He explained if you are going to a model where you are talking about these incremental disclosures that are necessary, even if it were consolidated, this may be too broad of a list. For example, he explained he did not think all of them were applicable.

Mr. Dacey explained there is synergy, but the list on the bottom of page five of the addendum (Alternative Views and Staff Response) has more items than we need if we're going to treat it as incremental to what would be a disclosure entity or incremental towards a consolidation entity. It appears this is more of a replacement list when it was drafted.

Mr. Allen asked if we ought to write this in such a way that we are saying these are exposures we want regardless. Mr. Dacey agreed but some of these were written with the intention of being a disclosure entity, and maybe they are not on the list.

Ms. Payne explained the challenge for staff is the accounting standards do not have a note one requirement, so it becomes a little bit of a challenge to say incremental to what. Mr. Dacey explained if it were a disclosure entity there are requirements in paragraphs 69 through 72, so it would be incremental to that. He explained when you go to a consolidation entity then none of those requirements in 69 through 70 will be disclosed, and you're looking at what would you want if it's consolidated as sort of your base list.

Mr. Allen asked isn't it OK if we duplicate the list because we are starting with the premise that regardless of how you classify, we want these disclosures. Otherwise, wouldn't you need to add a second sentence that says if you are a disclosure entity most of those are picked up anyway or disclose the things there?

Mr. Dacey explained that was his question --if you are consolidated, then is that the intent to add a lot of information. He explained it gets back to the concerns about not currently talking about the mission of every consolidation entity. It would be appropriate if it was a disclosure entity but if it was consolidated, maybe that's not an incremental reporting requirement.

Mr. Allen noted Mr. Dacey's point is clear, because somebody reading the standard is going to say that is pretty duplicative, that's the same thing you asked for two pages earlier. This is written in a comprehensive manner because the entity may determine it is a consolidation or disclosure entity, so this is written comprehensively.

Mr. Allen asked if there were specific disclosure the members wanted to discuss.

Mr. Reger noted that it appears staff worked on the compromise and many of these were paraphrased from the AV. He explained that he has a continuing problem with dates, specifically during and at the end of the period.

Mr. Dacey explained if we are limited to the transactions of the central bank with the reporting entity Treasury should have that data available and audited. Mr. Reger asked if we have the year-end balances audited. Mr. Dacey stated yes.

Mr. Dacey explained separating staff proposed D into two pieces might avoid some confusion. But if you take the last part of D on its own, between the central bank and the reporting entity those would be audited and would be available, and are reported currently. Mr. Dacey explained that for E, he believes if it were consolidated, there are both possibilities--E as a separate requirement or is it inherently going to be addressed through all the other standards we have to deal with it. If it were disclosed, it is a matter of whether these are incremental to the ones in 69 through 70. He added, it depends on how you look at it. If it is a replacement you have a lot of disclosures here. If it were to be consolidated it may not be necessary or appropriate. Mr. Reger noted on F, this is the amount of the federal government's exposure in the past.

Ms. Loughan explained some of these are a repeat of what we already have. Mr. Dacey notes this brings back his earlier question--Should this list be viewed as incremental if it were disclosed, incremental to the requirements on page 69, or is it kind of a replacement list, saying this is what you have? Ms. Loughan suggested some may consider a full list for when it's a consolidation entity. Mr. Dacey noted that is what it was based on when we originally drafted a section.

Mr. Dacey stated that he believes the list goes beyond what the AV proposed.

Mr. Allen asked if the second bullet satisfied the AV authors as it seemed to be the biggest point of contention. Mr. Showalter explained at least at a minimum we'd want a description, but it sounds like Mr. Reger is saying he can describe it but he can't give any numbers.

Mr. Reger explained to the extent the numbers are already covered in Treasury's financial statements he can give provide the numbers. But to the extent that there might be something in the Federal Reserve's financial statement but not in a relationship with Treasury, that is not something he could provide. Mr. Reger noted they could discuss monetary policy stuff, but he did not know if they provide numbers regarding that.

Mr. Dacey explained that he didn't see a problem discussing the general nature of monetary policy and how it's carried out and some of the vehicles we're using to carry out monetary policy conceptually. However, if we start discussing what monetary policy decisions they made last week that is a different level of detail and support, because it gets back to audit evidence. He explained we can determine this is generally what the Fed is doing, and get enough audit evidence to support that through documentation, but when you get too detailed it becomes more problematic.

Mr. Showalter questioned whether the second bullet from the AV disclosures is completely addressed in the staff proposal.

Mr. Allen noted his concerns with the second bullet from the AV because they are too detailed, it discusses the Fed's types of transactions and specific disclosures about each of those and why they undertook those.

Mr. Steinberg explained much of the detail came from the Don Hammond briefing in August.

Mr. Granof explained the Federal Reserve is part of the federal government and if the federal government is going to engage in multiple millions of dollars in transactions - in buying mortgage backed securities or engaging in transactions with foreign banks – which are not only monetarily significant but politically significant as well, then they should be disclosed in the financial statements.

Mr. McCall explained he had concern with how one considers some of the disclosure requirements--describe the relationship of the organization, the nature of the federal government's relationship with the disclosure entity, and specifically as it relates to the Federal Reserve System, is it the federal government? Or is it a federal entity? He noted it is not a state or a local government, it is not a non-profit or a for-profit, and then what is left. What is it? Mr. McCall explained that he did not think the Board had complete agreement that the Federal Reserve is part of the federal government.

Mr. Allen explained there are criteria for inclusion in the GPFFR. He added he did not think any members disagreed. He believed the question was how to include it and that may be open to debate.

Mr. Dacey stated that he agrees conceptually with describing policy actions but the words in the AV suggested that a lower level of detail may have been intended. Mr. Dacey explained he was generally supportive of information about what the Fed is undertaking; it just has to be something that we can audit because there are some limitations on access. It is just when you start getting into very finite details it becomes much more problematic.

Mr. Dong explained he wanted to support Mr. Dacey's point. In addition, it would be helpful to get clarity from the colleagues who wrote the AV to explain specifically what gap we are trying to fill, and then bring it back to the question proposed before the break, and that is given those incremental disclosure requirements how does that relate back to the cost?

Mr. Showalter explained that item D in the staff proposal needed additional language and clarification as to what it means. He agreed that the AV wording may be a little strong, but "Discuss the nature and purpose" is not strong enough.

The Board discussed ways of improving item D in the staff proposal by adding examples from the AV without putting in too much required detail. The agreed upon wording at the meeting was:

"A discussion of the various actions undertaken by the central bank to achieve monetary and fiscal policy objectives including significant actions such as adjusting the discount rate, purchasing securities (for example, Treasury securities, mortgage-backed securities), or undertaking central bank liquidity swaps" – [the requirement would be more descriptive of the nature of the transactions to be discussed]

Mr. Allen explained staff will provide revised wording for disclosures at the next meeting and it could be fleshed out more fully then. He suggested the Board move on to the next AV.

Ms. Loughan suggested the second AV on interventions, receiverships, and conservatorships be handled the same way. Staff explained Mr. Steinberg had sent revised wording so it might be beneficial for Mr. Steinberg to explain the alternative view so members have a clear understanding.

Mr. Steinberg explained the original wording saying limited to sovereign functions got across the wrong point, therefore there are revisions. The AV authors were concerned about failed banks, GSEs and bailout entities. He explained they believe they were not meant to be part of the federal entity.

Mr. Steinberg explained the AV says it can be corrected by removing receiverships, conservatorships, and intervention entities from the proposed standard by stating that because they were never intended to perform the federal government's sovereign functions, plus they have less than a permanent relationship with the federal government, they are not part of the federal reporting entity.

Mr. Allen acknowledged this is an issue the Board struggled with over the past couple of years. He noted one of the first paragraphs makes a statement that the standard is not saying whether something is legally part of the government or is not part of the government. Mr. Allen explained if that is where this leads, he has some concerns with the unintended consequences of this, because it kicks out more than just those three types of organizations if we have sovereign purpose.

Mr. Steinberg stated the word sovereign purpose could be dropped. He explained they were not meant to be part of the federal entity.

Mr. Showalter explained the AV authors put sovereign in because we were trying to get a principle-based approach, but we can take it out if it is a problem. Mr. Steinberg stated that it is an explanation for why those three kinds of groups are not part of the government.

Mr. Dacey explained he has a fundamental question because the AV refers to these as being part of the federal entity. Mr. Dacey explained the structure of the draft ED as it currently exists, says we have entities for which elected officials are accountable, and then we define that as meeting these certain criteria, and then a decision is made about consolidation or disclosure. Mr. Dacey explained the document explains consolidation entities are federal entities and that means they follow SFFAS 34- FASAB GAAP, but that only applies to the consolidation entities.

Mr. Dacey explained disclosure entities are not part of the federal entity definition, and we do not require them to follow FASAB GAAP. Mr. Dacey explained he does not think our standard is saying it is part of the "federal" entity. He expressed concern with the AV as this may be shifting the whole paradigm of the exposure draft. Mr. Dacey explained that the ED says disclosure entities are part of the GPFFR, not part of the federal entity.

Mr. Reger explained that he was confused too. He questioned what was the intent in doing an AV? He explained he could not make out the difference between it and excluding this stuff.

Mr. Steinberg explained as he read the ED, the failed banks are called a part of the government because the title of the standard is Reporting Entity. In addition, receiverships and conservatorships are included because the federal government may take control or ownership of failed financial institutions. Mr. Steinberg explained to him that is implying that they are going to be part of the federal entity. He noted we have reporting on those right now because of other standards in GAAP.

Mr. Dacey explained his view that the equivalent of what is included in the reporting entity under SFFAC 2 is synonymous with consolidation entity in the ED. He also noted informed readers are looking at the statements and may be thinking that owned or controlled in most other standards setters are consolidated. Mr. Dacey explained he believed there was a need for heightened disclosure for these other entities to provide the reader with additional information.

Mr. Steinberg noted it is temporary ownership or control. Also, there are disclosures there because we have other standards that say we should have the disclosures.

Mr. Dacey explained the disclosures are there because of fair presentation and there are related parties and there are other reasons why this information is generally disclosed, but it is not all in the standards.

Ms. Payne agreed but noted it is also is not universal that the concept of “fair presentation” drove to a good result. For example, for Amtrak, which started as an intervention, the disclosure was minimal over the years and has gradually increased, but still does not meet the level that this exposure draft would require. So you don’t have the same outcome across the board with interventions at this point.

Mr. Steinberg noted once the project is final, Amtrak may not be considered an intervention entity. Ms. Payne explained that is another point because it is still being treated as an intervention after many years—actually classified as a related party and excluded. Further—preparers cannot rely on the private sector notion of fleeting being 12 months because most of these activities are not that brief. This leaves unanswered the question of when an intervention activity over and a government activity begun. Mr. Steinberg explained that criteria could be legislation has been set up to make it a federal agency rather than it being a private sector entity to say that something is no longer an intervention activity.

Mr. Showalter explained these entities should be in the financial statement, so this is not about whether they are in the financial statement. The AV is about what standards are going to address how they get into the financial statements. The AV authors believed interventions are risk assumed by the federal government.

Mr. Showalter explained that he believes people want to get the right disclosures and what convinced him was the fact we are splitting these types of transactions up and we have not dealt with all the disclosures. Mr. Showalter noted that at one time we had specific disclosures related to interventions but that went away when we went to generic disclosures.

Mr. Showalter also commented on the temporary nature—and we may say it is not a year, but it is two years or three years, and it is coming in or going out. He acknowledged it is a different intention here than in the commercial sense. Mr. Showalter noted the reason he supported the AV was to get other people’s views about whether we are treating these right. He explained we ought to at least get a question about whether we are handling these entities/transactions appropriately.

Mr. Allen explained he struggled with the notion that we are splitting them in half. He also noted concern with how related parties might be affected. Also, the AV uses the word standard overload, but he explained it is standard overload now to say go out and do all those different standards and use professional judgment to decide whether they need to be disclosed, as opposed to having clear guidance all in one place.

Mr. Showalter noted the project is supposed to be about relationships, but if you believe that, then you can collapse interventions into the upcoming risk assumed standard. Mr. Allen noted there is a separate project to look at that.

Mr. Dacey explained an example may be helpful--TARP acquired AIG and General Motors. Mr. Dacey explained there wasn't any question that we owned the majority of the stock in those two entities as a result of the intervention activities. At the same time there was more of a need when going through the reporting process to say more about GM and AIG, because the federal government had control and ownership, in fact there's even a paragraph in GAO's report about these entities. He explained the presumption by other standard setters that if you own or control an entity, it is consolidated. He added (excluding the conservatorships and receiverships). Mr. Dacey explained he believes if it is owned or controlled you would have a higher level of reporting beyond what would be reported. He noted if the Board does not agree with that maybe that is a good question to ask.

~ (Lunch) ~

Mr. Allen explained he would like to open the meeting back up for pros and cons of exclusion or not, and then take a vote on that.

Mr. Dacey asked for clarification of the AV and whether there is agreement that these entities should not be consolidated, and whether it is a question of whether they are included as disclosure entities or excluded totally.

Mr. Allen explained his understanding is that we have criteria for inclusion in the reporting entity, and then we have criteria for whether we decide it is a disclosure entity or a consolidation entity and then we have related parties. Mr. Allen explained it seems like we have a problem if you exclude this group from this standard-- why in the world would you still keep related parties in this standard--they're actually further removed than these kinds of organizations.

Mr. Allen explained he thought the standard was good because it tried to deal with all relational issues while acknowledging that there may be some other risk issues that we need to resolve.

Mr. Reger asked if the AV authors could explain their perspective a bit further.

Mr. Dong asked what the benefit to taking this approach was.

Mr. Steinberg explained there are two: 1. it is ideologically pure as to what the federal reporting entity is. The federal reporting entity should reflect what is intended to be within the federal government. 2. it assures that in regard to the intervention entities it will put all of the intervention entities into a single standard. Further, Mr. Steinberg explained the document as written does not provide for all disclosures you would want for intervention entities.

Mr. Dacey noted concern because if we took out those three categories, we would have other disclosure entities conceivably out there, and we are still not saying those are part of the federal reporting entity. He notes there is a keen distinction for following FASAB GAAP and at this point it is only the consolidation entities.

Mr. Steinberg explained this is part of what he believes to be unintended consequences that Mr. Granof referred to before. If you are saying that only the consolidation entities are part of the federal entity there could be some things that we have as disclosure entities when we follow the

other criteria, like the postal service or Amtrak. Are we willing to say the postal service is not part of the federal government?

Mr. Dacey explained he thought the proposed ED was clear as to establishing what is a federal reporting entity for applying SFFAS 34 and that aligned with consolidation entities that have to follow FASAB standards.

Mr. Steinberg explained his interpretation of the ED is that the reporting entity includes both consolidation and the disclosure entities. Mr. Dacey noted disclosure entities are in the report but they are not in the federal entity. The standard lays it out as “in the report”, not “in the entities”. He noted the ED makes reference to this.

Mr. Steinberg explained he also believes all interventions should be in one standard and addressed at some point. Ms. Payne noted all interventions would be addressed in standards but it was not clear that could be done in a single standard due to the diversity of interventions. For example, in the economic recovery act funds there were loan guarantees and direct loans to alternate energy companies; does that make them interventions? Staff noted the recovery act funds were intended to stimulate the economy and they were targeted to an industry which could not otherwise thrive. There were other policy reasons for pursuing alternative energy. Ms. Payne asked if it made sense to exempt them all and address them in one standard and whether that meant amending SFFAS 2 to exclude from the existing loan guarantee standards any loan guarantees made through intervention activities?

Mr. Dacey noted TARP made significant loans and equity investments. Under current standards, there is SFFAS 5, SFFAS 2 as well as level D GAAP and the equity investments themselves are reported at fair value so there is a range of standards that may apply but there is concern if one expects to have one standard on interventions. That would be a challenge, and he explained he was not sure how to pose a question to respondents about that.

Mr. Steinberg explained he didn't think we had spent enough time to make the assumption. If the only thing is we intervened, the entity is not part of the federal government.

Mr. McCall noted his concern is the AV appeared to add a fourth principle for determining whether an entity should be included. He explained that when he looked at the inclusion principles, by adding a fourth does not mean that you only report on the sovereign entities. Mr. McCall explained that by adding a fourth principle did not take out interventions, receiverships, and conservatorships. He explained that he believes they should be part of the federal report. Mr. McCall stated the AV was less clear.

Mr. Reger agreed and stated that he did not see the need for it. He explained if certain members are having trouble understanding the AV, respondents who have not had the in depth discussion will have difficulty.

Mr. Steinberg explained he did not want them in the standard. However, he noted that does not mean you do not report and that is the same thing that was done in SFFAC 2. Mr. Steinberg noted the first question you ought to ask is do you want them in or out.

Mr. Allen explained that his belief is this document is not about defining something that is the federal government; it is about defining what should be included in the financial statements of the federal government.

Mr. Granof noted that in this document we are equating the intervention and receiverships with the Fed and they are both disclosure entities because that is how they are categorized. He noted in his opinion, the Fed is an integral part of the government, but these are not.

Mr. Allen explained he understood his point, but they both should be included in the report because we are trying to capture all of these kinds of relationships. Mr. Granof stated that he agreed but it should be clear that they are categorically different than other types of disclosure entities.

Mr. Dacey noted that there does not seem to be any debate around the table that these entities are not consolidated. The issue seems to be whether we have additional disclosure apply to these entities, because they are out under this alternative view, they are not consolidated, or they're not part of the federal entity.

Mr. Dacey also noted there was discussion about not needing the disclosure because the AV said they are covered in other standards. Mr. Dacey also asked if we own or control an entity but do not consolidate—is there a need to disclose more about that as opposed to other entities like the interventions where we do not have control or ownership. He noted that he believes there is a need to explain more in those situations, using the example before, GM and AIG versus some of the banks, which are all intervention activity.

Mr. Steinberg noted that paragraph 9 of the alternative view, indicates there are some additional disclosures that would be appropriate for intervention entities. Mr. Steinberg also noted that he had exception with Mr. Dacey's point that the federal entity is only the consolidation entities.

Mr. Dacey explained that he is only differentiating federal to mean they have to apply FASAB GAAP under SFFAS 34. Mr. Steinberg noted that he thought a lot of disclosure entities have to apply FASAB GAAP. Mr. Dacey explained that he did not agree because the AICPA recognizes FASAB as the standard-setter for federal entities, and it is based on the definition in SFFAC 2 currently for what is a federal entity. He added that if we say disclosure entities have to follow FASAB GAAP, there would be issues. Mr. Dacey explained that it appears to be a wording issue—the ED uses “included in the report”, whereas Mr. Steinberg refers to “in the “federal entity.” Mr. Dacey noted this was a difference in the way the standard was set up and staff was explicit, in various points throughout. Staff noted paragraph 64 is explicit.

Mr. Allen noted that paragraph 66 lays out what we are trying to accomplish by saying our federal financial reporting objectives could not be met without information regarding these disclosure entities.

Ms. Loughan explained when we started the project and considered scope, it was the boundaries of the reporting entity—to consider all of the organizations for which elected official are accountable that should be included in that report. Staff believes to not include all of them would seem incomplete and that is one of the reasons staff does not agree with the AV. Some may view it as a difference in terminology, but the scope of the project and the standard was to identify the organizations that should be included in the GPFRR.

Mr. Smith asked staff with that summary, does staff believe there is no entity being excluded under the standard, so all would be in the report? Ms. Loughan explained that is what the inclusion principles were developed for, along with the misleading to exclude principle, so it would appear to capture all material organizations. Staff explained part of Mr. Steinberg's (AV) reasoning is to guard against peoples' impressions of what is a federal entity for political or legal

purposes and in the first paragraph of the executive summary of the exposure draft we try to guard against that.

Mr. Allen suggested the Board take a vote on the AV so we know if it represents the majority view.

Mr. Reger explained he did not support the AV and did not want to restate anything because he was confused by the need for the AV.

Mr. Steinberg supported the AV because he believes it has been not been addressed adequately. He reiterated that he wanted to get interventions, receiverships and conservatorship out of the federal entity, but not out of federal reporting. He suggested taking out the division of receiverships and conservatorships, federal government intervention and quasi-governmental – because quasi-governmental covers everything. He noted that they could not be taken out completely. Instead, he would address them in an explicit statement, similar to SFFAC 2, that they are not part of the federal entity but there are still required disclosures.

Mr. McCall stated he would leave the discussion of the three within the current ED.

Mr. Granof explained there needs to be more clarity in the ED, perhaps distinguish between something that's disclosed and the disclosure entity.

Mr. Showalter agreed with Mr. Granof's comment (distinguish disclosure entities from disclosure.) Mr. Allen also commented that paragraph 64 could be expanded upon. Mr. Showalter explained that he found the second AV and discussion confusing, but there appears to be a question if the interventions are really disclosure entities, but the Board may end up in the same spot if we still disclose information. He noted originally he thought this was about risk assumed disclosure and that is why he thought it was valid, but that does not appear to be at this point.

Mr. Smith explained these are not part of the federal entity, but the disclosure in the standard seems fine. He was not sure if there was a way to tweak the language but they need to be disclosed and he is comfortable with them in the standard because when staff explained it covers all organizations considered, and then it is why it should be in the proposed standard.

Mr. Dacey explained he likes the draft ED. He added he does not favor moving to the AV because we then have to argue that the federal government is not accountable for these entities. He explained he would understand if there are some additional disclosures that people think are necessary for intervention activities, but he noted we have one in the list already for intervention activities. Mr. Dacey also noted the Board could add questions to solicit feedback.

Mr. Dong stated he did not see the need to have the AV.

Mr. Allen agreed and said he did not support the AV. He believes that since we want disclosures about these things it just seems like this is the natural place. However, Mr. Allen explained he would be open to clarity considering if several of you would support clarifying certain things such as the difference between "federal entity" and "in the financial report" and "disclosed" and "disclosure entity" better.

Mr. Allen noted the vote shows the ED will remain the majority position on interventions, conservatorships and receiverships.

Mr. Steinberg noted that Mr. Allen had previously asked him how he would handle this area, so he wanted to repeat his thoughts for the Board and staff consideration as they make changes. Mr. Steinberg explained he would drop the three categories of disclosure entities, then rewritten what was dropped because maybe some has to come back in. Next, he suggested reading the document to ensure there is no indication that these intervention receiverships are part of the federal entity and if so, insert a specific statement that being part of disclosure is not the same as being part of an entity. Mr. Allen explained that the Board is in agreement the document should be reread to clarify any inferences and such.

Ms. Payne explained making changes regarding inferences are difficult. Staff explained in the draft we refer to “organizations” being considered for inclusion, and once they were included we shifted to calling them “entities”, hence the name “consolidation entity” and “disclosure entity”. Ms. Payne asked if “disclosure organization” would be a better name.

Mr. Showalter explained that it was a step in the right direction. Mr. McCall noted he liked “disclosure organization” and believes it helps because we talk about disclosures related to consolidation entities. Mr. Dacey suggested considering “disclosure relationships” because that is what we are talking about.

Mr. Steinberg explained it may be a slippery slope. He also noted concern because we have not taken a look at the different things that are in this report to determine how they may be affected and what some of the implications are. Mr. Allen suggested the use of a question if that is the kind of feedback he wants.

Mr. Steinberg asked if GASB does pilot tests of some of the standards before they issue them. Mr. Allen explained it might be beneficial if you have particular concerns just to have staff send something to an agency and ask for feedback, just as we did with the Federal Reserve. Mr. Steinberg explained that he did not think it was an agency level issue. Mr. Reger noted the agencies are easy; the question is those other significant entities.

Mr. Dacey clarified that there was no longer any reason to discuss any aspects of the sovereign issue based on the discussion. Mr. Allen confirmed.

Ms. Loughan requested members to forward any other comments on the ED.

Ms. Payne explained the plan going forward is for staff to do a rewrite based on the agreements at today’s meeting, but that would not put the Board at a point of voting next meeting. Mr. Allen thanked staff and agreed the Board would see a revised draft ED at the February meeting.

CONCLUSIONS: The Board agreed to explore additional disclosures for the Federal Reserve and start with the staff proposed disclosures.

The Board directed staff to:

- Develop Questions for Respondents to address the following Federal Reserve issues:
 - Are the attributes for consolidation and disclosure entity sufficient to make a determination for a central bank (the Federal Reserve System)? Also, are there other significant entities (please identify) for which it may be difficult to determine if it is a consolidation or disclosure entity?

- Are enough disclosures about the central bank (or other significant entities) required? If not, what additional disclosures should be made?
- Develop additional disclosures for the Federal Reserve and start with the staff recommendation but also incorporate Board member suggestions from the meeting.
- Review the document and revise to clarify inferences with “federal entity” and “in the financial report” and “disclosed” and “disclosure entity” in ways that may make the document clearer to readers.

Staff will have a revised ED at the February meeting with the agreed upon changes, but there is not a plan to vote at the next meeting. Staff will provide a revised timeline and milestones in February.

October 2012

Federal Reserve System Basis for Conclusions Language

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

Staff explained of those responding, certain members appeared to support the draft language, while certain members expressed some reservation with the draft language. Of the members noting concern, one member believed consolidation of the Federal Reserve was appropriate and any obscurity that may occur could be made clear through the notes to the financial statements. Other members noting concern pointed out that obscurity is not one of the criteria for determining whether an entity is a consolidation entity or a disclosure entity. Staff revised the language based on the comments received. Staff directed the members to see par. A31 - A35 in the ED for marked changes.

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

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

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

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

Mr. Smith explained he was also supportive.

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

Mr. Steinberg explained he had a few issues of concern. He explained that he is still not sure whether the Federal Reserve should be consolidated, but he does know whether the argument

why they should not be consolidated is crisp enough. It appears the reason why they are not consolidated is it would distort financial statements and yet that was not one of the criteria for consolidation versus disclosure entities.

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

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

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

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

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

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

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

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

Ms. Loughan explained the way the standards are set up; you assess them based on the attributes that were established for a consolidation entity and disclosure entity. One makes that assessment and the results would be a consolidation and disclosure entity. Staff explained what we were establishing in the basis for conclusion more or less supports what that assessment is and it explains it further as it relates to the presentation. Ms. Loughan explained the way the standard is established the attributes are what determines what the entity is. The basis for

conclusion was explaining the need for making a distinction between entities that have those criteria and entities that do not have those criteria.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr. Dong explained the basis is for illustrative purposes.

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

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

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

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

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

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

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

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

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

Mr. McCall explained that he would say no.

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

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

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

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

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

decided at least tentatively that our standard will be written so that the FRS will be a disclosure entity rather than a consolidation entity.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Chairman Allen explained the board does not make specific conclusions.

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

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

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

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

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

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

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

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

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

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

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

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

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

Day 2

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

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

3. the questions for respondents.

Staff requested overall concerns before getting to editorial items.

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

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

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

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

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

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

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

Mr. Allen agreed.

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

Mr. Bell noted that in paragraph A37 there is a little bit of inequity -- the first part of that paragraph is a general statement about the inclusion principle but then the second part specifically refers to the Federal Reserve. So in order to make that paragraph parallel shouldn't

we simply say criteria in paragraphs 34 to 41 are sufficient to aid preparers in making decisions concerning consolidation or disclosure?

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

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

Mr. Allen asked members about the need to keep paragraphs A35 and A36.

Mr. Showalter noted he liked the way staff set this up and referring back to the illustrations. So, he would keep it because he thinks it illustrates without having the authority of an illustration.

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

Ms. Payne agreed and noted the challenge of transitioning the discussion to disclosure without referring to the drawbacks some see in consolidation. The people who support disclosure seem to do so because consolidation obscures.

So when you get into paragraph A36, about disclosure, there's a little more compare/contrast. She suggested re-sequencing the points in the paragraph could improve on that and make it clearer that's why the paragraph comments on consolidation.

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

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

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

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

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

Ms. Payne noted that staff had the impression, from the previous day's discussion, that the board wanted to say something about the quality of consolidation and the quality of disclosure and that with either outcome, one could be satisfied. However, this is not necessary and the text could simply explain what information would result from consolidation and from disclosure. Such

a discussion might help respondents analyze whether they want to push for a specific conclusion on the Federal Reserve or agree that a principles-based approach is appropriate. If the text was stripped of the “belief” statements and just included a fact based description it might be helpful.

Mr. Showalter noted the other thing he thought was going to be in paragraph A34 that was not in there, was the fact that we haven’t actually done an exhaustive analysis. Mr. Dacey suggested prefacing it by saying these are some but certainly not all of the points that would be considered in an actual analysis.

Mr. Showalter said we want to encourage the preparers to do their own analysis and consider all the facts in arriving at a conclusion.

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

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

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

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

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

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

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

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

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

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

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

A few members noted their views with some saying they are undecided.

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

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

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

Mr. Allen noted the Board's decision yesterday to not add that fourth criteria.

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

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

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

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

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

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

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

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

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

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

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

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

Mr. Granof noted that if the preparer and auditor decide the Federal Reserve should be a consolidated entity there's no specific guidance as to what disclosures the Federal Reserve should make. And because the Federal Reserve is unique, the disclosures that the Federal Reserve should make are not necessarily detailed in any other standard.

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

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

Mr. Granof noted our discussions have always assumed that the Fed would be a disclosure entity— and that's reasonable. But, we're leaving it open and it's up to the preparer. If it's

consolidated, he does not think that those other standards are adequate and that is a major issue.

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

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

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

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

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

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

August 2012

Staff, Melissa Loughan, explained the Federal Reporting Entity agenda item would begin with an educational session on the Federal Reserve System. The session objectives are to respond to questions posed by a member regarding the Federal Reserve System and to provide an opportunity for a representative from the Federal Reserve to present information and respond to Board member questions.

Staff explained the accompanying Board materials for the session presented Mr. McCall's questions followed by staff responses. The material also presented attachments that provide (1) summary information describing the Federal Reserve System, (2) relevant excerpts from the publication *The Federal Reserve System-Purposes and Functions*, and (3) Sections 1 through 19 of the Federal Reserve Act.

Tab B2**Appendix 2- Relevant Board Minutes**

Mr. Donald V. Hammond, Deputy Director, Division of Reserve Bank Operations and Payment Systems, Federal Reserve Board of Governors, and Mr. Greg Evans, Deputy Associate Director, Division of Reserve Bank Operations and Payment Systems, provided an excellent overview of the Federal Reserve System. The presentation focused on the transparency, governance structure, and differences in accounting of the Federal Reserve System. He also provided a brief overview of the purpose, functions, and unique aspects of a central bank as it relates to economic policy and his views on how this differs from fiscal policy. This provided an excellent opportunity for the members to learn more about the Federal Reserve and ask questions.

The session was educational in nature and did not result in any formal decisions by the Board. However, the attached transcripts provide an account of the discussion (see pages 10- 64).

Staff explained the next agenda item related to the draft Exposure Draft. The session objectives were to approve changes since the last meeting to the Draft ED but staff noted that it was agreed Mr. Steinberg would develop new language for reconsideration at this meeting. Therefore, the Board materials include an Alternate Draft of Proposed Standards. Staff explained an efficient way to consider the alternate draft would be to consider the key differences. Therefore, the Board considered each difference and determined the following.

During its deliberations of the differences, the Board considered a proposal to add a fourth inclusion principle “for entities created by the federal government to perform sovereign powers” and the votes were as follows:

Board Member	Yes—Add New Inclusion Principle for entities created by the federal government to perform sovereign powers	No—Don’t add
MR		X
HS	X	
SM	X	
MG	X	
SS	X	
GS		X
BD		X
ND		X
TA		X

The Board determined not to add the new inclusion principle for entities created by the federal government to perform powers sovereign powers.

The Board also considered whether a definition should be added to the standard, glossary, or remain silent for “sovereign powers” since it is a common term or term that appears to have a well known meaning from other sources. The Board votes were as follows:

Board Member	No Definition	Definition in Standard	Definition in Glossary
MR	X		
HS		X	
SM	X		
MG		X	
SS			X
GS	X		
BD			X
ND	X		
TA	X		

The Board vote not to add a definition.

~Lunch Break~

The Board discussed the enumerated disclosures tailored to and required for entities exercising powers reserved to the sovereign that they requested to be added (par. 71 in proposed ED) at the June meeting. After reviewing it in the context of the entire disclosures, the Board determined it appeared to be a repeat of the previous paragraphs. The Board voted unanimously to remove the paragraph from the ED.

June 2012

Draft Federal Reserve Proforma Disclosure – Treasury Financial Statements

Staff noted that Treasury had worked with representatives from the Federal Reserve (FR), including Mr. Greg Evans who is present at the meeting, to draft a note to the Department of the Treasury financial statements, not the government-wide financial statements, describing the Federal Reserve and its relationship with the Treasury Department (see Attachment A). Staff explained that, since many of the changes to the ED had centered around giving the members some level of comfort about the disclosures that would result from the proposed standard, the note was being provided to members so they can review it, provide feedback, and raise any continuing concerns they might have and that will inform the board’s discussion of the edits proposed to the ED.

Mr. Reger remarked that the three criteria in paragraph 70 of the current draft ED—relationship, relevant activity, and future exposures—guided the discussion in the draft Federal Reserve note. He clarified that Carole Banks, who prepares the Treasury Department’s financial statements, helped write this first draft of a note that would appear in the department’s financial report. The note would then be expanded and contracted, as appropriate, for the consolidated financial report of the U.S. Government (CFR). He said they were starting with the Treasury note because that is how information flows up into the CFR and they are hoping to have some form of this note appear in Treasury’s 2012 statements.

Mr. Reger stated that the note was prepared following a few guidelines: (1) no numbers are to be disclosed in the Federal Reserve note that would not otherwise appear in Treasury’s

financial statements, (2) the disclosure addresses the criteria in the draft ED, and (3) the disclosure would be short enough to actually be a note and not an epistle.

Mr. Reger stated that Mr. Evans has been a very helpful partner in putting the material together and later, when the board talks about the implementation date for the proposed standard, he will talk about how difficult it was to come up with timeline information, even among the very willing and cooperative partners involved. He also acknowledged Mr. Dacey's helpful feedback on the many drafts that were created during the process. Mr. Reger said they were interested in receiving the board's input on this first draft of the footnote. Mr. Evans added that the draft note does not include references to core or non-core entities because those classifications do not exist yet in the standards.

Mr. Steinberg questioned why the note is not from the governmentwide perspective rather than just the Treasury perspective. Mr. Reger responded that the notes in the CFR are compiled from information in the agency statements and all of the material information related to the Federal Reserve (e.g., TARP, etc) does come from Treasury (the Federal Reserve does have some immaterial interaction with a few other agencies).

Mr. Dacey responded that if members like all of the information contained in the Treasury note, it could possibly be carried forward to the CFR. He also noted that he did not believe that Mr. Reger could presuppose what the Treasury Department was willing to disclose in its agency financial report (AFR), so he had to go through the process of involving the Treasury Department to find out exactly what they would be willing to include in their AFR.

Mr. Showalter said he thought the note does a good job of addressing the criteria of relationship and relevant activity but he thinks the note is missing a more robust discussion of the future exposures to the government. However, that discussion might be more appropriate for the CFR because it seems to him that the exposures would apply more at the governmentwide level than to Treasury.

Mr. Reger said they did think about it and referred members to the last paragraph of the disclosure – FRB Residual Earnings Transferred to the Department – noting that the only exposures existing between the Federal Reserve and the federal government that can be quantified are these residual earnings, the revenue item that is transferred into the Treasury Department as general funds. He stated that there are other activities that occur, but they could not come to a conclusion with supporting evidential matter that suggested there are other material exposures.

Mr. Showalter questioned whether the note should discuss the setting of monetary policy and its effects, whether quantifiable or not. Mr. Dacey responded that those types of things, such as the interest rate on federal securities, have an indirect effect. He noted that the note describes the Federal Reserve's activities, including formulating and conducting monetary policy, so it would be a matter of how much more detail members would want to be included.

Mr. Reger acknowledged that the purpose of putting the note together was to put it in front of members to get comments on exactly what members expected to see in such a disclosure.

Mr. Granof said he has the same concern he had previously; the Federal Reserve is perhaps the largest organization in the history of mankind and it is carrying out functions that are associated with a sovereign government. He believes that when presenting the financial report

of the entire government, it is important to discuss not only the exposures to the federal government but also transactions that have affected outside parties. For example, if the Federal Reserve, acting on behalf of the federal government, makes loans to other banks, or engages in other significant transactions to assist European governments or banks, he believes that is the type of information that should be reported in the CFR.

Chairman Allen said that, when he read the paragraph on the earnings transfer, he thought it was missing some type of financial perspective—how much, what percentage of revenue, etc. He said he thought the concept was applied well, but including the dollar magnitude would help to put the disclosures in perspective. He added that perspective from the Treasury Department's viewpoint is not as important as perspective from the federal government as a whole.

Mr. Reger said the disclosure includes references to all of the notes where specific numbers are already being reported in both Treasury's AFR and the CFR and those things would continue to be reported where they are.

Chairman Allen said that the last sentence of the first part of the disclosure—"The FR System is not included in the federal budget, and in accordance with Statement of Federal Financial Accounting Concepts 2, the FR Systems' assets, liabilities, and operations are not consolidated into the Department's financial statements."—might be a natural place to start the next sentence with "However, see note X that gives some perspective of the total amount of revenue..." He agreed with Mr. Granof that, because of the magnitude and their role in carrying out fiscal policy, the note disclosure should also include a perspective discussion with amounts.

Chairman Allen added that a discussion of risk would be important also. If policy decisions are carried out well, it benefits the nation; if they are not, it puts the nation at risk, but he is not sure how that could be quantified. He asked if a generic discussion would be meaningful.

Mr. Granof responded that the disclosure should not be generic; it should describe the key transactions that the Federal Reserve has been engaged in, such as intervention activities.

Mr. Dacey responded that he thought the discussions of assets, liabilities, and revenue sources would indicate the primary activities of the Federal Reserve – what they are investing in, primarily what the liabilities are for, and where the earnings came from – but the question is how far down into the details of the activities they engage in should the disclosure go. He added that some of the activities that end up in the press may not be material to the Federal Reserve.

Mr. Granof responded that the newspaper recently discussed \$600 billion in currency exchange transactions (swaps) engaged in by the Federal Reserve. He stated that the amount was clearly material and has major policy implications and, in reporting on the federal government as a whole, he would expect that this type of activity would at least be described in some detail in a note about the Federal Reserve's activities.

Mr. Reger noted that there are many different types of activities and transactions discussed throughout Treasury's AFR; this draft note was attempting to discuss only the relationship and business activities directly back and forth between the federal government and the Federal Reserve.

Mr. Granof added that the draft disclosure is excellent as far as it goes, but he is looking for something beyond this.

Ms. Payne said it seems that Mr. Granof is seeking something beyond traditional financial reporting and more towards reporting on performance related risks – the risks of how monetary policy is conducted, stability of the financial system, and the different relationships.

Mr. Granof responded that he would not characterize what he is looking for as reporting of risk; he said risk is one thing but he thinks it would be appropriate to report on the actual transactions that took place.

Mr. Reger said that he struggles with the idea of disclosing that type of information even in the CFR. He said he can see those types of disclosures in the Federal Reserve's financial report; however, in Treasury's AFR and the CFR, he thinks the discussion should center around the relationship between the activities of the federal government and the Federal Reserve. He said that some people may believe the federal government controls the actions of the Federal Reserve, but he has come to realize that there is a big distinction between the two. While they may undertake similar actions simultaneously, the two are very separate. For example, the Federal Reserve may enter into collateralized loans to banks under existing conditions. The federal government may also make loans using taxpayer money with different criteria, but the two actions are very distinct.

Mr. Reger said he believes Mr. Granof is looking for a holistic note that describes all of the actions of the Federal Reserve and the federal government and he said he would argue the draft note disclosure along with the existing note disclosures on AIG is the best they can do given their knowledge of what has been done and their lack of control over the actions of the Federal Reserve.

Mr. Steinberg pointed out that paragraph 71 of the draft ED requires disclosures for entities that are exercising sovereign powers, such as its mission, the relationship of its mission to federal policy objectives, its organizational structure, and a reference to its financial report. Mr. Steinberg said when he suggested those disclosures, he thinks he also included a requirement to report on its activities because it is the knowledge or the lack of knowledge of all of these things that the Federal Reserve is doing to attempt to keep our economy—and the world's economy—afloat that he thinks is of interest.

Mr. Steinberg added that the disclosures in the CFR about what it did to help General Motors and AIG are extensive. He said he is looking for something similar for the Federal Reserve—what kind of activities were undertaken and what exposures to the federal government, if any, could result from those activities. He said he believes the Federal Reserve puts out a descriptive report every month that could inform the disclosures that should be included in the Treasury and governmentwide financial reports.

Mr. Steinberg added that the Federal Reserve is undertaking these activities on behalf of the federal government as a sovereign entity and as such, the activities and results should be disclosed by the federal government.

Mr. Reger acknowledged that the financial reports of the federal government report on the roles and activities of the federal government. To the extent that a reader wants information on the Federal Reserve's roles and activities, he or she would have to turn to the Federal Reserve's

financial reports. Mr. Reger went on to state that, if there were exposures to the federal government as a result of actions undertaken by the Federal Reserve, he agrees they should incorporate a discussion of those exposures into a disclosure in the CFR. At this time, the only exposure for the federal government that they could quantify based on the Federal Reserve's activities was the potential lack of earnings to be transferred in as general funds and those numbers are not particularly significant (\$20 – \$80 billion in recent years).

Mr. Steinberg asked why the reader should have to look at two reports if he or she wants to know what the federal government has done financially to keep the economy going. He noted that would be like having to look at the CFR and Interior's AFR to find out what the federal government has done to promote recreation.

Mr. Reger responded that, in this case, the Federal Reserve is somewhat of an independent organization. Congress intentionally created the Federal Reserve to conduct monetary policy outside of the regular, day-to-day control of the federal government.

Mr. Granof replied that is the heart of the issue and asked whether, for reporting purposes, they are carrying out sovereign functions, functions that are traditionally associated with the federal government.

Mr. Dacey noted that he thinks the sections on principal assets and liabilities and revenues are intended to indicate the major sources of assets, liabilities and revenues without giving specific amounts. Mr. Dacey asked Messrs. Steinberg and Granof if they expect there is some materiality threshold, quantitative or qualitative, at which point the report should disclose everything the Federal Reserve did.

Mr. Granof responded that, of course, he is only interested in the really significant activities. Mr. Dacey said the reason he is asking is because he is looking at the 2010 Annual Report [of the combined Federal Reserve Banks],¹ and some of the activities the Federal Reserve engages in, such as the central bank liquidity swaps that were \$75 million and \$10 billion, as of 2010 and 2009 respectively, may get publicity in the newspaper but appear to be immaterial to the Federal Reserve. He said if it does become material, he thinks it would get added to the description of activities the Federal Reserve is engaged in.

Mr. Reger agreed with Mr. Dacey that every activity that is significant is listed in the draft note's description of the Federal Reserve and includes a reference to another note where there is a more robust discussion of what the activity entails and what the federal government accomplished through that activity. If currency swaps become a major activity, then they would be included in the list as well.

Mr. Showalter noted that the board has been talking about exposures in terms of risk, but the requirement to disclose future exposures [in paragraph 70c.] also includes a description of potential benefits and there are also activities that are being performed by the Federal Reserve on behalf of the federal government that provide benefits to individuals.

¹ 2010 Annual Report, Board of Governors of the Federal Reserve System, pg. 345; available online at <http://www.federalreserve.gov/publications/annual-report/>, last accessed July 2, 2012.

Mr. Evans commented that when members use the phrase “on behalf of” it is important to recall that the Federal Reserve performs its activities independently. Mr. Showalter acknowledged that the Federal Reserve is an independent entity but they do not do what they do simply because they want to. Mr. Evans agreed that the Federal Reserve carries out its duties to support its core mission of monetary policy and financial stability, but it is done independently from the federal government.

Mr. Reger added that the federal government takes actions for the same reasons. Mr. Showalter responded that, as Mr. Steinberg stated, the Federal Reserve is an independent entity carrying out functions that are core to the federal government, and a reader should be able to read about the results of those sovereign functions together in one document. He added that everything might be captured in the draft note, but there is anecdotal evidence that it is not.

Mr. Evans responded that the proposed footnote does state that the Federal Reserve is not consolidated and the Federal Reserve is independent of the federal government. He said that if members think the activities of the Federal Reserve should be reported on in the financial reports of the federal government, he does not know how to do so without amounts that the GAO would need to audit the Federal Reserve. Mr. Granof responded that the Federal Reserve is in; there is no question about that because the board believes the Federal Reserve would be considered a non-core entity.

Mr. Dacey said he believed the intention of the last two paragraphs of the proposed note was to define those activities at the Federal Reserve beyond just the relationship with the federal government. Specifically, the note, included GSE debt securities, the mortgage-backed securities, and principal assets. The draft disclosure did not include some of the smaller assets that are held by the Federal Reserve because of materiality considerations.

Mr. Showalter responded that the proposed note talks about the assets and liabilities but what is missing is a discussion of how the assets and liabilities arose, which may answer Mr. Granof’s question about activities. Instead of just talking about the fact that the assets and liabilities exist, you can explain how they came to be.

Mr. Dacey responded that, based on the financial statements, most of the assets appear to be in the System Open Market Account (SOMA) which is used for the unique function of implementing monetary policy. He added that perhaps the note should provide a better explanation of monetary policy up front as a primer so readers will have a better understanding of what exactly formulating and conducting monetary policy entails.

Mr. Reger added that we would not want to explain what monetary policy means right this second. Mr. Dacey agreed, noting the explanation should be conceptual since the actions taken will vary depending on the situation.

Mr. Evans said that an earlier draft of the note read like an economics textbook but they didn’t think that is what a financial statement footnote should look like. He added that, now that he is looking again, perhaps they should have a discussion of foreign currency holdings. However, it would not have a dollar amount and it would be a very generic discussion about monetary policy and financial stability (e.g., issuing currency and managing the money supply).

Mr. Granof asked why the disclosure would not include a dollar amount.

Mr. Evans said the dollar amounts are in the Federal Reserve's financial statements and the authors of the draft note believe the Federal Reserve is fundamentally separate from the federal government. Mr. Evans noted the footnote would not have a dollar amount because it isn't a Treasury transaction and would not be auditable from the Treasury's audit. Mr. Evans acknowledged that Mr. Granof believes they are part of the federal government and he is unable to reconcile that.

Mr. Granof replied that the board agreed that the Federal Reserve should be included in the federal government's report.

Mr. Dacey responded that the issue with including numbers is an audit issue. In addition, the current situation changes so quickly that readers would be better off to go to the Federal Reserve's website to see what the current financial situation is rather than trying to characterize it once a year.

Mr. Granof replied that he thought the board agreed that the Federal Reserve should be included in the federal government's reports. Mr. Dacey concurred and Mr. Granof responded that now they are just quibbling about how detailed the financial information should be.

Mr. Dacey said that the disclosure did not include numbers for information that is not part of what GAO audits, but that it included general concepts and a website the readers can go to get up-to-date information on all of the activities of the Federal Reserve.

Chairman Allen said that the note could provide some perspective by noting that "repurchase agreements held during the year varied from \$100 to \$800 billion." Mr. Dacey responded that creates audit concerns if the disclosures relate to activities and transactions that GAO does not audit.

Mr. Showalter noted that they could disclose some audited numbers.

Mr. Reger replied that they can report numbers for information that has been audited that they can place reliance upon; they can carry that information forward to their statements and give it to GAO. However, for numbers generated by the Federal Reserve that are unaudited, they cannot include those numbers in the federal government's financial reports because that forces GAO to audit those numbers.

Mr. Granof asked, "Wouldn't those numbers have been audited?"

Mr. Reger responded that the numbers would be audited to the extent that they are included in the federal government's financial reports. He noted that there are numbers included throughout Treasury's AFR and the CFR in various notes. Placement in those notes provides context with related transactions and that is why they chose not to repeat the numbers in the draft note on the Federal Reserve.

Mr. Reger said they had tried to consolidate all of the disclosures related to the Federal Reserve into one note, but it was not useful for the reader who might be looking for a number in context, so they settled on a complete disclosure for the Federal Reserve that references other notes rather than combining them all into one.

Chairman Allen said that it might be helpful for the board if they had all of the other notes to look at too so they could see how they interrelate and exactly what is disclosed throughout the financial report.

Mr. Reger said that it seems the board had agreed in principle that the Federal Reserve System appears to be a non-core entity and they are discussing the extent to which that reporting would help the reader of the federal government's financial reports. The debate is over what should be included in the federal government's financial reports, not that the Federal Reserve is fundamentally, integrally, completely part of the federal government. Their activities appear to be governmental in nature and meet the criteria for what the board believes should be included in the federal government's financial statements.

Mr. Granof said he agrees with that view, noting that the board has concluded that the Federal Reserve is part of the federal government reporting entity to the extent that they are non-core.

Chairman Allen clarified that the board has not concluded that the Federal Reserve is core or non-core; it has set criteria for core and non-core that has led some individual board members to determine that the Federal Reserve is a non-core entity.

Mr. Dong added that it is his understanding that the board has decided that it is not their role to determine whether individual entities are core or non-core. Chairman Allen confirmed that understanding.

Chairman Allen said he would like to read all of the notes for the Federal Reserve together because he keeps asking for perspective and he may very well get that if he reads all of the notes in concert.

Ms. Payne said that staff will pull together the notes that are referenced in the draft note for the next meeting. Mr. Dacey reminded members that these references refer to Treasury's AFR, not the CFR.

Chairman Allen said that reading all of the notes together may get to what Mr. Granof is looking for. Mr. Granof responded that it is hard to say at this point.

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

Mr. Reger explained he couldn't state how the Federal Reserve views itself or speak for them but he can say they have been working cooperatively since the last meeting to make improvements and enhancements to the draft illustration that was presented at the last meeting. While Treasury is not prepared to share a draft at this time, he noted they are still working

towards meeting the non-core disclosures. Mr. Reger noted that with Related Party still an open item; things will be revisited once that is completed.

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

Mr. Showalter agreed that this was his thought.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Feb 2012

Treasury and Federal Reserve Briefing on Pro Forma Illustration

Mr. Allen explained that staff member Ms. Loughan would be assisting with the session but as noted in the staff prepared transmittal memo, representatives from Treasury and the Federal Reserve were present to discuss the pro forma illustration and disclosures based on applying the draft ED requirements.

Mr. Allen noted that the following representatives would be providing a brief presentation:

Federal Reserve

Gregory L. Evans
Deputy Associate Director
Division of Reserve Bank Operations and Payment Systems

Treasury

Mark Reger²
Deputy Assistant Secretary
Accounting Policy

Carole Banks
Director
Accounting and Internal Control, Office of the Deputy Chief Financial Officer

² FASAB Board member representing the Department of Treasury. Mr. Reger's office submitted the Illustration and his office is responsible for preparing the government-wide financial statements.

Before beginning, Mr. Reger asked if FASAB staff wanted to add any introductory information. Ms. Loughan explained that she would leave the time for the experts, but noted that the session was being held because the Board members believed the interpretation of the proposed ED requirements and ultimately how they would affect the display and disclosures about an entity such as the Federal Reserve would be an important consideration during deliberations of the ED. In addition, certain advance questions were provided to the representatives for consideration.

Staff noted the draft pro forma disclosure was provided by Treasury staff and included as **Attachment 1** in the Board materials. As noted in the Attachment, the shaded items labeled "from the Federal Government Financial Statements" and "included" are information that was in the consolidated Financial Report of the US Government (CFR) or the US Department of the Treasury Agency Financial Report (AFR) for FY2011 and the items labeled "new" are items not previously in the CFR or AFR.

Mr. Reger explained the information presented in the draft illustration assumes that the Federal Reserve Banks are reported as non-core entities. However, to reach a firm determination regarding classification prior to finalizing the standards would be premature. For example, development of a definition of related party may be helpful in making the determination since the Federal Reserve was presented as a related party in previous years.

Mr. Reger explained an important fact to keep in mind, not only when considering the Federal Reserve but for other potential non-core entities, is the ability of the Treasury Department to obtain the required information for the disclosures. He noted in this particular exercise there was a spirit of cooperation to meet the Board's request, but that might not be the case for all potential non-core entities when Treasury is preparing disclosures. Mr. Reger explained this is one of his main concerns; Treasury may run into instances where potential non-core entities may disagree with Treasury's assessments and/or not be cooperative in providing the necessary information.

Mr. Evans explained the Federal Reserve has not taken an official position on whether the Federal Reserve Banks are non-core or what the appropriate disclosures are at this point. Instead, he explained the Federal Reserve staff provided technical assistance to craft the illustration given their deeper understanding of the Federal Reserve System's structure and financial reporting processes that would be necessary to prepare the illustration. Mr. Evans explained that the Federal Reserve's structure can often be confusing and misunderstood. Further, he understands that FASAB is writing standards for the preparer (Treasury) and the Federal Reserve does not follow FASAB standards. Therefore, his role was to assist Treasury in better understanding the Federal Reserve System.

Mr. Evans noted when he states 'we' or 'us' during his presentation that he is referring to the Federal Reserve Banks (FRBs) because that is his primary responsibility. He explained there are 12 Reserve Banks that present combined statements in accordance with the *Financial Accounting Manual for Federal Reserve Banks* (FAM), which is an accrual basis of accounting. He noted the FRBs are owned by member banks, not the Board of Governors. Mr. Evans explained the Board of Governors produces its own set of financial statements in accordance with FASB GAAP.

Mr. Evans clarified that the Illustration should be understood as exactly that, an illustration that was prepared based on the understanding that the intent of the non-core disclosures was to

provide more information than was included under related party in previous years. However, Mr. Evans explained he liked the related party option because clearly there are aspects of the Federal Reserve relationship with the federal government that should be disclosed in the federal financial statements and that the related party footnote appeared to be the best place. He noted that in the current financial statements there are many disclosures about the Federal Reserve. He noted that the new proposal appears to be changing the focus of the disclosure to give it more stand-alone prominence—information about the FRBs would be presented as a whole rather than limited to activities with the federal government. However, Mr. Evans explained that providing this type of information might be difficult for the preparer.

Mr. Reger explained that often we discuss the Board of Governors versus the FRBs; he wanted to point out that the latest financial statements for the Board of Governors showed assets of approximately \$218M and income of \$15M. He explained this was very immaterial at the government-wide level. Mr. Evans explained it was his understanding that most FASAB Board members were interested in the FRBs illustration and not the Board of Governors because of materiality considerations.

Chairman Allen explained there are two important factors one considers—materiality but also conceptually the federal government's relationship with parties can pose a benefit or potential risk and this may not relate to the materiality of the assets and liabilities. For example, the FRBs may not be able to influence anything that might be able to pose a risk or obligation to the federal government. However, the Board of Governors, though immaterial, may have the ability to significantly influence or pose a risk or obligation and therefore there may be a need for some type of consideration.

Mr. Reger postulated that it was the intent of Congress to specifically separate the management of the federal government from the day to day management of the Federal Reserve. Mr. Reger explained based on his limited research, it appears the intent was very clear that the federal government should not be operating the monetary system and instead there should be an independent system operating it in consultation with the federal government, but not under the control of the federal government.

Mr. Allen clarified he wasn't trying to draw any conclusions; instead he was stating that materiality is one factor to consider, but impact to affect risk is also another factor that should be considered. Mr. Evans noted that it appears some of what Mr. Allen is referring to may be non-financial risks so he wasn't sure how that would show up in financial statements.

Mr. Evans explained the Federal Reserve is included as a Related Party in the current statements but that wasn't an option in the Draft ED. Therefore, without a related party option, non-core was the closest fit as they believed there needs to be some disclosure of the relationship. Mr. Evans explained that the Reserve Banks were clearly created by the federal government, though meant to be independent. Mr. Evans noted the FRBs use the term "federal instrumentality" as it is an entity that isn't totally federal but one can't conclude it is not federal either. He summarized that they started preparing the illustration with non-core as they didn't have related party as an option.

Mr. Evans explained they crafted the illustration based on what they believed the Draft ED was trying to require. He added they were very interested in feedback as they have informally heard divergent views; that it doesn't provide enough information and that it provides too much. He explained they attempted to use what was currently being disclosed plus what was in FRBs financial statements.

Mr. Reger explained that Treasury is starting with the presumption that every component would have to consider their related parties and determine if those relationships changed under the new proposed standard. He explained that is why Ms. Banks is present because she will be responsible for making those assessments and working with the organizations. For example, Ms. Banks would have to work with Mr. Evans to obtain the necessary information if the FRBs are determined to be non-core. Mr. Evans noted in the past, the related party disclosure was prepared by Treasury without any involvement of the Federal Reserve, so this will be a change in practice and difficult to implement for other non-core entities.

Mr. Evans explained there would have to be involvement or assistance with his office to prepare the non-core disclosures included in the illustration. He also noted what he perceived as problems or issues for including the FRBs information as it may relate to the government-wide:

- Because the FRBs do not prepare September 30 financial statements, Treasury would report December 31 information that is nine months old. Although the Draft ED provides for this timing difference, Mr. Evans wanted to point out that some may not believe nine month old information to be relevant and less relevant than the September 30 information reported today.
- Although FRBs use an accrual basis, they use a comprehensive basis of accounting other than GAAP. FRBs prepare in accordance with the *Financial Accounting Manual for Federal Reserve Banks*. The primary difference is the presentation of securities holdings at amortized cost rather than fair value presentation required by GAAP. Mr. Evans noted the FASB GAAP method is focused on investors and creditors where the method used FRBs is one deemed appropriate for central banks.
- Comparability with Treasury financial statements as the securities will be on a different basis.
- Mr. Evans explained he was concerned with the ability to audit the information that might be included in the government-wide disclosures. Although FRBs statements currently have clean opinions, including information will increase audit challenges, especially when one considers the judgments being made about what information is included.

Mr. Steinberg asked what the differences are between the OCBOA (*Financial Accounting Manual for Federal Reserve Banks*) and the Financial Accounting Standards Board GAAP. He noted that Mr. Evans explained the primary difference is the presentation of securities holdings at amortized cost rather than market or fair value presentation required by FASB GAAP. Mr. Steinberg explained that FASAB GAAP for investments in fixed income federal securities is also amortized cost. Mr. Dacey explained that our investments in non-federal securities or equity securities are all at fair value. For example, the TVA and PBGC are on a FASB basis and TARP investments in equity securities are all at fair value. Mr. Dacey explained loan and loan guarantees are at discounted present value which aren't technically considered market value but aren't amortized cost either. Mr. Dacey explained we don't hold debt securities. Mr. Allen commented there aren't a lot of the traditional investments at federal entities.

Mr. Evans explained that often standard-setters will use criteria that just doesn't fit a central bank because the FRBs are buying the securities to affect the reserves in the banking system. He added this is a different purpose than for income and earnings which are contrary to the FRBs intent. FRBs security assets are tools of monetary policy. Some would argue that neither fair value nor amortized cost is quite right when taken out of context. However, an important point is that the FRBs disclose fair value of its security holdings in their footnotes to be transparent as possible. He added there may be a few other smaller differences (such as settlement date) but that is the biggest difference and one that people care about.

Mr. Showalter explained he understood the points regarding how the decision regarding non-core was made. Mr. Reger explained they started with the premise the FRBs were non-core, so they considered what the disclosures would look like based on the Draft ED. Mr. Showalter explained that as standard-setters, the Board needs and would like additional information on the thought processes used in making the core versus non-core decisions in order to validate the criteria provided in the proposed standard..

Mr. Evans explained that although he isn't the preparer, when he went through the Draft ED and reviewed the core and non-core descriptions, he first concluded that he wasn't an appropriated entity. He next considered the accountability aspects and considered how the FRBs were structured. The FRBs are accountable to a Board of Directors and regulated by the Board of Governors. He explained this is an area that people often debate; they ask how close that is to oversight or direct control. He believes the way it is set up, it leads one to a conclusion of non-core. When considering core goods and services, he added this is a hard one to consider. As for risks and rewards, he believes this goes to the member banks but it is limited to a 6% dividend that is set by statute, with excess earnings being transferred to Treasury. Therefore, some may see the taxpayer as also bearing risk and reward.

Mr. Showalter asked if the risk and rewards to the taxpayer had expanded over the past few years. Mr. Evans noted the balance sheet had grown and there had been more earnings transferred. Mr. Showalter explained it wasn't an earnings question, but more one related to whether the risks to the federal government (either provided or assumed) had increased over the past few years based on the Federal Reserve's activities.

Mr. Evans explained he understood the question but he couldn't say they are creating risk or assuming risk on behalf of the federal government because the concept doesn't fit. He explained there are limits to the taxpayer's exposure to the risks. For example, the main financial risk to the federal government is that Federal Reserve earnings would be less. He added there is a perception that the Reserve Banks took on significant risk during the crisis that isn't accurate. The crisis related activities were loans and the Federal Reserve's lending authority is not unlimited, the statute requires loans to be collateralized. The FRBs may grant loans, but those loans must be backed by sufficient collateral. There are interest rate risks, no one can deny that. However, if one is focusing on the loans to special purpose vehicles like Fannie Mae, Bear-Stearns, and AIG, the assets that backed those up were believed to be sufficient at the time of the loans. Mr. Evans explained the assumptions in those cases appear reasonable given the asset performance to-date.

Mr. Dacey explained there are limitations on the risks the Federal Reserve can accept. For example, in some of the dealings with the AIG, the federal government accepted risk before the Federal Reserve because the Federal Reserve was to be paid back before the federal government.

Mr. Dacey explained the federal government has made deposits in the FRBs before and the level of deposits has varied over the years. The level was zero at the end of 2011. Mr. Evans explained the deposit activity being discussed relates to the Special Financing Account, which is reported separately from the Treasury's general account. Mr. Evans explained the FRBs is the Treasury's banker. The Special Financing Account's primary purpose relates to reserves in the banking system. As Treasury's deposits increase, the deposits absorb reserves in the banking system because the deposits are a liability on the FRBs balance sheet. He explained that Treasury's larger deposits to the Special Financing Account allowed for reserves provided by other activities to be absorbed. Mr. Evans noted that impression of a need for the deposit to

finance the activities is a misunderstanding; instead the deposit was to fulfill a commitment by Treasury to help absorb the reserves. The deposit was not Treasury assisting the FRBs in funding operations.

Mr. Allen asked if there is a sense of shared risk or burden when the FRBs work with Treasury or the federal government. He asked if Mr. Evans believed there was a relationship that needed to be disclosed. Mr. Evans explained it was quite clear the Federal Reserve and the federal government cooperated during the economic crisis and related activities. However, central banking independence is one of the most significant things we value and it is built into the structure and authorities of the FRBs. He added that the FRBs could not loan to the Treasury or loan beyond their statutory authority to be only in collateralized loans. He doesn't believe the activity was a joint venture concept, but there was cooperation. Mr. Evans explained there were certain special purpose vehicles the FRBs believed they exercised control over and consolidated.

Mr. Reger explained he attempted to relate this to a similar type of entity. He noted when you consider the Federal Reserve and their product is money or the monetary system, perhaps one could compare it to telecommunications. When we had one telecommunications provider the provided service to everyone and shared the costs so a basic phone was available at a reasonable cost to everyone. When that company was divided into multiple independent entities a mechanism was needed to assure basic phone service was still available to everyone at a reasonable cost. The Universal Service Fund was then created to collect to collect fees from some companies and share them with others to assure a sharing of basic service costs.. The Universal Service Fund is a federal asset but the company administering the program and collecting and distributing the funds is an independent entity created by the federal government as are the underlying telecommunications firms. Mr. Reger explained that he believes there is clearly a related party with the Federal Reserve Board, just like the Universal Service Administration Company vs the Federal Reserve Banks and the Telecom Firms. Those relationships should be disclosed but just as we do not put the Telecommunications firms in our statements neither should we put the Federal Reserve Banks.

Mr. Evans noted that a Board member had asked for clarification of the FRBs roles as fiscal agent for Treasury. He noted when the FRBs were acting in the economic crisis they were not acting in the capacity as Treasury's fiscal agent. Mr. Evans explained a fiscal agent processes check collections, savings bonds, and runs the auction when Treasury sells debt. Mr. Reger noted that Treasury has lots of fiscal agents other than the FRBs. However, FRBs is the largest fiscal agent.

Ms. Banks explained she believed there were aspects of the draft illustration that would bring enhancements to the current disclosures regarding the FRBs. She added that when you look at the Treasury statements and the government-wide report there is a lot of information regarding the FRBs throughout the document. However, there is not a single place where the information is consolidated. She added a succinct note could provide a clear picture in one place about the FRBs and the relationship. She believes the associated risks and rewards are an enhancement to the disclosures and good information to provide. However, Ms. Banks explained providing the condensed financial information may be more of a burden than a benefit, for many of the reasons that Mr. Evans explained. She explained the reporting period differences, basis differences, and audit costs should all be considered and may be overwhelming, not just when one considers FRBs but also when one considers other potential non-core entities. Ms. Banks added that she believes the distinction between non-core and related party to be a tremendous

burden. However, she does see the qualitative improvements in the disclosures when presented in one concise and succinct footnote.

Mr. Reger explained he shared Ms. Banks' view, but he added he was not sure what view Treasury's auditor would make of the new non-core designation and was uncertain how the data presentation requirements might be viewed.

Mr. Showalter explained that he realized there was a lot of information in previous year's financial reports, but you were expecting readers to pull it all together and he believes part of transparency is providing information in a way that tells the story. Mr. Reger explained this could be an issue with all potential non-core entities, as well as obtaining the necessary information.

Mr. Allen explained the Draft ED is written conceptually and not just for the Federal Reserve and one of the objectives for the non-core entities is disclosure of information regarding the future exposures to gains and losses. Mr. Allen noted in reviewing the illustration there didn't appear to be much information regarding this. He added that while he understands the issues raised by Ms. Banks, he thought there should be some sort of explanation as to how the information presented relates to risks and rewards and conclusions about the narrative that is presented. Such information is more important than numbers.

Ms. Banks explained the most important information appears to be what the relationship is with the entity and because of that, what are the associated risks involved.

Ms. Kearney explained she agreed it is helpful to consolidate the information and help the reader but she isn't certain if it is appropriate to draw conclusions for the reader. The statements should present the facts and allow the user to draw the conclusions. Mr. Allen agreed. He believes we must explain some of these unique relationships so the readers are informed. Ms. Kearney explained she agreed with transparency.

Mr. Dacey noted that including data for condensed financial information that would be 9 months old was a concern. Also, one must consider if such disclosures would mislead the reader because the FRBs assets are not available for use by the federal government and the FRBs liabilities are not liabilities of the federal government. Also, there are audit issues that should be considered.

Mr. Dacey explained if you include numbers in the disclosures then the auditor will have to take responsibility. In this case, both the Treasury auditor and the government-wide auditor would be taking responsibility. Mr. Dacey explained there would be substantial cost as a result. Therefore, he questioned the cost/benefit of disclosing the condensed financial information. Mr. Dacey agreed with better consolidation of the information now listed in several places. He also agreed that the associated risk is very important information that should be disclosed.

Mr. Evans explained the presentation of risks and exposures in the Reserve Banks' financial statements and disclosures. He explained that the risk that holdings won't produce the carrying value of earnings is essentially conveyed by the existence of the assets and the more detailed information about the assets in the financial statements. There is a lot of information in the FRBs footnotes regarding maturity schedules, classes of assets, and fair values. However, he questioned how one might gather information for preparation of a government-wide footnote from this information that is presented in the Federal Reserve Banks footnotes. He added that it is very difficult to imagine how the preparer of the government-wide footnotes will manage this.

Mr. McCall noted that in a statement by the former Chairman of the FASAB, he explained that Federal Reserve was accountable to Congress and therefore is not independent. The former chairman had also conveyed the government-wide statements would not provide a complete accountability or be transparent without including the Federal Reserve. Mr. McCall also explained he looked at the Federal Reserve's annual report and it discusses the Federal Reserve Act and the FRBs. He explained it stated the Board of Governors appoints the Chairman and Vice Chairman at each FRB. Mr. McCall noted the Federal Open Market Committee is composed of members of the Board of Governors and the President of the FRBs. He explained in reading the annual report it stated the Federal Open Market Committee authorized and directed the Federal Reserve Bank. Mr. McCall asked to what extent the "actions" of the Federal Open Market Committee (FOMC) affect the independence of the FRBs as it appears the FOMC authorizes and directs the purchase Treasury securities, debt securities, etc. to improve conditions in financial markets.

Mr. Evans explained monetary policy is directed by the FOMC and he noted that Mr. McCall described it accurately. He explained the FOMC members include the seven members of the Board of Governors and five of the twelve Federal Reserve Bank presidents. The president of the Federal Reserve

Bank of New York serves on a continuous basis because that is where the operations take place. The other four FRB presidents serve on a rotating basis. Practically speaking, all FRB Presidents sit on the FOMC, but only those five have a vote.

Mr. Evans explained this is where the direction for purchasing and selling of the assets and so forth comes from as set forth in the Federal Reserve Act (purchases and sales of financial assets). These assets are distributed among all 12 Federal Reserve Banks. Lending transactions, on the other hand, are individual Reserve Bank decisions but some of them have to be approved by the Board. For example, the NY FRB had loans with the AIG, this was strictly the NY FRB with the approval of the Board of Governors. The purchase of Mortgage Backed Securities on the other hand is a FOMC decision, so there is a share of those transactions with all 12 FRBs. Mr. Evans explained one could conclude that the finances of the Reserve Banks are overwhelmingly driven by direction in monetary policy given by the FOMC, but does that get one to federal control of the FRBs? Most would agree the Federal Reserve System and the FOMC as a whole was created by the Federal Reserve Act so therefore, there is a close relationship with the federal government but it is also clear that the FRBs were created to be separate. Mr. Evans explained it is an interesting structure and people need to navigate what that means and how much control there is. He added he can't make the structure something it isn't; one must navigate through the structure to make those determinations. It seems clear, however, that Reserve Bank independence was the intent behind the structure.

Mr. Granof noted there is independence in form and independence in reality. He added that in the eyes of many, the level of cooperation has increased dramatically. He believes there is a common perception that the Federal Reserve makes very few moves without consultation or cooperation with the Treasury. Mr. Granof explained he heard there were weekly meetings between Treasury and the Federal Reserve. Therefore, in reality would a reasonable person believe there is independence? Mr. Granof also noted that in 2000 there was a bill in Congress that related to civil rights and the court of appeals found the Board of Governors of the Federal Reserve System to be an executive agency in the meaning of certain aspects of Title 7 of the Civil Rights Act. He also noted the case mentioned the Board of Governors did not argue the fact. Mr. Granof asked when one puts all of this together, how independent is the Federal Reserve.

Mr. Evans noted that the example given by Mr. Granof refers to the Board of Governors and the Board of Governors have described themselves as a federal agency. However, the FRBs do not believe they are federal agencies and they view themselves as separate from the Board of Governors. He added there are many FRBs lawyers who would continue this discussion and draw that distinction.

Regarding Treasury and Federal Reserve cooperation, Mr. Evans noted that one doesn't have to be uncooperative to be independent, but he understood Mr. Granof's point. Although non-cooperation may provide evidence of independence, cooperation does not prove a lack of independence. Mr. Evans explained the Treasury and the Federal Reserve have frequent meetings and coordination as a natural by-product of monetary policy. The Treasury's financial transactions have a significant impact on banking reserves each day that need to be understood by those conducting open market operations. However, Mr. Evans reiterated his personal experience that there is a strong sense of independence between Federal Reserve and Treasury as well as the Federal Reserve Board and Reserve Banks.

Mr. Reger agreed that many people could debate independence and the implications. Ms. Banks agreed and explained independence is not easily defined in these situations. Further, she added that FRBs is a significant related party and that should be the most important aspect to consider.

Mr. Evans explained it is clear in the Federal Reserve Act that they can't extend credit to the Treasury.

Mr. Evans had explained some of the issues with including the condensed financial information—different year ends, different basis, comparability and audit costs. It was noted the Board should consider these further.

Mr. Steinberg asked if the Board could discuss the decision on how the Board plans to address the Federal Reserve and whether the Board would be providing staff direction on how to proceed. Mr. Allen noted that previously the Board had agreed the Draft ED (principles) could be applied and the Federal Reserve did not have to be specifically mentioned within the proposed standards. Further, the Board had agreed the basis for conclusions would describe that SFFAC 2 is being amended and the Draft ED establishes a framework of standards that can be applied to all entities without listing specific exclusions.

Mr. Allen explained the decisions don't prevent reconsideration, but he is reminding the Board of the previous decisions and it would be considered reconsideration. Mr. Allen noted that Board members wanted additional information about how the Federal Reserve might be disclosed and now after hearing that, if the Board wishes to reconsider previous decisions or if they want to address any particular entity individually, it would be appropriate to bring up at this time.

Mr. Steinberg explained that he believed the Federal Reserve representatives explained how unique they are so that should warrant reconsideration and perhaps consideration if they should be addressed separate from the other non-core entities. He noted that many of their responsibilities are those of the sovereign federal government.

Mr. Reger asked if the Federal Reserve is really that unique from other types of entities that one might consider other related parties. Mr. Steinberg noted the Board has not defined related

party as of yet. Staff noted if an organization meets the inclusion principles, then the organization is either core or non-core—they don't go to the related party for consideration.

Mr. Granof noted that as standards-setters our decisions to date are tentative. Further, the Board had stated before that we would have a good understanding of how some of the significant entities would be treated under the Draft ED. He agrees the Federal Reserve is unique and perhaps it needs to be addressed specifically. Mr. Granof explained there are standards that address specific types of assets, so this may be a situation that requires us to address a specific entity. Doing so, it doesn't mean the standards aren't principles based. He explained the Board may need to determine how it wants the Federal Reserve to be reported and write the standards to ensure the appropriate disclosures are included .

Mr. Allen agreed and that was one way to approach it. He added we could identify the uniqueness of the relationship and address that within the criteria without addressing a specific entity. Mr. Allen explained the Board could revisit this issue in conjunction with the government-wide ED discussion.

Mr. Allen thanked Mr. Evans and Ms. Banks for their time and explained the Board members have a better understanding of the relationship.

CONCLUSION: The Board agreed the presentation was very helpful. The Board agreed they would discuss any comments further with the government-wide reporting entity topic.