

**FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD**  
**April 16-17, 2008**  
**Room 7C13**  
**441 G Street NW**  
**Washington, DC 20548**

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***Wednesday, April 16, 2008***

**Administrative Matters**

- **Attendance**

The following members were present throughout the meeting: Chairman Allen, Messrs. Dacey, Farrell, Jackson, Murphy, Patton, Reid, Schumacher, Steinberg and Werfel. The executive director, Ms. Payne, and general counsel, Mr. Dymond, were also present throughout the meeting.

- **Approval of Minutes**

The minutes were approved electronically in advance of the meeting.

- **Clippings and Introduction of John Radford**

The Board opened with a brief discussion of the clippings. A notable item related to the research underway at the Financial Accounting Standards Board (FASB) regarding the structure of the financial statements. The changes would disaggregate information into three areas – operating, financing and investing; these categories would be presented separately on the balance sheet and there would be parallel changes on the income statement.

A member noted that convergence between FASB and International Accounting Standards Board standards is moving at a rapid pace. One recent change is that FASB's size has been lowered from seven to five in anticipation of convergence. Also, the Securities and Exchange Commission dropped the reconciliation requirement and may allow US companies to use IFRS. Interesting things are happening and convergence seems unstoppable

Mr. Allen introduced John Radford, controller with the State of Oregon and a member of the Financial Accounting Foundation (FAF). Mr. Radford has been selected to represent the FAF on our Appointments Panel and is observing our meeting. He asked Mr. Radford for a brief update on FAF actions.

Mr. Radford explained that the FAF changes are evidence of the interest in increasing independence and responsiveness of the FASB as well as the GASB. The Foundation created a governance review committee – did a self assessment driven by convergence. One issue of governance was to open up the nomination process for FAF membership. National associations will no longer select members directly. They are seeking diversity and to widen the talent pool when looking for candidates. The role of the FAF in investor protection is emphasized. The FASB size change is a sign of convergence; may be a couple or five to ten years before convergence is complete. In the meantime, the FASB needs to be more responsive and take a leadership role. With the changes, the chair will have more autonomy and can move the agenda along more quickly.

The Board briefly discussed the challenge of principle based standards, enforcement and compliance as well as potential reactions to future investor losses under the converged standards.

- **Meeting Conduct and Staff Role**

Mr. Allen began the discussion of how the meetings are conducted by asking that Ms. Payne take an active role in bringing the Board's focus back to the agenda topic and the questions at hand.

Mr. Reid suggested that the formal agenda be expanded to include key decision points for each topic so that it could serve as a tool to keep the meeting on track.

Mr. Allen acknowledged the usefulness of a broader work list on the agenda. He proposed – while acknowledging that projects at varying stages of development or levels of controversy will fit more or less well with his proposed model – the following process:

1. The staff paper identifies key issues to be discussed and resolved. Staff will place emphasis on the most important issues and present issues in a logical order.
2. Members inform staff in advance of the meeting if they wish to make an alternative proposal or have concerns with an issue (ideally this notice will be in writing).
3. Staff can then inform the chairman in advance of the meeting regarding member feedback. This will help to identify non-controversial issues where members might be asked to approve the staff recommendation on a no objection basis and allow more time for discussion of areas of controversy.
4. Recognizing the role of the staff as the expert on the project; staff identified issues will be addressed first. New issues from members would be deferred until after resolution of staff identified issues. There will be a brief overview from staff regarding the issue and then member discussion. This will ensure members have a chance to ask staff questions and understand issues.
5. Then the chairman will go around the table and ask each member to share their position on the specific issue. This will be done without interruption/no reaction to member positions will occur until each member has identified his or her position. Then there will be a period of time for members to ask questions of each other. Then members will vote on the issue. This allows members to coalesce around positions.

Mr. Allen asked for comments on his proposal.

Mr. Jackson asked that the proposal be put into writing (general rules of order) as a reminder over time regarding the conduct of meetings. He suggested that perhaps they appear in each briefing book. He noted that the staff has been open to outside conversations with individual members on issues and he appreciates the access to staff between meetings.

Mr. Steinberg agreed that Mr. Allen's proposal would be helpful. He asked for clarity regarding the members' input to staff – he wondered if all members would be expected to read all members' comments and whether there would be sufficient time for that. Mr. Allen clarified that written comments would be most appropriate when a member had an alternative proposal. Members need not contact staff in advance if they agree or only have minor edits to offer. The expectation arises when a member has a major alternative to propose—for example, if staff gives three alternatives and the member agrees with one of them (even if not the one the staff recommends) the member need not provide a written analysis to staff but are asked to notify them in advance. However, if a fourth option is preferred, the member should write it down and send it in.

In addition to his request to have staff distill written comments and provide a summary at the opening of each session, Mr. Steinberg thought it would be helpful to have the staff summary of lower level feedback as well. Mr. Schumacher agreed.

Mr. Patton indicated that the process sounded good for the ending phase of a project. In earlier stages, an open exchange of ideas is needed. The polling of members may be difficult; flexibility earlier on in the process will help him coalesce around a view.

Mr. Allen asked how to best manage the process of providing all the time we need to develop positions, while maintaining some semblance of order.

Mr. Patton did not offer an operational suggestion but again expressed concern that constraining discussion in the early stages of a project is not productive.

Mr. Werfel suggested that Mr. Allen should take a more aggressive role in managing discussion. For example, if a member strays to a new topic the chairman could defer discussion until after the staff questions or could decide to deviate and take up the new topic first. He would be happy to have the chairman rein in members. He likes for the conversation to flow as opposed to limiting members as suggested.

Mr. Allen indicated that the example could play out as suggested. However, he believes a more structured approach would help. Often members have questions or comments on another aspect of an agenda topic, and it is their turn to speak, but Board members want to jump in and respond to the specific issue just raised.

Mr. Werfel acknowledged the challenge and the judgment necessary to steer the discussion.

Mr. Reid indicated that he sees two phases. As Mr. Patton suggested, he believes there will be times when members do not have positions yet and would rather have an open ended discussion; allowing members to get pros and cons and new ideas on the table early does have benefit. When an exposure draft is being drafted, a structured discussion will be more productive and he agrees with the proposal. Mr. Reid questioned whether we do enough open ended discussion before diving into drafting a standard. By not focusing on taking a position, we get broader richer discussion.

Mr. Dacey noted differences in the progression of the project. He noted that at FASB and GASB, where meetings are more frequent, the members are much more aware of what other members think. He believes more open discussion early in the project is helpful. Identifying the factors and concerns of the members earlier should be helpful to staff. He suggested that sharing additional arguments – in addition to new alternatives – would be helpful. Realistically, he wonders if federal members—who need to get organizational buy-in—can provide timely responses.

Mr. Dacey also wondered if there is a way to get more feedback from preparers and auditors early in the process. Identifying agency concerns would be helpful. He's

aware of staff efforts in that regard but would like more of that to be transparent to the Board.

Mr. Patton indicated that issues such as “I have a problem with the way issues are framed” should go to staff before the meeting. In light of the pre-briefings with the chairman on the day before the meeting, a heads up even as late as the day before the meeting is helpful.

Mr. Allen turned to the topic of reconsideration; that is, questioning a prior Board decision in a project. He observed that there are three options for reconsideration – do not reconsider, to allow reconsideration as desired by Board members, or limit the right to one challenge of a prior decision. Mr. Allen’s preference is the latter position that we limit to one reconsideration of a decision per member. He noted that GASB has limited this reconsideration to only when new or additional facts are included in the request for reconsideration.

Mr. Patton noted that the staff list of prior decisions was helpful.

Mr. Dacey agreed that the list of decisions is useful. In particular, members do not vote on every single item—sometimes—silence is taken as no objection. The list serves as a reminder and an opportunity to have discussion after reflection.

Mr. Allen indicated that he would have to rely on staff to remember what was voted on previously. He noted the difficulty when members feel passionately about an issue—awareness that there is one more chance then takes the pressure off the first pass. In addition, knowing that there is only one more pass requires the member to hone his or her arguments and make his or her best case.

Mr. Reid agreed that having the same discussion meeting after meeting was not appropriate. However, he does not believe there has been a significant problem over time. The proposal seems fine.

Mr. Allen confirmed that he would operate in this mode but would not establish a hard and fast rule. With respect to edits, Mr. Allen indicated that staff handles most edits and they are generally not discussed with the Board. Member edits are given to staff as recommendations. Staff will make edits they view as improvements or as accommodations to members. If an edit is not made, Mr. Allen said he believes it is staff’s responsibility to let the member know why as soon as possible. At that point, the member has the option to propose the edit to the full Board. Edits would not come to the Board for discussion unless the member feels strongly about raising edits not made by staff.

Ms. Payne clarified that staff may agree with an edit but believe the majority would not agree and therefore the staff does not make the edit. These cases also can be raised by a member for Board consideration. Generally, staff communicates the outcome of the proposed edit directly to the member. All members see the edits through marked versions of the document.

Mr. Farrell asked if it is possible to identify the source of the change in these marked drafts. Ms. Payne noted that some staff insert comments that explain changes. In some cases it is easy to do but in others it may not be so clear what drove the change (e.g., full Board discussion with staff interpretation).

**Conclusion:** The process proposed by Mr. Allen will be followed. The chairman will apply judgment as needed in consideration of the points made in discussion among members regarding the appropriate stage of the project to initiate the more formal process. Staff will consider the discussion in preparing the agenda and identifying issues in staff papers. Each briefing book will include a copy of the above process.

## **Agenda Topics**

- **Statement of Members Responsibilities**

The Board approved the proposed edit to the Statement of Members Responsibilities as presented in the staff memo.

- **Fiscal Sustainability**

Note: At this agenda session, Mr. Robert B. Anderson, a senior economist at the Office of Management and Budget, responded to technical questions from the Board members. Mr. Anderson is one of the technical experts serving on the Fiscal Sustainability Reporting Task Force.

### Recap of Recent Board Decisions

Ms. Parlow noted that at the February 2008 meeting, the Board reached consensus on the topics listed on page 3 of the briefing memorandum and that those decisions were incorporated into the draft exposure draft (ED).

### Recap of Task Force Meeting

Ms. Parlow said that FASAB staff met with participants of the Fiscal Sustainability Task Force on March 31, 2008 for a technical review of the preballot draft ED, and that there were comments on six topics:

1. Factors that drive high/low variance
2. Population characteristics in projecting growth per capita
3. Limitations of showing fiscal imbalance as a ratio of projected receipts or spending
4. Assumptions that depart from current law
5. The concept of "fiscal imbalance"
6. Terminology used for "current levels" and "current policy."

## Proposal by Board Member Representing Treasury

Mr. Reid said that he would prefer the focus of the reporting requirements to shift away from specific reporting elements to that of showing how the projections would change under specific policy changes, such as changing the retirement age. He said that the detailed reporting required for social insurance by SFFAS 17 is too lengthy—48 pages—and of limited use for readers of the CFR.

Mr. Dacey said that there are two issues: sensitivity analysis for individual factors and full alternative scenarios. He said that if the Board requires or encourages reporting of alternative scenarios, then explaining the major/significant differences in assumptions should suffice.

Mr. Allen asked Ms. Parlow to respond. Ms. Parlow said that both the technical and communications experts noted the challenge of presenting rather difficult concepts to the reader – the tension between being technically rigorous without overwhelming the reader with complexity and detail. This was the rationale for having a single primary summary display. She also noted that previous Board discussions had indicated a consensus that a discussion of specific potential policy changes might imply endorsement of those policy changes and accordingly should not be part of the proposed reporting requirements for the CFR. Ms. Parlow said that this is a challenging balancing act. She said that the communications experts had advised that the reporting tell a story in a meaningful way, and not just display a bunch of numbers – you want to lead the person through and help them understand why. The same thing with ranges and uncertainty- you want to lead them through and understand which major factors are hard to predict.

Ms. Payne said that she wants to draw a distinction between the proposal in the draft ED and what SFFAS 17 requires. She said that SFFAS 17 explicitly requires a sensitivity analysis that includes varying each assumption and showing the result; she agreed with Mr. Reid that 48 pages of detail is excessive, but that the draft ED does not include such a requirement, nor does it either preclude or require the analysis of specific policy proposals.

Mr. Reid said that the reporting should show whether a program only needs tweaking- for example, changing the retirement age by just a few months- or a major overhaul.

Mr. Werfel asked Mr. Reid how you could present the results of potential policy changes without seeming to endorse the policy changes presented. For example, why did he select change in retirement age instead of means testing as a potential policy change? He said that the choice of policy changes would imply a policy preference. Mr. Reid said that you could begin by using the same things that the [Social Security and Medicare] Trustees test in their reports. Mr. Reid also clarified that the requirements could be less specific and simply give the preparer more discretion on how to walk the reader through the issue(s).

Ms. Payne asked whether the primary summary display should include ranges.

Mr. Steinberg said that there are a number of points being discussed:

1. The communications experts advised the Board to “keep it simple.
2. There are too many pages of variance analysis for social insurance, particularly of economic and demographic assumptions that do not have a material impact on the projections, in terms of affecting the conclusions.
3. Policy assumptions are an important focus of the reporting, because they are more subject to change than economic or demographic factors.
4. He believes that the narrative should identify a range and explain the factors in one paragraph.
5. He believes that the preparer should identify policy changes and show the impact of the policy changes.

Mr. Allen expressed concern that the proposed additional sentence to paragraph 45 (“The narrative should identify the major causes of the variances displayed”) might be interpreted to require more in-depth coverage than the short list of factors that is intended by the proposed addition of a sentence to paragraph 45.

Mr. Jackson said that the draft requirements do not appear to include a range of estimates in the primary summary display and asked where the range information would be. He said that there does not seem to be a direct correlation between the information displayed in Illustration 1a (“Federal Spending for Medicare and Medicaid as a Percentage of Gross Domestic Product Under Different Assumptions About Excess Cost Growth”) and the line items in the primary summary display. Ms. Parlow said that paragraph 45 requires a table showing the range for each line item in the primary summary display. Ms. Payne explained that Illustration 1a was an illustration of an “optional” item, specifically, projection ranges for individual programs.

Mr. Reid said that he would remove all the specific requirements and instead require the preparer to paint us a picture that explains this situation and this problem. He said that he would start with the graph on page 50 (Illustration 3: Relationship of Projected Receipts and Spending) and we’re going to vary significant assumptions- regardless of what kind of assumptions they are, policy, economic or demographic- until we get it to balance. Maybe we’ll have to go through several interim steps, but that would give us a sense of the order of magnitude of the issue.

Mr. Jackson said that although the fiscal imbalance amount of 5.9% of GDP may resonate with economists, it was the present-value dollar amount of \$41.9 trillion that is most likely to resonate with the general public as constituting a significant problem. He also suggested the Appendix might include an example of the table of ranges for each line item that is described in paragraph 45.

Ms. Payne noted that there are two disadvantages to developing very detailed and comprehensive illustrations: the considerable time and effort burden required, and also



the fact that very detailed illustrations are sometimes taken to be boilerplate and make the proposed standard appear far more prescriptive than it actually is.

Mr. Jackson said that he is not sure that the additional illustration is needed, only that he understands the requirement. Ms. Payne said that the technical experts advised the Board to disclose ranges, and that the requirement is for an explanation of the major reasons for the differences between high and low. Mr. Jackson said that it is also important to consider whether too much detail is being presented and that he agrees with Mr. Reid that 48 pages is too long.

Mr. Dacey said that he believes that the selection of which alternative scenarios are presented should be left to the preparer's judgment and not part of a prescriptive requirement. He said that ranges should be presented for the major drivers. He agreed with Mr. Reid and Mr. Jackson that excessive length should be avoided and that the standard should not be too prescriptive, especially regarding alternative scenarios.

Mr. Allen said that the table of line item ranges would appear to have seven line items, corresponding to the line items in the primary summary display. He asked what the table would look like. Ms. Parlow said that the table would have at least two columns for high and low, and seven line items. Mr. Allen said that the new sentence would require an explanation of the ranges. Ms. Parlow and Ms. Payne confirmed this and said that only the major reasons for the high and low ranges would need to be identified. Mr. Jackson said that this was confusing to him because the table itself is not illustrated in Appendix B.

Mr. Werfel suggested that the requirement to discuss the drivers should only be triggered if the difference between high and low makes a real difference in terms materially affecting overall sustainability and leave it up to the preparer and the auditor to decide whether that is triggered. He said that in his opinion, the requirement might not be triggered now, but might be ten years from now.

Mr. Jackson said that he agrees with the intent of Mr. Werfel's suggestion but said that it would be difficult to define materiality in order to draft a requirement to accomplish what Mr. Werfel was suggesting. He said that the Board would need to frame the concept of sustainability in a concrete way in order to have such a requirement. Mr. Werfel said that such words as "significantly impacts" or "meaningfully impacts" sustainability might be sufficient. Mr. Reid said that Mr. Werfel wants to get away from the calculation and focus on the conclusion- that he is thinking of whether something would materially affect your conclusion about whether something is sustainable or not.

Ms. Parlow said that if this would be agreeable to the other members, staff will draft wording to add to the last sentence in paragraph 45 to indicate that the requirement to discuss factors that drive high/low variances only need to be identified or discussed if the variances significantly impact the projected fiscal imbalance. Mr. Allen asked if there were any objections and there were none. Mr. Patton said that he would object to the insertion of the word "material" but that he would accept the word "significant." Mr.

Werfel said that he would prefer that the trigger be linked to something broader than the bottom line fiscal imbalance- perhaps something more like the trajectory.

Ms. Parlow noted that the draft ED did not include a requirement to explain the causes of the variances- only to name them- and asked if members wanted a requirement to explain them under certain conditions. Mr. Werfel and Mr. Reid said that under the conditions they are envisioning, an explanation would be needed for fair presentation even if there were no requirement in the standard.

Ms. Parlow also noted that the Board previously decided not to define “fiscal sustainability” and that it would be difficult to include a concept of fiscal sustainability embedded in a reporting requirement without defining fiscal sustainability. She said that if the trigger for the reporting is going to be lined to something, that “something” has to be defined. She said that the only available “something” that staff is aware of would be the bottom line of the primary summary display, currently the fiscal imbalance.

Mr. Reid asked if there could be a vote, whether to draft something or to eliminate the requirement. He said that he would prefer a concepts statement: an overarching goal or objective that the preparer use judgment to present something both simple and comprehensive that would be appropriate to the kinds of uncertainties existing at that time. Mr. Jackson suggested that Mr. Reid’s suggestion could be presented in the Basis for Conclusions. He said that since the proposed reporting is initially going to be RSI, that would allow for a period of experimentation.

The Board approved the majority of the edits recommended in the April 2008 briefing memorandum:

- add a requirement to identify the major causes of high/low variances that significantly impact the projections;
- add clarifying footnotes:
  - for spending projections that involve per capita, the characteristics of the population should be considered for expenditures that benefit identifiable subgroups; and
  - when displaying ratios of fiscal imbalances to total projected receipts and total projected spending, note that the usefulness of such a display is limited because policy adjustments could alter both the numerator and the denominator of such ratios;
- add a requirement for the narrative to describe significant differences between current law and the policy assumptions upon which the projections are based, such as allowing for exceeding the statutory limit on Federal debt; and
- add additional discussion in the Basis for Conclusions about current level/current policy.

The remaining proposed edit, adding a discussion of fiscal imbalance versus fiscal gap to the Basis for Conclusions, is discussed in the following section and will be further developed for discussion at the June 2008 meeting.

Fiscal Imbalance versus Fiscal Gap

Ms. Parlow explained the basic difference between fiscal imbalance (includes repayment of external debt at the starting date of the projection period by the end of the projection period) and fiscal gap (which does not include repayment of any of the beginning (alternatively target) external debt). She explained that each of these two concepts has strengths and weaknesses as a bottom-line measure.

The technical experts noted that when the fiscal imbalance is used for a finite projection period, it will overstate the needed fiscal adjustment because of the implicit assumption that the external debt should be zero at the end of the projection period- a condition that is extremely unlikely and not even necessarily desirable. (When the fiscal imbalance is used for an infinite horizon projection period, there is no issue regarding overstatement because the present value of beginning external debt over an infinite period closely approaches zero.)

At previous Board discussion, the members had indicated a preference for the fiscal imbalance measure because the fiscal gap measure requires the selection of a specific target level of debt to GDP. Since the U.S. Government currently does not have a legislated target debt level, the Board believed that any measure that requires a target debt level would imply that the Board is setting targets for debt levels, and/or recommending budget rules. In previous Board discussions it was also noted that having a movable debt target- for example, to maintain the current year's level of debt- would result in a lack of comparability from year to year when the debt level changes significantly, and also would have the potential to understate fiscal problems by implying that the existing level of debt is acceptable, regardless of how high it might be. Accordingly, the Board previously selected the concept of fiscal imbalance for the "bottom line" measure of the primary summary display.

Mr. Werfel said that he sees two potential problems with fiscal imbalance: first, that it assumes that you're going to a zero debt level, and there is not universal agreement that zero is the economically optimal level. Second, if you do fiscal imbalance within a finite horizon, you are saying that you have to achieve zero within this (arbitrary) timeframe.

He said that the fiscal gap measure might solve those problems.

Ms. Parlow noted that the shortcomings of the fiscal imbalance measure are eliminated if an infinite horizon is used as the projection period, and OMB technical representative Mr. Robert Anderson agreed. Ms. Parlow noted that at the February 2008 meeting, the Board had decided to allow preparer judgment as to whether to use a finite or an infinite horizon for the primary summary display, and accordingly there are more variables for the Board to consider in selecting a concept for the "bottom line." Ms. Parlow said that the ED's requirement for the time horizon, which uses similar wording to the requirement for the Statement of Social Insurance, might not be satisfied by a horizon as short as 75 years because of the distortion introduced by the repayment of external debt by the end of the projection period. Ms. Parlow asked the members if they would prefer a fiscal gap measure.

Mr. Werfel said that the fiscal gap would work in the current situation, but that there might be a time in the future when the current level of debt is no longer an appropriate target. He said that this gets back to Mr. Reid's point about how prescriptive the standard should be. He asked whether the standard should outline the concepts of fiscal imbalance and fiscal gap and allow the preparer and auditor to select which one would be more appropriate. He said that alternatively, you could require that both be displayed, although then you would get into the problem of too much complexity and confusing the reader. He said that perhaps the preparer and auditor could agree upon a target for fiscal gap, such as the current level, and make changes if the current level became too high in the future to serve as a target.

Mr. Reid said that either measure could be used for what he envisions: that the preparer should be able to answer the question of "is this sustainable" and defend the answer to the auditor. He said that the proposed standard should not be prescriptive in terms of what measurements are used.

Mr. Allen asked if the standard is not at least somewhat prescriptive, what would prevent gaming the reporting? Mr. Reid said that the auditor would normally expect some consistency in the reporting. He said that you need a measure, but that it would not necessarily be either fiscal imbalance or fiscal gap.

Mr. Schumacher asked what the technical experts had said about fiscal gap. Ms. Parlow replied that the technical experts appeared to support the fiscal gap measure, but had also acknowledged its shortcoming- that there is no universally or internationally agreed-upon target baseline debt-to-GDP level- so they were aware of the dilemma that the Board is faced with. Mr. Schumacher asked if the task force had agreed upon a recommendation for the Board. Ms. Parlow replied that the task force discussed issues but had not been tasked with coming to a consensus on specific recommendations to the Board. She said that the task force had been asked to provide comments and the reasons supporting their comments so that the basis and reasoning for their comments could be conveyed to the Board.

Mr. Dacey said that he would favor presenting both the fiscal imbalance and the fiscal gap. He said that other countries use both as meaningful measures- they measure different things, but they are both informative, relevant and meaningful. He said that the Board's primary objective of this reporting is to provide information to help the readers to make an assessment about sustainability; the emphasis is not for the preparer to make an assessment, helpful though that might be.

Mr. Dacey said that one advantage of the fiscal imbalance measure [as proposed in the ED in the Board briefing materials] is that it shows projected receipts and spending by program, whereas the fiscal gap is typically presented as a total bottom line, because you don't know what is going to be changed to force a balance with the target debt level. For that reason, it's important to have the kind of disaggregated information that is displayed in the proposed primary summary display. However, the fiscal gap is a very useful bottom-line measure of the extent to which the overall pattern of inflows and

outflows needs to be changed. He said both measures could be reconciled with each other. He said that whether you want to display both measures on the face of the [primary summary display] statement is something that the Board should decide, but he believes that they are both important.

Mr. Steinberg said that the fiscal gap [using the current debt-to-GDP level] may be arbitrary but might be intuitively understandable.

Mr. Dacey pointed out that the fiscal gap measure, shown as a bottom-line measure, would not show the kind of disaggregation of revenue and expenses that the Board envisioned for the primary summary display because it would arbitrarily set a limit on debt-to-GDP and where the adjustments would occur in revenues or spending would not be known.

Mr. Allen asked Mr. Steinberg about the limitation that Mr. Dacey mentioned- showing fiscal gap measure without disaggregation on the face of the statement. Mr. Steinberg said that he is not sure if he would support disaggregation- he likes a bottom line at the bottom of the statement. He said that he may be inclined to support Bob Reid's concept of showing controllable versus uncontrollable costs, proposing program changes, and showing the effect that various program changes would have on the bottom line.

Mr. Allen asked Ms. Parlow if staff would support a fiscal gap measure. Ms. Parlow noted that Mr. Dacey has pointed out a significant shortcoming in the fiscal gap measure -- that it is primarily a bottom-line measure and does not, by itself, provide enough information.. Mr. Dacey confirmed Ms. Parlow's statement, and indicated that the Board previously concurred that the most useful projections for assessing the future implications of federal benefits, services and taxation would project current levels of federal benefits, services and taxation by program. [Staff note: A projection of current levels results in a fiscal imbalance measure but requires an additional adjustment for a fiscal gap measure.]

Mr. Werfel suggested that perhaps fiscal gap might be used for the face of the statement and that fiscal imbalance be reported in the narrative section.

Mr. Patton asked if the Board selected a specific debt-to-GDP level, such as the current level, would that imply a judgment about sustainability. Ms. Parlow said that it would, and that would be a down-side of the fiscal gap measure. Mr. Allen said that it could be viewed as a baseline and not intended to make a judgment. Mr. Patton asked what would happen in the second year. Members who spoke indicated that there would be a new level, the level at the end of the second year. Ms. Parlow said that this might imply to some that the new level is sustainable, and changing the level from year to year would also impact comparability of one year's projections to the prior year's.

Mr. Allen said that it would be helpful to have a room full of economists at this point in the discussion.

Mr. Farrell said that if there were a room full of economists, they would not come up with a consensus on whether today's level of debt is good or bad for the country. He said that he favors a fiscal imbalance because it does not require a subjective decision on what level of debt is acceptable and it gives each year the same starting point, allowing the reader to assess a comparison of the current year with the prior year. He said that once this is done, it would be fine to add on a fiscal gap analysis using some level of debt, perhaps one recommended by economists or the debt at some point in time, such as the current year. But he believes that the primary summary display should use the fiscal imbalance measure.

Mr. Werfel said that Congress could point to the fiscal imbalance measure and claim that it overstates the problem because it requires debt to be zero at the end of the projection period. He said that this might dilute the message.

Mr. Reid said that the problem with a fiscal gap measure that resets each year is that there might be point in time where the debt is at unsustainably high level of GDP, and the projections would require that level to be maintained in perpetuity—implying that it is sustainable-- when in fact it should be reduced. He said that by rolling the baseline forward you would not be able to show the whole problem.

Mr. Allen asked if it would be acceptable to set a permanent baseline, such as the beginning year. Mr. Reid said that the standard would have to say that; it would have to select a year and prescribe the debt-to-GDP level in that year as the permanent baseline upon which all future years would be indexed.

Mr. Murphy said that he believes that most economists would say that this year's level of debt to GDP is acceptable. He said that he is most interested in the [projected] trajectory of debt to GDP, but that he would not object to a fiscal gap measure.

Mr. Werfel said that both the fiscal imbalance and the fiscal gap are important measures.

Mr. Murphy said that he understands Mr. Werfel's point about appearing to overstate fiscal problems by assuming an ending balance of zero for debt, but said that there is real value in projecting program revenues and expenses (such as Social Security and Medicare), which a fiscal gap measure would not accommodate because it requires debt to remain at a set amount.

Ms. Parlow said that at previous meetings, the primary summary display included both fiscal imbalance and fiscal gap, but that a majority of the members decided that this might be confusing to readers to introduce two similar but somewhat different summary measures, and decided to delete the fiscal gap measure. Ms. Parlow asked if the Board would like to reconsider that decision.

Mr. Murphy said that he does not necessarily want to reconsider, but asked about the role of debt in the fiscal imbalance measure. Mr. Anderson said that the fiscal

imbalance measure reflects a concept that economists call the “intertemporal government budget constraint.” This concept assumes that over the infinite horizon, the government will eventually pay off the debt—otherwise, people would not lend money to the government. He said that the intertemporal budget constraint applies over the infinite horizon but it does not apply to a finite horizon because that would arbitrarily limit the time period for paying off the debt. Mr. Murphy asked if the difficulty arises because the Board has decided to require reporting for both a finite and an infinite horizon. Mr. Anderson said that this is correct—economists would generally approve/require a fiscal imbalance measure over the infinite horizon, but would have objections to a fiscal imbalance measure for a finite horizon projection period.

Ms. Parlow noted at the February 2008 meeting the Board was unable to reach a consensus for requiring either a finite or an infinite horizon for the primary summary display. As a compromise consensus, the Board decided to allow either a finite or an infinite horizon for the primary summary display and require that summary information for the horizon not presented in the primary summary display would to be reported in the narrative section. She said that existing standards for the SOSI allow either a finite or an infinite projection period for the SOSI.

Mr. Allen asked if the requirements for time horizon and fiscal gap/fiscal imbalance could be linked together. Ms. Parlow said that staff would research and develop a linked requirement for the June 2008 meeting. Mr. Anderson noted that for an infinite horizon, fiscal imbalance and fiscal gap are the same. Ms. Parlow asked how the fiscal gap would relate to the line items in the primary summary display for an infinite horizon, in particular the line for repayment of debt held by the public. Mr. Anderson replied that if you make the typical assumption that the interest rate is larger than the projected growth rate of GDP and you discount back from the end of time until the present, it shrinks down to zero—if you’ve kept the debt-to-GDP ratio constant. Ms. Parlow said that the average reader might have some difficulty in following this.

Mr. Patton said that he is still troubled by a fiscal gap measure if the target debt-to-GDP level is reset to the current level each year. Ms. Payne said that staff will develop both options- keeping it at the level of the first year of implementation, and resetting it each year.

Mr. Dacey said that he supports the primary summary display in the current draft of the ED, which displays the fiscal imbalance. He said that the fiscal gap conveys important information, but it can be conveyed in the narrative section. He said that he would appreciate a more in-depth discussion of this issue at the next Board meeting.

Mr. Jackson said that he would like to see calculations for the various options being discussed. Ms. Payne asked if the Board would like to issue an invitation to get four or five of the task force members to a Board meeting to walk the members through some of these concepts. Mr. Allen said that he would prefer to see calculations. Mr. Patton said that the Board would need to have a list of questions; otherwise he is concerned that the discussion might not be focused on what the Board needs to understand.

## Assumptions: Terminology and Descriptions for Current Policy/Current Levels

Staff noted that the technical experts had agreed with the concept of “current levels” proposed in the ED, but noted that it is difficult to craft a label for this general notion of current levels without implying something else.

Mr. Murphy agreed that this is a challenge. He said that the term “current policy” is likely to be interpreted by some to mean the policies that are implicit in the administration’s budget. For example, “current policy” could be interpreted as allowing the AMT to affect an increasing number of taxpayers in future years, and the Board does not mean that. He said the Board intends a “changed current policy.” He said that he would be OK with the term “current law modified” because that really captures what the Board is talking about. He said that the ED does an excellent job of explaining what the Board means, and he has no difficulty understanding what is meant, but he finds the term “current policy” to be confusing. He said that he is concerned that readers of the ED might experience the same difficulty.

Mr. Reid noted that he believes that there is a difference between current policy and steady state. He said that steady state implies the same thing next year as this year, but that to him current policy would include provisions in the law that would make next year different from this year.

Ms. Parlow asked if members would object to the term “current law modified.” Mr. Reid indicated that this term would be too confusing.

Mr. Werfel said that at OMB the term is “baseline.” He said that he doesn’t have an answer to the terminology question, but that he wants to make sure that the preparer will have the option of using the extension of the President’s budget to represent “current policy.” He said that he is assuming what is meant is the same thing that OMB uses as a baseline when preparing the President’s budget. Ms. Parlow asked if the OMB baseline would have the AMT patch only last one year. Mr. Werfel said that there is more than one projection. He said that he wanted to know if this definition matches OMB’s concept of baseline. Mr. Allen replied that he does not believe the intent is the same. For example, the budget may envision triggering some cuts in certain programs, whereas the projection of “current levels” required by the ED would not include those future cuts.

Mr. Reid asked if there is a requirement to make the draft ED consistent with the baseline for the President’s budget, would that be acceptable to the Board. Mr. Anderson said that the OMB baseline is current law, with certain reasonable modifications. Mr. Murphy said that one problem is that both baselines (OMB and CBO) are driven by the older budget acts, including Gramm-Rudman-Hollings, which are still followed in calculating the baseline even though the legislation has lapsed. He said that there are some things that are pretty skewed from what is reasonable, but apart from those items is pretty close to what the Board requires in the draft ED.



Mr. Werfel said that he would be concerned if the assumptions in the ED were different from the assumptions in the OMB baseline. Ms. Parlow asked Mr. Werfel if the OMB baseline is consistent with the definition of “current policy” in the April 2008 briefing memorandum:

current levels of federal government services and benefits (for example, current reimbursement rates for Medicare and scheduled benefits for Social Security) combined with current levels of taxation and other receipts.

Ms. Parlow said that the question being posed to the Board is “what is an acceptable abbreviated term to refer to this concept?” but that Mr. Werfel appears to be asking a broader question.

Mr. Werfel said that he is not overly concerned with the abbreviated term that is used to refer to this notion. He said that he thinks that this notion is consistent with the OMB concept of baseline but was hoping to get clarification on this.

Mr. Patton pointed out paragraph 26 of the ED, which explained how the required assumptions differ from a simple application of current law: when current law expires almost immediately, or not fully support current levels of benefits or services, or produce levels of taxation that are significantly different from current levels of taxation. He asked Mr. Werfel if those were the kind of things that he has in mind when he talks about OMB’s baseline.

Ms. Payne said that the task force reviewed the ED and did not believe the broad guidelines for assumptions to be particularly constraining.

Mr. Werfel said that OMB will look at the language in the ED and come back to the Board if it has any suggested edits. He said that he will try to do that quickly.

Mr. Allen asked if both OMB and CBO could review and get back to the Board. Mr. Murphy indicated that he believes that this is primarily an issue for OMB rather than CBO since the data for the reporting would be expected to come from the executive branch rather than from CBO.

Mr. Patton suggested that OMB could present its baseline as a proposal and defend its proposal as a whole, rather than coming back with objections to parts of the ED proposal. He said that he would be interested in hearing under what circumstances OMB believes that it would be OK to depart from current law.

Ms. Payne emphasized that the ED contains only broad guidance because the Board was clear that it does not want to establish rules or constraints for assumptions, and cautioned against taking some examples that are clearly presented in the ED as illustrative and interpreting the examples as rules. She said that it is a challenging balance.

Mr. Patton asked what would prevent the preparer from changing assumptions at will from one year to the next. Mr. Dacey and Mr. Reid explained that there would be a reasonableness test, and a requirement to explain the reason for the change, and then the preparer would have to convince the auditor.

Mr. Allen noted that the three years of having this reporting as RSI should be helpful in this area.

#### Proposal by Board Member Representing Treasury (Continued)

Mr. Allen invited Mr. Reid to address the Board regarding a proposal. He said that at a previous meeting, representatives from the Treasury Department had suggested that the Board put this project aside while Treasury experimented with some reporting. He said that the Board voted on that proposal and voted against putting the project on hold. He asked Mr. Reid if he would like the Board to revisit the previous suggestion, or whether he had a different proposal to discuss.

Mr. Reid said that he does not wish to revisit the proposal for the Board to put this project on hold. He said that he would rather not see the Board set requirements without the benefit of the knowledge that will be gained down the road by Treasury's project.

Mr. Reid said that he thinks that the Board needs to revisit the objectives. He said that he wants the preparer to come to a conclusion about whether the federal government, as a "steady state" operation, whether that forecast results in a sustainable or an unsustainable situation. He said that the measurement rigor for doing this would have to be repeatable and auditable.

Mr. Allen said that currently the Secretary of the Treasury already has judged the current situation to be unsustainable, and asked how much of the cost and effort of Treasury's project would be in making a judgment that has in effect already been made.

Mr. Reid said that in 50 years, assuming that the current fiscal issues, such as the retirement of the baby boomers, were resolved, there would be a whole new set of programs. He said that maybe individual programs will be unsustainable, or even rise to the level of endangering the entire government. As this process evolves, this analysis provides an answer of "is this sustainable? Yeah, but we have some individual programs that do not appear to be sustainable." That's where you have a different kind of analysis and at a much lower level. Just because the big problem has gone away doesn't mean that the analysis is not valuable.

Mr. Reid said that instead of having all these individual requirements, he would prefer a conceptual requirement that asked questions such as, "How big is the problem? What is causing the problem? What kinds of changes do we need? Is it enough to just tinker at the edges of these programs, or do we need to make some really tough changes?" He said that the most important questions are whether this is sustainable and what

order of magnitude we are talking about with respect to the programs that are contributing the most to the unsustainability issue? He said that if you do this with Social Security and Medicare, you would find that a little tinkering could bring Social Security into balance, but not Medicare. He said this is where the standard should drive us.

Mr. Allen asked if Mr. Reid meant that the preparer would need to identify what changes need to be made to create a sustainable path. Mr. Reid said that this could be done in total or piecemeal. He said that you would prioritize things by looking at what would make the most impact. He said that instead of asking if the government as a whole is sustainable, a better question would be whether there are individual programs within the government that are not sustainable.

Mr. Patton said that he did not quite understand what Mr. Reid wishes the Board to do. He asked if Mr. Reid wants several years for Treasury to experiment and come up with some knowledge, and have the Board work around that knowledge, or is he asking for a standard now with the objective that he is describing? He said that those two things sound very similar.

Mr. Reid said that he would like a standard with the objectives that he is describing, plus some other requirements- for example, he believes that the standard should require some of the agencies to identify individual programs that are unsustainable. He said that he wants a standard to give Treasury leverage when Treasury asks agencies to provide Treasury with information about programs that are unsustainable consistent with the way that Social Security has done that analysis. He said that we should worry about what questions we want answered and not worry about how we are going to answer them.

Mr. Patton said that what Mr. Reid is describing sounds like a concepts statement.

Mr. Reid said that it would require RSI. Mr. Patton said that you would need to have some kind of a requirement for content. Mr. Reid said that you would require something that would answer the question.

Mr. Jackson agreed with Mr. Patton, and said that you can't just have a standard that only states objectives. From an independent review perspective, people just make it up as they go along- there's no objective standard or criteria upon which to base an audit. He said that if all we have is a statement of objectives, we have nothing.

Mr. Jackson said that he is also concerned about the suggestion that an accounting standard setter has a role to play in the analytical aspect of this issue. He said that as a standard-setter the Board's role is or should be making sure that adequate information is provided that would be useful in assessing whether a problem exists, and useful for evaluating various policy options, but not to perform the policy analysis itself.

Mr. Steinberg said that he believes that Mr. Reid's proposal is very forward-thinking in requiring the preparer to do some analysis in order to provide information that's going to be the most useful to users. He said that such a standard would look like the format that the Board has been looking at: a primary summary display based upon uncontrollable economic and demographic assumptions and controllable policy assumptions, with a bottom line, or more than one bottom line, with fiscal gap being one of them, and then additional information and analysis in the narrative and graphics section. He said that Mr. Reid would add a couple of additional things: some alternatives showing variation due to uncertainties in the uncontrollable assumptions and also some alternatives varying the policy assumptions.

Mr. Reid said that the analysis would include whether variations in the uncontrollable (economic and demographic) assumptions would change the answer, and also what changes in the controllable assumptions would change the answer.

Mr. Allen noted that Mr. Steinberg believes that Mr. Reid is asking for something additional, rather than in lieu of, the current draft ED and asked Mr. Reid to clarify. Mr. Reid did not express a clear preference.

Ms. Parlow asked if Mr. Reid wants the standard to require a yes-or-no judgment by the preparer, which is not currently part of the objectives or requirements. Mr. Jackson objected, saying that such a requirement would be beyond the appropriate role of a standard-setter.

Mr. Steinberg said that Mr. Reid is saying that information should be provided to support a conclusion, and that perhaps a table or financial statement format would not be the best format for a primary summary display- perhaps the primary summary display should be a chart or graph.

Mr. Allen and Mr. Jackson said that there were options for display, although a principal financial statement is normally not formatted a graph. Ms. Parlow said that at previous meetings, a majority of the Board had indicated that there should be a primary summary display that would ultimately have the status of an audited principal financial statement, and that a majority of the Board had approved a list of required elements that would need to be included. Mr. Jackson said that the requirements in the ED do not dictate display format.

Mr. Allen asked Mr. Reid to draft a proposal for the Board and provide it to members in advance of the next Board meeting so that the proposal can be discussed at the next meeting.

Ms. Parlow asked Mr. Allen if there is any FASAB staff action relative to OMB and CBO reviewing the assumptions. Mr. Allen said that FASAB staff should work with OMB and CBO staff to determine if OMB or CBO have any core concerns regarding the assumptions.

## **Conclusions:**

1) The Board approved the following edits that were recommended by staff based upon the March 31, 2008 task force meeting.

- add a requirement to identify the major causes of high/low variances that significantly impact the projections;
- add clarifying footnotes:
  - for spending projections that involve per capita, the characteristics of the population should be considered for expenditures that benefit identifiable subgroups; and
  - when displaying ratios of fiscal imbalances to total projected receipts and total projected spending, note that the usefulness of such a display is limited because policy adjustments could alter both the numerator and the denominator of such ratios;
- add a requirement for the narrative to describe significant differences between current law and the policy assumptions upon which the projections are based, such as allowing for exceeding the statutory limit on Federal debt; and
- add additional discussion in the Basis for Conclusions about current level/current policy.

2) Staff will add wording to the new last sentence in paragraph 45 to indicate that the requirement to discuss factors that drive high/low variances only need to be discussed if they significantly impact the projected fiscal imbalance.

3) For the June 2008 meeting, staff will develop:

- a. the issue of fiscal imbalance versus fiscal gap,
- b. how potential fiscal imbalance and fiscal gap measures would be linked to the most appropriate time horizon (finite versus infinite), and
- c. for fiscal gap, develop both options discussed at the April meeting: keeping the debt-to-GDP level at the level of the first year of implementation, and resetting it each year.

4) OMB will look at the language in the ED and come back to the Board if it has any suggested edits.

5) The Treasury Dept. will draft a proposal for the Board and provide it to members in advance of the next Board meeting so that the proposal can be discussed at the next meeting.

6) OMB staff will review the assumptions relative to how OMB calculates a baseline and communicate any problems or objections to FASAB staff.

- **Social Insurance**

The objective for the April meeting was to decide whether to approve the staff's proposal for a revised social insurance (SI) accounting standard and proceed to an exposure draft. The staff proposed that the standard require two new financial statements, new line items for current statements, and continuation of all Statement of Federal Financial Accounting Standards (SFFAS) 17 requirements. The proposed new statements would be designated "basic information."

Mr. Werfel said the first question with which to start an analysis of a proposal standard is what problem the Board is trying to address. He noted that the consolidated Financial Report of the United States Government (CFR) currently has 40 pages of social insurance (SI) information as well as the summary table in its first pages. He asked if the proposed information was "nice to have" or if there was a concern about the current presentation of the statement of social insurance (SOSI).

The staff noted that the SI project has gone through several phases, one of which being the analysis of when the past event occurs that creates a present obligation and a liability. Staff noted that there was and probably still is a difference of opinion about that event. Some members believe there is a past event that creates a liability sooner than the "due and payable" event. The proposed information is a compromise to highlight the importance of the commitment at points earlier than the due and payable event. The staff noted that the proposal would expand the current reporting model to accommodate new information.

Mr. Werfel asked if there were any substantive difference between the proposed highlights document and Table 1 in the CFR.

Staff noted that the proposed highlights statement added several new line items to Table 1. The staff also noted that the proposed highlights statement would be "basic information" and staff was asking the Board to consider whether the statement should appear in with management's discussion and analysis (MD&A) or together with the other basic statements.

Mr. Werfel said one of the more significant implications of the material is that costs would be reflected on the operating statement, which would have happen if a liability greater than the due and payable amount had been recorded. He noted that the Board is going down a path where a liability greater than the due and payable amount is not going to be reported, but there still would be a mathematical impact, a flow-through, on the operating statement. He said that that was a substantive point that the Board needed to discuss. However, before that, he said the threshold question is – if the questions can be addressed separately – does the Board want to mandate this type of highlights summary, or is that more normally in the purview of the preparer. He said this was partially a role-of-the-Board issue and partially a question regarding the extent to which the Board wanted to constrain the CFR preparer.

Staff asked if Mr. Werfel's concern was whether to mandate data or a financial statement format.

Mr. Werfel said, first, the proposal would require this information as a basic financial statement, which he characterized as a tax number one. Secondly, he said the preparer would have to arrange it in a summary format. He said he thought the Board's appropriate

role is to require the information. If there are things that need to be disclosed in principal financial statements, then they should be disclosed; but once they are disclosed he said he did not know whether the Board has a role in taking that next step to require that they be re-disclosed in a different form.

Mr. Allen said that he did not think the Board could resolve every issue presented in the proposal. He said that the staff was trying to determine whether there was some sense of approval or disapproval for a direction. Mr. Allen said Mr. Werfel raised some very legitimate questions. He said he liked staff's answer that the Board is roughly divided on an issue, and the earlier summary of due process documents feedback showed slightly more respondents favoring accrual than not. He was attempting to say that the Board in a straight up or down vote on accruals, was not going to have a clear majority on the basic question one way or the other. So the staff is asking whether it is possible to deal with information that is commonly used – e.g., it is used in Principals' presentation when they talk about the issue and the periodic change. Mr. Allen said that, in all the presentations he had ever heard, former Comptroller General Walker never talked about the GAAP change but compared the budget change to the real change, which did include increases in social insurance obligations. Mr. Allen said the Board was trying to finesse something that could make both sides of the Board happy. He said the staff had developed an interesting proposal that he did not think was inconsistent with the Fiscal Sustainability communication task force's recommendation for a principal statement that is easy to understand. He said he thought the highlights statement was such a statement because it is tied to other principal statements where more detail is available. In trying to answer Mr. Werfel's question regarding whether the proposal was something the Board traditionally does, the answer was no; but he did not know how the Board could go forward if it had to satisfy everyone.

Mr. Allen noted that the Governmental Accounting Standards Board (GASB), in the most important standard they have ever issued, Statement 34, had seven people who would dissent to something in it and yet, taken as a whole, the Statement contained more the members liked than disliked.

Mr. Allen said no one doubts that this is important information. The discussion is over geography. He said two of the biggest objections for people who did not support liability recognition were that it was not a legal liability, which is not an issue with this proposal; and, that the measure the Board had chosen did not consider future collections. The proposal does consider them.

Mr. Allen said he did not know whether to vote on Mr. Werfel's question first or go around the table and let every Board member have their say and then get some tentative feeling about that. Seeing some agreement regarding the latter, Mr. Allen asked each member for comments.

Mr. Jackson said he would respond to the questions posed by staff. He said the highlights information should not be a required statement but rather part of the MD&A. He noted that the proposed financial statement modifications would roll to the MD&A. The highlights information should be a required part of MD&A and could be somewhat prescriptive. He noted that the data in the highlights section of the MD&A would link to the balance sheet; the operating statement and changes in net position, albeit he was not certain that the latter statement should be here as described; the SOSI; and the statement of changes in social insurance closed group. Regarding the highlights information, Mr. Jackson said Treasury securities and assets should not be presented because, from a governmentwide

perspective, they are not assets for the reduction of the unfunded obligation. The highlights data should link to the fiscal imbalance because it is critical for assessing the long-term health of the federal government.

Regarding the proposed balance sheet, Mr. Jackson agreed that the net present value of the closed group should be presented on the CFR and component entity balance sheets. He objected to displaying the Treasury securities and assets in the governmentwide statements because they are not assets at the consolidated level.

Regarding the proposed operating statement and statement of changes in net position, Mr. Jackson said statements of position should not have the pro forma information on them. The operating statement should reflect the operations and cost of government activities. He said including the net present value increase of closed group participants indicates the cost net of future program revenues from the closed group, which equates to a net current and prior service cost; but it simply is an increase in the government's commitment net of associated revenue to this group. If the cost were to be shown, it would be the gross cost. He said including revenues to be recognized in the future on the operating statement would be very inappropriate because they would be contingent revenues whereas all other revenues on this statement relate to earned revenues. He concluded that the section entitled "total cost attributed to the current year" should be removed from the statement.

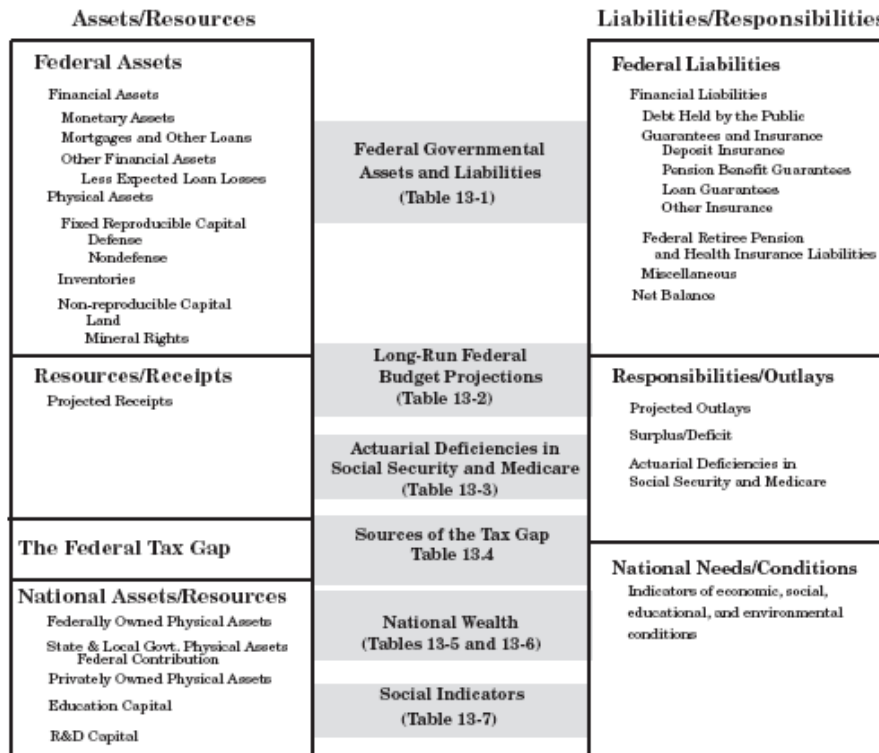
Mr. Jackson said he approved the proposed format for the SOSI for the CFR and component entities. He said it facilitates understanding by linking the information to the proposed statement of changes in SOSI amounts.

Mr. Jackson summarized his position by saying he would have highlights information that would not be a statement per se but would be a required part of MD&A. The standard would be somewhat prescriptive in that regard because (1) MD&A data is supposed to flow from other financial statements and (2) because MD&A is required supplemental information (RSI). RSI should be susceptible to validation with reference to a standard. He approved of the proposed line item on the CFR and component entity balance sheet for the closed group net present value (NPV), but disapproved of the displaying Treasury securities and assets. He also disapproved of the entire display on the operating statement, approved the summary section for the CFR and component entity SOSI because it highlights the commitment, and approved the statement of changes in the SOSI. Mr. Jackson said the latter is akin to a statement of changes in net position as illustrated in the pro forma example at Figure 3, Image 1, of the [April] Attachments. He said he agreed that it should be required basic information.

Mr. Jackson concluded by saying that the net effect would be a self-articulating group of financial statements that roll back up to the balance sheet. He noted the section of the balance sheet that will be set aside to display the social insurance commitment would be in some ways akin to the OMB chart in *Analytical Perspectives* in the budget under the area of "responsibilities" (see FY 2009, Chart 13-1, page 181 immediately below).



# Chart 13-1. The Financial Condition of the Federal Government and the Nation



He said that Chart 13-1 contains an unusual statement of financial condition, and he noted that one section displays actuarial deficiencies in Social Security and Medicare. [With respect to actuarial deficiencies in Social Security and Medicare, Chart 13-1 references Table 13-3, which is provided immediately below.]

**Table 13-3. SCHEDULED BENEFITS IN EXCESS OF FUTURE TAXES AND PREMIUMS—ACTUARIAL PRESENT VALUES**  
 In Perpetuity as of January 1, In Trillions of Dollars

	2004	2005	2006	2007
Social Security .....	11.9	12.8	15.3	15.7
Medicare .....	61.9	68.4	70.8	74.4
Social Security and Medicare .....	73.8	81.2	86.0	90.3

He said that the proposal, as he would modify it, thus would be similar to something already shown in the OMB literature that highlights the government’s responsibilities, and in fact is articulated as “responsibilities and outlays.” The Board would be putting it on the balance sheet as a commitment, responsibility, etc.

Mr. Farrell noted that he had been one of the “primary view” group but was willing to compromise a strongly held view. He was looking for a reasonable compromise that could help display this very important information and supported the staff proposal. He said he would be willing to consider some modifications as the discussion progresses; for example,

not display assets, but in that regard it is a compromise position and people think it is important to show assets earmarked for a program. He said he thought the proposal was a creative and unique presentation. He noted that the members say the federal government is unique and that the Board should think creatively and uniquely about presentation. He said the proposal was an example of doing that; it is not clouded; the information was clearly displayed for users to see; the Board has gone “outside the box.”

Mr. Farrell said he agreed with Mr. Jackson’s comment about that the numbers in the proposal are currently being used throughout the government. He said he did not know why the Board would hesitate to show these numbers in federal financial statements. He noted the Board was the organization responsible for putting together the financial statements of the federal government, and it could aggregate for the basic financial statements some numbers that other people are using without dealing with the issue of liability. He noted that the numbers would be presented in close proximity to other numbers. He said he thought some other people might say financial statements and balance sheets have been around since the monks, and should not be cluttered up; but the federal government is a unique organization and needed unique presentations.

Mr. Farrell said the highlights information could be a statement. The numbers are not new or unaudited and may as well be brought together. The statements articulate to one another and it would be important to have this one as a statement. He said dictating the exact format might not be necessary; the pro forma statement as shown in the proposal could be an example, although he thought the Board should require that certain bits of information must reside within the statement.

Mr. Steinberg said, with respect to the question about the highlights statement, that the Board had issued SFFAS 15 on MD&A to require preparers to include an analysis of the financial statements in the MD&A. He said Treasury is providing an analysis in the CFR that emphasizes social insurance responsibilities. He said the purpose of an accounting standard is to say what should be disclosed and not necessarily to say what the format should be. In addition, regarding the question of whether the highlights should be basic information, he said having basic information within RSI would be somewhat confusing. He said if it had a concern with what aspects of social insurance programs should be discussed in the MD&A, the Board could provide additional guidance on what to present, not how to present it, and adjust SFFAS 15 so preparers do not have to look at two different statements to figure out what to put in the MD&A.

Regarding the balance sheet, Mr. Steinberg noted that GASB Statement 34 had moved away from a financial statement that combined both accrual-based and modified accrual-based numbers on the same statement, which had confused people. He said people understand the balance sheet. It displays the results of the accumulation of assets and liabilities that are primarily accrual-based resulting in an impact on the entity’s financial position. The proposal would put on the balance sheet both accrual-based and actuarial-based responsibilities that have not even been defined as liabilities yet, which would be confusing. He said two different bases of accounting would be confusing, and Statement 34 intended to move away from that. He disagreed with putting line items on the operating statement for the same reason.

Regarding the SOSI, Mr. Steinberg said the big difference between the proposal and the current SOSI is the addition of assets held by the program. He noted that, although these are in part earmarked funds, the propensity is to use them to support other government

spending. He said displaying government assets in Treasury investments on the SOSI would contribute to the myth that these funds are dedicated to the program, and that use by the programs would not require more borrowing, taxing, or cutting other spending, which we do say in the financial statements. He would not put the assets onto the statement.

Mr. Steinberg said he liked the statement of changes in SOSI amounts and it may be the basis of a compromise. He said he would not require a statement of changes for both the closed and open groups; he would pick a group. He said using line items in the Trustees' Report for the changes as proposed by staff made sense.

Mr. Murphy said he thought the Board had accepted a compromise at the December meeting and was surprised to find the April proposal went beyond the December proposal. He said he did not see a great deal of dissatisfaction with the December compromise as reflected in the December minutes. He said he was surprised to find the highlights table; it seems anomalous for the Board to be prescribing this format. He said he was delighted that Treasury and OMB did portray the information last year and would not prescribe what should be in MD&A as RS1.

Mr. Murphy said the balance sheet was pretty close to the December proposal and acceptable to CBO, although he did not find Treasury securities to be much of an asset to put on the balance sheet. He recognized the proposal mixed apples and oranges, an accrual commitment and other things that are cash-based, but it was acceptable to put at the bottom of the balance sheet an acknowledgement of how much the commitments or exposures are, an idea that he thought was widely shared among Board members. He said he would not include them on the statement of operating and net position.

Regarding the statement of changes in SOSI amounts, Mr. Murphy said it is confusing to talk about both the closed and open group. He said that the staff was assuming more familiarity with the closed and open groups than commonly exists. He said he prefers the closed group. He mentioned that he is not concerned about the proposed statement of changes in SOSI.

Mr. Reid said he agreed closely with Mr. Jackson. He said he was especially concerned about offsetting assets because absent anything else, social insurance commitments are going to have to be funded and so are the assets. Displaying them in a way that looks like one is going to provide financing for the other is misleading. He is a little concerned about creating a fundamental statement out of the highlights table because it seems to be adding a page to the report without adding value. All the numbers on the table are audited now, so the statement would not get them audited. He said few readers make it as far back in the CFR as the financial statements, so having the information in the MD&A would get more attention. He said it was not necessary to get very prescriptive. He said, personally, he liked to have flexibility to determine what is important each year. He said it was not a big deal one way or the other. He noted that Table 1 was created in response to a suggestion by people who are used to reading SEC documents. They suggested a summary page in the beginning of the CFR that gives you highlights in one place. The intent is to take data verbatim from the basic statements, so making the highlights information a financial statement would be a small step; but he does not know if it is needed.

Mr. Reid mentioned that the one part of the proposal that really resonates with him is the statement of changes in SOSI amounts. It is information that is not currently available and

would be of great interest to him and others to be able to understand how these numbers roll forward.

Mr. Reid added that one additional piece of information that Treasury feels is important is a footnote disclosure of the traditionally accepted liability numbers for the folks who believe a liability exists before the due and payable event. He said he does not believe this information is available in other places. He said this information is valuable and needs to stand alone in the footnotes so it is available to the people who want it.

Mr. Allen noted that he, too, had been one of the “primary view” group. He said that when the responses of those objecting to a liability are dissected the first or second reason listed in over half of those was that this is not a legal liability. He said he thought that could be dealt with easily by separating it from liabilities and calling it SI obligations and arriving at the economic position of the government.

Mr. Allen mentioned that the measurement focus/basis of accounting used in the proposal is no different from what is used for pension obligations and veteran’s benefits. All of those are based on actuarial projections. They take into account future payments that are going to be made by benefit recipients. The actuarial calculation in the proposal is a net outflow of the government and is consistent with that.

Mr. Allen said the staff proposal is not even his second choice. His second choice is something like the staff proposal but would include the change in social insurance “above the line.” He said staff did not go that far; they listed it below the line. He preferred to move it up and have it be part of the calculation of whatever the net or economic position is. He was comfortable with the below-the-line display, and with not calling it a cost or an expense of the period.

Mr. Allen mentioned he would like to see a presentation by any Principal in the federal government that includes numbers from the operating statement and statement of position. He said accountants prepare the numbers for the financial statements, but these numbers are not used in Principals’ presentations. The Principals include information on the change in social insurance obligations along with the changes from the accountant’s statement of financial position. Thus, it seems to him that the proposal is being responsive. If the federal agency Principals believe that the change in social insurance obligations is important for audiences to hear, it ought to be reflected somewhere in our financial statements. He said he thinks calling it an expense of the period and an obligation is best, but calling it something else and creating it below the line is acceptable.

Mr. Allen said he supported the statement of changes in SOSI amounts. He did not think any member had ever expressed anything but support for that.

Mr. Allen said he hoped that as it moves forward, however the ED is structured, the Board will be at least open enough to ask respondents whether the information and display is helpful. The Board can consider the due process feedback from that standpoint, which is the primary driver on what is the most useful method of presenting the information.

Mr. Werfel said he agreed with Mr. Steinberg on all points. He said that in addition to the reason Mr. Steinberg gave for not wanting social insurance line items on the balance sheet, that is, that it is potentially misleading to have different bases of accounting on the statement, he would add the notion of putting selective information on the balance sheet. He

said that, during this discussion about recording a liability, the Board has talked a lot about what makes these programs different from other programs. In the beginning, he thought there was a lot of momentum that these programs are different because they are funded by specific taxes, but then the reality is that Medicare is funded in large part out of general revenue. He said the question then becomes why are these particular commitments picked to put on the balance sheet and not other types of future benefits, e.g., food stamps, school lunch, Medicaid, etc. He said the Board has selectively chosen these as the commitments it wants to highlight on the balance sheet. He said he did not think the Board had a strong enough basis to say these are the ones to highlight and to exclude others. He added that one of the drawbacks of the SOSI is that it does not provide a comprehensive view, and that the rationale for the sustainability statement is to address these shortcomings. He said that, if he understood the line item on Treasury securities and assets, there would be other trust fund assets and liabilities that exist outside this line item. In addition, he said he would not support the additions to the SOSI shown on Attachment 4 because they would overwhelm the document.

Mr. Dacey said with respect to the first question on the highlights statement, that he would join those who think requiring it as a basic statement is unusual. He said requiring it in MD&A was a possibility, but the requirement would have to be broad. He said he thought it was already covered in effect by the current MD&A requirement. He concluded that the material belonged in the MD&A, since it repeats basic statement information.

Mr. Dacey mentioned that when a summary is provided, fiscal sustainability is going to present prominent issues equal to the gross costs and assets. He said he thought the fiscal sustainability measures are good. He was not saying that social insurance goes away, but that the Board would be looking at much bigger picture issues with fiscal sustainability numbers to put in some kind of summary document in MD&A. He said in fact even if fiscal sustainability information is RSI before it becomes basic information, it still could be in MD&A because the MD&A is RSI, too. In summary, Mr. Dacey said he liked the highlights and fully supported Treasury continuing to present a Table 1, but he did not think it should be a requirement.

Regarding some of the other items, Mr. Dacey agreed with those who said the change in social insurance is not a cost of the period. It is not a cost of providing goods and services, as he has said before. It is meaningful information, but if it were presented in a summary [table such as Table 1], he would put it with "social insurance exposures" so that it would focus on the changes in those numbers from year to year. He said it does not belong in the cost section of a highlights table because it does not represent a real change necessarily; at least it is not a complete change. He said that when the Board gets to fiscal sustainability and starts talking about reporting changes in fiscal sustainability, that that is more a measure of how we are doing over all in terms of fiscal condition. He said we should not load up costs. Cost should represent the cost of goods and services provided during the period.

Regarding the notion of showing the assets and netting them generally against the closed and open group, Mr. Dacey had concerns about doing that at the consolidated level; and it is a little confusing to have the same number twice. He said they should not be included in the totals.

In terms of the balance sheet, Mr. Dacey said showing the display in Attachment 2 would be misleading because the numbers in the SOSI are purporting to represent something entirely

different from what is on the balance sheet. He said people look at the balance sheet and think of customary things about which there is certainty: assets, probable liabilities, etc. He said the Board had talked specifically about the fact that, for Social Security Part A, there is no long-term deficit because it cannot happen. He opined that putting SOSI numbers on the balance sheet, which is a more certain document, is misleading because you are mixing apples and oranges. He said the government as a whole is unsustainable and that puts into serious question Medicare Parts B and D, so you would have numbers that are not likely or probable on the balance sheet, which would be confusing. He mentioned that the SOSI is in fact on the next page of the [FY 2007 CFR] financial statements and the reader does not have to go far to find it. He said he was somewhat open to the idea of a notational line on the balance sheet like commitments and contingencies, that referred to the SOSI; but at the same time he thought the total future collections should be there, too, as a notational item on the asset side, due to the power to tax. He said the current statements do not do a very good job of explaining the implications in the government setting as to why the power to tax is not an asset but nonetheless is relevant to assessing the sustainability or the financial condition of the federal government; and why the balance sheet has limitations for assessing financial condition. Mr. Dacey mentioned, for example, that current deficits are not bad; long-term deficits are the problem. He said that that is why we are moving to sustainability reporting. He added that some additional disclosures could be on the balance sheet.

Mr. Dacey concluded by saying he did like the statement of changes in SOSI. Actuaries currently develop those numbers so they should be available and auditable.

Mr. Schumacher said he agreed with Messrs. Farrell and Allen. He said he had supported the primary view position that social insurance has an obligating event that is a liability. He said the staff proposal did a nice job of developing a compromise that possibly the whole Board can agree with and we can get these numbers out in public where they belong.

With respect to the highlights data, Mr. Schumacher agreed with Mr. Jackson that it does not have to be a primary financial statement or even a highlights statement; it should be discussed in the MD&A and take whatever form best communicates the information. It does repeat basic financial statement information.

Mr. Schumacher said he liked the proposed balance sheet presentation. Although he would prefer the change in social insurance to be part of the balance sheet totals, he would agree with the proposal as a compromise position. He agreed that having the Treasury securities and assets as an offsetting item in the highlights statement, balance sheet, and other statements was confusing.

With respect to the statement of changes in net position, Mr. Schumacher said he still believed that the cost of change in social insurance should go through net position. Although it is not going through net position on the proposed display, it is on the statement of net cost and that is a reasonable compromise. He said the number should be shown somewhere in the primary financial statements. He agreed with the proposed SOSI and statement of changes in SOSI amounts because that is valuable information.

Mr. Patton said he admired the spirit of compromise exhibited by the "primary view" members but, given the SFFAC 5 definition of the liability, he concluded that there is a social insurance liability beyond due and payable amounts and it ought to be on the balance sheet as such. He said that if the Board does not do that then it ought to go back and change the

definition of liability so that it is consistent with what the Board will be doing; and if that is done then the Board ought to create a new element called, for example, “commitments” and expand the model. He noted that when it started the elements project long ago, the Board decided to narrow the possibilities down to assets, liabilities, etc. and work with those elements until the Board finds that the model does not work without some other element. He would argue for a new element. Given that liability recognition beyond due and payable amount is unlikely to find a majority on the Board, he said the staff’s proposal was an improvement over SFFAS 17. He would be willing to vote in favor of issuing an exposure draft because, among other things, it would give him an opportunity to write an alternative view explaining the primary view from the Preliminary View document.

Mr. Allen discussed the options for the SI project. He mentioned one option would be to carve out the statement of changes in SOSI amounts, which all members favored, as a separate project or attach it to fiscal sustainability and shelve the social insurance project. He said he would not call the statement of changes in SOSI amounts a “statement on social insurance” because it is not comprehensive.

Mr. Allen said he was seeking to determine if there were some commonality in what the members had said that would be a basis for future staff work on SI. He noted a probable majority of members favored a highlights section, not as a basic statement but as something akin to that, as RSI. He asked the members if that were an accurate reading of their position. No member expressed a contrary opinion.

Mr. Allen mentioned a few other issues. He noted that the Board seemed to be divided over having a line item on the bottom of the balance sheet. He said that probably a majority of members were either silent or would favor taking off the line item for Treasury securities.

Mr. Allen asked the staff to review what has been said and determine whether there was a majority for certain aspects of the proposal beyond the statement of changes in SOSI amounts, which all members support.

Staff noted that a majority seemed to favor highlights information in the MD&A, as RSI; and that the Board seemed more evenly divided about the balance sheet line items. However, there seemed to be a majority opposed to line items on the operating statement. The staff said it might be possible to present questions on subjects where the staff thinks there may be a consensus so members could vote.

Mr. Allen asked the staff to continue to work on the statement of changes in SOSI amounts and MD&A, structure a more formal vote on the other parts of the proposal and develop some other alternatives regarding display.

Mr. Jackson asked for a matrix showing the members’ views on the various proposals – highlights, statement of changes, balance sheet, etc. – so you could see where consensus exists. There were no objections.

Mr. Allen said that, at the next meeting, the Board should make a decision on how the items will be treated.

Mr. Jackson asked if there were a consensus among members for the proposed new line items on the SOSI, that is, for the present value of the future flows for the closed and open

groups. He noted that there is no such requirement in SFFAS 17. He said it was critically important for this information also be on the SOSI. No contrary views were expressed.

Mr. Reid concurred with Mr. Jackson that the numbers in a highlights display should tie back to the statements. He said that that was one of the reasons Treasury decided in FY 2007 to add a line item to the SOSI for the NPV of future benefits to the closed and open groups. He noted that, at the time SFFAS 17 was passed, there was very heated debate about that and a conscious decision not to do it. Mr. Reid said events had overcome those objections. Because Treasury was using the numbers in other places in the CFR, Mr. Reid said they felt obliged to provide that SOSI line item. Staff added that the new standard would codify what Treasury is now doing.

Mr. Patton asked if it were possible to separate the questions regarding approval of the proposal in an ED from approval of the issuance of the ED. He said he might disagree with parts of the ED but agree with exposing it now to get alternative views in the ED for people who do not like it. He could imagine being against having the SI commitments at the bottom of the balance sheet or operating statement but still favor moving forward and an explain why he was against it in an alternative view.

Mr. Reid asked if the Board had decided if a member could vote “yes” and have an alternative view. Ms. Payne said it had. Mr. Patton added that that was the case for an ED but not for a final standard.

Mr. Werfel raised a concern about Mr. Patton suggestion. He was concerned about issuing an ED containing an issue involving, for example, specific SOSI information on the balance sheet, where the members are either 5-to-5 or 6-to-4 against it. By issuing the ED, the Board is implying that there is a majority opinion supporting it, because that is the way the Board has operated in the past. He noted that there might be six people joining an alternative view on that point, which seemed counter-intuitive to parliamentary procedure.

Mr. Allen said the Board needed to work on that. He said he believes the Board needed to have at least six Board members to support positions that are called the Board’s positions, and there could be alternative positions. He said he agreed with the concept Mr. Werfel was talking about.

Mr. Steinberg said that if it wants to move forward and compromise, the Board should write an ED for the statement of changes in SOSI amounts, get that out there and get reactions.

Mr. Allen responded that that is not a compromise because no member has ever objected to it. He said he would pull the statement of change in SOSI amounts out as a separate project.

[After the close of the social insurance session Mr. Patton told staff that he would support the staff’s proposal and consider the modifications that some members suggested, and that the minutes should so indicate.]

**CONCLUSION:** There appears to be a majority for:

- (1) highlights information as RSI in the MD&A, possibly in tabular form;
- (2) a NPV/closed group line item in a stand alone section on the balance sheet;



- (3) no changes on the operating statement, statement of net cost, or statement of changes in net position;
- (4) a summary section on the SOSI displaying the NPV of the closed and open groups; and
- (5) the statement of changes in SOSI amounts, closed group only, with the format as proposed in April 2006, Attachment 5.

Staff will provide a matrix showing the members' views on the various proposals – highlights, statement of changes, balance sheet, etc.

Staff will develop alternative displays and a preliminary outline for requirements.

Staff will develop specific questions for votes.

## **Adjournment**

The meeting adjourned at 4:30 PM.

## ***Thursday, April 17, 2008***

### **Agenda Topics**

- **Measurement Attributes**

Ms. Wardlow presented a memorandum that discussed the concepts of “measurement” and “price” vs. “value.” She explained that the discussion was drawn from papers prepared on those topics by FASB staff in April 2007 (measurement) and October 2006 (price vs. value). The papers contributed to the joint decision of the FASB and IASB in April 2007 to adopt nine candidates for measurement attributes of information reported in financial statements. For example, all but two of the candidates are defined as prices, rather than values. The Boards plan to test the usefulness of the candidates by comparing them with the qualitative characteristics of financial information, as well as a proposed definition of “measurement” and measurement concepts.

The FASAB adopted the FASB/IASB’s nine candidates at its February meeting as a starting point, pending further discussion as and when information becomes available on the progress of the FASB/IASB project. For that reason, Ms. Wardlow’s memorandum presented the essence of the FASB papers on measurement concepts and price vs. value as, primarily, information for the Board, without a critique or staff recommendations. She believed that approach was consistent with the FASAB’s decision in February not to modify the list of attributes or their definitions at this time. However, she was concerned about that decision because of the FASB and IASB’s uncertainty about how to proceed. FASB staff had informed her that the Boards still intend to issue a discussion document at the end of 2008, but no decisions have been

made about the content of the document. There was disagreement on both Boards about how to proceed. The staff, a task force, and several Board members were considering several alternative directions for the project to propose to the two Boards. However, the working group had not decided on a recommended approach and currently the project was not scheduled for discussion at any FASB or IASB meeting.

Ms. Wardlow said it is difficult for the FASAB to proceed with a project based on the FASB and IASB's project when the two Boards' plans for their project beyond the work completed in April 2007 are unknown. Moreover, if the FASAB waits several months or longer for further progress by the FASB and the IASB, the FASAB might find that it disagrees with the ultimate decisions and, therefore, the delay would not have facilitated or advanced the Board's project. She summarized three alternatives for the FASAB: (1) Look at federal transactions and consider whether the FASB/IASB's candidates for attributes are appropriate for them. However, given the FASAB's February decision to follow FASB's lead, decisions about whether to change the candidates or their definitions could be difficult without knowing the FASB/IASB's future direction. (2) Delay the project, pending further progress by the FASB and IASB. This could result in a delay with no progress, if the Board disagreed with the FASB and IASB's ultimate direction and decisions. (3) Modify the February decision that the FASAB's project would follow the FASB and IASB's lead. That is, the FASAB could build on the work already completed by the two Boards and use it as a foundation for its own research. The Board still could consider the FASB and IASB's future work, as and when they make progress. Ms. Wardlow asked the Board to consider these options and provide guidance for the staff's next steps in this project.

Mr. Werfel asked what the practical applications of the FASAB's project would be. If the FASB completes its project and the FASAB models the measurement portion of its conceptual framework on the FASB's work, how would that improve federal accounting? Ms. Wardlow responded that the FASAB's and the FASB's objectives for their projects are similar. Each Board has set standards that call for different measurement attributes, such as historical cost, fair value, etc. The reason for requiring a particular attribute may be apparent in a specific standard, but what is not apparent is why different standards call for different attributes. There is discussion in both the private sector and the public sector about whether fair value is more useful than other attributes, but there is no basis for selecting attributes. There also is confusion caused by using terms, such as "historical cost," in different ways meaning different things, and that occurs even more with the term "fair value." The FASAB Glossary, for example, provides a definition of "fair (market) value" and another definition of "market value." These situations suggest that guidance should be provided in a concepts statement as to which attributes are useful and why, and perhaps the circumstances under which certain attributes are appropriate. The concepts statement could also make uniform the terminology used in referring to the measurement of assets and liabilities. The objective of the statement would be the same as the objective of any concepts statement: to assist the Board in future standard setting.

Mr. Werfel said that, looking at plant, property and equipment and the ways federal agencies manage their infrastructure and resources, the agencies say they use replacement cost for management decision making because it helps them measure deferred maintenance and other elements. They only use historical cost for accounting purposes. He asked whether one of the parameters of the concepts statement would be the practical realities of what agencies are managing to, and whether auditing that information and getting more precision with replacement cost than with historical cost also results in better internal controls. Are those the kinds of things that would be considered in the project? Ms. Wardlow responded that one would try to develop an understanding of the pros and cons of different attributes, and among the pros and cons would be some of the considerations Mr. Werfel has mentioned. But the ultimate goal would be, as always: What do the various attributes do for readers of the financial statements? Some of the considerations would be what is the effect of using different attributes for some assets vs. others and how do you make the selection?

Mr. Jackson said he was thinking along the same lines as Mr. Werfel. He believes internal parties, such as Congress, are often primary users of federal financial statements. The focus of the CFO Act was on improving the information necessary to manage federal programs. He believes the measurement project has potentially enormous management capabilities. Similar to Mr. Werfel, when he looked at the attributes he would ask what would be the implications of individual attributes for managing assets and liabilities. For example, does historical cost help a manager decide what to do with a property? This project would, first, provide a consistent vocabulary for use going forward. Secondly, and perhaps more importantly, if we assume we are not wedded to any particular attribute with regard to any particular account, we have the ability to weigh the effects of individual attributes on management decision making. He is not concerned with external users of financial statements. His preoccupation would be the utility of the use of an attribute for management decision making. He is concerned about the utility of the information currently presented in the financial statements, other than just the traditional sound stewardship. As a result of this project, one could be able to provide information of a nature that people could view as having utility.

Ms. Wardlow said she thought the Board would need to consider both external and internal users. One might reach different conclusions if one considers managerial decision making vs. an external user who might have a totally different reason for using the financial statements. Also, different attributes might have different pros and cons depending on which financial statement one is looking at or what one thinks the purpose of that financial statement is. From that perspective, the measurement project ties in with Mr. Simms's project on the reporting model, because one would need to know what message the financial statement is supposed to be conveying to the user in order to be able to assess how to measure the information in the statement and help the user understand the message. The measurement project is very complex and she is not sure one should put the primary focus on management decisions. Mr. Jackson said the Board has a responsibility to keep management decision making in mind, because the

FASAB might not exist if some people had not been concerned that those who need to make management decisions were not receiving reliable information.

Mr. Steinberg asked Ms. Wardlow which of the alternatives she described for proceeding with the project she would recommend. She responded that she would follow a similar approach to that of the FASB and the IASB because she believes it is reasonable and no other body has done any work in this area. They have been working on the issues for five years and there is a lot of reasoning underlying what they are trying to do. However, she was reluctant to proceed without any ability to critique what they are doing or to propose that a given attribute is not appropriate for the federal government or that a different attribute or definition seems more useful in the federal environment. She said she was constrained by the Board's decision in February in terms of what she could do to help the Board with this project. She also thought that, when we do not know where the FASB and IASB's project is going or what the results will be, the FASAB could devote resources to its project for several months or more and then find that the FASB/IASB decisions are not particularly useful in the federal environment. Mr. Steinberg asked whether her preference was to follow what the FASB and IASB are doing, but if they are not doing anything now, the FASAB should not do anything either. Ms. Wardlow said no; she thought the FASAB should continue with the FASB/IASB's approach, using the list of attributes they have developed, and assess whether those attributes are potentially useful in the federal environment and what the pros and cons may be. She does not think the FASAB should defer making changes and wait and see what the FASB and IASB decide about the usefulness and pros and cons of the attributes. Mr. Steinberg asked if she was saying that the FASAB should proceed now into new ground since the two Boards are not moving forward. Ms. Wardlow said yes, adding that she would take a similar approach to the one originally planned by the FASB and IASB and would monitor what they are doing.

Mr. Steinberg said his views are similar to Mr. Werfel's and Mr. Jackson's. If the Board moves ahead, there is an opportunity to cut new ground because the federal government has assets and liabilities that do not exist in the private sector or in state or local governments—for example, weapons systems, materiel of war zones, and space exploration equipment. Also, Mr. Patton wants a new element for obligations on social security, which may not fall into a liability concept and may be measured differently. So we have some different things and may need a way to measure them. But, in doing so he would like to reiterate Messrs. Werfel and Jackson's comments. Ms. Wardlow had referred to "reading the financial statements," but he does not believe people read federal government or federal agency financial statements; if they did, nobody would buy federal government bonds. On the other hand, we are trying to get people to use financial data, and the only way we can get them to prepare financial statements is to show them that the financial data are useful to them. They are motivated by different reasons. The managers are not there to earn a profit or expand a market; their main motivation is to get re-elected. They will make decisions that are counterproductive, like not maintaining a highway or bridge, because they get more votes by opening a new bridge. So, there is another type of asset that is different and for which we need a management decision. We cannot see the condition of a bridge from a financial

statement, but unless managers face up to that condition, we are in difficulty. Mr. Steinberg said that if the Board moves ahead with the project, the FASB/IASB approach is all right, but the Board needs to apply it to federal government needs and the elements of federal financial statements. Ms. Wardlow asked Mr. Steinberg if, like Mr. Jackson, he would focus more on managerial decision-making aspects and not be wedded to particular financial statements or be concerned with external users, that is, the traditional view of external reporting. Mr. Steinberg said yes, if the Board moves ahead.

Mr. Patton said the Board had previously discussed managerial accounting and the role of the FASAB, and SFFAS 4 made some efforts along those lines. It seems to him that the kinds of standards the Board considers produce reports that are not as timely as management would need, are far too aggregated for management's needs, and are intolerant of uncertainty because of the audit function. Therefore, he is not optimistic about the FASAB being able to produce standards that are geared toward the management function. He would like to get that point on the table. Returning to the staff's main theme of the day, he thinks that following FASB is a dangerous path because they have different stated objectives. They talk about providing information to help users predict future cash flows and that has led them down the path of fair value for many things. FASAB has different objectives for federal financial reporting and he would be very surprised if the attributes the FASAB would identify for federal financial statement elements and disclosures would be the same as those that FASB has identified, because FASAB is more focused on accountability, cost and similar things. Therefore, he thinks FASAB should not wait for FASB because he does not believe that FASB will help FASAB as much as the Board might hope. It would be appropriate for staff to begin thinking about how things are different in the federal environment, but using what FASB and IASB have done to date.

Mr. Dacey said that FASAB and FASB are talking in terms of financial statement measurement and FASB has a list of possible measurement attributes, which seem to be quantitative in nature. However, the FASAB's discussion of measurement added qualitative thoughts or considerations, such as deferred maintenance—something that would not necessarily be a number. As standard setters move toward performance measures, particularly outcome-based measures, they will get into qualitative measurement. He wondered where FASB and IASB are drawing the boundary around measurement. Ms. Wardlow said the FASAB discussed at the December meeting what the scope of the project should be and reached, she believes, the same conclusion as the FASB/IASB. That is, the scope could be very broad because of so many possible considerations. Probably the most practical approach is to start with the financial statements, including notes, and not consider for the moment required supplementary-type information, because one might come up with different attributes or different ways of presenting that information. Trying to do everything at once would be difficult. The FASB and IASB have that same view. Then there is also a third part, which is looking at what are termed "measurement methods," such as when to use present value, the pros and cons of reporting nominal vs. constant dollars, etc. The FASB and IASB are thinking about whether they want to look at measurement methods or not. Ms. Wardlow

said that when she prepared the summary of the FASB staff paper on measurement, she left some qualitative considerations in the summary because she did not want the FASAB to overlook the fact that one can have qualitative attributes and there may be ways of measuring or describing them that would come into the project. Mr. Dacey said he thought the reason that the FASB's definition of financial statement measurement is, in his view, convoluted is that it is trying to capture both quantitative and qualitative issues, and it becomes cumbersome when you try to define measurement qualitatively.

With regard to the alternatives outlined by the staff, Mr. Dacey said that the FASAB should continue to follow FASB. They have the resources and have been working on measurement issues for a while. The FASAB has looked at FASB's list of measurement bases (attributes) and FASB seems to have covered the whole range. He does not see anything in the list that would not be possibly something the federal government would have. He is satisfied at this point that the federal government does not have any unique measurement bases that FASB is not considering. When the FASB reaches the point of looking at the advantages and disadvantages of the measurement bases, there might be spins on that which are unique to the federal government, because he thinks FASB will be filtering the bases according to the value of the information provided to the investor. He believes FASAB has a role in adding to or modifying that perspective to include not only outside users but internal users, as has been discussed at this meeting. His question is whether it would be better for FASAB to consider the pros and cons of the bases now from the federal perspective, or wait until the FASB and IASB have developed pros and cons and then adjust the bases as needed. He does not know the answer. However, he would not like to spend a lot of time on the issues and then find that the FASB and IASB have some good ideas and the FASAB has gone down a path that is not quite as fruitful, when we could modify what the two Boards have to get to where the FASAB wants to be. He is not sure, but he would tend to be more conservative and wait and see what the FASB and IASB develop. He does think the FASAB will have to modify the other Boards' conclusions.

Mr. Allen said the FASAB has expressed a desire to coordinate with other standard setters as much as possible and the Board has identified the measurement project as a potential project. The Board has a joint meeting with the GASB in August. It may be beneficial to put off the ultimate decision of where we head until after that meeting. It would be good to have a preliminary view of where the Board wants to go to contribute to the August meeting discussion, but he would prefer to stay flexible until that meeting.

With regard to Mr. Jackson's comments about a focus on internal users, Mr. Allen said he believes that is a critical element. But ultimately accountability and financial statements are important. Whether an entity is a government—federal, state, or local—or a company, financial statements are eyes into the organization for those outside the organization; those who do not have access. That must always be a primary driver when thinking of standard setting. Management is another very important user and we ought to provide information in a way that helps management. That is not inconsistent. If Mr. Werfel wants to say, "Let's fair value equipment or use replacement cost for equipment," Mr. Allen thinks that may be more useful for both internal and external

users. They do that in New Zealand. They have decided not to tax their citizens based on historical cost. They revalue equipment at replacement cost and report it in the financial statements, and their budget and tax policies are based on replacement cost to take into account what is needed when equipment wears out. That decision informs both internal and external users. Mr. Allen said FASAB can be flexible but should not lose track of the fact that FASAB is the eyes of those who do not have access to the information they need. In his view, that always has been the primary purpose of financial statements.

Mr. Jackson said his comments were not intended to portray a right or wrong focus, but he believes the Board optimizes its effectiveness by being acutely aware that FASAB standards need to have managerial utility, and there are people within the government that would struggle to get useful and reliable information absent financial statements. Often agencies go through a process of responding to laws in sending data or information upstream that may not be well founded. Mr. Allen responded that probably is unique to the federal government; those inside the government do not have access to information in the way that a company's board of directors does. We need to be sensitive to that.

Mr. Werfel said it is interesting that public reporting is a primary objective. OMB tries to attach three basic parameters to financial management: public reporting, internal controls, and decision support. When OMB issues policies they try to look through a lens of those three parameters. Different vehicles will emphasize different things and realize different benefits. For example, OMB thinks about financial statements at the agency level, not at the consolidated level. The public reporting aspects of those financial statements have minimal value and minimal use. OMB has done a lot of outreach with discussions and forums and has concluded that, at the agency level, the public is interested in different types of information than is in the principal financial statements. They are interested in things like where the agencies are spending their money, which contractors are receiving money, which grantees are receiving money. Improper payments are another issue; people want to know what the Medicare error rate is, rather than look at the CMS balance sheet. When that error rate is released, there are newspaper articles and hearings on the Hill, but when the CMS balance sheet is released, there is nothing. This drives OMB to think about this Board and the accounting standards differently than one would in other circumstances and also to think differently about standards that impact the consolidated financial report vs. standards that impact the agencies. He believes that at the consolidated level they should be reading the balance sheet and there is a use at that level that we need to pursue in terms of the whole report. But at the agency level, from an accounting standpoint he thinks that is less important, and those things that feed into the consolidated report are the most critical things that we should be concerned about. However, when the Board is setting accounting standards it should pursue the other two areas and make sure we are maximizing good controls and good decision support because the audience is not there for the information in the financial statements. In the federal context at the agency level, the financial statements are not answering the questions people have. Mr. Werfel said it is important for the Board to think about this

in terms of the Board's objectives. If members do not all agree on these issues, it might be worth achieving agreement. It would help the Board make decisions about how to construct a conceptual framework and how to set priorities, if members understood what the objectives are and how strong the public reporting element objective should be for agency level principal financial statements. Mr. Allen said it was an excellent point.

Mr. Schumacher recalled Ms. Wardlow's comment that one of the reasons the FASB/IASB project is not moving forward is disagreement within each Board. He asked Ms. Wardlow what the major areas of disagreement are. Are they in the definitions of the attributes? He said he would like the FASAB to move forward and take advantage as much as possible of what the two Boards are doing, but if progress may be hung up for a year in definitions, he believes the FASAB can move forward and try to apply some of the definitions to the uniqueness of the federal government. Ms. Wardlow responded that some of the disagreement is about fair value issues. In the Board papers and discussions there appears to be a focus on current values, current prices and fair-value-type notions, and some members on each Board disagree with that. Some members question whether the project will be useful and would like to spend more time and resources on other projects. Some members believe the Boards should finish their elements project first because that project may affect measurement issues. She did not believe that any of those considerations need prevent the FASAB from moving forward. Ms. Wardlow said that GASB is another consideration when FASAB talks about working with other Boards, because she does not believe the GASB's measurement project will necessarily take the same approach as the FASB's project. She said for the August meeting it would be helpful to understand better where the GASB may be headed with its project and it would be useful to monitor their progress as well as that of the FASB.

Mr. Jackson said that, listening to Mr. Schumacher, the Board needs to build a definitions data base and he thinks the Board cannot move forward till that is done. It may already be there in the FASB's list of attributes. The next consideration would be how to proceed with regard to adoption of the attributes relative to transactions and accounts. That is a concern for later in the project and it may link up with Mr. Simms's project, as Ms. Wardlow mentioned earlier. The previous day, the Board discussed at length reasons why certain things do not appear on the balance sheet as we know it. If the Board comes up with definitions, then the Board will be in a position to begin the process of considering the application of these definitions. We have the FASB definitions. They may change as we go forward, but the Board should not wait for the FASB, because it can help the Board significantly to look at the issues now in terms of improving financial reporting. The definitions issue needs to be resolved, and if the FASB/IASB or GASB do something somewhat different, the FASAB can evaluate that, but definitions are something that all the Boards have to do. The application of the definitions and the attributes is really an entirely different matter and, in his view, is the next segment. The Board has to agree on the definitions and the attributes before it can begin to decide how to apply them.

Mr. Patton said that one of the dangers of following FASB too closely is illustrated on page 10 of Tab D, which cites the FASB staff's proposed definition of "financial



statement measurement.” It is five lines long and part of the length comes from the repeated reference to “asset or liability (or a change in asset or liability),” which gets confusing. He suggested simplifying the definition to read: “Financial statement measurement is the numerical ordering or comparison of elements to other elements with respect to a preconceived and defined basis in terms of a monetary unit, with the result that the element is properly placed in a monetary ratio scale.” In his view, first the definition is complicated. Second, a drive toward fair value accounting is implicit, because in order to get things on a monetary ratio scale, one has to be able to say that this is twice as much as that, there is a zero point, and the like. One cannot think very well about historical cost being on a monetary ratio scale, because it is not measured in that way. So, he thinks implicit in the definition is a funnel toward a given outcome in valuation. If he is correct, he thinks that is a dangerous path because it is not obvious that fair value is the answer for federal government financial statements.

Adding to her previous response to Mr. Schumacher, Ms. Wardlow said that some of the FASB and IASB members are concerned that the staff’s approach is too complex. For example, the proposed definitions of measurement are difficult to understand and it is hard to see how one would apply them. Regarding Mr. Patton’s comments, she also had found a thread of fair value running through the FASB staff paper on measurement theory and in the references to the writings of Chambers, Sterling, Edwards and Bell, and others in the sixties and seventies, all of whom focused on some form of current value. However, she does not believe that means the FASAB cannot benefit from the attributes and definitions proposed by the FASB and IASB. She believes they are good and the Boards have provided synonyms to show that certain attributes refer to historical cost or part of what historical cost means.

Mr. Werfel said that Mr. Patton’s comment reminded him of a question he has had since he joined the Board. He is trying to understand the value of working through all the details of the conceptual framework before the Board issues or changes a standard vs. identifying a need for a change in a standard and making the change without developing the conceptual framework. He does not know what the right answer is. However, perhaps the Board should think about the issue. If the Board wants to re-look at how assets are valued because we note some deficiencies, does the Board have to go through an exercise such as the measurement project before it changes standards? It seems to slow the Board down unless there is a major, fundamental need to have this all laid out. Also, there will be a number of nuances, as Mr. Patton points out, from doing a conceptual framework, rather than going directly to considering the need for changes in current standards, which are what impacts practice. If the Board is going to consider values such as historical cost and fair value for different types of assets, he would prefer to consider the actual changes in standards and have the Board deliberate and make a decision from that perspective, rather than wait for the conceptual framework to be in perfect working order.

In response to Mr. Werfel, Mr. Allen said that in a perfect world one would have all the concepts and then start setting standards, but no world is ever perfect and no standard-setting body has even started on concepts until they were well along in taking care of

the immediate needs. That applies to FASAB too. After years of setting standards, Boards look back and see that in various standards sometimes they chose one way to value something and sometimes they chose another way, and the question is why? That is when a Board starts talking about concepts and considers developing a concepts statement. For FASAB, there is a question of priorities, and the Board will discuss setting the agenda later in the meeting. For him, the highest priority is what the Board knows is an issue that needs to be resolved. Ms. Payne has tried since before he joined the Board to set aside a portion of staff and Board time for concepts statements, but he does not believe that was ever intended to slow the Board down.

Mr. Jackson said the Board will make flawed decisions from time to time, but it is better to make a decision because it can help improve decision making and stewardship. Thinking about how to do this incrementally, he believes the Board must have a definitional base, because you and he might both say “fair value” today and mean entirely different things. The Board should agree on a set of definitions, even though the Board might change them later for reasons not envisioned now. The Board can then identify some candidate transactions or accounts for which the definitions make sense for reasons that the Board is able to explain. The Board sets the issue up for deliberation and maybe codification of a standard and then acts on it, because the Board knows there is a legitimate, pressing reason to do it. For example, we often talk about the Defense Department, but any federal agency may be very hard pressed to deal with historical cost accounting in a particular area. The Board may find no particular value in using historical cost accounting in that area, or candidate account or transaction class, and therefore the Board can act upon it. Then, if the Board later finds it is in error, it will correct the error. But, if the Board does not do anything for a period of years, he thinks that is a more egregious error than doing something and finding out that the Board needs to tweak it along the way—a much more egregious error and the Board’s constituency depends on the Board to be somewhat more risk averse.

Mr. Dacey said he does not believe the measurement project would delay other deliberations. That is one of the reasons he would prefer to wait and see what the FASB and IASB do next and follow that. We have their measurement bases and they are nicely defined, and the Board can decide what makes sense for particular applications. One of the challenges that FASB continues to debate is whether a mixed-attribute model is acceptable or whether to move everything to fair value as some people would prefer, but he does not believe the FASAB needs to engage in that debate. The Board can think about that as it moves forward.

Mr. Allen said the Board looked at its first concepts statement about a year ago and decided on the primary reporting objectives. He does not think the Board is bound by one measure or another. He thinks the Board should look back to the objectives. For example, stewardship—whether the government’s financial position has improved or deteriorated. Mr. Allen thinks the Board should use whatever measure best helps measure it. Again, maybe that is unique about the federal government. We chose to use replacement values on assets or something like that. Another area is operating performance, the service efforts and accomplishments. He hopes the Board will not be

too concerned about how it will measure something. The starting point is always the objectives—what is the end goal that the Board is trying to accomplish? Then we decide upon whatever measurement best helps us to reach that goal. If we are not focusing on the right thing, then we should go back to the objectives.

Mr. Jackson said there is a propensity to fall back on traditional methods for measuring operating performance—for example, historical cost and depreciation. Is that the appropriate way? He does not know the answer, but there is a tendency to do that. Mr. Allen said one should look at the objectives and decide which way is the most helpful. Mr. Jackson said the Board should define how it wants to discuss operating performance.

In summary, Mr. Allen said that his sense of the discussion was that most members believe the Board should proceed with quite a bit of caution. We can see what the August meeting with GASB yields. For the June meeting, it might help the Board if the staff would explain how staff envisions the potential next steps, in a timeline or estimating the amount of effort that would be required for each of the alternative approaches staff has suggested. For example, if the Board decides to wait for FASB, that would mean putting the project aside for, say, fifteen months, or six months, or some other period, until they have issued a due process document, and then the Board would come back to the project. That kind of assessment would be helpful. In the meantime, later in the current meeting the Board would discuss priorities for the agenda and that may help the Board decide how much time to devote to the measurement project.

**Conclusion:** For the June meeting, staff will prepare an estimate of the time needed under the three alternatives staff proposed at the meeting: (1) Look at federal transactions and consider whether the FASB/IASB's candidates for attributes are appropriate for them. However, in light of the FASAB's February decision to follow FASB's lead, decisions about whether to change the candidates or their definitions could be difficult without knowing the FASB/IASB's future direction. (2) Delay the project, pending further progress by the FASB and IASB. This could result in a delay with no progress, if the Board disagreed with the FASB and IASB's ultimate direction and decisions. (3) Modify the February decision. That is, the FASAB could build on the work already completed by the FASB/IASB and use it as a foundation for its own research. The Board still could consider the FASB and IASB's future work, as and when they make progress. Staff also would discuss with GASB staff proposed topics for the August meeting between GASB and FASAB members.

- **Reporting Gains/Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates**

The objective for April 17th was to review and approve the changes recommended by staff and address the changes needed to convert the exposure draft *Reporting Gains and Losses from*

*Changes in Assumptions and Selection of Discount Rates and Valuation Dates* (“the ED”) to a final Statement of Federal Financial Accounting Standards (SFFAS).

The staff memorandum asked the Board to respond to four questions regarding changes to the ED. The first question was whether the Board continued to prefer that the standard have a limited scope.

Mr. Allen said he generally supported the scope limitation. He noted that the standard still encourages the preparer to explain other changes [in paragraph 17]. However, he preferred that the encouragement be cited in other paragraphs as well so that, wherever the standard says “pension, ORB, and OPEB,” it also carries the theme of “and other significant changes that preparers feel are informative.” Mr. Dacey noted that the words in paragraph 17 are “do not preclude” rather than encourage.

With respect to the question of scope, Mr. Patton said he would prefer having the long-term assumptions taken up in general. He asked that the basis for conclusions give a broader description, for historical purposes, of how the Board got from the initial narrow focus on VA compensation to the broad scope and then switched in a fairly significant way to narrower application. Other members agreed. In addition, Mr. Patton suggested and the Board agreed to narrow the title of the standard to reflect the narrower scope.

Mr. Reid questioned the flexibility provided for reporting changes in assumptions because agencies may handle similar transactions differently. He said fair presentation may dictate disaggregated presentation and he wants the preparer them to think about that. However, he prefers not encouraging them due to the resulting variability.

The Board agreed not to change paragraph 17 in that regard. However, the Board agreed to amend paragraph 17 by striking the part after the word “assumptions” in the last sentence, including the words “the preparer believes,” and to add the phrase “with regard to other types of activities.”

The second staff question was whether the Board approved the guidance regarding the administrative and employer entity reporting requirements.

Messrs. Jackson, Steinberg, and Dacey commented that they did not think the standard was clear enough regarding the employer entity responsibilities. Mr. Dacey noted that employer entities, as they defined in SFFAS 5, would not have to report gains and losses from changes in assumptions separately on the cost statement if they do not report the associated liability. In those instances, the administrative entity is reporting all costs and the liability. The staff will clarify the standard in this regard.

Mr. Dacey said that dealing with disparities between agencies may be a concern for Treasury’s consolidation. He noted that agencies may report discrete amounts for gains and losses from changes in assumptions that will have to be rolled-up at the consolidated level. Mr. Reid agreed. Mr. Dacey added that Treasury would have to aggregate the amounts that are not large enough to warrant separate reporting at the consolidated level and report them in the agency totals that are already there. Mr. Reid

agreed. Mr. Allen said that that is an implementation issue as opposed to a standards issue.

The third staff question asked whether the Board wished to require a minimum number of yearly rates, for example, 5 yearly rates, for the calculation of an average historical Treasury discount rate.

Mr. Dacey said the Board should not specify the number of yearly Treasury rates to include in the average. Seeing some potential for variability though and noting that the discount rate can have a significant impact on the calculation, Mr. Dacey said he would want the agency to be consistent from period to period. He said setting a minimum number of years may be beneficial. He opined that the standard should make it clear that that is part of the accounting policy so that entities will not be changing every period.

Mr. Schumacher agreed with Mr. Dacey. He noted that the standard defines assumptions as “long-term” if they involve 5 years [the underlying event about which the assumption is made will not occur for 5 years or more]. He suggested 5 yearly rates as a minimum. Mr. Patton said he liked the idea of setting a minimum number of yearly rates and, for that purpose, 5 yearly rates is satisfactory. Mr. Jackson said he could accede to the 5-year minimum. Mr. Farrell agreed.

Mr. Dacey said that the challenge is that, if for example 30 yearly rates are used, the span gets to be so large that the rate gets higher [due to the high Treasury rates in the late 1970s and early 1980s] and the higher the discount rate the lower the liability.

Mr. Murphy said CBO favors current [market] rates but, if the Board did not use current [market] rates, he would not specify a number of yearly rates to include for the average.

The Board discussed the quality of the average that would result from the number of yearly rates used from each maturity.

Mr. Reid said he would not require a timeframe. He sensed that 5 yearly rates was not enough because that results in a current rate environment. Twenty or 30 yearly rates would allow for interest rate cycles. He preferred that the average rate capture a richer blend of experience. He recommended leaving the standard as it is and seeing what happens. He said the Board could tweak the standard in the future if it does not solve the problem. He mentioned that, alternatively, the standard could be modified to required the entity to average at least as many instances of the rate that would match up with how many years from now the payment is to be made; thus, a payment 20 years from now would result in an average of 20 yearly rates for that maturity. He said a minimum of 5 yearly rates for payments due within 5 years would be all right; but for payments due beyond 5 years, he would expect the entity to average together more than the most recent five yearly rates.

Mr. Allen concluded that there was a slight majority in favor of a minimum of 5 yearly rates.

Mr. Werfel asked if there is a comparative standard that deals with this type of issue.

Staff replied other standards do not required average historical rates. Some require current market rates while others call for average rates or are silent.

[Staff note: as an example of other standard-setters, the IPSAS standard regarding employee benefits states that the discount rate, in practice, often is a single weighted average discount rate that reflects the estimated timing and amount of benefit payments. “An entity makes a judgment whether the discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds, high quality corporate bonds or by another financial instrument.” (See pars. 93-4, IPSASB 25, *Employee Benefits*,<sup>1</sup>) The IPSASB standard does not specify how to calculate the average. The FASB in FAS 87 (*employer’s pension accounting*) requires current market rates for high quality securities. The SEC staff, interpreting FAS 87 and 106 (*employer’s accounting for other retirement benefits*) expects each registrant to use discount rates to measure obligations for pensions and other retirement benefits that reflect the then current level of interest rates. The staff suggests that entities look to fixed-income debt securities that receive one of the two highest ratings given by a recognized ratings agency be considered high quality (for example, a fixed-income security that receives a rating of Aa or higher from Moody’s Investors Service, Inc.).” (See SEC Staff Announcement: Selection of Discount Rate Used for Measuring Defined Benefit Pension Obligation and Obligations of Postretirement Plans Other than Pensions, S99-1).]

Mr. Jackson asked if staff had a recommendation.

Staff replied that it favored the provision currently in the ED, which did not specify a minimum number of yearly rates to include in the average historical Treasury rate. However, staff believed that a requirement for a minimum of 5 yearly rates could be justified for the reasons stated by the members who suggested it.

Board agreed to set a minimum of 5 yearly rates to include in the average historical Treasury rate.

The fourth staff question asked whether the Board wished to be more specific with respect to the assumptions to be reviewed by the preparer. The Board discussed this and decided not to change the standard. Mr. Steinberg asked that paragraph 35 have a separate heading for the subjects discussion therein, and the staff agreed to make that change.

The Board discussed questions raised by members. Mr. Dacey asked whether paragraphs 16 and 21 are necessary now that the scope of the standard has been limited to pensions, ORB, and OPEB. He noted that paragraph 14 now explains exactly what is within the scope of the standard. He said the examples of things in paragraphs

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<sup>1</sup> February 2008.

16 and 21 to which the standard does not apply may raise questions about whether things not mentioned in these paragraphs are included.

Mr. Jackson agreed with Mr. Dacey and proposing inserting the word “only” in the first sentence of paragraph 14, along with striking paragraphs 16 and 21. Mr. Reid agreed but asked that the basis of conclusions reflect the Board’s discussion and intent. There were no objections.

Mr. Reid said that, in the summary and in the standard itself, the standard states that the largest items in the statement of net cost are can result from gains and losses from changes in assumptions. He said this was not specifically accurate. He suggested saying it is the largest change in cost in many reporting periods but not the largest absolute amount. Mr. Schumacher suggested saying that using the word significant, for example, “some of the most significant amounts on the statement are from changes in assumptions.” Mr. Allen agreed. Mr. Reid said that was all right. No objections were expressed.

Mr. Reid then asked about paragraph 26 of the standard that required disclosure of 10-, 20-, and 30-year current market rates for Treasury securities to compare the discount rate the entity was using. He said that seemed to contradict the standard, which requires using average historical Treasury rates. He said the comparison is all right as long as it is explained why current market rates are not used; otherwise, he preferred leaving it out.

Staff explained that the current market rates are a benchmark with which to compare the entity’s average historical rates. Staff said that the Board had considered but decided not to require the preparer to discuss what the cost would have been had the entity used the current market rate.

Mr. Reid said a comparison with a benchmark was okay but he preferred an average rate benchmark rather than the current market rate; for example, an average of at least 5 yearly rates. He said an average would yield a more meaningful comparison than a current market rate on a given reporting date.

The staff mentioned that a respondent had said current market rates would yield a better measure of the government’s cost of borrowing than an average. Staff explained that paragraph 26 would at least provide information on current market rates.

Mr. Allen said that merely disclosing the market rates would not inform the reader. He said that the benchmark should be something more consistent with the rate the preparer chose, for example, a 5-year average.

Mr. Murphy disagreed. He said rates do not move drastically up and down from year to year in the shorter term. He said the benchmark ought to be what the market perceives, for example, the price of a 10-year Treasury security right now; that is the best benchmark.

Mr. Allen said he did not think the disclosure would inform the reader. He said the only reason for benchmarking is to allow the reader to make an assessment about whether the proper rate has been selected.

Mr. Murphy said he did not have a problem taking the requirement out of the standard, although he preferred to retain it. He said he did have a problem saying that there are better benchmarks than the current market rate. He noted that the Board had not chosen market rates and asked why the Board wanted to benchmark in any case.

Mr. Allen also questioned the need to benchmark. He said the Board had been prescriptive about what rate the preparer can select. He asked what does it matter what the benchmark is if the standard has prescribed some other rate. He asked staff why the standard is asking for this disclosure.

Staff explained that the rationale for disclosing the current market rate is that there is support for it in the private sector and elsewhere and therefore using it as a benchmark would be informative. The discount rate can make a big difference in what the entity reports as a cost. Other standard-setters do require the current market rate and it is arguably the best gauge of the time value of money at the reporting. Therefore, it provides a good contrast with average historical rates. Staff noted that the Board had discussed but decided not to require an analysis of the effect of using current market rates on cost and liabilities.

Mr. Dacey noted that the standard does not require the preparer to disclose the rates they use. He said he would vote to take it out because there would be nothing to compare it to.

The Board voted six to four to delete paragraph 26.

**CONCLUSION:** The staff will make the changes indicated by the Board in the session on April 17 and circulate a track-changes pre-ballot draft standard via e-mail (and regular mail) for comment. A final ballot draft and ballot will be presented with the briefing material for the Board meeting scheduled for June 18-19.

- **Federal Entity**

Staff member Ms. Loughan led the discussion of the Federal Entity project. She explained the objectives of the meeting would be to:

- provide the Board with an update on the Federal Entity project;
- obtain Board's feedback on the key points of the task force; and
- obtain Board's approval on next steps for the Federal Entity project.

Staff noted the Board had previously approved staff's plan to form a task force to assist in developing the proposed standard on the boundaries of the reporting entity and consolidation.



Staff explained that a task force was formed with members from the CFO, OIG, and IPA communities as well as specific representatives from agencies that deal with quasi government / hybrid organizations (such as FFRDCs), and intelligence agencies. Staff noted the first federal entity task force meeting was held in late February.

Staff noted a summary of the first meeting, including a detailed list of participants was included in the briefing materials. The summary of key points developed by the task force included:

- A survey of the community to identify organizations would be helpful
- Preference for a principles-based approach in the standard
- Proposed standard should address consolidation and other disclosures
- General principles stand alone
- All branches of the federal government should report
- Ownership is separate from control
- Control is key factor in assessing boundaries
- Exceptions and other organizations to be considered at future federal entity task force meetings
- Separate meeting with intelligence representatives to occur

Staff explained planned next steps and milestones for the project. Specifically, staff would like the Board's approval to distribute a survey to the federal financial management community. Staff explained the purpose of the survey is to obtain feedback from the financial management community on examples of 'questionable' organizations that have been considered in determining the boundaries of entities. The survey will also assess current treatment and criteria used. Additionally, staff plans to continue work with the task force on developing specific definitions, finalizing the principles and developing criteria for the boundaries of the reporting entity.

Mr. Allen requested the Board's feedback on the update and staff recommendation for next steps. He explained that if Board members have any concerns with the next steps, it should be conveyed.

Mr. Jackson noted the recommendation for the proposed survey of the federal financial management community seeks to determine other organizations that have been assessed when determining the boundaries of the entity. In addition, a targeted call will be done for specific organizations (such as FFRDCs) for information on characteristics, current treatment and criteria used in the assessment. Mr. Jackson asked if the survey would also go to the FFRDC (in addition to the federal entity that is considering them for inclusion) so we may get a better understanding of how they view their organization as they have funding coming from many different sources. Mr. Jackson explained this would be important to see the view from their side and would provide a means of learning first hand what basis of accounting the FFRDC uses. Staff confirmed that a separate, specific call would be sent to the FFRDCs directly.

Mr. Allen commented that he believes the task force chose the higher ground by taking a principles-based approach in the standard. He noted that the Board has taken a prescriptive based approach in the past, so it will be interesting to see a principles-

based approach that would not cause controversy. Staff explained the approach is for the standard to have general principles with specific criteria to be used in assessing organizations. Specifically, the task force believed the proposed standard should provide guidance on determining the boundaries of an entity but not specify which organizations are in or out. The task force was in agreement that a principles based approach would be workable and allow for professional judgment. The task force agreed that criteria are needed to assist but no specific rulings should be made on various relationships. The task force agreed the proposed standards should be written as guidelines for users to apply and should not explicitly state which types of organizations are included within the boundaries of the reporting entity. However, some suggested it may be useful to include specific examples as case studies as an appendix.

Mr. Jackson noted that there are other complicating issues that will come up besides whether an organization should be included or excluded. He explained that issues with different fiscal years and different basis of accounting will need to be addressed.

Mr. Schumacher noted that ownership and control are the key areas of consideration. He asked if there was FASAB literature on these areas or if the Board is breaking new ground in this area. Staff explained that there are some indicative criteria that relate to control but there is very little literature that relates to ownership.

Mr. Werfel noted the issue paper discussed the task force believed the definition of control should be simple and relate to a governing board. The task force believed the definition of control should be: Control is the ability or authority to appoint a majority of the governing board. He asked if this was the final recommendation of the task force. Mr. Werfel questioned why the task force used governing board and if there was always a "governing board." He asked if it was more a term of art and actually refers to control over establishing the governing structure.

Mr. Dacey explained that FFRDCs could be totally reliant on the federal government for funding so the federal organization would have a substantial say in the management of the FFRDC. However, the federal organization may not necessarily appoint the governing board. Mr. Werfel asked if that was how FFRDCs work and questioned if the federal government does exercise some control. Mr. Dacey suggested that there are examples where the government may exercise economic control versus appointing a governing board and therefore, a control definition strictly tied to a governing board may not cover all that needs to be covered. Mr. Werfel explained that is why he was concerned with the use of the term governing board.

Staff explained the definition for control was the preliminary thought of the task force and no final recommendation of the definition had been made. Staff further explained that additional work would be done in that area.

Mr. Reid explained that he was concerned with the task force conclusion on how to handle the legislative and judicial branches. He explained there are problems obtaining information for the Senate on the legislative side and problems for the entire judicial

branch. Mr. Reid stated that the standard needs to deal with it or there is no way the federal government can obtain a clean opinion on the government-wide statement. Mr. Reid explained that he would like the standard to address that what is being done is acceptable but urge for more to be done to include the information on those organizations.

Mr. Reid explained Treasury is able to get an idea of the magnitude of the expenditures through disbursement reports. He further explained that Treasury obtains receipts and expenditures through budgetary reports and books those for the consolidation. He stated that Treasury believes it is a representative piece for those organizations not reporting. In addition, major assets (buildings) are maintained by GSA so Treasury believes that information is captured as well. Mr. Reid explained that he does not believe this can be accomplished through a statutory fix, he believes it requires a constitutional fix. He added that he doesn't believe the Senate would pass a statute to require preparing and auditing financial statements for them because they would have done it by now or at least done so voluntarily.

Mr. Allen explained that a report for the entire federal government would require all branches to be in the report. However, he doesn't see a problem if one can prove materiality wise that all is captured then it would be acceptable. Mr. Reid asked how can one prove that something you don't know about is not material. Mr. Allen explained that if material amounts are missing, then the financial statements should state that. He added that is better than a clean opinion on a contorted reporting entity. Mr. Jackson explained the standard could provide the option for separate reports for each branch of the federal government in addition to the CFR. Mr. Allen agreed that would be a way for the Executive Branch to receive a clean opinion while still requiring the CFR for the entire government.

Mr. Dacey explained he understood the task force recommendation to be to take a look at what's going on because there are a few big issues related to property, accrued liabilities or post retirement benefits. Those are the big issues that need to be addressed and if some sort of reasonable determination or threshold is made about the materiality of those, it may be sufficient. He added the real problem has been finding the resources to actually address the problem. He suggested the task force may be a way to do the research and address the problem. Mr. Dacey explained that once the assessment is done, it does not appear that those areas would change annually so the assessment would just need to be updated to reflect nothing major has changed. However, if the assessment proved the areas were material then the next steps could be assessed how to handle that situation.

Mr. Reid asked if something would be put in the standard that they were not material. Mr. Dacey explained no, that he envisions doing a reasonable amount of due diligence to support whether or not it is material but nothing would be written in the standard. Mr. Dacey explained the most important step is performing the study/ assessment so a decision can be made. Mr. Reid offered that he has had conversations with an official at the judicial branch and he was willing to explore the notion of issuing a letter to indicate the other balances (other than courthouses that are at GSA) were immaterial.

He explained this would give some assessment of other types of assets they own (computers and systems) but this would not be auditable and just their opinion. Mr. Reid explained they have attempted certain procedures in determining the materiality especially on the judicial side. He added the judicial expenditures are approximately \$6 billion dollars each year. Mr. Jackson noted \$6 billion out of \$2 ½ trillion doesn't sound material. Mr. Reid explained once you get past the courthouses, the rest of the balance sheet would presumably seem insignificant.

Mr. Reid reiterated he would prefer some sort of relief in the standard itself. For example, the standard could provide for alternative procedures other than consolidating audited financial statements that could be appropriate. He doesn't want to continue down a path that would leave us no hope.

**CONCLUSION:** The Board approved staff recommendations for next steps in the Federal Entity project. Specifically, staff will distribute a survey to the federal financial management community to obtain feedback and examples of 'questionable' organizations that have been considered in determining the boundaries of entities. The survey will also assess current treatment and criteria used. Staff will also send a separate survey directly to FFRDCs to gather information. Additionally, staff plans to work with Treasury, GAO and the task force to further research issues with the legislative and judicial branches and assess whether it is material to the CFS. Staff will also continue work with the task force on developing specific definitions, finalizing the principles and developing criteria for the boundaries of the reporting entity.

- **Financial Reporting Model**

#### Overview

Members discussed a plan for developing concepts that describe the reporting model and how it relates to the reporting objectives. The plan involved reviewing the existing financial statements and determining how well the statements help achieve the reporting objectives and reviewing the objectives for areas that are not being addressed. The project would begin by reviewing the statement of net costs because of its contribution to helping readers assess operating performance.

Members expressed concern about focusing on "what is" or the existing model and noted the need to ensure that the reporting objectives are adequately addressed and to provide financial statements that are useful to readers. Members discussed a possible financial statement that could help better address the budgetary integrity objective and provide more useful information. The statement would integrate budgetary and accrual basis information.

Members also discussed the present relationship between the balance sheet and the statement of net costs and other factors. Members questioned whether a relationship should exist between the statements and wanted to consider non-articulation as an

alternative during the project. In addition, members believed that the project should involve comparisons with other reporting models.

Staff plans to proceed with the project by reviewing the statement of net costs and the balance sheet and will consider issues such as how well the reporting objectives are being achieved, whether the statements should articulate, and how the model compares with other reporting models.

## Discussion

Ross Simms stated that the objective of the Reporting Model project is to describe the reporting model (financial statements) and its relationship to the reporting objectives. The purpose of today's discussion is to review and approve the draft plan for the project.

The plan involves reviewing existing financial statements and using the knowledge gained to help identify financial reporting objectives that have not yet been addressed. The plan considers that the broad reporting objectives require statements that serve different roles and, to serve these different roles, some statements are prepared using a different basis than others. Staff planned to begin the project by reviewing the accrual basis statements and, upon their completion, staff would review the remaining statements. Because of its importance in assessing government performance, staff planned to start with the statement of net costs.

Mr. Werfel noted that he understands that the balance sheet and statement of net costs are interrelated and that progress on one statement will lead to progress on the other. However, a factor that should be considered is where the agencies are spending their resources. Agencies are spending a tremendous amount of resources on the balance sheet.

Members noted that discussing the reporting model raises issues that could be considered as part of the Board's technical agenda setting efforts. Mr. Jackson noted that the pre-occupation with the balance sheet and the notion of materiality with regard to asset valuation is often misplaced. The impact of a reduction in asset valuation on the statement of net costs is where the notion of materiality should be placed. He noted that, in his observations, a problem with asset valuation would have to be very large before it would have an effect on period costs. Currently, agencies are having difficulty in meeting what some believe to be the requirements of accounting standards regarding asset valuation. The Board should consider whether the principle focus of federal financial reporting is the cost of operations. If that is the case, the Board would need to discuss the implications of imprecision on the statement of net costs.

Mr. Reid noted that his concerns could be addressed as part of the Board's technical agenda setting efforts. He stated that some of the weaknesses identified during the Board's February 2008 strategic planning exercise concerned the significant focus on the budget over accrual accounting and the spending of resources on preparing statements that people are not reading. The Board should be focused on increasing the

significance of these statements vis-à-vis the budget, and the statement of net costs could be used in an analysis to help the Board accomplish this goal.

Mr. Reid explained that the Board could develop a schedule with columns showing: the original budget request; the original budget approved by Congress; any budget modifications throughout the year; the final budget amount; a comparison of budgetary receipts and outlays to the budget; the effect of accruals; and a total that would look like generally accepted accounting principles (GAAP). In essence, the presentation would provide: an evolution of the budget; what did we spend against the budget; and what is the impact of accruals on receipts and outlays. Readers could see the budgetary surplus and deficit, the GAAP surplus and deficit, and the impact of all the accruals of a specific agency during a specific year, which can be significant. For example, the government accrues billions in post-employment benefits that are not paid. This approach would help tie the financial reports to the budget in a way that would be more significant to readers across the government than the existing statement of budgetary resources.

Although staff is proposing a concepts statement, Mr. Reid believed that a standard would be more appropriate and the Board may not need to perform all the steps presented in the proposed project plan. He suggested that the Board think of ways to make the financial statements more meaningful to those interested in the budget. This would improve readership and interest in the statements and could be used in-lieu of some of the existing reporting requirements. He noted that the statement of budgetary resources is a very difficult statement for agencies to prepare and the Board would have to discuss the proposed statement with budgetary personnel because there are benefits in subjecting the information to audit.

Mr. Steinberg noted that he liked the statement Mr. Reid described and agreed that the budget needed to be included in the model. In addition, if the Board desired to focus on the statement of net costs, the costs should be displayed by programs or strategic goals rather than business units or functions. A concepts statement along the lines of what Mr. Reid discussed could bring about a beneficial and desired change in the form of a major operating statement.

Mr. Patton noted that Milestone III of the project plan involves considering reporting objectives that are not being addressed. A statement like the one Mr. Reid described does seem like a logical part of the milestone. However, one concern is that the plan calls for analyzing “what is.” This approach may place “blindness” on considering other alternatives. Is it clear that the Board wants to have a statement like the statement of net costs articulate with another statement like a balance sheet? Mr. Patton would like the project to consider statements that do not articulate.

Ms. Payne explained that, concerning the statement of net costs, staff plans to discuss the nature of costs and the meaning of the “bottom-line.” A topic that often occurs in federal financial reporting concerns the costs that are not born through money collected by the federal government and then used, such as tax expenditures. We do not attempt to capture these costs in the statement of net costs because we focus on things that run

through the balance sheet. So, in the course of discussing the statement of net costs, there will be an opportunity to talk about costs that do not flow that way and to discuss whether there should be something that does not articulate.

Mr. Farrell stated that agencies could provide the Board with input on the information that individuals need. The Board already knows what it has. Therefore, an analysis of what is a balance sheet or statement of net costs is not necessary. The project should start with Milestone III - identifying the financial information needs that have been expressed throughout the federal government. Once those needs have been identified, the Board should see how to "fit" them into the existing model or change the existing model to accommodate them. The Board may not need to spend a lot of time with revisiting the existing statements.

Mr. Dacey stated that he continues to hear that the existing financial statements are not useful for management, and one of the Board's tenets is that the statements should be useful. He expressed concern whether the Board has identified the information that is useful for management, but is not currently provided in the financial statements.

Ms. Payne provided an example of how the Board has considered information needs. She explained that as part of the Board's inventory project, the Board reviewed controls over seized and forfeited assets because they were considered major management issues. They looked at what issues management was facing and wrote a standard that addressed the information needs to resolve the control problems. Also, with inventory, the Government Accountability Office (GAO) reports noted that the Department of Defense did not know its inventory and was buying new items when it already had the items on-hand in a warehouse, and they were holding excess items. The Board's standard included the need to focus on normal operating, held in reserve, and excess inventory. In addition, while recognizing property, plant, and equipment (PP&E) on the balance sheet is a contentious subject in government, the operating performance objective and getting to full cost demanded recognizing PP&E on the balance sheet. The Board's task force of federal accountants determined that you cannot get to full cost without capitalizing PP&E.

Mr. Dacey stated that there may be some unmet needs. The Board may need to consider, at a conceptual level, what kind of statements should be presented to meet those needs rather than a project to help clarify the things we already know.

Ms. Payne noted that the GAO and the Office of the Auditor General of Canada conducted a user needs study in the 1980's<sup>2</sup> and the Board conducted a less-global study when the FASAB was first organized. However, the Board's study was not published.

Mr. Allen stated that Milestone I of the plan does consider whether the reporting objectives are being achieved. The Board could determine that the statement of net

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<sup>2</sup> Federal Government Reporting Study: A Joint Study by the Office of Auditor General of Canada and the United States General Accounting Office, Summary Report (GAO/AFMD-86-30).

costs is not adequate in addressing objective 1C,<sup>3</sup> and develop a statement that does. This approach would be a good exercise to help determine whether we are doing the best job we can in areas such as measuring inter-period equity and presenting stewardship information and the cost of programs.

Mr. Steinberg stated that the current model addresses the budgetary integrity objective with the statement of budgetary resources and the operating performance objective with the statement of net costs and others. However, we are missing the integration of the two. Objective 1C calls for integration and the way to meet that objective is a comparison of spending on programs versus what we budget on those programs.

Mr. Farrell suggested that the statement of net costs and the balance sheet be reviewed together because they are interrelated. He noted that the statements currently articulate but, perhaps they should not. Mr. Patton noted that the analysis should consider whether the statements ought to articulate.

Mr. Allen stated that a specific proposal would be needed to explain why the statements should not articulate. He was not aware of a model where the balance sheet and operating statement does not articulate.

Mr. Werfel stated that the project should include benchmarking to a reporting model of a state or another country. Members suggested that New Zealand and Australia could be used and Mr. Jackson and Mr. Dacey noted contacts that may be able to help access information about these countries.

**CONCLUSION:** Staff will proceed with the project by reviewing the statement of net costs and the balance sheet and will consider issues such as how well the reporting objectives are being achieved, whether the statements should articulate, and how the model compares with other reporting models.

- **Agenda Setting**

Ms. Payne began the discussion by noting that consideration of the technical agenda began at the February meeting. New material provided for this meeting includes identification of federal financial management initiatives within the President's Management Agenda, information about GAO's High Risk List, and a cross walk of the potential projects to existing standards and projects (planned or ongoing) at other English speaking standard setters. This material was provided in light of the Board's desire to consider aligning its work with areas that are important to the broader community and to leverage its resources when feasible. The objective of the discussion was to narrow the list of potential projects down so that project plans could be drafted.

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<sup>3</sup> This objective involves providing the reader with information to determine, "how information on the use of budgetary resources related to information on the costs of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities." Statement of Federal Financial Accounting Concepts 1, par. 119.



Identification of each member's top five projects should produce a list of five to ten high priority projects to develop further.

Ms. Payne also noted that there had been two relevant meetings held during the week prior to the meeting. The National Academy of Public Administration (NAPA) hosted a forum regarding the Performance and Accountability Report (PAR) pilot and the Association of Government Accountants (AGA) hosted a meeting to discuss initial results of its 2008 CFO Survey. From the CFO Survey meeting, Ms. Payne reported the survey asked whether audit and accounting standards need to be changed. Preliminary results showed over 70% agreed that change was needed. She expressed the view that we all agree that there are changes needed and that it would be more useful to consider the survey results in total since the final survey is expected to include areas identified as needing change.

The discussion among participants at the CFO Survey meeting demonstrated a strong interest among the participants in improving the linkage of cost and non-financial performance. Ms. Payne explained that she asked the participants whether they believed FASAB should provide more cost accounting standards and the majority of participants expressed the belief that FASAB should do so. This majority included several CFOs or DCFOs from large and small agencies. This was consistent with the majority view drawn from the four roundtables convened prior to the February meeting as well as several standing group meetings. (Note: The CFO/DCFO roundtable participants did not emphasize new or improved cost accounting guidance but this was the sole roundtable producing that result.)

With respect to the NAPA meeting, Mr. Werfel explained that the premise of the PAR pilot is that the PARs are not an effective tool to reach the public and to provide transparent information; they are too wordy. He acknowledged PARs may be good internal control tools and a means to bring discipline. The pilot allowed agencies to think more strategically about how information is presented. Agencies were encouraged to provide concise highlights (a soft goal of 25 pages or less) that meet user needs. The annual financial report (AFR) (including financial and internal control reporting) remained due on November 15<sup>th</sup> while the performance reporting was due in February. Overall, the pilot provided tremendous flexibility.

The PAR pilot forum was held to assess pilot experiences. The OMB, Mercatus Center, the AGA, and three pilot agencies were represented. There were many strengths and weaknesses identified. The major weakness was the loss of one stop shopping for information; each agency's Congressional budget justification included performance information but outside users indicated that they could not readily find the information. Mr. Werfel noted that the highlights documents were very successful. They were highly readable. There is a working group to review the pilot results and consider changes for FY2008 reports. For example, some have suggested a hard goal of 25 (or an even lower number) pages. Overall, there was strong interest in the pilot. There was a suggestion that a coalition be formed of outside groups such as NAPA, Mercatus, AGA, etc. to consider recommendations for improving reports.

Mr. Steinberg added the financial statements were not the reason for the pilots—these seem to be working well. The reason for the pilot was the performance information. The early Bush administration effort to accelerate reporting showed the value of having the financial information out in 45 days. However, the performance side was not considered as carefully; the performance information has not kept up with the 45 day goals.

Mr. Steinberg noted FASAB is setting standards for financial information but not addressing the other pieces of important information. We should be involved in these other areas – for example, the performance information and budget justification packages.

Mr. Patton asked how we would participate in the many experiments and initiatives as well as serve as the GAAP standard setter. Ms. Payne responded that the issue was primarily a resource issue. She noted that staff is often welcomed to participate in such initiatives. In the early days of FASAB, the members participated more broadly in such initiatives. For example, the Board could devote resources to sponsoring leadership initiatives such as roundtables that went beyond GAAP issues. As Mr. Patton indicated, this would divert resources from direct standard setting (GAAP) activities.

Mr. Allen asked about the group Mr. Werfel had mentioned. He thought – with respect to performance standards – a group of outsiders making recommendations might be more effective than FASAB. Having a standard setter focus on performance guidance tends to increase the tension among constituents. He acknowledged that the most valuable thing about financial statements is not the reports; rather it is the systems and the discipline that leads to the audited reports. He believes we should not insert ourselves into the performance area.

Mr. Werfel expressed the view that the PAR pilot was interesting to outsiders because of the performance information. It is not because they are interested in the financial results. At the consolidated level is where he sees the interest in financial results. At the agency level, the interest is in performance information and only touches on financial information where it is tied to non-financial performance information. The area of interest to FASAB at the agency level should be how we are driving internal operations; are we driving improvement in processes, controls and decision support. At the consolidated level, our interest in financial information would be focused on material issues and, therefore, a smaller range of issues than we currently consider.

Mr. Werfel indicated that the agency reports do not inform anyone on the day to day decisions of accountability and public policy making. He believes the Board could spend some time on how the standards contribute to the goals of public reporting, internal controls and decision support. We could ask what each standard is helping to advance in each area. He speculated that if we did such an evaluation public reporting would not be a major accomplishment at the agency level.

Mr. Allen noted that sounded like a good project and said we could look at the issue of what is our role. Is it necessary that when we issue a standard the goal is for the agencies to comply and support a consolidated financial report? Perhaps the question is whether we even need agency reports.

Mr. Werfel noted that there was significant discussion of an alternative reporting model; agencies do not produce audited financial statements—the only audit opinion would be on the consolidated financial report (CFR). The work at the agencies would be on the items that are material to the CFR. He noted that the Federal Funding Transparency Act required a central database on the Internet. Users can view the amount of payments made to organizations such as IBM or a university. But, that information is not audited. The information is of great interest to public users. But we are auditing the balance sheets; so you could argue that our audit focus is misplaced. We are not doing a commensurate level of assurance work around “[spending.gov](http://spending.gov).” With a CFR focused audit model, you could see agency audit work focused on the items material to the CFR as well as some audit of the information generating public interest.

Mr. Allen noted that the format of reports would not vary greatly; FASAB would not have to be engaged to change the reporting model rather the agency audit model would change to support a CFR opinion.

Mr. Steinberg acknowledged interest in the [spending.gov](http://spending.gov) information but he expects some day there will be awareness that the information is not accurate. Hopefully that information comes off the contracts that result in expenditures and the expenditure information comes out of a system that is audited. If the system is accurate enough for the auditor to say the balance sheet is clean then it should be accurate enough for the [spending.gov](http://spending.gov) database.

Mr. Farrell said that was not necessarily true. Mr. Allen and Mr. Steinberg noted that ideally it would be. Mr. Werfel said that the ideal is not playing out in practice. Mr. Jackson said the vendor payment system could be fatally flawed while the systems that allocate costs to assets and expense accounts are adequate.

Mr. Jackson noted that the requirement to prepare agency audited financial statements was an essential step in getting where we are. It provides a strong foundation. You needed a framework of requirements (e.g., form and content, accounting standards and audit standards) and you need to prove that you can comply with the requirements. Mr. Jackson noted that the state of Virginia had gone through a similar process—in the 1980s there was a requirement to prepare GAAP based statements at departments. In the early 1990s, departments had a record of clean opinions and there were incentive systems such as keeping appropriations that would otherwise expire if not used. In the mid-1990s, because of the success in improving the quality of information within the systems and making adjustments at year end to meet special reporting requirements, Virginia moved away from the department level audited financial statement requirements. Mr. Allen indicated that this was a common pattern among states.

Mr. Jackson noted that the state audit requirements focused on the objective of a consolidated financial report for the state government. He noted that there were audit plans for whole classes of transactions that might impact that opinion. The evolution is there. He thought it would be interesting to engage the GAO in a discussion of that evolution. The notion of continuous auditing should be explored. Auditing information as soon as transactions or events occur may be an essential goal. This may lead to changes in both our reporting standards and our auditing standards for certain entities. There may need to be special focus on auditing – in real time – the information relied upon in making day to day decisions about things like inventory movement and purchases. He thought this could take a lot of pressure off of agencies; some agencies are creating quarterly reports that no one is using. Wouldn't it be a great experiment to find a different way to improve the day to day information; perhaps through ongoing audit of key information? Could we take away administrative reporting requirements and allow agencies to build capacity to meet decision makers' needs? He acknowledged that some requirements are legislated and are more difficult to change but it can be done. He indicated that some past legislation allowed for experimentation. The agencies that are immaterial for the CFR might be an effective arena for experimentation.

Mr. Werfel noted that the financial management enterprise costs \$10 billion dollars per year and consumes 59,000 full time equivalent employees' time. The magnitude of resources confirms the need to ensure we are deploying resources effectively. You would expect these costs to go down over time unless there was a major change to the requirements or scope. But, the audit costs are going up each year even at organizations such as the National Science Foundation which has had clean opinions for many years. In light of this, Mr. Werfel asked whether the Board was thinking broadly enough with respect to the reporting model project.

Mr. Allen noted that challenges remain. We are not meeting the government-wide objectives. Mr. Werfel indicated that he was not seeking lower investment in agency financial management; he is concerned with how the resources are allocated. Are these resources being used most effectively?

Mr. Farrell noted that for complex international corporations the audit plan focused on different matters at different subsidiaries in different years. There was not a full annual audit of each subsidiary; instead they received varying degrees of audit coverage each year and in the "down" years they were able to invest the resources in other areas such as improving systems.

Mr. Dacey indicated that the audit standards and requirements might change but that such a model would not alter our accounting standards. He noted that some agencies would always be material and might require a full audit.

Mr. Jackson noted that the relief in a large (material) organization might come in which sub-organizations are covered each year. For example, the military services might be audited on a cycle rather than every year.

Mr. Allen asked each member to identify their priority projects. The results were:

Project	Board Members										Total
	Dacey	Schumacher	Patton	Jackson	Farrell	Steinberg	Murphy	Reid	Allen	Werfel	
Application of the Liability Defintiion			X - Key to reporting objectives and a pervasive issue; should capture projects 2 and 5.								1
Asset Retirement Obligation		X		X			X				3
Commitments											
Cost of Capital						X - Could affect decision making					1
Deferred Maintenance and				X		X - Could be large enough to put on a statement of fiscal sustainability	X				3
Asset Impairment		X		X	X		X				4

Derivatives											
Electronic Reporting											
Evaluation of Current Standards	X - Specific areas mentioned in the description; Cost and Stmt of Financing	X		X				X - are there standards that we could "stop" since they are not affecting operations without impairing fair presentation		X	5
Financial/Economic Condition	X - GASB project										1
Insurance	X *				X						2
Intangibles											
Investments								X - intragovt investments that are required to be accounted for in a different way than			1

								the debt holder			
Leases		X					X				2
Linking cost and performance (SEA)	X - but not to drive performance reporting	X				X					3
Long-term contracts											
Omnibus AICPA	X	X									2
Performance Reporting											
Property with Reversionary Interest											
Public Private Partnerships					X		X - growing + complex issues				2
Research and Development											
Risk Assumed	X *										1



Stewardship Investments											
Summary or Popular Reporting											

\* Second tier project

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1 Mr. Patton also expressed some interest in new reporting model work being expanded.

2  
3 Mr. Jackson indicated his Interest in the reporting model project. Some of the concerns  
4 regarding SI and commingling the accounting for certain types of events for other types  
5 of events is interesting. Does it make sense to consider whether a traditional balance  
6 sheet makes sense in this environment and to meet our reporting objectives?

7  
8 Mr. Farrell echoed Mr. Jackson's comment and believes the reporting model project  
9 could be expanded. The government has been spending a great deal of money on  
10 asset valuation and is apparently not getting much benefit.

11  
12 Ms. Steinberg said he relied on the PMA and High Risk List to focus attention on  
13 desirable projects. He also likes the idea of expanding the reporting model project.

14  
15 Mr. Murphy agreed that expanding the reporting model project was desirable.

16  
17 Mr. Reid said he likes the reporting model project but as a standards project rather than  
18 as a concepts project; he believes we need to rationalize what the appropriate level of  
19 reporting is at the agency level. One result could be summary reporting (project #23);  
20 we don't want the whole 400 page report but we do find the summary report useful.

21  
22 Mr. Allen said he would expand the reporting model project to deal with the structure of  
23 financial statements. He noted that from the list of projects, he could eliminate most of  
24 the 23 projects as not material to the CFR. For the government-wide statements he  
25 believes the biggest failure is that we do not demonstrate intergenerational equity. This  
26 is different than sustainability - sustainability looks at the ability to budget for spending; if  
27 you looked at when the problems started - as in an accrual model - you would see that  
28 the problem goes back to prior generations.

29  
30 Mr. Jackson indicated that one perspective is the future spending that is driven by past  
31 actions as opposed to future spending to meet new needs. With respect to correlating  
32 cost with performance, Mr. Jackson noted that many projects impact that. For example,  
33 if assets are impaired then the cost belongs in the period of impairments.

34  
35 Mr. Werfel noted that he supported evaluation of current standards but that there are  
36 two categories within evaluation--there are standards up and running where we do not  
37 see value as well as current standards where we haven't met the original intent (cost  
38 and deferred maintenance. He would focus on these separately and prefers to look for  
39 steady state standards and identify those that have limited value and eliminate them.  
40 His close second priority is the reporting model project described by Bob Reid. It would  
41 be extremely helpful to have FASAB's views on agency level reporting. He noted that  
42 we are approaching a crisis with respect to the resources devoted to agency reporting.  
43 This reporting is not perceived as a value proposition. He believes FASAB needs to be  
44 involved in the discussion; Congress will look to FASAB for its views. He noted an  
45 expectation that the issue of agency reporting will bubble up in transition. He believes  
46 many of the potential projects are not material. He expressed an interest in

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1 intergenerational equity - would like to see a problem statement regarding that issue.  
2 Any new requirements should be focused on the consolidated report - expansion should  
3 be at the consolidated level. The agency reports should be review and we should  
4 explicitly reconsider what's going on at the agency level.

5  
6 Mr. Dacey noted that the GASB and IPSASB are cooperating on the Public Private  
7 Partnership issues. He suggested that FASAB discuss the IPSASB consultative paper  
8 at an upcoming meeting. He further noted that we have not developed the  
9 intergenerational equity issue in fiscal sustainability and he'd like to develop it.

10  
11 Mr. Reid indicated that he'd develop Treasury's views on fiscal sustainability further. He  
12 wants to know what questions users want answered; he indicated a draft would be  
13 available soon.

14  
15 Mr. Allen indicated that the Board will be making decisions on whether to expand the  
16 reporting model project or start a new project at the next meeting.

17  
18 Mr. Farrell commented that the fiscal sustainability project was fast tracked because it  
19 was viewed as critical. He is concerned that Mr. Reid's proposal will slow the project  
20 down considerably and change the focus of the project.

21  
22 Mr. Reid indicated that Treasury – through the recent citizen's report – had added  
23 Medicaid and the rest of government to the projections. He argued that the progress  
24 desired from the Board's fast tracking has been achieved through the voluntary  
25 highlights report. He acknowledged that a lot of the disclosures are not included but  
26 asserted that they do have the key new pieces. He hopes to further expand the  
27 reporting over time.

28  
29 **CONCLUSION:** Project plans will be presented for consideration at the next  
30 meeting for the following projects:

- 31  
32 1. Expanded Reporting Model  
33 2. Evaluation of Existing Standards  
34 a. Non-value Add Standards  
35 b. Standards in Need of Improvement (Goals Not Attained)  
36 3. Asset Impairment  
37 a. Deferred Maintenance and Asset Impairment  
38 b. Asset Impairment  
39 4. Linking Cost to Performance  
40 5. Asset Retirement Obligations  
41

### 42 • **Steering Committee Meeting**

43 The Steering Committee approved the proposed milestones for the Appointments  
44 Panel. In addition, the committee reviewed and did not amend the planned budgets for  
45 FY2009 and FY2010. With respect to the FY2008 budget, the committee requested that

## Draft Minutes

1 Mr. Allen convey in writing the committee's concerns regarding the FY2008 CBO  
2 reimbursement arrangements to the CBO director. For FY2008, FASAB will make cuts  
3 sufficient to cover the CBO shortfall. No additional cuts for FY2008 are required.

4

## 5 **Adjournment**

6 The meeting adjourned at 3:45 PM.

7

8