FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
August 26-27, 2009
Room 6N30
441 G Street NW
Washington, DC 20548

Wednesday, August 26, 2009

Administrative Matters

- **Attendance**

The following members were present throughout the meeting: Chairman Allen, Messrs. Dacey, Granof, Jackson, Schumacher, Showalter, and Steinberg, and Ms. Fleetwood. Ms. Kearney represented the Office of Management and Budget and Mr. Torregrosa represented the Congressional Budget Office throughout the meeting. 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.

Agenda Topics

- **AICPA Omnibus**

Overview

The FASAB initiated the American Institute of Certified Public Accountants (AICPA) Omnibus project to adopt certain accounting and financial reporting guidance that currently resides in the AICPA statements on auditing standards (SAS). At the August 2009 meeting, the Board discussed whether to adopt the AICPA guidance concerning related parties. Unlike other standards-setting bodies that adopted certain AICPA guidance earlier, the FASAB has an on-going Entity project to determine what entities should be included in the federal entity. Accordingly, Board members initially considered whether to: (1) adopt the AICPA related party guidance essentially "as is;" (2) expand the project to allow for additional research; or (3) add the related party topic to the FASAB's list of future projects until the Board's Entity project is completed.

During the discussions, Board members considered existing practices regarding transactions between federal agencies (intragovernmental transactions) and noted that guidance has been developed for this area. However, members expressed concern about how adopting the AICPA language could impact the existing practices, consequences of proceeding ahead of the Entity project, and the need for research on federal government relationships such as public/private partnerships and not-for-profit organizations established to assist agencies. In addition, the Board discussed the possibility that the auditing standards could be withdrawn and how that may impact current practices as well. As a result, the Board decided to continue research on related parties as part of the Entity project and discuss this determination in the basis for conclusion section of the AICPA Omnibus exposure draft (ED). Moreover, if the auditing guidance is withdrawn before the Entity work is completed, the FASAB staff would develop a technical bulletin to provide guidance to the federal financial reporting community.

The FASAB also discussed the AICPA guidance for subsequent events, another area considered for incorporation into the FASAB standards. Members reviewed the draft AICPA Omnibus ED that included proposed language for subsequent events and the Board generally decided to proceed with the draft language.

In addition, during the June 2009 meeting, the Board decided not to adopt the AICPA language regarding going concern and noted that it has developed guidance concerning long-term fiscal sustainability - Statement of Federal Financial Accounting Standards (SFFAS) 36, *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government*. However, at the August 2009 meeting, members noted that SFFAS 36 concerns the government-wide level and some component entities are experiencing fiscal stress. For example, some entities rely on fees for revenue and because of consolidation in their industry they are seeing a reduction in their revenue stream. The Board discussed these issues and determined that the intent of the project was to adopt the AICPA guidance which discusses going concern, rather than developing new guidance which would impact current practices. However, the Board expected that fiscal stress issues would be discussed in the Management's Discussion and Analysis (MD&A) section of the entity's financial report and the basis for conclusion section of the AICPA Omnibus ED would include the Board's expectation. Details of the Board's August 2009 deliberations are presented as follows.

Related Parties

Mr. Simms noted that the initial plan for the project was to adopt the AICPA auditing literature regarding related parties essentially "as is." However, doing so may not provide the federal financial reporting community with meaningful guidance. In particular, a definition of related parties for federal reporting entities is needed. Mr. Simms noted that the staff paper discusses three options for the Board to consider in deciding how to proceed. The three options were:

1. Proceed as originally intended - adopt the AICPA (and any related Financial Accounting Standards Board) guidance "as is;"
2. Expand the project to allow for additional research; or
3. Add the related party topic to the Board's list of future projects until the Board's Entity project is completed. The Entity project is considering what entities should be included as a federal entity.

Members discussed some of the existing guidance and practices that may involve "related parties." For example, SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, as amended, discusses inter-entity revenue and requires disclosure of the nature of intragovernmental exchange transactions in which an entity provides goods or services at a price less than full cost or does not charge a price at all. Also, Office of Management and Budget (OMB) Circular A-136 requires entities to report intragovernmental assets separately from transactions with non-federal entities and to disclose intragovernmental costs and revenue separately from costs and revenue with the public.

However, Mr. Jackson expressed concern that explicit guidance on "related parties" appears to be absent from the FASAB literature and, when considering the generally accepted accounting principles (GAAP) hierarchy, federal entities may look to Financial Accounting Standards (FASB) 57, *Related Parties Disclosures* (FASB ASC 850) for guidance. Mr. Jackson provided an example of how some entities looked to FASB standards to report on asset impairment, essentially because of the absence of explicit FASAB guidance.

Mr. Steinberg added that Circular A-136 requires a statement on the limitations of financial statements. Agency financial reports include a statement that says, “The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.” Also, Circular A-136 discusses parent/child reporting (financial reporting requirements for transferring budget authority to another agency). Mr. Steinberg noted that, however, the Board should proceed with caution on the topic of related parties. Other accounting standards setters provide guidance for individual entities. However, the FASAB provides standards for the federal government as well as individual agencies. If the Board tries to require reporting on related parties without determining “what is the entity,” the Board could cause problems for the reporting community.

Mr. Dacey expressed concern with not adopting the AICPA guidance now. He noted that the AICPA is in the process of conforming to international accounting standards and, because FASB and Governmental Accounting Standards Board (GASB) have adopted related party guidance, the AICPA may simply withdraw the guidance from the auditing literature. Mr. Dacey believed that this may be the real driver for incorporating the guidance quickly - the AICPA could proceed with their business and we could move forward with ours. The FASAB could revisit the issue as part of a longer term project. Mr. Showalter noted that if the Board issues guidance now, it could cause the community to go in one direction and, when the Board completes the longer term project, the Board could go in a different direction and require entities to change practices again.

Regarding opition1, Mr. Allen commented that the existing AICPA language for related parties was simply not applicable to the federal government environment. Then, upon considering options 2 and 3, Mr. Allen noted that the other accounting standards setters have a definition of reporting entity and, without a definition of the reporting entity, how would we know what is a related party? Thus, option 3, completing the entity project first, seems appropriate.

Mr. Schumacher agreed with other members regarding option 3 and noted that, considering Mr. Dacey’s concern, perhaps the Board could determine a way to incorporate the AICPA guidance, but say that there is no change to current practice. He noted that it would be premature to define related parties in the federal environment, given some of the current transactions that the federal government has initiated. It seems that the related party topic should be a part of the Entity project.

Mr. Dacey noted that he was not as concerned about the interrelationship of related parties and the entity project. If the Board defines something as the entity, then it immediately comes off the table as a related party because it is part of the entity. We have a lot of new relationships this year and, in the interim, until the Entity project is completed, some of these entities are related parties which will need to develop disclosures. The Department of the Treasury financial statements will have to reflect enhanced disclosures on related parties given these new relationships.

Mr. Steinberg commented that when one considers the component entities, every single agency of the federal government is a related party to another and the FASAB already provides guidance for these relationships. The reporting for these relationships is not broken and whatever the Board does going forward should not ruin current practices.

Ms. Fleetwood noted that the related parties topic is an important issue and that she was not comfortable incorporating the current AICPA guidance without some Board deliberations. She and Mr. Allen noted that the related parties issue is covered as part of the entity project where all the various relationships are reviewed. Mr. Showalter also believed that the related party project should be a part of the entity project.

Mr. Jackson suggested option 3 and noted that the basis for conclusions section of the ED should describe why the Board chose not to address related parties specifically and cite that current practices include guidance, such as SFFAS 7.

Mr. Dacey noted that he would not like to have a situation where the status quo is changed because the AICPA took action and the FASAB did not move the existing auditing literature into its standards. He noted that the intent of the related party disclosures is to explain when there is other than a potential arm's-length transaction between two entities. There ought to be disclosure in the footnotes about that relationship and the nature of the transactions. Regarding the consolidated financial report of the US government, the Government Accountability Office said you have got to disclose information about your relationships with the Federal Reserve. There are material transactions with the Federal Reserve and they may not be at arm's-length. Thus, to have a fair presentation, the consolidated financial report must include disclosures about the Federal Reserve.

Ms. Fleetwood noted that the related party topic is very timely; however, the Board should be deliberative about it. The reporting entity and related parties are important topics for helping to decide how to display, at the government-wide level, some of the decisions made in response to the economic crisis. Everyone could look at the Board's adoption of the auditing guidance and think that the Board is making some big statement when we are not and we have not even thought it through very well. Regarding Mr. Jackson's suggestion for option 3 and including language in the basis for conclusions, Mr. Showalter added that the Board is going to put the topic into a project but in the meantime remind the community of existing guidance. The fact that the Board would comment on it at all does raise the visibility of the topic in the community. Thus, this approach raises the visibility of the topic and reminds the community that the Board is not changing current practice.

Mr. Allen suggested a solution to address Mr. Dacey's concern about the AICPA withdrawing the related party guidance. He noted that perhaps staff could develop a technical bulletin or implementation guidance noting that although the Board deferred the project or rolled it into the entity project, the existing guidance, including the AICPA guidance and the FASAB literature, will continue to be applicable.

Ms. Payne noted that staff was concerned about expanding the scope of the project where we did not see related party information being actively reported. Component units did not appear to be reporting relationships such as nonprofits created to work with agencies and public/private partnerships. Also, staff did not find footnotes headed, “Related Parties.” In the interim, staff may be able to do a survey to determine current practices at agencies.

Mr. Jackson noted that he would rather remain silent and let the basis for conclusion discuss existing guidance. The Board could try to address the issue later in a more thoughtful way. Mr. Jackson commented that the existing related party definition includes “management of the entity” and management of a component of the Department of Defense could very well be impacted by the actions of the management of the Department of Defense. He asked that if the Department of Defense sets in motion how it will value transactions between the Army and the Defense Logistics Agency, does that create a related party situation that could result in some significant disclosures?

Mr. Dacey noted that he was primarily concerned about entities outside of the federal government. He believed that the FASAB’s existing guidance covers intragovernmental transactions. Mr. Simms noted that the FASB required disclosure of control relationships even if there were no transactions between the parties. Mr. Showalter noted that the Board should focus on those entities outside of the federal government as well as those internal. The FASB was likely concerned about what was happening outside the entity. There are a lot of controls for those relationships inside the entity. Also, Mr. Dacey added that a lot of special purpose entities exist in the private sector and they are creating challenges.

Ms. Payne noted that it sounds as if the entity project would not be complete if these issues are not considered. A technical bulletin could be prepared very quickly if there is a concern that the auditing literature will go away and there will be a change in practice. In the meantime, we will be learning more because we will be actively pursuing the entity project. The project can include some questions about related parties, particularly those outside of the federal government. This approach would be a modified option 3.

Mr. Dacey noted that the Auditing Standards Board expects to issue a final statement in August 2010. Ms. Payne commented that the expected issuance date allows time for the Board to continue to research and work with the community to see if any change in practice would result.

Mr. Jackson asked to clarify whether the related party guidance in the draft ED would be removed. Ms. Payne confirmed that the related party language in the ED would be removed, except for a discussion in the basis for conclusions.

Members decided to pursue modified option 3, continue research on related parties as part of the entity project and discuss the Board's approach in the basis for conclusions of the ED. Also, a technical bulletin may be prepared if it appears that the auditing literature will be withdrawn. Individual votes on the options for proceeding with the related party topic are as follows.

Member	Option 1 Adopt the related party literature "as is"	Option 2 Expand the project to allow for additional research	Option 3 Add the related party topic to the Board's list of future projects until the Entity project is completed.	Modified Option 3 - Continue research on related parties in the entity project and describe the Board's approach in the basis for conclusion of the ED. Prepare a technical bulletin if the auditing literature is withdrawn.
Kearney				X
Dacey				X
Schumacher				X
Showalter				X
Granof				The Board cannot deal with related parties until it deals with the entity. Unless there is a compelling reason to issue a standard at this point he would not do so. The Board should issue the standard on subsequent events.
Jackson				X
Steinberg				X
Torregrosa				X
Fleetwood				X
Allen				X

Subsequent Events

Mr. Simms noted that staff incorporated changes to the draft ED based on the Board's June 2009 comments. He pointed out that rather than defining subsequent events in terms of events subsequent to the "balance sheet," staff replaced "balance sheet" with "end of the reporting period." Considering that the existing reporting model includes financial statements that do not articulate with the balance sheet, this approach would not place so much emphasis on the balance sheet. Mr. Jackson and Mr. Showalter discussed that "end of the reporting period" could apply to interim reporting as well as year-end. Also, Mr. Schumacher suggested reviewing the document to ensure that "balance sheet" is replaced by "end of the reporting period" in all the appropriate places, such as in paragraph 16.

Mr. Dacey noted that the subsequent events area is an important topic and some entities are not clear about the reporting requirements for recognized events regarding contingent liabilities. For example, after the reporting date, an entity may become aware of something that affects their contingent liabilities at year-end. Although the entity should adjust the liability in this situation, they may say that they do not have to record an adjustment because it occurred after year-end. Mr. Dacey noted that he would ask the entity, "When did the issue start?" If the entity says that the matter started back in June, then that indicates that the matter existed at year-end and they became aware of the amount afterwards, like after September 30th. Consequently, they still have to record it. Paragraph 16 of the ED should clarify the reporting of contingent liabilities by expanding the examples.

Mr. Allen suggested reviewing the questions in the ED – are all the questions needed? Also, we may want to ask questions regarding related parties and refer the reader to the basis for conclusions.

Members agreed with the wording changes in the draft ED regarding subsequent events.

<u>Fiscal Stress at the Component Level</u>

Mr. Steinberg noted that the basis for conclusions discusses that SFFAS 36 is the reason why the Board did not adopt the AICPA going concern language. However, this is only one reason. Statement 36 concerns government-wide reporting rather than individual agencies. The GASB standard regarding codification of AICPA auditing standards [1]discusses the other reason why the Board did not adopt the AICPA language. Paragraph 18 of the statement states,

> In all cases the effect of the government environment should be considered when evaluating the indicators of going concern. For example, the taxing power and borrowing capabilities of governments together with the constant demand for the provision of public services are factors that may diminish the possibility that a government would be unable to continue as a growing concern.[2]

This is a major reason why going concern is not applicable in the government and the basis for conclusion should include something like this statement.

Mr. Allen was concerned that there may be some quasi-government entities that the Board should address in the standard. Mr. Dacey noted that there are individual entities

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[1] GASB Statement 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards.*
[2] Ibid, par. 18.

that present interesting challenges. Some are economically dependent on federal funding. However, technically, they are not federal entities. The financial statement preparer for these entities makes it clear that they are not going to be able to operate if the federal government does not continue to provide funding. Mr. Dacey noted that he was not sure if there are individual entities that had a going concern issue per se, but something akin to going concern could happen to a component. There may be some uncertainty about the component's future.

Mr. Simms added that in the June 2009 meeting the Board noted that those entities that were intended to be self-sustaining are following FASB GAAP for commercial entities.

Mr. Allen noted that there are two issues: (1) what standard should the entity follow; and (3) what is the entity? Mr. Showalter raised a concern about whether there are entities that create a risk to the public and does the Board need to think about addressing them. Also, members discussed the Patent and Trademark Office and questions regarding its funding stream and differences between financial information that an investor may need regarding a business and what a citizen may seek from a component unit.

Mr. Dacey noted that there are entities that are in financial stress, the question is whether the FASAB standards should say the entity has to disclose that kind of information to readers. The Yellow Book requires auditors to report on these issues that affect the entity's ongoing operation. Mr. Dacey noted that his concern was situations such as a federal entity being privatized. The entity is continuing, but most of its operations are gone. There may need to be some disclosure of the facts involved.

Mr. Dymond noted that it depends on how one defines the phrase, "ability to continue as going concern." Does it mean existence? For example, the Patent and Trademark Office is not going to cease "existence" unless Congress enacts a law, or does the phrase mean "financial ability". Other examples may include: (1) instances where Congress enacts a law to privatize a federal entity that is subject to FASAB standards and the entity may have funding problems; and (2) an entity that follows FASAB standards, but Congress has enacted a law saying that it will terminate or cease existence in a subsequent period, like the Federal Home Loan Bank Board which became the Federal Housing Finance Agency. In the Housing Economic Recovery Act, Congress said it shall terminate as of July and its function shall transfer to the new agency. This means that the board continued to exist for another year. As of year-end, at September 30th, was there a going concern issue in this instance? The answer depends on how one defines going concern.

Mr. Allen commented that the FASB primarily looks to the lender/investor community. However, the FASAB's standards are not oriented that way. The FASAB views citizens as the primary users and the issue of accountability. If an entity is not able to operate unless Congress takes action to provide additional funding, that is probably an important disclosure from an accountability standpoint. Ms. Fleetwood noted that none of the federal government components will continue to operate unless Congress continues to provide funding. The government has the right to move its money however it wants to continue whatever operations it feels is appropriate. Ms. Fleetwood did not see this as a going concern issue where investors want to see if they are going to lose money or not. Mr. Allen noted that the Board's standards are intended for citizens who read a financial report to determine is there the proper exercise of accountability. In the case of entities such as the Patent and Trademark Office, fees have been collected but not enough fees may have been preserved to maintain operations. Should there be some disclosure so that a reader can assess accountability?

Mr. Steinberg provided examples of entities that are dependent on fees and may experience fiscal stress due to consolidation within their industry. The consolidation is reducing the amount of fees they collect and they have to take action to cut costs. Examples included the FDIC and Commodity Futures Trading Corporation.

Mr. Showalter expressed concern that SFFAS 36 addresses the government-wide level rather than the component level and the Board's discussion today has focused on the component level. Did the Board miss the component entity level when considering the "going concern" topic in the broader sense?

Mr. Torregrosa noted that the MD&A section of the financial report should address the topic. Ms. Kearney noted that, during discussions on sustainability, the Board discussed that the government has the ability to transfer resources between components as needed and sustainability would not be meaningful at a component level. In addition, entities should be addressing these issues in the MD&A.

Mr. Allen noted that SFFAS 36 concerns a 75-year period, but an investor or a lender or someone assessing accountability of an agency that has to seek funding from Congress would care about a shorter period of time.

Mr. Simms noted that the objective of the project was to incorporate accounting and financial reporting guidance from the AICPA auditing standards, essentially "as is." Incorporating the accounting and financial reporting guidance should not require substantial deliberations and cause a change in current practices. However, the going concern guidance could not be incorporated without substantial deliberations and revisions. In addition, the Board discussed sustainability of programs, a corollary to going concern, and determined that the topic was not within the scope of this project.

Mr. Schumacher commented that if one's debt is coming due in one year and they are unable to refinance it, that is certainly a going concern issue that needs to be addressed as such, but the Board's concern is more at the component entity level. It seems to be more of a choice of how the government is going to fund an area and how resources are going to be distributed or redistributed. That is different than the going concern issue. It seems like, rather than a standard, the MD&A may be the right place in terms of a component entity disclosure to say if funding does not continue, then we either have to cut cost or cut services.

Mr. Jackson noted that it seems that one would want entities to address their stresses and the effect of those stresses for the reader of the financial statements. In the case of the Patent and Trademark Office one would think that commercial entities would be quite concerned with their ability to provide the services that are required for effective commerce. The question is at what point does a standard setting body need to address a requirement for an entity to say something about that circumstance. An entity like the Patent and Trademark Office would want to do say something in the MD&A at a minimum.

Mr. Granof noted that the discussion has shifted to where the information should be reported – in the MD&A or elevated elsewhere. Very few entities are involved and the information belongs in the MD&A. The issue is not worth the debate.

Mr. Allen noted that the fiscal stress issue was outside the scope of simply incorporating the AICPA going concern language into the FASAB standards. He commented that the Board has an existing project involving a review of the MD&A standard and asked if staff could look at whether there is adequate coverage of the issue in the MD&A guidance. However, Mr. Dacey suggested that the basis for conclusions could reflect the Board's conversation that the Board expects that, although it is not a going concern issue, other fiscal stresses would be discussed as part of the MD&A. The MD&A standard is fairly general and it would not say that it has to be in the MD&A. Mr. Dacey noted that during the deliberations, the Board appears to have decided that the MD&A standard currently would reasonably "pick up" this issue if it were to occur. Members agreed with Mr. Dacey.

> **CONCLUSIONS**: The Board decided to continue research on related parties as part of the entity project and discuss the Board's approach in the basis for conclusions section of the AICPA Omnibus ED. Also, a technical bulletin may be prepared if it appears that the auditing literature will be withdrawn. In addition, staff will incorporate members' comments regarding the draft ED language on subsequent events and will revise the basis for conclusions to include the Board's expectation that fiscal stress issues would be discussed in the MD&A section of the entity's financial report.

- **Social Insurance**

At its August 2009 meeting, the Board discussed two remaining issues – Issue #1 and Issue #6 – regarding the proposed social insurance ("SI") accounting standard. The staff memoranda for the April and June, 2009, Board meetings had discussed nine issues involving reporting options and other issues from the exposure draft (ED). The August staff memorandum referenced the same nine-issue framework.

Issue 1 involved the question of a new basic financial statement. At its April meeting, the Board had voted in favor of a new statement, and had discussed sub-issues regarding format and other subjects without formally voting on them. The members expressed tentative format preferences in April and directed the staff to further develop two options.

At the August meeting, the staff asked the Board whether it wanted to reconsider creating a new basic financial statement via the SI project or, alternatively, to re-focus on management's discussion and analysis ("MD&A"). The staff noted that the SI ED had required the preparer to discuss key measures in the MD&A, and had included an optional "Key Measures Table"; and, in June, 2009, Mr. Dacey had introduced a "where-we-are-now-and-where-we-are-headed" table (the "Bob Dacey Table") that could be part of MD&A in which several members had expressed interest. Staff mentioned that the Board's on-going project on the reporting model will analyze fundamental questions, and finalizing the components of the new SI standard on which the members agreed might be desirable at this juncture. A new basic statement would entail another ED and another cycle of due process for the SI project.

The Board discussed the merits of and formats for a basic financial statement and/or a table or schedule in the MD&A, and the procedure for reconsidering this issue in light of the prior affirmative vote. Regarding procedure, Mr. Allen explained that, in order to reconsider the question of a basic statement, a member who had voted in the majority would have to move to reconsider the question.

Mr. Allen asked for the members' preferences with respect to SI issues.

Member Preferences	
Mr. Granof	He can support the Overall Perspectives format illustrated on page 17 of August staff memo ("Overall Perspectives"). Prefers the closed group measure.
Mr. Jackson	Prefers the Overall Perspectives format illustrated on page 17 of August staff memo for the long-term. Prefers to discuss financial statements in the context of reporting model project. For the near term, he prefers the Bob Dacey Table for the MD&A; it is the top of the pyramid. He prefers to have more than the "due and payable" amount on the balance sheet. He believes that the best alternative to PBO or ABO is the closed group measure.
Mr. Steinberg	Prefers disclosures of existing and projected resources and responsibilities that articulate with financial statements. Prefers the side by side display for the MD&A, which is a summary level.
Mr. Torregrosa	Prefers numbers framed in terms of future GDP. Prefers the open group measure and opposes the closed group measure. Prefers the balance-sheet-extended format of Illustration 2A or 2B, with clear labeling of SI 75-year projections. Prefers that SI amounts be presented in close proximity to the balance sheet and no net cost effect.

Ms. Fleetwood	Prefers a non-prescriptive MD&A approach. Prefers presenting all the sustainability amounts instead of just the SI open group measure. Prefers the open group measure. Believes that there are too many reports now. Believes this projects needs to move forward rather than re-exposure.
Mr. Allen	Prefers a liability be recognized for closed group measure, but can accept as a basic statement any of the formats illustrated on pages 17, 18 or 19 of the August staff memo. Willing to move the statement/table/schedule to the MD&A while stating explicitly that the Board will consider it, without prejudice, in reporting model project.
Ms. Kearney	Disagrees with the basic financial statement approach. The Bob Dacey Table in MD&A may be an option. Favors flexibility. Prefers a non-prescriptive approach. Prefers the open group measure, as a percent GDP.
Mr. Dacey	Disagrees with the basic statement approach. The Bob Dacey Table in MD&A may be an option. Prefers the open group measure, as a percent GDP. Favors flexibility. Believes fundamental sustainability and SOSI amounts are very different than accrual amounts.
Mr. Schumacher	Supports the basic financial statement approach. The Overall Perspectives format on page 17 of the August staff memo and the balance sheet extended format on page 18 are okay. Prefers the closed group measure but can accept the open group measure. Okay with re-exposure. Prefers not to push the information into MD&A.
Mr. Showalter	Prefers a liability on balance sheet. Likes the Overall Perspectives format on page 17 of August staff memo, because the reader can see where the numbers come from, unlike with the Bob Dacey Table. Prefers getting information out to readers for decision making. The MD&A approach is okay if the basic financial statement approach doesn't work

Having established that there were members who had voted in the majority on the question of a new basic financial statement who favored re-considering the issue, the Board voted as follows:

	1 – Keep all parts of the proposed SI standard together, including the new basic financial statement (“BF/S”) and re-expose the BF/S question	2 – Issue the SI standard with all deliberate speed without a new BF/S and simultaneously develop another ED proposing a new BF/S	3 - Issue the SI standard with all deliberate speed without a new BF/S and integrate the BF/S work with reporting model project
Mr. Showalter			X

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Mr. Schumacher	X		
Mr. Dacey			X
Ms. Kearney (abstained)			
Mr. Allen			X
Ms. Fleetwood			X
Mr. Torregrosa	X		
Mr. Steinberg			X
Mr. Jackson			X
Mr. Granof	X		

The other issue presented by staff, Issue 6, involved footnote disclosure of an accrued benefit obligation. This Board did not address this issue at its August meeting.

CONCLUSION

- Regarding Issue 1 and related sub-issues, the Board decided to issue the SI standard with all deliberate speed, without a new basic financial statement, and integrate the work on a new basic financial statement with the reporting model project.

- Staff will present a “track changes” draft SI standard reflecting what the members have agreed to and identifying any remaining issues at the October meeting.

- **FASB Reporting by Federal Entities (Appropriate Source of GAAP)**

Julia Ranagan, staff member, provided members with a status update on the project on reporting by federal entities that primarily apply standards issued by the Financial Accounting Standards Board (FASB), formerly referred to as the Appropriate Source of GAAP project.

Ms. Ranagan reminded members that the project had been sidelined pending the issuance of SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. Since SFFAS 34 was issued on July 28, 2009, the second phase of the project to address the use of FASB standards by federal entities has begun.

Ms. Ranagan referred members to the board materials, which contain a copy of a roundtable invitation that was sent to the preparers and auditors of federal entities that primarily apply standards issued by the FASB in their agency financial reports. The roundtable is scheduled to be held on Wednesday, September 9, 2009. Ms. Ranagan noted that she had received a very good response; five of the seven entities that have been deemed significant for the governmentwide financial report and primarily apply FASB standards are sending representatives to the roundtable. A number of other entities are sending representatives as well.

Ms. Ranagan said that staff's plan is to summarize the results of the roundtable and present those results, along with an updated project plan and recommendations for further research, at the October meeting.

Ms. Ranagan asked members if they had any particular questions that they would like staff to ask at the roundtable.

Mr. Showalter said the materials make it pretty clear that the board's decision to allow agencies to continue to apply FASB standards is temporary. He inquired if it had been the historical view of the board that where federal entities engage in commercial-like transactions it may be appropriate for them to apply FASB pronouncements.

Mr. Allen responded that the board has not looked at that. Right now, the provision is carte blanche – the board has said [through the Jan-March 2000 newsletter provision and now through SFFAS 34] if you have been doing FASB, you can continue for now. This project will be looking at the reasons these agencies continue to apply FASB pronouncements and what is appropriate; there is no prejudice that the board is trying to move them one way or another.

Ms. Kearney inquired if any of the roundtable participants were from the judicial or the legislative branch. Ms. Ranagan responded that, regarding the legislative branch, there was a representative from the Government Printing Office. Ms. Ranagan stated that she also sent invitations to the House of Representatives and the Senate, but she is not aware of any entities in the judicial branch that are preparing financial statements.

Mr. Dacey inquired if staff would be providing the roundtable participants with a list of FASAB reporting requirements that would help them respond to question #2 under the views on current reporting [Do you believe there are aspects of the federal reporting model (e.g., budgetary reporting and cost accounting) that could be incorporated into your entity's reporting model that would continue to meet your reporting entity's user needs while better achieving the objectives of federal financial reporting? Why or why not?]

Ms. Ranagan responded that the survey that was sent to participants highlighted many of those areas and consolidated responses from the survey had been sent to all participants for review prior to the roundtable. However, staff will prepare a specific list for discussion purposes.

Ms. Kearney inquired if the group will discuss how information should be provided for the governmentwide statements if it is determined to be appropriate to have two different sources of GAAP (i.e., FASB and FASAB). Ms. Ranagan responded that the question will be posed to the group.

Mr. Allen thanked staff. Ms. Ranagan asked members to contact her if they had any additional questions that they would like staff to ask at the roundtable.

> **CONCLUSIONS / NEXT STEPS:** The roundtable on reporting by federal entities that primarily apply standards issued by FASB will be held on Wednesday, September 9, 2009. Staff will summarize the roundtable discussions and present those results to board members, along with an updated project plan and recommendations for further research, at the October meeting.

- **Federal Entity**

Staff member Ms. Loughan directed members to Tab D of the briefing materials for the Federal Entity session. Ms. Loughan also explained that Tab G in the materials was for the joint GASB session that would be held on Thursday.

Ms. Loughan suggested for the benefit of the new members and perhaps to refresh everyone's memory, a brief status of where the project is may be helpful. Staff explained at the previous meeting, a draft ED was presented to the Board for consideration. Ms. Loughan explained that it was the Board's first review of the draft and, at that time, the Board expressed concern that the proposal would potentially lead to consolidation of new entities—especially those related to the current economic stabilization activities. The Board members then expressed concern that there were complex issues related to ownership and control that needed further consideration. In response to these concerns, staff prepared and presented a paper on allowing an exception for certain activities to the task force and met with the task force. Ms. Loughan explained the summary of that meeting is included in Tab 1.

Staff explained the task force discussed the notion that some organizations meeting the consolidation criteria set forth in the draft ED may warrant an exception from consolidation--not from being within the reporting entity but an exception from consolidation and perhaps some other type of display or presentation may be required. Staff referenced a one page handout discussing alternatives to consolidation which was also included in the staff paper—the options included an approach similar to the GASB model of component units, detailed disclosures and condensed financial information.

Ms. Loughan explained the task force agreed with the notion that consolidating organizations related to the federal government interventions may not be the most meaningful way to present the organization. The task force suggested the exemptions be tied to the fact the interventions are not expected to be permanent. Staff explained since the task force meeting, staff incorporated the task force comments and suggestions in the revised issue paper on the proposed exception for federal government interventions. Staff also shared the revised paper with the task force for comment. Staff explained the updated paper is included in briefing materials as Attachment 2-- Staff Paper on Proposed Exception for Federal Government Interventions.

Ms. Loughan explained the staff paper discusses that the federal government with its broad responsibilities may be required to take certain actions or intervene in certain situations that are deemed necessary and one must consider the intent of these actions in determining financial reporting presentation. The paper discusses that consolidation of these types of organizations may lead to less meaningful presentation. The paper also includes proposed language of how this could be incorporated in the Draft ED as an "Exception from Consolidation -Federal Government Interventions (Includes Temporary, More than One Year but Not Permanent, and Mission Related Interventions)."

Ms. Loughan reiterated that the exception being proposed by staff and the taskforce is an exception from consolidation, the organization would still be part of the reporting entity but it would be presented and/or displayed in an alternative way. Staff explained that one suggested proposal was to present the interventions lasting longer than one year (but not permanent) in a manner similar to the GASB model of component units, while just presenting enhanced disclosures for those interventions lasting less than one year was recommended. Staff welcomed Board member comments and questions on the staff paper.

Mr. Jackson explained he was struck by the notion of presenting organizations discretely for more than one year but not permanent type things. He explained that many of these organizations are not in any way statutory creations of the government. The government has intervened for the purpose of economic well being of the country. Mr. Jackson explained he didn't see the benefit of capturing those on the face of the statements because it's not a part of the government. The government didn't create them although it certainly intervened.

Mr. Jackson suggested that perhaps an alternative might be an RSI presentation. For example, he explained that the summary financial information for GM and AIG and so forth could be presented as RSI. Mr. Jackson explained this was supported by the discussion of risk or loss in the staff paper. He suggested that might be one of the most compelling reasons to present this kind of information in some form, such as RSI. He added this would provide information to facilitate a risk of loss determination by a reader. He added that certain standards require risk assumed information and information regarding the risk of loss is most important.

Mr. Jackson reiterated that he didn't find presenting organizations as if it were a component unit compelling for an entity that is in no way a creation of the government. He explained an alternative method of RSI type presentation where you can bring up audited data from corporate financial statements may be more appropriate to enable the reader to gauge some sense of a risk of loss to the government.

Ms. Loughan explained the task force had not recommended RSI level because it was believed for most of the organizations, one might conclude it should be consolidated. The task force was considering something close to consolidation. Ms. Loughan also explained the display of component units was for interventions lasting longer than one year, that those less than one year would only require disclosures.

Mr. Dacey offered concern with the difference of temporary less than a year versus more than a year. Mr. Dacey suggested that if information about the investment values (and at least right now the Treasury's position is to use modified credit reform) provides information about the original obligation or cost and subsidy. He suggested the required disclosures would be sufficient. Mr. Dacey asked if financial information on the entities themselves would provide perceived value for the users of that information. He asked if putting information about their assets and liabilities will help convey more information to the user beyond the models that Treasury has developed for the value of that security.

Ms. Loughan explained the taskforce perspective was looking at it as based on criteria may lead one to consolidation. Staff explained citizens and users are aware of GM, AIG, and all these types of situations and may actually be looking for that type of information. Staff explained the task force believed offering the information on the face of the statement would be a transparent way of presenting it while consolidation may be less meaningful.

Mr. Granof asked what the status was with the Federal Reserve as it relates to the project. Ms. Loughan explained that the Federal Reserve is part of the research being done with the project. Currently in Concepts 2 there is an exclusion that says the Federal Reserve is not part of the reporting entity and this is being revisited. Staff explained there have been a couple of meetings and the Federal Reserve is supposed to brief our task force and later the Board on their position. Mr. Granof then inquired about the status of the bill that would require the GAO to audit the Federal Reserve. Mr. Dacey explained there had been some discussion to advance audit capability within the Federal Reserve, but he believed it related to operational audits because there was rather limited statutory capabilities before. FASAB Counsel, Mr. Dymond explained the pending legislation would give GAO authority to audit a number of different Federal Reserve activities broadly and is still in committee but it has been discussed heavily in the press in the past couple of days because the Federal Reserve just lost in district court over a FOIA lawsuit.

Mr. Granof explained there are two issues when considering the Federal Reserve. He explained the first one-- Is the Fed part of the federal government and whether they are excluded or not for various reasons that is one thing. He explained this was the easy part, he believes the Fed is part of the federal government. The tough question is the second issue and that's how do you report it? He added that is a very difficult question. Mr. Allen explained we invited them to come to a future Board meeting and educate us on some issues. He added it is a politically sensitive issue that can't ignored, but we need to respond with sensitivity to the issue.

Mr. Steinberg commented that he is familiar with both the federal reporting entity model and the state and local government model. He suggested the notion of using something similar to the component units was ingenius and there are likely to be situations where this may be appropriate. However, with organizations such as GM and the Citibank, there would be little to gain by putting them in a separate column. Further, it may clutter the statements . Mr. Steinberg added that what is far more important to understand is the risks, exposures, and benefits that that relationship presents to the US government. He supports disclosures about the risks, exposures, and benefits.

Mr. Steinberg explained that with some of these entities, you could argue that the nature of those organizations is basically part of the federal government's mission-- Fannie Mae, Freddie Mac and maybe even Federal Reserve—and that they should be presented perhaps as component units on the statements. He explained those could be reported as components the same way the state and local governments discretely present components units. He added that people want to know about their total government, they have to know about their primary government and the components but this should only apply to those mission-related types of activities such as housing and monetary policy.

Ms. Fleetwood offered that Treasury doesn't believe organizations should be consolidated if it's on a temporary basis. She added that her view is that temporary is not a year, it is longer than a year and temporary could be five or ten years. The notion is that we didn't step in with the idea of permanency. She added it doesn't make sense to consolidate something when we are thinking it is a temporary intervention. Ms. Fleetwood explained that even for Fannie Mae or Freddie Mac, the federal government has stepped in but until a decision is made, it shouldn't be consolidated or shown as a separate column on the front of the balance sheet. She views them as separate entities that would continue to do their own financial statements until a decision is made but in the meantime, the federal government would record expenditures and all activities. Ms. Fleetwood reiterated her disagreement with the definition for temporary and that it can be longer than one year.

Mr. Allen explained that is why staff is trying to expand the criteria for those not expected to be permanent. He added that the focus of federal reporting is on accountability, not as focused on the ability to make a profit. Mr. Allen suggested that when you have a basic takeover of a failed bank and a structure to liquidate that and an ability to calculate what your loss will be; he can look at that very easily as temporary. However, he explained there is a much harder time looking at something like Freddie or Fannie as temporary because the federal government has total determinative power including to do away with them, which is why one of the options is to unwind them. The federal government virtually can do anything with them and should have a much greater level of accountability.

Ms. Fleetwood agreed with Mr. Allen's points but stated she doesn't believe the federal government is at a point to make the decision as to what will be done with the organizations and its safest to say it's still a temporary situation until a decision is made. She believes that until a decision is made to say they will be part of the federal government, there shouldn't be consolidation. Mr. Allen explained that he views the proposed standard as first having criteria of what would make something potentially part of the federally reporting entity which brings everything in that meets those criteria. He further explained the next part states these things that are temporary should not be consolidated.

Mr. Granof explained that he views these issues very different than those in GASB component unit presentation. In the case with the federal government, it has actually invested cash and therefore automatically transactions would be in the financial statements. The question arises how do you account for the investment? Staff explained that existing standards or going through the GAAP hierarchy would capture particular accounting transactions; this standard would not address accounting for the transactions.

Mr. Steinberg explained his views are that Citicorp and General Motors will go back to what they were before; but he doesn't believe the same will be true for Fannie and Freddie. He added that he doesn't think they will be privately owned companies with the implicit federal guarantee. Mr. Steinberg suggested the definition of temporary could incorporate whether they go back to what they were before. He added the other distinguishing characteristic is that General Motors, AIG, Citicorp were all born in the private sector and were never part of the government, whereas Fannie and Freddie initially were part of the government.

Ms. Fleetwood stated she agreed with Mr. Steinberg's statements and is also in agreement with temporary exclusions. However, she believes there needs to be more flexibility considering that these may last several years and doesn't believe putting them on the face of the financial statements as a separate column is appropriate given the uncertainty.

Mr. Showalter explained he believes the focus should be on risk and fiduciary responsibility of the federal government. He believes the criteria should be more based on a risk/reward type. Further, it can be considered temporary for quite some time because you don't know what you are going to do with them. Mr. Showalter added that once a decision is made what to do with them, then they are no longer temporary. Mr. Allen asked where should they be accounted for while in the temporary holding or until the federal government knows what they plan to do. Mr. Showalter explained he wasn't for discrete presentation, but supported some type of disclosure providing that the federal government has a fiduciary responsibility for overseeing these entities and also has risk and rewards and what those are. Mr. Showalter reiterated that until you know what the federal government plans to do, its considered temporary-- even if it takes five years.

Mr. Torregrosa explained he had suggested to his front office that the financial report could take a broader view than the budget. Ms. Payne stated it would be an interesting discussion because in the budget you look to an established concept to decide, so if we adopted the budget concept for financial reporting, would that be the same as saying "anything in the budget"? Mr. Torregrosa explained that he thought so but some decisions are reached differently than others. For example, CBO puts Fannie Mae and Freddie Mac on budget but they had the long-standing relationships with the government and are very close; General Motors was considered much more of a temporary nature and from a practical standpoint you don't want to be too far apart from OMB's budget. Ms. Kearney explained there is a difference of opinion on interpreting the budget concepts document at this time.

Ms. Loughan explained that in going through the questions, it appears there is agreement from most board members that consolidating these types of interventions would lead to less meaningful presentation and other alternatives should be considered. Therefore, she explained the next question relates to the definition of temporary. Ms. Loughan offered additional background on the definition of temporary by explaining one reason the taskforce came up with two--temporary (less than one year) and temporary (longer than a year but not permanent) is because our current concept statement does include a paragraph on temporary. The current Concepts 2 offers that for it to not be temporary, it must be more than fleeting, which makes it seem very short term. Ms. Loughan explained the task force believed that temporary needed to be expanded upon to say that it could last longer than a year. The task force had also recommended that note disclosures were sufficient for those lasting less than one year, but discrete presentation should be required for those interventions lasting more than one year. Therefore, staff believes this is something that is open for discussion-- if the board believes there is a distinction between temporary for durations less than a year versus those more than a year.

Mr. Showalter explained that he didn't believe there was agreement on discrete presentation for temporary lasting more than one year. Mr. Granof explained the problem with a discrete column is that you have combined various entities into a single column and may not provide useful information in many cases. Mr. Allen explained GASB's approach does require details for significant component entities either broken out on the faced of the financial statements or disclosed in footnotes. Mr. Granof agreed but explained the notes give you more information in that case. Mr. Allen responded that it is helpful by distinguishing entities under the accountability definition that are not our assets or liabilities but we have some ability to control. Mr. Allen suggested that it may well be that we take a number of those that we have already consolidated and move them to a discrete column so we can differentiate.

Mr. Steinberg explained he notes that once the Board agrees the organizations should be excluded from consolidation, then the next question is does the Board want to have them reported as components or not. He believes most members have stated they don't want component reporting but would rather have exposure and risk reporting. Ms. Fleetwood explained that the Board agreed that temporary is longer than a year and there is simply one temporary classification which would go back to the recommended note disclosures and discrete presentation is not warranted in temporary situations.

Mr. Allen explained that broadly staff is getting feedback from the taskforce on ways to address these kinds of entities. Also, the Board will be educated more about GASB's use of the discrete column versus disclosures. The column only offers one more place to put something a little bit higher than note disclosure but not quite full consolidation. Mr. Allen suggested that it might be better to talk about what would belong in that option or even whether we want that option until we after the educational joint meeting.

Mr. Jackson noted that it seems relevant to consider other unique relationships such as FFRDCs when considering GASB's approach to component units. He explained there are a lot of unique relationships that the government is involved in that are permanent. He stated these relationships may be very similar to what the GASB had to deal with. Mr. Allen agreed and stated the proposed standard would have to cover relevant relationships as well.

> **CONCLUSION:** The Board agreed federal government interventions such as the types detailed in the staff paper should not be consolidated. The Board believes there should one category for temporary and temporary can be more than one year, but not permanent. As far as options for display and disclosures, the Board didn't have a definitive answer at this time, but was leaning towards note disclosures for federal government interventions. The Board also agreed that some of the other unique type relationships such as FFRDCs should be considered and may be suited for component unit discrete presentation.

- **Measurement Attributes**

Ms. Wardlow presented a memo proposing candidates for selection as asset measurement attributes in future standards: "acquisition price," which is the price of an asset measured as of its acquisition date, and "current price," which is the price of an asset as of a reporting date after acquisition, remeasured without reference to a previously recorded acquisition price. Ms. Wardlow asked whether the Board wished to subdivide current price into entry prices (for example "replacement price") and exit prices (for example, "net realizable value"). Some members said that would be useful but others were uncertain. Mr. Steinberg and Mr. Dacey said they preferred the attribute terms used in the GASB's measurement project—"initial value" and "remeasured value."

Ms. Wardlow said she did not propose “value” because of its subjective meaning Also, the Board tended to prefer “price” when value and price were discussed at the April 2008 meeting. Mr. Steinberg said “amount” might be a good choice.

Mr. Schumacher inquired about the status of the FASB/IASB project. He recalled the two boards’ selection of nine candidates for measurement attributes and the FASAB’s interest in moving forward concurrently with the FASB. Ms. Wardlow said the FASB and IASB appear to have adopted a different approach, which would develop five factors related to the qualitative characteristics that the boards should consider when selecting measurement attributes. The approach is intended to be simpler and more geared to practice concerns and it did not appear the boards would continue to consider the nine attributes.

Mr. Torregrosa said he found useful the discussion in the staff memo of the extent to which acquisition price and current price might help meet the financial reporting objectives of Operating Performance and Stewardship. However, he is concerned that the Board might not apply the concepts discussed in a concepts statement to measurement issues in future standards. He cited the current deliberations on social insurance compared with the definition of a liability in SFFAC 5. Ms. Fleetwood shared Mr. Torregrosa’s concern about the measurement project.

Mr. Allen said the project could be a good opportunity to collaborate with the GASB and he asked members for their thoughts. Ms. Fleetwood said she was not sure the FASAB should continue its project and perhaps the Board could simply adopt the GASB’s conclusions. A joint project could be even more time-consuming and difficult than a separate project. Mr. Steinberg wondered what the end product of a joint project would be.

Mr. Granof said that concepts statements are critically important. However, to justify Board time on this project, the Board should be able to see how it would help resolve inevitable valuation questions, such as whether certain U.S. Treasury investments should be valued at cost or market. Ms. Wardlow responded that the project goal is to provide guidance in the form of issues the Board should consider when selecting measuring attributes in standards, and not to set standards, so the discussion would be quite general. The Board has discussed the possibility of identifying the advantages and disadvantages of different attributes by asset category, such as for financial versus capital assets, and this might help the Board envision possibilities for the future resolution of asset measurement issues. She was not sure to what extent considering attributes in relation to the financial reporting objectives would help, because the objectives are very broad.

Mr. Granof said he is concerned about deferring decisions to other projects. He believes many people will share his view. As an example, he disagrees with the statement in the GASB’s draft that “initial values” are more appropriate for assets used in providing services—capital assets, prepaid assets, and supplies. He asked why that should be so. He could not think of anything for which historical cost is useful, other than things such as taxes that are defined in terms of historical cost. He clarified that he had not decided that historical cost accounting should not be used. Rather, he believes the rationale for it is based on reasons other than decision usefulness. For him, the main reason is the clash between whether the focus should be on the income statement or the balance sheet. No standard-setting board in history has resolved that issue and the FASAB will not do so either. It will not be resolved in a concepts statement. As the Board moves forward, it should take these considerations into account. He believes the Board should not spend time debating conceptual issues now if they will not lead to decisions on practical issues that the Board must face.

Mr. Allen said that the FASAB staff's outline calls for a section in the concepts statement on the advantages and disadvantages of one measurement attribute versus the other. The GASB has fleshed that out in its draft and has made some assumptions. If one is trying to measure the cost of services, GASB believes it should be based on historical cost. However, if the goal is to measure financial position, then the elements ought to be measured at fair value because it is much more representative and more valuable for assessing financial position or the ability to provide services in the future. Mr. Granof responded that there is a huge amount of literature on these questions and accountants have disagreed about them for decades. Will the FASAB really advance the debate in any meaningful way?

Mr. Dacey said that at some point the question is whether there is a rational basis for selecting a measurement attribute, if it is not included in the conceptual framework. Should concepts statements be so open that in setting standards the Board needs to look afresh at each asset and some factors and decide what to choose? It is a difficult question and there are other issues. GASB has decided that historical cost has relevance for the issues it describes. But, there also are fee-charging organizations that can only recover the costs actually incurred, which are historical costs. There are reasons why historical cost has some relevance to service provision.

Mr. Granof asked whether the FASAB could do any better than the FASB has done. Mr. Dacey said he hoped so. The FASAB has tentatively agreed that a mixed attribute model is acceptable. He believes that some at FASB continue to struggle with that notion. He is not sure that a balance sheet entirely at fair value would work for the government.

Mr. Allen explained to Mr. Granof that in previous papers staff had identified about twenty-two different terms concerning measurement in existing FASAB standards. If the Board does nothing else, it should at least harmonize the terms and indicate what they mean. That is not the primary reason for a concepts statement but it would be a beneficial result.

Referring to Mr. Dacey's comments, Ms. Wardlow said the FASB, IASB, GASB, and IPSASB are all working on measurement attribute concepts and all have said that a mixed attribute model should be acceptable. One of the reasons staff looked at measurement attributes in existing standards was to identify the Board's rationale for its choices. However, most of the standards do not say why a particular attribute was chosen. She believes there is support for reporting service assets at historical cost from the opposite point of view—that is, if one selects fair value or market value when there is not a market, the asset measure is much less reliable. Also, in contrast to the private sector, government assets are not held with the possibility of selling them, but to provide a service, usually over the long term. Mr. Granof agreed that these are precisely the rationales for using historical cost, and one of the rationales is assessing reliability versus relevance.

Mr. Jackson said he is interested in addressing the problem that managers do not believe the information in agency financial statements is useful; he is not sure about external users. He believes the information should help improve the management of organizations and some FASAB standards have done that. One does not hear much about it, but there is evidence of improved asset management. Whether it is done in a concepts statement or some other document, he would like to explain why, for example, current price would be advantageous to, say, someone at the Department of Defense who might not see any value in it. If the Board can do that, then when the Department adopts a particular standard, the value of using that attribute will be clear.

Ms. Wardlow agreed that to decide what measurement attribute should be selected one would need to consider what kinds of decisions users would be making. The types of information referred to in the reporting objectives include information needed for management decision making as well as information needed by external users. The different kinds of decisions would not necessarily benefit from the same measurement attribute. If the Board wishes to address the measurement of information for management decision making, that would be a broader scope than the Board adopted when the project began. She said the memo for this session includes a question about whether the Board wishes to broaden the scope.

Mr. Jackson said he is concerned that the good work of FASAB and the agencies produces information that has no recipient. He believes that FASAB accounting standards should help improve management. Agency personnel should be able to use the data and, if they build systems to account for things in a certain way, it should provide them with some kind of managerial benefit—more efficient asset management. OMB may state that an agency report complies with the standards but he does not know what management should be doing with the information. He hopes that as the Board deliberates the issues of measurement attributes, consideration will be given to what would be achieved from a management perspective.

Mr. Allen said that part of Mr. Jackson's concern lies with the reporting model, because that is what addresses the information that users need. Mr. Jackson said he was thinking that if a standard requires an agency to do something, then the agency must go back and do something else that is needed to support the action. That is what he would like to address; the end result merely reports whether the action was taken. Mr. Allen responded that the concepts statement is supposed to be neutral. Whatever is the focus of an agency, it is at a higher level than the financial reporting model, what the financial reporting objectives are, and what the best measurement attributes may be to help achieve the objectives. If a restructuring or refocus is needed, that may be an important outcome to be addressed in addition to this project, but it should not be the project's primary focus. Mr. Jackson responded that he was considering what attribute would be best applied for asset measurement of, say, a weapon. Currently, the standards say historical cost, but he does not know what the answer is. Ms. Wardlow said she did not think those who are making managerial decisions would use the GAAP financial statements as a prime source of information because they have many internal sources. Mr. Jackson agreed but said the question should be what kinds of decisions agency personnel should be making with financial information. They have a budgetary focus and are concerned about outlays, but is that the right information? Statement 6, for example, may be wrong. It takes a traditional approach and requires historical cost. Is that the right attribute to assign universally to all assets?

Mr. Dacey commented that there are different users and the question is whether there are different attributes. The Board needs to consider that. With certain investment accounting the Board needs to decide whether both cost and market are needed. He agreed with Mr. Jackson that the Board should consider the internal users, who are identified as users in Concepts Statement 1.

Mr. Allen said the conversation was at a very high level, but staff was asking for a direction or approach. The Board had been considering nine attributes and now was looking at two. Was that the right number and were they the appropriate measures? Are there other attributes? Internal users' needs should be addressed if, for example, neither remeasured price nor historical cost would provide the information users want. However, that is more of a standards issue. The concepts project is intended to provide the Board with the necessary tools to develop the standards the Board wants to get to. Mr. Jackson said, although it is going backwards, if the Board has some idea of what the standard should say, that might indicate what the concept should be. Mr. Allen said replacement cost is an example. If the Board ultimately wants to get to something like that, now is the time to raise the issue.

Mr. Showalter said he could fit most of the terms previously identified in standards into the two "buckets" in the staff memo. He was not sure about amortized cost. It is an allocation, but he was not sure whether it was addressed, whether it fits the definition of acquisition price or not. Mr. Allen said it would, like depreciation. Ms. Wardlow confirmed that it did, along with appreciation and depreciation, but that did not mean the concepts statement should not discuss it. With regard to Mr. Allen's mention of replacement cost, she said it relates to her question about whether the category of current prices should be subdivided to examine different kinds of current prices. Mr. Showalter wondered whether "current" is a good term. He understood "acquisition" but was unsure about "current. Mr. Allen asked whether there was something more basic; all the measurement attribute terms had been placed in two buckets and if there is anything that does not fit, it would be good to know that now. Ms. Wardlow said almost everything fits in one or the other "bucket" and she was asking whether in the concepts statement the two categories should be broken out, because terms within them could have different features.

Mr. Allen asked Ms. Wardlow whether a formal vote was needed on the issues raised in her memo. She said she needed some indication from the Board on how to proceed with them. She understood the issue of internal users' needs, but addressing them would make the project scope much broader. She agreed with Mr. Dacey that there may be different answers for internal versus external users, and there would be different answers if the Board considered all the different users listed in Concepts Statement 1 and what might be needed by one group versus another. However, that would be difficult to do and to justify without setting standards in the concepts statement. With regard to the questions, she thought the first two could be taken together: 1. Are acquisition price and current price primary measurement attributes for consideration? 2. Should they be subdivided into entry prices (e.g., replacement price) and exit prices (e.g., net realizable value)?

Mr. Showalter thought the categories should be subdivided because there would be different views about them. Ms. Wardlow observed that the FASB/IASB intends to do that but so far the GASB does not. Mr. Allen said he would not subdivide; the subdivision would not occur with historical cost, it would focus on remeasured costs, and he is not sure the answers would be very different for different kinds of remeasured costs. There is fair value and replacement price, but why would he pay more or less in replacement price than the current market value of an asset? He thinks there would be an advantage to considering as few measurement attributes as possible. There may be different terms for remeasured costs, but he thinks the economic substance is the same.

Mr. Dacey said the two attributes are a good start and can be modified later if needed. At some point it would be informative to see how current standards fall into the two buckets. However, entry and exit pricing are significantly different, especially for liabilities. So, he would suggest considering that and deciding whether one or the other is really more relevant or maybe one or the other would be better in some cases if one is looking at current prices. Mr. Showalter said the market perceives a difference, so the Board should decide whether there is or is not a difference. FASB has struggled with it and has chosen to go with exit values. Mr. Dacey said that is a challenge for them on the liability side but it seems to work for assets.

Mr. Steinberg said he preferred the GASB's terms—initial value and remeasured value—because they are more generic and descriptive and easier to use with liabilities. He asked whether FASAB could use the GASB terms. Mr. Allen asked Mr. Steinberg to defer his question. Mr. Allen would like the Board to answer staff's questions and then he planned to ask the Board to consider the possibility of merging the GASB and FASAB projects. If that occurs, then there should be some preliminary feedback before deciding issues in both projects. Mr. Steinberg said that a joint project would require careful consideration. The FASAB model requires a statement of budgetary resources and the Board ought to think about measurement attributes in that statement.

Ms. Wardlow reminded the Board that it had discussed the meanings of price and value in April 2008, including the subjectivity of value and the variety of meanings given to it in practice, and the Board tended to prefer price at that time, although no decision was made. The FASB had selected price because of the subjectivity of value. Whatever is decided, the terms will need to be defined and justified in the concepts statement. Mr.

Steinberg suggested using “amount.” Mr. Jackson wondered whether “net realizable value” should be changed to “net realizable price.” Mr. Dacey said that the GASB’s terms were shorthand for “initial transaction data based measurement” and “current financial statement based measurement.” He liked the longer concept and FASAB might want to abbreviate it differently.

Mr. Allen said, in response to question 2, that he would not break out the terms. He asked for brief definitions of entry price and exit price and how assets and liabilities would be affected and then the Board should vote on the question. Ms. Wardlow said that entry price is the amount one would have to pay for an item and exit price is the amount one could sell it for. Different transactions can lead one to a different conclusion as to which is appropriate. As Mr. Dacey mentioned, for many liabilities one is talking about a settlement amount, which is an exit price. For many assets, one is talking more about an entry price, particularly in a government environment where assets generally are not held for sale. Mr. Allen said there should not be much difference on the asset side except for commissions and similar amounts in real estate. Mr. Showalter said the asset investment is a bid-ask price and there is a spread built into the system. One does need to define it so people will understand which price to pick because there will be two prices.

Ms. Fleetwood said she understood acquisition price and current price and did not see why they should be subdivided. The public would not understand entry price and exit price. The Board should stay with easier terms. Ms. Wardlow explained that one could get a finer distinction for current prices if one wanted to separate them into replacement cost and net realizable value because one is an entry amount and the other is an exit amount. One would have to talk about why it might be useful to provide information with one type of price versus the other. Mr. Allen added that the comments indicate there could be difference in prices depending on whether one is a buyer or a seller, but he does not see a significant difference. Ms. Fleetwood said she did not see a difference.

Ms. Kearney gave the example of a property with a parking lot on it, to replace it would be relatively inexpensive; that would be an entry price. But, because of a change in zoning laws, the property could now hold a high-rise building and could be sold for a higher price (exit price) even though that is not its current use. Ms. Fleetwood said the issue should be what is the current price. Ms. Kearney responded that the question is whether the current price is the property as a parking lot or the property with a high rise. Ms. Fleetwood said that the current value is for what the property is used for now. Exit price is a confusing term. Mr. Allen said the example was helpful. What Ms. Kearney is saying is that something can be remeasured to reflect its existing use or its current market value.

Ms. Wardlow said another example is what one would receive from the sale of a piece of equipment compared with what one would have to pay to replace it or replace its service potential, and the two amounts could be quite different. One might use different attributes depending on the information one is trying to convey. She was uncertain to what extent the Board would wish to discuss this issue in the concepts statement, but she thought it should at least be addressed. Mr. Jackson agreed and said it reiterated his earlier point. Having that discussion, whether in a concepts statement or in a standard, would help the user or help the Board to formulate a standard. If the purpose is to hold the asset until it is worn out, the acquisition price might be the right answer. If the purpose is to hold it for something like Ms. Kearney's example and it will be sold, then an exit price might be appropriate. He did not think the Board had discussed issues in that context. What we are talking about is setting things up for the Board's future deliberation that will help the Board make decisions, and changes would have to be made when an organization changed the purpose of holding a property. There could very well be an accounting change—the method of pricing the property could change because of the change in purpose.

Mr. Dacey said that in a credit reform transaction something is being subsidized going in. The market value is less than what is being invested in some cases because the interest rates are being subsidized. That example would show a clear difference between entry and exit price for the subsidized loans. Mr. Jackson said the Board had not had this kind of discussion before. It was helpful to him in relation to effective asset management. If you start talking about requiring management to change the price of an asset, someone may consider asset management and ask why the asset is being held. Why not sell it? Information that would enable an agency to maximize the return on its assets would be extremely beneficial. Mr. Allen said he could get there without subdividing the current price category.

Mr. Granof asked Ms. Wardlow why she had excluded value in use as a primary attribute. She said she did not intend to exclude it. She would include it in one of the two categories, probably in current price, if that is broken out. Mr. Granof said there are a lot of assets that are valued at value in use (usually defined as the present value of expected cash flows), especially impairments. Value to specific users may not be reflective of a current market price.

Mr. Allen said the Board can get where it wants to whether from a buying or selling perspective by using the two terms proposed—for example, the change in use. That is, if we value an asset at historical cost it stays at historical cost as long as the asset is being used for the purpose for which we bought it. As in current standards, a decision to sell it forces a remeasurement. In terms of credit reform, if you buy something and do not pay fair market value, and if you should fair value it, then the fair market value is the asset and the rest is expensed immediately. Mr. Showalter said the question is: what is fair market value? How do you measure it? Mr. Dacey said he was not sure that pure credit reform is the same as market value. What is being discussed with TARP, which is market value adjusted, is more of an exit pricing. He thinks we have both.

Mr. Allen said there seems to be support on the Board for breaking out the two proposed attributes, although he is not sure why. He asked the members whether they supported the break-out.

Mr. Granof said yes, but he had suggested adding value in use. Ms. Wardlow's suggestion that it could be included in one of the two categories would be acceptable to him—that is, it would be acceptable to treat value in use as one of the subdivisions. Ms. Wardlow said that, with a break-out, there likely would be more than the two possibilities mentioned in her memo.

Mr. Allen asked if any member objected to the subdivision of the two categories, however many attributes might result. There were no objections and Mr. Allen asked Ms. Wardlow to summarize question 3, which had multiple parts. She said question 3a asks whether the Board would find useful the discussion of advantages and disadvantages of acquisition price and current price in relation to the financial reporting objectives when the Board considers standards. Assuming that discussion would be useful, Question 3b asks whether that would be sufficient for the concepts statement. Question 3c asks about the usefulness of looking at advantages and disadvantages for different classes of assets. Question 3d asks about the usefulness of discussing advantages and disadvantages in relation to different kinds of users and different decisions.

Mr. Allen suggested that the members respond to 3a and provide additional comments, if any, on the other parts of the question. Ms. Wardlow said 3a is very important. She was not sure how helpful it was to compare attributes with the financial reporting objectives when considering a particular standard, because the objectives are very broad. Mr. Allen said he had a similar reaction. He initially responded "yes," but then he concluded that the Board could choose which advantages it wanted and use that as a reason for selecting an attribute, which could result in cherry picking. He would like to focus on an overall objective. For example, if you are trying to measure cost of services, it traditionally has been measured as an allocation of historical cost. GASB's paper mentions that and also that a remeasured amount or current value would be superior for measuring financial position. That sort of discussion should be included in the concepts statement. Mr. Allen asked for other members' reactions to 3a.

Ms. Kearney recalled the earlier discussion about different users and agreed with the view that to address the advantages or disadvantages of different attributes for different users or different asset classes would be a much larger scope. She would be concerned that, as Mr. Dacey said earlier, the result could be different answers for different users. How would the Board decide what to put in standards? The Board could never meet all of the different users' needs. She echoed Mr. Granof's earlier comment: how would this help the Board? She did not at present see how the project would unfold. She found the discussion of advantages and disadvantages very helpful and she thought the Board should pursue that, perhaps without linking it to the operating performance and stewardship objectives. Perhaps there is something else. The Board needs to provide a focus or it will not find the right solution.

Mr. Dacey said there should be a discussion of comparative advantages. Looking at the GASB's paper, they seem to have gone through a similar process of looking at advantages and disadvantages. Some of the points they make are not quite an advantage or a disadvantage, but they are conceptually similar to what the FASAB is doing. He did not see anything in the GASB's paper that seemed unacceptable and he didn't know to what extent the FASAB should develop its own discussion or move toward the GASB's discussion. Ms. Wardlow said the approaches are very similar. However, there are some differences as well as similarities in the identification of users and objectives in the two Boards' concepts statements, so that the comparisons do not necessarily lead to the same results. Mr. Dacey said the GASB seems to have come to a general position and then explained how the board got there. The FASAB is at an earlier stage. His question is whether the FASAB would try to catch up and work with GASB's document, or should we work separately but coordinate with them. With regard to question 3a, he believes that a discussion of advantages and disadvantages is important, but he is not yet sure at what level. He tended to like the way the discussion was presented in the GASB paper.

Ms. Wardlow pointed out that the GASB has identified categories of assets, which appears to have been helpful for their foundation. The FASAB has talked about doing that but has not decided whether to do it or how it should be done. One of the dangers of discussing measurement attributes by category of assets is that it can quickly result in reflecting current standards. That may not be wrong, but the Board could be led to adopt the decisions in a certain standard even though the goal of the concepts statement is to provide general guidance for consideration when setting future standards. That is, one should avoid a conclusion in the concepts statement that if one is talking about capital assets then the appropriate measurement attribute generally is acquisition cost, because that would not necessarily be the case.

Mr. Schumacher said he generally agreed with Mr. Dacey; the Board should try to include a discussion of advantages and disadvantages. It is not easy, but the Board needs that foundation as it moves forward. He is uncertain how far to go or how much detail to provide. Perhaps the Board should follow the GASB outline as much as possible and try to coordinate with that.

Mr. Showalter said that, building on Mr. Granof's and Mr. Dacey's comments, to make the document useful the Board needs to understand when the different measures are appropriate, whether that is through a discussion of advantages and disadvantages or in some other way. The GASB paper has a section about when the different attributes should be applied. He agrees that the Board should not set standards in the concepts statement, but it must provide some guidance or the statement will not be useful to the Board. He reached the same conclusion as Mr. Allen when he read the advantages and disadvantages: he really could not disagree with them but then he wondered how he would use the information. He thinks the reason they like the GASB document is that, whether you agree or disagree with it, it helps you understand when to apply it.

Mr. Granof said some discussion of advantages and disadvantages should be included. Ms. Wardlow asked him and Mr. Showalter whether they were talking in terms of a comparison with objectives or something else. Mr. Granof said he was referring to the objectives. You have to state what they are and build upon them and then come to a conclusion. Depending on what you conclude, you will be attacked.

Mr. Jackson agreed that a comparison of advantages and disadvantages with the financial reporting objectives should be included in the concepts statements. For the reasons he gave earlier, he is very much in favor of 3c and 3d (discuss the advantages and disadvantages with reference to categories of assets and also with reference to different kinds of users, their decisions, and the information they need). He acknowledges that this would take the Board down a long, slippery slope, which he does not wish to go down. But, he would like at some point—not in the near term—to take 3c and 3d and come up with some illustrations to see how they would work. He is particularly interested in 3d, which talks about the kinds of decisions users make. Better yet, in some cases users might be inclined to make the decisions they have made all along without regard to the kind of decisions they should make and what they should be using the information for. This is very important to him because, if he cannot tell a manager why he or she should change, then why is he talking about it? What is the benefit to the manager?

Mr. Steinberg said he liked the GASB's approach, which he looked at as providing rationales for using the different values. He would have characterized the rationales as advantages and disadvantages.

Mr. Torregrosa said Ms. Wardlow's comparison of advantages and disadvantages was very useful to him. He recalled the oil and gas project where CBO favored a fair value approach because they thought it gave relevant information, but most of the counter argument was for something that is reliably measured. He mentioned this because, in the previous conceptual project on elements, the Board spent a lot of time developing the concepts, but when it came time to apply them for the first time in social insurance, the concepts were by and large ignored.

Mr. Allen said the Board received responses that used the concepts statement as the basis for why social insurance should be a liability and responses that used it as the basis for why it should not be a liability. Mr. Torregrosa said that, from his perspective, the concepts led to one answer, but where it is convenient to ignore concepts, people do that. When you consider 3c and 3d, you can put whatever you want in the concepts statement. The Board might spend a lot of time with the concepts statement, but he is not convinced that, when it comes to applying it, the Board will follow through. He was content with where the staff is going so far, but he would like the Board to keep on track. Mr. Jackson commented that history has shown concepts do not stick like glue.

Ms. Fleetwood said she did not see what the project would do to move the Board's agenda forward. It would be good if the Board could collaborate with the GASB and take advantage of their work. Mr. Allen said he thought there was benefit in the work the FASAB had done so far. There are lots of terms we have used without definitions that we should think about in terms of standards and there would be some guidance from that. Ms. Wardlow said the Board had talked about moving forward with a first draft of a concepts statement so that members could better see how everything could fit together. She would like to pursue that because there are differences in a number of areas between the FASAB's work so far and the GASB's work. For example, the GASB will be addressing measurement attributes for modified accrual and they plan to issue a preliminary views document, rather than go directly to an exposure draft. She requested members' comments on the outline attached to her memo.

Mr. Allen said it would be good to have one more meeting to look at a draft and make a decision. But since the Board is meeting with the GASB tomorrow, he asked whether any members would object to at least floating the idea with the GASB of working together. He was not sure why GASB would want to go first to a preliminary views document and that would be an issue. They may say that they are far enough along that they would accept the FASAB adopting what they have done, but they would not be open to reconsideration of any issues. That would tell us we probably do not want to work with them. On the other hand, they may be amenable to deliberating and coming to some different tentative conclusions in some areas, and the Boards can decide together what is preferable. Some FASAB members have indicated they see an advantage to working with the GASB, and there have been two members who have advocated quite strongly for the FASAB to outreach as much as possible and try to have a joint project. There are certainly difficulties of timing and scope, but this project is a good candidate. He would like to consider a collaboration but, as Ms. Wardlow requested, not decide on a collaboration until we have seen our own draft at the next meeting. He would like to see if a collaboration is possible. Ms. Wardlow said, given the need discussed earlier to expand on the rationale for different attributes, she doubted there would be a complete draft to review at the next meeting. She asked whether the FASAB will no longer look at the FASB/IASB's joint project and will not consider the IPSASB's project, and whether a collaboration with GASB would help the FASAB make decisions for standards in the FASAB's environment. Mr. Allen said the Board could come back to those issues if the two boards decided to pursue a joint project. The FASAB would look at unique environmental differences between the federal government and state and local governments. There may be reasons for not moving forward, but we should explore whether the GASB is open to a collaboration.

Ms. Fleetwood was not sure what the project would do for the FASAB. Where would the project be a year from now? Do we need to put our energy into this when there are other things that we really need, such as the reporting model? Perhaps we could just adopt what GASB does and not spend any energy on it. If we try to do a joint project, we will have to put even more energy into something that she does not see how it would help her or the Board get where the Board needs to go. Mr. Allen responded that concepts statements are longer-term, difficult challenging issues. We ought to have a conceptual basis for what we do. In almost every standard that the Board passes there is an issue where the Board says something should be reported at fair value or historical cost or using some other attribute. He thinks it is worth working at this. It may not be a higher priority than other projects. In fact, Treasury, GAO, and OMB argued that, rather than moving forward with social insurance, the Board should complete its conceptual framework. That was one of the arguments included in the social insurance preliminary views document.

Mr. Steinberg asked what the end product would look like. What is the end product of a joint statement? Mr. Allen said that the FASB and IASB had worked on several joint projects. The boards work together, they jointly staff the project, and then the two boards approve it separately, and issue their own statements. GASB collaborated with IPSASB on asset impairment. Each board has its own statement and the boards agreed on everything except two issues on which they expressed different opinions.

The statements do not have to be lock step. Mr. Steinberg asked, aside from different opinions, how would one handle the fact that GASB has modified accrual and FASAB has budgetary reporting? Would the measurement attributes address both or would each board ignore the issue that doesn't apply? Mr. Allen said GASB also has budgetary reporting, but FASAB would not address modified accrual. He said it may sound as if he is pressing for a collaboration harder than he is, but he has been approached by the GASB chairman about this and he would like to see what the possibilities are.

Mr. Dacey said it would be a great opportunity to work with the GASB and use some of their thinking. It would be more effective to do that now than to come back later and conclude that it would have been helpful to discuss different views. They are slightly ahead of us on their project and with their resources they tend to move faster. Timing will be a challenge, but it is a good opportunity. The two boards may have different views, but can explain why. The FASAB is not obliged to adopt the GASB's decisions and their project is broader than ours, but it would be great to have the intellectual energy from them at this time and think about issues that would benefit both boards.

Mr. Showalter said, with respect to Ms. Fleetwood's comment, that the Board is facing a Rule 203 review. One of the things the AICPA looks at is whether there is a basis for FASAB standards. Concepts statements provide that basis. With regard to collaborating with the GASB, he thinks it would be good to be able to leverage their resources and thought. Mr. Dacey agreed that there is a general perception that concepts statements are of value to standards. Mr. Torregrosa said the project has a lot of value but he would not wish to become too prescriptive, because that is when it would start to lose its value when one considers how any board acts.

Ms. Wardlow said she assumed the answer to Question 4 (the concepts statement should not recommend specific attributes for specific asset classes or specific circumstances) was yes, but she would like an answer to Question 5 (whether the project scope should be expanded to include managerial-type information). Mr. Allen said Mr. Jackson would say "yes" to Question 5 and Mr. Jackson agreed. Mr. Dacey said he was unsure whether the members were distinguishing between managerial-type information and information that the Board thinks would be useful to managers as a user group. Managerial-type information might go to a deeper level than he would want, but the Board should respond to the internal user group. Mr. Jackson said his point is that the Board needs to think beyond the financial statements. Ms. Kearney agreed and said managers are an internal user group in the conceptual framework and the Board should address them.

Mr. Allen asked whether Ms. Kearney and Mr. Dacey were saying that we should look beyond the financial statements we now have or whether they were referring to how different users can more effectively use the existing financial statements. He would support the latter view. But he would not want to expand the discussion beyond the traditional financial statements because he thinks that would be moving into the role of management. We would be saying that managers ought to have this type of information in order to effectively manage, but they cannot get it from the financial statements, so the Board should pass a standard to make sure that kind of information is available to managers. He did not wish to do that. Mr. Dacey said the financial statements should be consistent with the type of information that would support management, but he viewed the reference to "managerial-type information" in Question 5 as being at a more detailed level than considering internal users' needs. He supported consideration of internal users' needs but he was concerned about going to a level of detail that is well below the Board's threshold. Mr. Allen agreed and recalled a similar discussion with regard to cost accounting standards. The reason we do not issue cost accounting standards is because everyone will define them differently in relation to their own unique users. Mr. Schumacher agreed with Mr. Allen.

Mr. Steinberg asked for some examples of managerial-type information. Ms. Wardlow responded that the agreed-upon project scope is the GAAP financial statements and notes, and if you look at the kind of information needed for management you will get different answers, and to do that would greatly expand the project.

Mr. Granof said that the financial reporting objectives include providing information that is useful to managers. Mr. Allen responded that the objectives are framed in terms that program managers are users of the financial statements. Question 5 asks whether the Board wants to go deeper than their need to use the financial statements. Mr. Granof agreed that to do so would expand the project in a major way, but he thought that managers' needs would have to be included because the Board has to relate to the financial reporting objectives. This may not be the project to do that, but if the Board does not include internal users, it would need to explain why.

In response to Mr. Steinberg's question, Ms. Wardlow said she was thinking about the kinds of information that can be obtained from GAAP financial statements and some of it may be useful to program managers in some ways. However, in terms of managing their programs and making policy and cost-benefit decisions, the financial statements would not be the managers' primary source of information. To address those needs in this concepts statement would be very difficult. Mr. Steinberg said the information is not different; it is the users and uses of the information. Ms. Wardlow said the goal of the concepts statement is to provide some considerations for the Board when setting standards for GAAP financial statements. If the Board were going to set standards for management issues, there probably would be a different set of considerations, and those would be difficult to fold into the concepts statement.

Mr. Jackson said that, if the Board is setting standards for external financial reporting, he does not view that as particularly useful to program managers. But, he thinks about it in the context that he would like the standards for external financial reporting to have an impact on managers. For example, assume there is only one organization and one class of assets. The information provided to manage that class must be reliable and relevant to managing the assets. The reason for assigning a measurement attribute is that we know the resulting information is relevant to managing that asset class. He thinks about what would be the utility of financial information with regard to that class of asset. He is not sure whether the Board can do anything like that. Ms. Wardlow said the frame of reference for the project was the concepts statement on elements and basic recognition criteria, and the next step is how to measure the elements. All of that has been framed in terms of the GAAP financial statements. The type of information managers need expands the possibilities but makes the project more complex. In discussing advantages and disadvantages of various attributes, one has to think for what purpose is the information being provided. The different groups of users identified in the concepts statement make different kinds of decisions and find different kinds of information useful. When you consider that, you may get different answers about measurement attributes.

Mr. Allen said that is the reason for setting unique standards. If there is an attribute other than historical cost and current price and you can say it is an entry price or an exit price, then we ought to include that in the concepts statement. But a standard takes an array of assets and states that, because users need information on replacement cost, that unique asset should be reported on a replacement cost basis. Mr. Jackson said that consideration would bring him to Question 3c—whether the discussion of attributes should include their advantages and disadvantages with reference to categories of assets. He thinks it would be meaningful for the Board to look at what attribute or series of attributes might best apply to a particular category of assets for the purpose just mentioned. Then, when the Board moves to a standard, it would be thinking that way; if the Board wanted to adopt a standard for a particular type of asset, the Board would have the information to help guide its thinking.

Mr. Torregrosa said he would defer to the staff on this issue. Ms. Fleetwood said Mr. Jackson made some good points, but she would not disagree with deferring the issue if it makes the scope too broad. Mr. Allen said he was trying to understand whether there was any difference for the concepts statement, because Mr. Jackson seemed to be talking about an exercise of putting oneself in management's place. Ms. Fleetwood said they were coming from two different directions: Ms. Wardlow is coming from the financial statements and Mr. Jackson is coming from the managerial point of view. You might look at it a little differently from a managerial point of view. She thinks that is valid, but it probably will expand the project and take more time to do that. It might be an exercise that is worth doing no matter what the result is.

Mr. Granof agreed with Ms. Wardlow that the project scope would need to be expanded because there would be more attributes of interest. For example, full cost and historical cost are probably useless for management decisions. Managers need information on incremental costs and opportunity costs. These are far more useful concepts to management. But we would have our hands full if we get into that, which is why he suggests that the issue be mentioned with an explanation of why the Board is not doing that. Mr. Allen agreed, wondering how one would define and audit opportunity costs.

> **CONCLUSIONS:** At the joint FASAB/GASB meeting the following day, Mr. Allen would raise the issue of whether the two boards should collaborate in some manner on a concepts statement on measurement attributes. The FASAB concepts statement should include a discussion of the advantages and disadvantages of various measurement attributes with reference to the financial reporting objectives and, possibly, with reference to different categories of

assets. The primary attributes to be discussed would be acquisition price and current price, although the Board may discuss further what terms should be used for those concepts. The attributes should be divided into entry and exit prices, as well as other attributes within the current price category, such as replacement cost and net realizable value. The discussion also should include value in use, either as a separate attribute or as an attribute within the current price category. The Board decided not to expand the project scope to include managerial-type information—that is information specific to internal users' management needs and beyond information generally included in the external financial statements. The concepts statement should include the Board's rationale for that decision.

Adjournment

The meeting adjourned for the day at 4:30 PM.

Thursday, August 27, 2009

Agenda Topics

- **Joint Meeting with GASB**

On August 27, 2009, the Federal Accounting Standards Advisory Board (FASAB) hosted a joint meeting with the Governmental Accounting Standards Board (GASB). The topics addressed at the joint meeting were (a) fiscal sustainability/economic condition reporting, (b) reporting entity, and (c) measurement attributes.

- **Fiscal Sustainability and Economic Condition**

FASAB staff member Ms. Eileen Parlow gave a brief presentation that addressed several of the major issues involved in developing the FASAB's SFFAS 36, *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government*. The GASB and FASAB members discussed how similar issues might apply to a proposed GASB project on economic condition reporting. Among the issues addressed were: (a) challenges in developing guidance for policy assumptions, (b) the pros and cons of finite versus infinite projection periods, (c) challenges in developing a "bottom line" for the basic financial statement (including consideration of the "fiscal gap" and "fiscal imbalance" measures), and (d) the challenge of balancing effective communication methods (such as simplicity) and technical rigor.

- **Entity**

Both FASAB and GASB have current projects related to Entity. The objective of FASAB's Federal Entity project is to address the boundaries of the federal reporting entity in a standard as currently the entity issue is only addressed in its Statement of Federal Financial Accounting Concepts (SFFAC) 2, Entity and Display.

GASB's entity project is re-examining its existing GASBS 14, The Financial Reporting Entity. The objective of GASB's reexamination is to determine whether reporting entities applying that standard are including all appropriate related organizations and excluding organizations that should not be included. The reexamination also considers whether the financial information of the included organizations is displayed and disclosed in the most appropriate and useful manner.

Considering FASAB staff is performing outreach on issues related to a proposed exposure draft on the federal reporting entity as well as exploring alternative display options for unique relationships, FASAB and GASB staff agreed the joint meeting would be an excellent means for FASAB to learn more about the GASB approach as well as learn about some of the issues that led to the reexamination of GASBS 14. The primary objective of the joint FASAB-GASB session on Entity was to allow FASAB Board and staff to gain a better understanding of GASB's discrete presentation of component units. GASB Board members and staff offered the following:

GASB's reporting entity concept is based on the notion of a legally separate entity. For blended (consolidated) component units, GASB looks through and pierces the veil of legally separate organizations because the relationship between that organization and the primary government is such that it is in substance part of the primary government. In other words, blended organizations perform a primary government function that could have been handled internally. An example would be Financing authorities (an organization that sells debt to build buildings for the county) because the relationship is such that it really should be presented as if it were really part of the primary government. Blending is the exception because those relationships are so close and intertwined with the primary government that they should be reported as if they were part of the primary government.

In GASB's experiences, users want to see detail. Therefore in Statement 14, it was determined information about legally separate organizations could be best accomplished through a separate presentation called discrete presentation. GASB 14 default is discrete presentation and most component units would be included and displayed by discrete presentation. Discrete presentation is a separate presentation in columnar fashion with some degree of detail provided about the individual organizations that are combined.

GASB noted there really haven't been a lot of arguments or complaints or identified weaknesses about discrete presentation because the information is there for the users. GASB's approach is the reporting entity Standard focuses on the primary government with an overview of the component units, and they stop short of requiring a total because this would be contrary to the notion of focus on the primary government. Statement 14 requires that the primary government's financial statement provide information about how a reader can get more information about an individual component unit and this has been viewed as adequate.

GASB 14 also requires organizations to be included if it would be misleading to exclude a component unit because of its relationship with the primary government. Members noted that there aren't hard criteria for making that determination and it relies heavily on the exercise of professional judgment. GASB noted that they left the door cracked a little bit in 14 so if there is an entity that fails to meet the stated criteria, then you use your professional judgment. GASB noted there were some specific organizations the Board knew should be included, but the criteria weren't met. MAC in New York City was noted as an example as well as fundraising organizations, foundations and higher education financing authorities, and fiscal assistance authorities.

An example in the past where the state had interjected itself financially was when the government took over a number of private transit authorities--bus services or even New York subway services; those were run by separate private companies until the city took them over. In these examples, the city actually assumed the operation and the intent was to continue them. Another example provided was state commissions and those are excluded from the reporting entity based on its viewed as temporary. GASB noted instances where governments do hold for profit companies for investment purposes, and the equity method is used in those situations.

GASB noted situations where component units assert that they are not part of a particular reporting entity, but the criteria's pretty clear and if you meet it you're in. GASB also noted how they address the implementation issues with different fiscal years. For those component units whose fiscal years are different, financial information of the fiscal year that ends within the fiscal year is included. The primary government provides information in the notes to explain differences in reciprocal balances and transactions that took place between the entities during the year. There is a provision that allows inclusion of component unit's financial statements when the fiscal year ends within three months of the primary government's fiscal year end, if it doesn't significantly delay the issuance of the reporting entity's financial statements.

GASB noted there are situations where organizations are included that follow FASB standards. For example, there are college university foundations organized as 501(3)(c) not for profits that follow and use the FASB model. GASB concluded in Statement 39 that those organizations can be included and are required to be discretely presented rather than blended. It should be noted that although some would conclude they should be blended, Statement 39 provided an exception to blending and said, they would be discretely presented. By discrete presentation, it allows the primary government to incorporate the financial information straight from the component unit's financial statements. There is no requirement to remeasure and there is no requirement for different disclosures. The only differences are formatting and display and Statement 39 states that discrete presentation can be accomplished by presenting the financial information of those organizations on a separate page. GASB doesn't require a reporting entity total column so it's okay that there are different measurements, different format, different classifications and descriptions. GASB does provide some guidance on this issue in the Standard in the basis for conclusion and in an implementation guide.

GASB noted that state banks--North Dakota and Puerto Rico—are included in the financial statements.

CONCLUSION: Staff will consider whether GASB's discrete presentation of component units is an alternative to consolidation for certain unique relationships in the federal government.

- **Measurement Attributes**

Ms. Payne introduced the topic of measurement by noting her own view that current cost information is a relevant measure of cost of service since it measures the cost of the resources consumed in the reporting period to deliver services in that period. Such measures may become more important as the federal government engages increasingly in benchmarking and considers the cost versus the benefits of ongoing programs. She acknowledged that there are cost-benefit considerations in presenting current cost information in audited financial statements. She hoped the members would benefit from a discussion of competing notions of cost of service.

Roberta Resse, GASB Staff member, and Penny Wardlow, FASAB contractor, explained that the objectives established by each board included an emphasis on cost of service. Therefore, despite differences in terminology (remeasured values versus current price), both hoped the board members would share their views on the merits of each with respect to assessing the cost of service.

One member asked, in light of the FASB movement towards current values what compelling differences are there between the public sector and the private sector that would justify a different approach. The differences enumerated were:

- FASB is trying to measure future cash flows but government is really not looking at how you can get cash in flows or cash out flows. For example, in the for-profit world, if you have an asset you should always be considering whether to hold or sell; you do not have that same aspect in government where you are thinking more of providing services.

- You often do not have a market within the government sector so you're automatically stepping back to something that is less reliable than a specific market price.

- Value in exchange (current value, fair value, what something would fetch today) may be of diminished relevance when there is no intent to exchange it and there is no expectation that it will be exchanged.

- It is legitimate to argue in government that current value allows you to measure some of the opportunity costs of using an asset in one way versus exploiting its value in another.

One member noted that this suggests we're going to have a much tougher time than FASB because we're going to have to go with a mixed attribute of model, and therefore we're going to be arguing over each particular asset. Staff and members briefly discussed the direction FASB and the IASB are taking and whether they would, in fact, achieve a single attribute model.

Mr. Allen noted that the FASAB had discussed the merits of a joint project with GASB. He explained that timing always presents a challenge and that because GASB has reached a number of decisions timing would be particularly challenging to them. FASAB would probably be the biggest benefactor of the process because we would look at what you've done. We would then say do we want to suggest to you that you may want to modify some of those things or at least have some discussion about issues potentially that you already have reached a conclusion on. He further noted that this would not be an agreement upfront to lock step. He indicated GASB's experience with the International Public Sector Accounting Standards Board on asset impairment indicated that you can work together but ultimately have some differences in the standards issued at the end. Mr. Allen asked a broad question of GASB's interest in a joint project given some of the issues he had noted.

Mr. Attmore noted that from his perspective, he would welcome the opportunity to work together on all sorts of issues that we have in common that we're interested in dealing with. He does have a reservation regarding the logistics - the timing and the scope and so forth. Mr. Bean noted that GASB plans a preliminary views document before moving to an exposure draft while FASAB does not. So, FASAB could quickly catch up with GASB.

A GASB member explained that fund accounting – which is not part of the federal model – is the area that is likely to slow GASB down. They need to address the objectives of fund accounting within the state/local model.

Members from both boards endorsed the joint project – acknowledging that much could be gained by more interaction between the boards. Members acknowledged that logistics may present a challenge and asked that staff collaborate on overcoming logistical challenges through alternatives to joint meetings such as a teleconferences or video conferences.

The joint meeting adjourned at noon. The FASAB meeting resumed at 1:30 PM.

- **Technical Bulletin – Deferral of Effective Date of TB 2006-1**

Ms. Ranagan, staff member, stated that Technical Bulletin 2009-1 proposes to defer the effective date of Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*, for two years. This proposal is based on a request by the Property Disposal subgroup of the Accounting and Auditing Policy Committee (AAPC).

The 17 comment letters received on the exposure draft (ED) were overwhelmingly in support of the deferral. Ms. Ranagan referred the board to four additional respondent comments that were primarily editorial in nature as well as the updated draft technical bulletin.

Ms. Ranagan noted that technical bulletins are staff documents and they can be issued by staff if the majority of board members do not object after a 15-day review period. She noted that the proposed timeline for the technical bulletin includes a 15-day board member review period from August 31 – September 21. If a majority of board members do not object, the technical bulletin will be issued as final on September 22, which is before the current effective date of September 30 for Technical Bulletin 2006-1.

Ms. Ranagan noted that the purpose of this session is so that the comment letters have been presented in a public meeting and board members have had a chance to review them. Ms. Ranagan asked members to provide her with any comments, editorial or otherwise, so that she can send the proposed final technical bulletin to board members for the 15-day review period.

Mr. Dacey said he is fine with the proposed changes and inquired if there was a signaling from the Department of Defense and others that it would be difficult to comply with the requirement in two years as well.

Ms. Ranagan responded that the majority of property resides with a handful of agencies who have indicated that it will be difficult for them to comply with the technical bulletin. She stated that there seems to be concerns that the auditors will require detailed support for estimates and she is hopeful that the implementation guidance being drafted by the AAPC will help alleviate some of those concerns.

Mr. Steinberg commented that he found it interesting that at least two of the agencies said they did not have the records to know which of their buildings contained asbestos. He said that is a good example for those who question the importance of financial statements for management purposes. He said this process is forcing agencies to develop information that they should already have available.

Ms. Ranagan asked members to email or call her with any additional comments.

Mr. Torregrosa asked if the Department of Interior (DOI) had provided a response to the natural resources ED yet. Ms. Ranagan responded that they had not but she had received positive affirmation that DOI's auditors would be providing a response.

Mr. Allen thanked staff.

> **CONCLUSIONS / NEXT STEPS:** Staff will send the final proposed technical bulletin to members for a 15-day review period from August 31 to September 21, 2009. Staff expects to issue Technical Bulletin 2009-1 as final on September 22, 2009. Upon issuance of Technical Bulletin 2009-1, the new effective date of Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*, will be for periods beginning after September 30, 2011. Earlier adoption is encouraged.

- **Management's Discussion and Analysis**

The staff explained that the objective of the MD&A work has been to identify areas for improvement. The MD&A in federal reports has been criticized for failing to effectively summarize and communicate entity performance and financial results. Current MD&A seems to provide excessive narrative description rather than analysis. The goal of the MD&A work is to (1) determine whether there is a problem with current MD&A and, if so, (2) identify the source of that problem and recommend improvements. The problem might be the standards, OMB implementation guidance, or agency execution – or a combination of these.

The FASAB staff prepared a "white paper" giving the background for the work and framing the issues. It surveys current federal MD&A reporting requirements and discusses recent AGA studies of federal reporting. The staff also established a task group to discuss the issues and possible recommendations. The task group met on July 9, 2009. The group discussed current concepts, standards, and guidance for MD&A and the assertions that there is a problem with MD&A.

The staff explained that the group agreed that, among other things:

1. Questions needing study are:
   a. What is the purpose of MD&A;
   b. What content would achieve that purpose; and
   c. Who is the audience for MD&A?
2. SFFAS 15, *Management's Discussion and Analysis*, is satisfactory. The guidance should continue to be flexible.
3. A "best practices" guide would be useful that illustrates specific topics, for example, loans, grants, and contracts; and/or, that illustrates reporting of performance goals and results, analysis of financial statements, and forward-looking information.
4. OMB Circular A-136 *Financial Reporting Requirements*, should be reviewed with the goal of improving the MD&A presentations.

The FASAB discussed the MD&A. Since the task group concluded that SFFAS 15 is satisfactory and that a "best practices" guide would be useful, the Board decided to initiate an Accounting and Auditing Policy Committee project to that end. With respect to a reconsideration of the purpose, content, and audience for MD&A, the Board decided that its reporting model project will afford an opportunity to analyze such fundamentals.

Adjournment

The meeting adjourned at 3:00 PM.