

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
August 27-28, 2014
Room 7C13
441 G Street NW
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Wednesday, August 27, 2014

Attendance

With the exceptions noted, the following members were present throughout the meeting: Chairman Allen, Messrs. Dacey, Granof, McCall, Reger, Showalter, Smith, and Steinberg. Mr. Reger was represented by Ms. Kearney during brief absences. The Department of the Treasury was represented by Ms. Davis. The executive director, Ms. Payne, and general counsel, Mr. Marchand, were present throughout the meeting.

Chairman Allen opened the meeting and asked for an update regarding Mr. Reger's status. Mr. Reger announced that he accepted the position of deputy controller at the Office of Management and Budget. Effective in early October, he will transition from

interim deputy controller to “deputy controller.” Members congratulated Mr. Reger and noted they look forward to continuing to work with him.

Agenda Topics

- **Treasury and OMB Briefing on DATA Act**

Mr. Reger and Ms. Christina Ho, Acting Deputy Assistant Secretary for Accounting Policy, Department of the Treasury, presented a briefing on the DATA Act. The Act has five main components:

- 1) Data elements, including defining terms, such as obligation, so accounting, procurement, grant, and managerial systems use it with the same meaning
- 2) Display or recordation including the use of new tools to display and relate data
- 3) Simplify federal award reporting to reduce the burden on grantees
- 4) Accountability—audit requirements related to agencies' adoption of data standards
- 5) Improving collections by transferring debts to Treasury sooner

The DATA Act was passed in May 2014 and has a three-year implementation period: one year to establish government-wide data standards and the next two years for agencies to implement the standards. No funds were appropriated for implementation.

The DATA Act builds on the Federal Funding Accountability and Transparency Act which resulted in usaspending.gov and provides information on procurement (awards) only. The DATA Act requires coverage of more types of funding and is more expansive – covering appropriation, obligation and outlay as well as by account and program.

Treasury's vision related to implementing the DATA Act is providing better data, for better decisions, for better government. This includes better data for citizens, agency executives, and elected officials.

Treasury and OMB will be working together on data standards. The plan is to use existing standards to the extent feasible. Also, the existing systems for usaspending.gov will transfer to Treasury. Those systems report data from procurement systems and the term “spending” is a misnomer because procurement systems track obligations but not actual spending data. Transferring the systems to Treasury will refocus the effort on improved quality of the data as well as on the original intent – spending data.

Spending has a complex life cycle, which includes appropriation, apportionment, allotment and commitment, awards, obligation, and disbursement. Some information is reported by appropriation account, some by program activity and object class. Determining what is a “program” activity and developing consistency across agencies

will be difficult. This still will not produce government-wide program information because programs are defined, and goals set, within the context of each agency.

Defining the data components will be challenging. For example, even the name of the entity is not simple. Should it be the parent or a subsidiary? Location could be where the item was manufactured or where the item is used. Some levels of information are in Treasury Department data, but some details reside only in agency systems.

The implementation approach is data centric avoiding large systems changes. The approach also is incremental, focuses on reuse of existing processes, and is collaborative and iterative. This is consistent with moving agencies to using shared-service systems.

The governance structure starts with the executive steering committee of OMB and Treasury and an inter-agency advisory committee that includes representatives from the inter-agency councils and lead agencies. The committee has identified work streams and the first is data definition standards which will focus on data requirements and data definitions. Examples of data requirements include organization, program, period of performance, and place of performance. Other work streams are the blueprint, data exchange standards, pilot to reduce administrative burden, and data analytics. Cultural change is a critical component for success.

The members thanked Ms. Ho and Mr. Reger for the informative briefing and discussion.

- **XBRL – Intelligent Data**

Mike Willis and Benjamin Fischer, both with PwC, briefed the FASAB on the topic of intelligent data, which is also called standardized data. It is similar to bar codes at the grocery store. The software across organizations is different, but it reads the data the same way. The reporting supply chain includes operations, internal reporting, external reporting, investment, lending, regulation, and policy making. Standardized data would allow information to move up layers more easily as well as drill down and validate. The data-centric report, like the Internet, allows you to pull the data into your report even from multiple systems.

An XBRL taxonomy includes definitions, labels, references, formulas, contexts, calculation, and presentation. This allows the user to easily access the metadata needed for context. The only aspect that changes for understanding in another language is the label.

The FASB maintains the XBRL taxonomy for public companies. XBRL can be used in analysis models by the financial community. FASB standards identify the associated data elements. Mr. Willis noted that FASB has learned a great deal about needed disclosures by working with the analyst community on the taxonomy. IFRS has a taxonomy too. Collaboration is critical to taxonomy development and maintenance.

Robust collaboration – like behavioral marketing – improves standards-setters understanding of the information needed by analysts.

There is a general ledger standard across federal agencies--the USSGL. But this is not the same as an XBRL taxonomy. Additional mapping to systems at agencies would need to be done. They are conducting a pilot program with a few agencies and the GTAS data. The model to be used is a distributed data model instead of a centralized data set.

Members discussed federal needs. Some noted that using XBRL to prepare the consolidated financial statements might support drill down access to agency data. Also, some noted that using XBRL for grant reporting could be accomplished relatively quickly.

A live example of bringing information into an excel spreadsheet for analysis purposes was presented. In the example, all dimensions of revenue data for Google and Facebook were brought in.

Members expressed their appreciation for Messrs. Willis and Fischer's presentation and discussion.

The Board adjourned at noon for lunch. The meeting resumed at 12:45PM.

Administrative Matters

- **Clippings**

- **GASB and IPSASB Update**

Mr. Dacey noted that certain IPSASB information was provided in the briefing materials. He indicated that the IPSASB is nearing completion of its conceptual framework. Also, the IPSASB has been addressing accounting for investments in other entities.

The IPSASB has recommended practice guidelines on management's discussion and analysis as well as fiscal sustainability. It is now beginning a project to address social benefits. They plan to develop a consultation paper first.

In response to a question from Mr. Allen, Mr. Dacey explained that IPSASB is questioning the need to maintain the cash basis set of standards. Many countries have adopted accrual or modified accrual basis accounting. Few adopt a cash basis for reporting. He also noted the European Union's consideration of public sector standards and reliance on IPSAS. A question remains whether they will establish an endorsement process for IPSAS or develop their own standards.

The IPSASB is also undergoing a governance review. In reviewing the governance structure, the question is how to monitor their independence and what structure is best.

Mr. Granof provided an update on GASB activities. He noted that there is an exposure draft open on post-employment benefits and an upcoming public hearing. The GASB is also considering fair value measurements and what types of assets should be measured at fair value.

Mr. Granof noted a preliminary views document is expected on lease accounting in the fall. Preliminary input indicates the preparer community is pleased with the proposal. Another project involves fiduciary funds and it is not expected to be controversial. The remaining projects are tax abatement, blending requirements for business-type activities, asset retirement obligations, and conceptual framework items relating to revenue recognition.

Agenda Topics

- **Reporting Entity**

Ms. Loughan explained the goal for the session is to approve the Reporting Entity ballot draft. She explained that after the June Board meeting, the Board reviewed the pre-ballot version of the Reporting Entity document and that staff received little or no comments from the majority of Board members. Editorial revisions were received from three board members. In addition, one of those board members—Mr. Steinberg—submitted a dissent.

Ms. Loughan explained voting may be contingent upon member reactions to the dissent or staff proposed additions to clarify matters raised in the dissent. She explained that Mr. Steinberg provided his dissent to staff shortly after the pre-ballot was distributed and considered staff input on his dissent language. Time did not permit Mr. Steinberg to review the entire document again before distributing it to members so he may have additional revisions. Ms. Loughan explained that his dissent language could be found at paragraphs A108-A115 and that staff provided a brief analysis in the transmittal memo along with staff proposed wording to the basis for conclusion paragraphs A18- A20.

Ms. Loughan pointed to a one page hand out summarizing members' requested changes to date. Ms. Loughan explained that once staff confirmed there were no other comments or questions on the binder materials, she would like the Board to consider these changes.

However, as indicated, Ms. Loughan asked members if there were any comments or questions regarding any proposed changes in the binder materials. She indicated she had received feedback from most members but wanted to confirm with those she did not hear from. If not, Ms. Loughan suggested the Board review the one page sheet of proposed changes and after this, discuss Mr. Steinberg's dissent and response language.

Mr. Smith explained he was not sure he understood what the issue may be with paragraph A20 or why it was proposed to delete the last sentence.

Ms. Loughan explained that it was Mr. Steinberg's suggestion to remove it. She suggested that it remain and the explanation was support for why it should remain. It referred to some of the places in the document where we say the characteristics do not have to be met. In fact, you look at the characteristics as a whole and sometimes it is met to a greater degree. That is why in that sentence it is worded in that manner.

Mr. Steinberg explained that the reason he requested that it be removed is really purely grammatical. He explained that whenever he sees a sentence that says "to a greater degree," then he wonders what is it a greater degree of? Not getting a response that he understood or agreed with, then it was suggested to drop the sentence altogether.

Mr. Showalter explained he had the same question.

Ms. Payne explained that she was not able to persuade Hal that "to a greater degree" was between the two items that follow the phrase - "the characteristics of a consolidation entity or a disclosure." Staff had resisted the suggestion to drop "to a greater degree" because we never in the document state you meet the characteristics of A or B because there is a lot of judgment involved and you have to take them as a whole.

Staff believed adding "to a greater degree", even though it is grammatically awkward, reminds readers that it is not a black and white decision.

Ms. Payne explained that she sees the Board voting on three potential outcomes for paragraph A20—keep it as is, delete the troublesome phrase of "to a greater degree," or drop the sentence altogether.

Mr. Allen polled the members and all supported deleting the phrase "to a greater degree."

Ms. Loughan asked if the members had any other questions on the one page hand out. Seeing none, she suggested that the Board move on to new comments.

Mr. Dacey explained that he noted in paragraph A63 that we clarified that the AICPA called it 'federal government entity,' but he questioned if a similar change should be made in paragraph A67. He asked if we use the term 'federal reporting entity' to make a differentiation on the technical side. Staff explained that paragraph A67 uses language from SFFAS 34 and in SFFAS 34 we use the term 'federal reporting entity' so it is used correctly in paragraph A67.

Mr. Steinberg explained he had a question on paragraph A97 of the document. He explained this is related to the concept statement. Mr. Steinberg said it was written about 15 years ago and there were two footnotes in the concept statement which now would be combined into one footnote in the amended concept statement. He explained

that in reading he believed the combination makes it a little bit confusing because the first footnote is "OMB specifies the form and content of agency financial statements, pursuant to its authority under the Chief Financial Officers Act of 1990, as amended.... OMB intends to base form and content on the concepts contained in this Statement." The other footnote is "Any uncertainty as to what to consider as a reporting entity would be resolved by OMB in consultation with the appropriate Congressional committees."

He further explained that what confused him was when he read "OMB intends to base form and content on concepts contained in this Statement." The reason it confused him is that OMB has been basing the form and content on the concepts contained in the statement. So it would just seem to be more accurate to say "OMB bases form and content."

Mr. Allen explained that SFFAC 2 was issued a long time ago and to change that word to current-day wording is what is at issue. We need to remember the context at that time.

Mr. Steinberg explained that if we are updating the concept statement we should update to what exists now. He explained it is really just a matter of when you update something whether you are going to update it completely or just partially.

Ms. Payne suggested you have to consider it a living document too. She believes "intends to base" is forward looking, and because this is a Board document it implies that. Further, If you say 'based' it implies that FASAB has validated that they are in sync, have based in the past and will base in the future, and that there is some confirmation of the statement.

Mr. Steinberg explained he did not say "based" he suggested "bases." It was just something that when he reads a document he likes to know that it is accurate and current. Ms. Payne understood and she believes it is current as to the intentions and intentions are forward looking.

Mr. Allen explained unless a member wants to vote on it, he would propose just leaving it the way it is. No member indicated they wanted to pursue further changes to paragraph A97, therefore it will remain as presented in the ballot draft.

Mr. Dacey raised an issue with paragraph A69. The last sentence of paragraph A69 says "While the hierarchy . . . may not necessarily apply to disclosure entities." He explained he had asked Ms. Payne earlier if it would ever apply, and the response was that a non-federal entity could, nonetheless, apply it. Obviously it would not be GAAP for them .

Ms. Payne recalled an organization that was structured so it was insulated from political influence. It claimed it was a state organization and tried to apply GASB. Then it claimed it was a nonprofit but the auditors said it was federal. They ended up applying FASB but it could just as easily have been federal because they received most of their funding by appropriations. The point is that there are a lot of odd circumstances out

there and staff was comfortable with "may." However, from an auditor's perspective that may be an uncomfortable position to be in.

Mr. Allen explained that most disclosure entities would not apply FASB, so the wording "not necessarily" almost connotes that lots would but that is not the case. To Mr. Dacey's point, it would almost be the other way. "While the hierarchy of GAAP established for federal reporting entities is generally not that..."

Mr. Dacey explained he appreciated the point but he is not sure the suggested change is an improvement because it almost never is. However, he acknowledged there could be some exception out there. He explained if he was to change the sentence, it would probably be "While the hierarchy of GAAP established for federal reporting does not apply to disclosure entities."

Mr. Allen explained but we do not know for sure that it never will. Mr. Showalter suggested that term "most entities," "does not apply to most disclosure entities."

Mr. Dacey explained leaving the wording the way it is almost makes it sound like it applies to some disclosure entities. Technically if you are under GAAP and you are a federal entity you have to follow FASAB. If you are under state, local or non-governmental, then you have to follow GASB or FASB to be GAAP compliant, not FASAB.

Ms. Payne suggested a different example. She asked if it would trouble members if the Federal Reserve decided to apply FASAB to the Board of Governors financial statements but could not do so under the standards. Mr. Dacey explained it would then be a non-GAAP special purpose framework if it was determined that it was not a federal government entity. However, if it were determined to be a federal government entity, then it would have to follow FASAB GAAP. An entity has to be in one camp or the other the way GAAP is structured.

Mr. Allen explained he understood that is how we apply GAAP. But within this standard, we purposely did not want to answer that question and that is the reason it is worded the way it is.

Mr. Smith explained he completely agrees but we are not addressing that issue. We are just going through and saying whatever you are, here is what you need to do and he thinks we get there.

Mr. Dacey explained he understood a little better but they have to be one GAAP or another. It is just that if an entity was a non-federal government entity, they could not be GAAP compliant if they used our standards. However, he would address questions that may arise and explain the Board discussed it but did not pursue any changes to paragraph A69.

Mr. Allen asked Mr. Steinberg about several places in paragraphs A108 through A111 that refer to "are part of the federal government reporting entity" versus "federal entity"

or "entities are part of the federal government entity." He thought it would be clearer if the dissent used the first terminology, "federal government reporting entity," consistently. He asked Mr. Steinberg if that variation was intentional.

Mr. Steinberg explained no. No document is perfect the first time it is drafted so he needs to clean it up.

Mr. Showalter asked Mr. Steinberg if he planned to keep paragraphs A114 and A115 based on staff proposed changes to address his concerns with the museums and the language that was previously in the footnote.

Mr. Steinberg explained that there was one change that he agreed to and somehow it did not get picked up. It is in the first line which says "also points out that one of the issues for which the reporting entity project was started." Staff had suggested that it should say "one of the issues raised early in the project." And that was fine with him.

Mr. Steinberg explained that his major concern and on that everybody seems to agree with is that these organizations partially in the budget and partially not in the budget should be in the financial statements. His concern was that it was not stated in the standard. It was said in the footnotes and it was said in the basis for conclusion, which he thought was very bad precedent. Staff did make a change to move it into the standard paragraph A15. He explained that he requested staff to add an additional phrase to paragraph A15.

Mr. Steinberg explained that he believes people from the museums--Holocaust, Smithsonian and so forth-- will tell you they run two separate organizations, the organization that is funded by appropriations and the organization funded by disclosures. Therefore, he believed additional language needed to be added to capture this and he suggested adding the phrase "and activities claimed to be separate from the organization because they are funded not through appropriations but from donations."

Mr. Steinberg explained that if that phrase could not be added, then he does not believe it is enough. The phrase was not added so Mr. Steinberg plans to rewrite that portion of the dissent to get across the idea that it has got to be the entire organization.

Ms. Payne explained that in his summation of why they may indicate they run two separate organizations; they would still be required to apply the control indicators if that is the case. Therefore, organizations that are controlled such as that they become part of the reporting entity. Ms. Payne explained she does not believe that it needs to be clarified generally. If someone does assert these are two separate organizations, then they apply the standards to the two separate organizations.

Mr. Steinberg explained that they have been doing this and they have not provided the information to Treasury for donations yet. Ms. Payne explained that they present a consolidated column presently in their stand alone statements. Mr. Steinberg explained that for the Federal government, they report only appropriations. Ms. Payne understood but the criteria are applied from the government-wide perspective.

Mr. Allen explained there could be words that conveyed the thought, but he did not like the wording Mr. Steinberg proposed, which contends that they are. He explained that wording for a standard ought to be pretty generic and not get into he said/she said.

Mr. Steinberg explained that two or three meetings ago he presented a separate paragraph for consideration. Mr. Allen acknowledged that and the Board did have a discussion and voted on that issue.

Mr. Steinberg explained everybody agrees that we want to get the whole organization. If that is the case, then it should be in the standards so that there is no wiggle room.

Mr. Allen asked Mr. Steinberg if he plans to change the wording in paragraphs A114 and A115 based on the changes to the document. He explained he does not think there is anything wrong with him dissenting on that point if he does not believe it is clear enough in the standard.

Ms. Payne explained that she appreciates that in many places we have added this qualification to address the point. Taken as a whole, one could get to putting a real fine point on trying to keep the Smithsonian from dividing itself into two separate organizations and never presenting a consolidated statement. Presently the Smithsonian views itself as an organization for which a consolidated statement is appropriate. She wonders how they will persuade their auditor that they are two separate organizations and not present a consolidated statement.

Mr. Steinberg explained he does not see it affecting the Smithsonian statement. It is what they present to the Treasury Department that is incomplete, and which the auditor is not involved in.

Ms. Payne suggested that under these standards, unless they can point to some other controlling authority, she does not see how they would fail to meet the inclusion principles. Mr. Steinberg explained that the SFFAC 2 requirement has been in place all along and they have only presented half the organization. Ms. Payne explained that we have seen example after example of challenges with component-level agencies applying language that really only works for the government as a whole.

Mr. Showalter noted it is up to the auditor or Treasury to raise the issue because it is missing. Mr. Reger explained either we will have enough control to make them do it or the auditor will agree that they are separate organizations.

Mr. Allen asked the Board if there was a desire to modify based on the discussion or is the board comfortable with paragraph A15?

Mr. Dacey requested clarification that the Board is voting to include the addition that was in the ballot draft to paragraph A—moving the footnote language to the standard. The question is do we do anything more than what was added in the draft? Mr. Allen confirmed and asked staff to explain the changes that were presented in the ballot draft so the members are clear.

Ms. Loughan explained two sentences were added to paragraph A15 that were previously in a footnote. The sentences were “In applying these principles and meeting the reporting requirements, ‘organization’ refers to the organization in its entirety including all funding sources (for example, appropriations or donations). The term ‘organization’ is used broadly and may include, among others, departments, agencies, bureaus, divisions, commissions, corporations, and components.” The first sentence explains that the organization in its entirety is included. And that is the key point, to focus on the organization and not specific activities because there are many diverse activities. For example, the National Park Service relies on outside entities to collaborate in a partnership and they are run by donations, so do we mean that they need to sweep in the activities of all these foundations that are out there? Ms. Loughan explained the standard is focused at the organization level.

Mr. Allen asked the Board members for their position.

With the exception of Mr. Steinberg, who explained he supports the change with additional language, all members supported the sentence as presented in paragraph A15 of the ballot draft.

Mr. Allen explained based on the votes, no additional changes would be made to paragraph A15.

Mr. Dacey explained that he had a few questions regarding the dissent. He noted that Mr. Steinberg stated in paragraph A108 that “because the statement asserts that receiverships, conservatorships and intervention activities are part of the federal government reporting entity.” He explained that not all intervention activities would be disclosure entities because we would not have control over them. For example, he explained there were many TARP investments which did not lead to control. The controlled entities would have been General Motors and AIG . The other intervention activities, we did not technically have control.

Mr. Steinberg asked if he was referring to some of the smaller banks. Mr. Dacey agreed and explained that if we did not have control, they would not be included so, he was trying to understand Mr. Steinberg’s statement in the dissent because the statement asserts that, or implies, that all receiverships, conservatorships and intervention activities are part of the federal government reporting entity.

Mr. Steinberg explained that he did not believe that. Mr. Dacey explained he was trying to understand the logic of the wording because the language says they assert they are part of the federal government but the standard states “included in the GPFFR.” Mr. Steinberg agreed and stated that is an example of where the words probably need to be changed. Mr. Dacey said that is good because he is making a statement about what the standards assert and there should be agreement about that. Mr. Steinberg explained he would modify that.

Mr. Allen requested staff to go over the next steps in the process.

Ms. Loughan explained the next steps would be to receive the revised dissent language from Mr. Steinberg, and then staff would forward that to members for review and perhaps a re-ballot depending on the timing. Once the ballots are received we then would forward it to the sponsors.

Mr. Steinberg asked Ms. Payne to explain why the dissent cannot be on one issue a member finds troublesome rather than the total document. He explained he thinks this is a very good document and the idea that it suggests one is dissenting against the total document is overreaching so to speak.

Ms. Payne explained that our rules of procedure provide that you must submit a 'no' ballot in order to be counted as a dissent. What that means is you cannot dissent from an individual paragraph or provision or wording. For example, if a member proposes language and their language is not adopted and that member felt strongly enough, you could get a basis for conclusion that says we did this but this person dissents on this. Such dissents could be scattered throughout a whole bunch of dissents.

Ms. Payne explained that the bar is set intentionally high to vote 'no' on a document. This is a particularly far-reaching and complex document, but it accomplishes a great deal. So long as a member feels that what it accomplishes outweighs the points with which the member disagrees, the rules envision that the member will consider long and hard whether they want to dissent. She explained there is standard language at the start of the basis for conclusions that explains not every member agrees with everything in the basis for conclusions. We have looked at what other standard-setting bodies have done and believe that our process would be quite lengthy if we allowed a member to insert their own basis for conclusions to identify piecemeal what you did and did not agree with.

Mr. Allen explained that most reading this would come to the conclusion that Mr. Steinberg supports the document except for these two points because if you did not, your dissent would include other points. Mr. Showalter agreed and said the assumption would be that if Mr. Steinberg did not mention it in paragraphs A108 to A115, he was okay with it.

Mr. Dacey asked if a dissenting member could make a positive statement regarding the rest of the document. Ms. Payne explained it was okay to say that you agree with the rest but you first have to say you dissent because you have to say no to the standard to write the dissent.

Mr. Granof explained his thoughts after reading the dissent was that he previously thought Mr. Steinberg's dissent was much more substantive than it was. He read the first sentence and it says he dissents but then it states that he agrees that there should be disclosure.

Mr. Steinberg explained that he does not believe these entities should be inferred as part of the federal reporting entity. Mr. Granof commented but there should be

disclosure of them nonetheless. Mr. Steinberg stated there is disclosure of the relationships, the risks, the liabilities and all of the stuff that is actually in the standard.

Mr. Reger explained that he finds himself in agreement with Mr. Granof because he was also confused by what Mr. Steinberg was objecting to. He explained he was confused because it seems like Mr. Steinberg is completely in agreement with the outcome of what the standard did but he believes there is this nuance of whether they are part of the reporting standard entity.

Mr. Reger explained that he could not get to the substance of what we did, but it seems to have the exact result you were advocating.

Mr. Steinberg suggested that we were already there. There was reporting of all of these relationships and risks before we had this standard.

Mr. Reger said if it did not change then what is the issue. He explained that we had disclosed them in the past, we need to disclose them, this standard does that but it appears there is an inference in the standard that Mr. Steinberg is objecting to.

Mr. Steinberg explained that he would try to say it a little bit more clearly in the next draft.

Mr. Reger suggested he might want to be clear and explicit because the members are knowledgeable users in this area and we could not figure out what the dissent was trying to convey.

Mr. Granof agreed and suggested it needed to be clarified because he believed Mr. Steinberg was wrong from a conceptual perspective and a practical perspective.

Mr. Reger explained that he would not have brought it up, but once Mr. Granof did he wanted to share he is in the same place. He believes Mr. Steinberg should be incredibly explicit so it would help a reader to understand his views.

Mr. Showalter suggested that what he heard Mr. Steinberg say was different from what he read in the dissent. He thought he heard Mr. Steinberg say that he wanted disclosures about these types of entities. Perhaps there is something less than full disclosure that comes from including them. Mr. Showalter explained that did not come from what was written but more from trying to understand what Mr. Steinberg said.

Mr. Granof explained that he thought that was a rather trivial distinction.

Mr. Steinberg stated from an accounting point of view it is trivial because we end up in the same place. However, from a political point of view it is not trivial.

Mr. Allen asked if there were any other areas for discussion. No other members raised concerns.

Ms. Loughan asked Mr. Steinberg when we could expect the revised dissent. He suggested it would be around Tuesday or Wednesday, or approximately one week.

Ms. Payne stated she would like to commend Ms. Loughan and her terrific work through this project. It is probably clear to members that there is been a lot of exchanges between staff and members in between Board meetings.

Ms. Payne explained this is a good opportunity to discuss the challenge that staff has when any member describes what is the majority decision or view. How they describe the decision or view in conjunction with alternative views and dissents can be controversial. We always encourage members to quote from the majority's view or the document rather than to paraphrase or summarize. Ms. Payne explained when you do not agree with the majority, staff asks you to quote from the standards or the basis rather than try to summarize what the majority's point is.

CONCLUSION

At the August Board meeting, the members reviewed and approved changes to the Reporting Entity ballot draft. Notable decisions include:

- Maintain the last sentence of paragraph 20, but delete the phrase “to a greater degree”.
- Delete footnote 12 and add the proposed wording to paragraph 15. However, members did not approve additional changes to paragraph 15 suggested by a board member.
- The Board agreed to all changes provided in the briefing materials and a one page hand out at the meeting.

The Board did not approve the ballot because they are awaiting Mr. Steinberg to submit a revised dissent. Based on timing of the revised dissent, the Reporting Entity may have to be re-ballot.

- **Reporting Model**

As part of its ideal reporting model project, the FASAB discussed how to ideally classify costs so that users have a better understanding of the operating performance of the federal government. FASAB members discussed different schemes for classifying cost on the face of the statement of net cost and the merits and challenges associated with the approaches. The discussion primarily focused on the government-wide level and whether to classify cost by function, program, or agency.

Some members supported a function-based scheme, such as presenting the cost of national defense, transportation, and agriculture. This classification approach is well-established in the federal government and is currently being used for budget and other

types of reporting to inform the public. However, other members noted that the approach had been used in earlier versions of the government-wide financial statements and it was determined that some descriptions confused users. They maintained that the meaning of some functions is not clear which makes it difficult to perform analyses. Therefore, by presenting cost by agency, users can go directly from the government-wide report to the agency reports and review the details of their audited financial statements.

Also, some members supported the notion of presenting costs by program, such as a presentation of the top 25 programs. FASAB's conceptual guidance and recent user needs research has shown that users seek information about programs. However, members noted challenges in defining the term program and questioned the practicality of preparing the presentation.

In addition, members discussed the need to have definitions of each class (function, program, agency, etc.) so that preparers, auditors, users, and other interested parties understand the scope of each class and understand the information being presented. Also, some members expressed the need to present cross-agency programs or services and how to align reporting on costs with the efforts to report on performance. The Board acknowledged that agencies are engaged in substantial efforts to report on their performance and flows information should be aligned with that process. Consequently, the Board plans to obtain input from the CFO community and continue the classification discussion. Particulars of the discussion follow.

Discussion

Mr. Simms noted that staff developed proposed concepts for reporting cost information in the consolidated financial report (CFR) level and agency level reports. The proposal is based on the Board's earlier guidance, Statement of Federal Financial Accounting Concepts (SFFAC) 4, Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government, which notes that a user would begin their analysis with the CFR, but look to the agency level report for more detail. Accordingly, the CFR would present costs using broad categories such as functions and the agency would ultimately provide information on the programs that support the functions. Board members expressed various comments on the proposal which generally focused on the CFR and presenting cost by function, program, or agency.

Presenting Cost by Function in the CFR

Board members provided the following comments with respect to the proposal of classifying costs by function in the CFR:

- Mr. Steinberg noted that there are currently 19 functions and they are fairly straightforward, such as agriculture, transportation, and national defense. Also, presenting functions at the national level would provide the information of interest to the public.

- Mr. McCall noted that, at times, it is not always clear whether Board members are discussing functions or programs. The Board would need to establish definitions so that the financial reporting community would be able to distinguish between functions and programs. At the state and local government level a city might have seven or eight functions but could have 200 programs.
- Ms. Davis noted that the CFR previously presented cost by function; however, it was determined that the presentation was not very useful because it was difficult to analyze the components of the function. Consequently, they began presenting cost by agency.
- With respect to earlier CFRs that presented cost by function, Mr. Dacey noted that users could not understand the functions and they did not know where to find more detail regarding them. Presenting net cost by agency was more relevant and important because users could be directed to the agency's audited financial statements.
- If the Board decides to use a functional approach, Mr. Dacey noted that the Board's approach should be consistent with the established budget functions. If the Board determines that not all budget functions are appropriate for financial statement purposes and decides to change the structure, the changes could cause confusion.
- Ms. Payne noted that currently there are a variety of websites presenting budget and performance information using budget functions as an organizing scheme and citizens are accustomed to seeing information presented in that manner.

Presenting Cost by Agency in the CFR

Board members expressed the following comments regarding the notion of classifying costs by agency in the CFR:

- Currently, the CFR presents net cost by agency and Mr. Dacey noted that auditors are providing opinions on individual agency financial statements. A user can use a link in the CFR to go directly to an agency's financial statements.
- Mr. Granof noted that he was content with the existing CFR statement of net cost. However, the key would be having the capability to drill-down to the various agencies and to program accomplishments and performance measures.
- Mr. McCall expressed that he believes that the statement of net cost by department is important but there are benefits to reporting by function. However, it would depend on how the Board defines the classes – is a function different from a program and is a function different from an activity.
- Mr. Allen noted that each agency does not present costs in a consistent manner. Some agencies present costs by strategic goals, some by appropriation, some by

sub-organization, and some use other approaches. Also, a user may not know where to look for some costs. For instance, a user may not know to look at the Department of Commerce for say, the cost of environmental safety.

Presenting Cost by Program

Board members provided the following comments regarding the notion of classifying costs by program in the CFR:

- Mr. Allen noted that the first question the Board needs to address is how should the CFR be structured? Should it be structured based on agencies or ideally should it be structured based on the largest 25 programs? Since joining FASAB, all the user needs research the Board received would say it ought to be ideally structured based on the 25 largest programs. Also, there would need to be linkages so that a user could identify the agency(ies) involved in those programs. Thus, agencies may need to use classifications consistent with the government-wide scheme and show the percentage that they contribute.
- Ms. Davis noted that she reviewed agency financial statements and determined that the top ten programs accounted for 68 percent of the government's net cost and the top 25 accounted for 88 percent. Accordingly, the top ten or 20 programs would cover most of the government's net cost.
- Mr. Dacey noted that users have primarily expressed interest in sustainability information and, if the CFR reported cost by programs, agencies would need to change their cost systems. Agencies are engaged in reporting on performance and it is not clear whether agency programs align with their strategic goals.
- Board members discussed challenges in defining "programs" and Mr. Reger noted that the term should be used consistently rather than defining the term differently depending upon the application. In some instances, a program could be considered an entire agency, but in others it could be a sub-set of an agency. The Board would need to decide whether it would like a program to be something larger or smaller than an agency. The Board should reconcile its definition with the Department of the Treasury's and the Office of Management and Budget's (OMB) definition.
- Mr. Showalter noted that citizens really care about what services are being provided and he suggested that the Board consider using the term services – consider what services the federal government provides on behalf of citizens. Mr. Allen agreed that the term services provided a better description of what should be reported.
- Mr. Steinberg noted that if the Board believes that service level is important, reporting service level will drive agencies to report their costs by strategic goals rather than organization or appropriation as some do today.

- Mr. Simms noted that the 1986 Government Accountability Office and Canada Auditor General user needs study discussed that users seek information on the cost of programs. However, the report noted that in the U.S. presenting the cost of programs was not practical. Today, based on recent user needs research, users continue to expect information on the cost of programs.
- Mr. Smith noted that he supports the term service and noted that although presenting cost by service or program may not be practical today, it does not help if the Board chooses something else that is doable. The conceptual guidance could become outdated once the capability has been developed. Thus, the Board should state what it believes to be proper reporting so that the community could at least start moving in that direction. It appears that the only reason that the Board does not require reporting services or programs is that the approach is not practical at this time rather than it is not right for reporting.
- Mr. Granof noted that the government should have a system where users can drill down to performance information that is quantifiable and measurable. If the CFR were to present cost by program or services that would be good but it may be difficult to do.

Cross-Agency Programs

When discussing a program-based scheme for reporting costs, some Board members noted that users seek a cross-agency perspective.

- Mr. Showalter noted that the Board has discussed users' need to review cross-agency programs. Accordingly, the conceptual model needs to provide a cross-agency view as well as drill-down.
- Mr. Granof noted that the idea of cross-agency programs is great in theory but has not worked in practice. For instance, the benefit of program budgeting was that it cut across departments. However, this accounting system did not mirror an entities' organizational or budgetary structure. If the accounting system has cost information that is not the responsibility of the manager in question, that particular manager will not take the system seriously. Consequently, a successful accounting system must have buy-in from the users so that they can get information to help them manage.

Overall Comments

Members also provided comments that could be considered as the Board continues to develop conceptual guidance for reporting costs and other flows:

- Mr. Showalter noted that while the Office of Management and Budget (OMB) and the Department of the Treasury are engaged in various initiatives, such as the Data Act implementation, the concepts statement affords the Board an opportunity to communicate how it thinks costs should be reported. The Board

should state what it believes is the proper reporting and, if it is classifying costs by program, this will inform the community about what the Board believes. The only reason the Board went away from the program classification was because it was not practical rather than the Board does not believe it should not be reported.

- Mr. Dacey noted that the Board should consider the purpose of the CFR. Does the Board believe that citizens should consider the CFR to be their source of information or should citizens have drill-down capability to obtain better insights into government spending? Also, the Board should invite speakers to inform the Board on the government's performance reporting efforts.
- Mr. Granof noted that the Board should not establish a concepts statement that is theoretically the right statement but implementing it would be so difficult that it would not be accomplished in our lifetime. It will be difficult to get buy-in if the accounting does not mirror the budget.
- Members noted that the class (function, agency program, etc.) that the Board intends to discuss in the conceptual guidance would need to be defined. The definition could help clarify the scope or what items of information should be included, minimize the risk of overlap, facilitate analyses, and ultimately help users understand the information presented.
- The Board would need to consider what class definitions have already been established, such as the definitions of budget functions and ongoing efforts to provide program data.

CONCLUSION: For the October meeting, staff will develop a working draft concepts statement and invite agency CFOs to speak to the Board on what information would be useful to report regarding costs and how costs are being classified in financial statements currently. Also, staff will provide a presentation on current performance reporting efforts.

- **Steering Committee Meeting**

The Steering Committee discussed the decision to fill the current staff vacancy and updated FY2015 and FY2016 budget projections. The projections were higher than anticipated due to uncertainty regarding final salaries and planned efficiency measures. Ms. Payne committed to updating members regarding progress on filling the vacancy.

Adjournment

The Board meeting adjourned for the day at 4:45 PM.

Thursday, August 28, 2014

Agenda Topics

- **Annual Report and Three-Year Plan**

Mr. Allen began this portion of the meeting by inviting the Executive Director to introduce the topic for discussion. Ms. Payne stated that the first order of business would be to begin the session with a review of the annual report and member revisions. Ms. Payne stated that she appreciated receiving comments from members and that the list of changes she prepared was not all-inclusive, but contained changes she thought would be helpful to think about during this session. In addition, she invited the entire staff to the table to help answer member questions concerning project resources and resource needs in other areas.

Beginning with trends, Ms. Payne stated that there is a list of areas to cover in the annual report so that it meets the oversight goals set during the AICPA reviews. We have now reached the point where we can present five-year trend information for the first time. Therefore, the first question is whether members believe the charts presented in the staff memo have value or if another format might be desirable. Specifically, would members prefer narrative discussions as opposed to graphical display of trend-data presentation?

Ms. Payne then directed members to Tab E, pages three and four and explained that a numerical survey or a survey can be presented in count format as opposed to (descriptive) narrative format noting that there are only three of the five areas where we have that sort of information. The remaining trends, independence and resources, we have always talked about in the narrative rather than in terms of numbers.

Mr. Allen stated he would not include the charts noting that he would prefer a narrative discussion rather than the charts. The subject matter does not lend itself well to charts.

Ms. Davis stated she preferred the charts.

Mr. Granof said he did not find these charts particularly useful because we are dealing with so few numbers. Having such a limited number of data points is very misleading and in fact one person, or one year, could make for a significant change and the chart will look entirely different.

Mr. Steinberg concurred.

Mr. McCall echoed Mr. Granof's comments noting that he too did not find them very helpful.

Mr. Showalter saw value in the charts but noted that with so few or small data-points, that the Board could adequately comment on these areas with a narrative.

Mr. Smith concurred with his colleagues but stated if a graphical presentation was to be used, he would recommend pie charts as opposed to linear presentations.

Mr. Dacey stated that he preferred having a narrative rather than presenting charts because of the small numbers that look across a five year history. The charts do not really convey much meaning and that meaning could probably be better expressed in a narrative.

Ms. Payne then asked if the narrative on page 4 hit the right tone. That is, are those the areas now expressed as trends that members would highlight or would the Board describe them differently?

Mr. Reger expressed concern using the word "despite" and wondered if there was another way of addressing the on-going challenges associated with reductions in resources. The word "despite" is used elsewhere in the report in similar context.

Mr. Granof asked what was specifically wrong with using "despite."

Mr. Reger went on to explain that "despite" does not seem to infer the right amount or nature of due process that the Board is exercising. Specifically, most members did not observe declines in quality despite reductions in resources. The Board will probably continue having challenges presented by resource allocations, but he did not think that they are the underlying factor causing us to do things. They are just challenges that we face. He concluded by saying that his observation might just be a personal preference.

Ms. Payne acknowledged the member input and suggested changing to "notwithstanding," and making conforming edits as required.

Mr. Dacey then inquired about a comment in that sentence concerning declines in quality; "...our members did not observe declines in quality" that seemed to strike a negative tone.

Mr. Showalter suggested something along the lines of, "We have sustained the quality or maintained the quality."

Mr. Dacey concurred noting that Mr. Showalter's suggestion was a little more positive.

Ms. Payne stated that there was always room for editorial input directly to her even after the meeting as she explained that she received a number of editorial comments from members. In particular, Mr. Bell provided several that were sound improvements but purely editorial.

At this time Ms. Payne asked if there were other suggestions or revisions to the annual report section before moving to the 3-year plan. She noted that she would be updating numbers reflecting the 2015 budget and that members would see this in the next draft. Ms. Payne then advised members that we have obtained approval to fill our vacancy as a GS-14/Band II-B and that this is a lower level position from our current assistant

director posts. Nonetheless, the person will report to her and the plan is that the new person will work on the AAPC and pick up on other projects as well.

Mr. Smith asked when the report would be issued.

Ms. Payne replied November 15th noting that members would likely see the document twice more at a minimum with the 2015 budget numbers included and all accompanying editorial changes at the October meeting for final approval.

Mr. Smith then asked when the Reporting Entity standard would be issued noting that he was not certain if the time-line in the back of the report was accurate.

Mr. Granof then noted that Mr. Smith was inquiring about the section on completed standards on page six of the report.

Mr. Reger asked about allowing the additional year on the long-term projections.

Ms. Payne replied that we have already gotten a comment to flip the sequence to reflect the Reporting Entity first, followed by the deferral.

Mr. Reger acknowledged the edit as being good while further noting that he would expand commentary on the Reporting Entity because it is a major project. However, the long-term fiscal projections project is not a project the Board needs to be particularly boastful of because of the one year extension.

Ms. Payne acknowledged Mr. Reger's comment and stated that one of the components of this exercise is to garner ideas from the survey results and she welcomed member suggestions concerning what should be emphasized and/or some suggestions for ideas for improving next year's effort.

Mr. Showalter suggested re-phrasing the comment concerning the Board's efforts around its issuance of standards. He suggested a paragraph serving as an introduction or lead-in such as; "This is a year where we moved forward on a lot of standards...." People that are checking the box on completed standards should be reminded that there was a lot of effort done on these other projects. We should not assume people will get the point unless we clearly make it. We have made progress on a lot of things moving forward. They just did not get issued and we ought to say that instead of imply it.

Mr. Allen replied that this is why we decided to take credit for the Reporting Entity project being completed in this reporting year.

Mr. Dacey then asked if there was a need to segregate the completed and the ongoing efforts in separate captions as opposed to describing the activities during the year. He posed this question because the ongoing section talks about these other things. We have segregated the completed from the ongoing and, in fact, you could potentially move the long-term fiscal projections into that discussion if it were one section. Also, you have many comments on the very last paragraph on page six. The last sentence

seems to be disjointed: "The ideal model will focus first on flow information and decisions about next steps will follow."

In reply to Mr. Dacey's first point, Mr. Allen noted that all the Board is simply saying is that they have completed an ongoing project.

Ms. Payne then added that we can re-title that section to "Standard-Setting Activities." She then went on to explain that this is how things made it onto the list she handed out to members. For example, the series on the Reporting Model was an area she received the most comments from members asking for some restructuring, re-sequencing and clarity of those next steps areas.

Ms. Payne said that we can treat that as an editorial fix and if on the next draft the improvements still do not satisfy member concerns, we will keep working the edits.

Ms. Payne then asked members if there was anything in the area of governance and operations that they wanted to discuss such as any thoughts about what should be included or ideas for improvement. She stated that one member commented that it would be helpful to know what other members have said before discussing comments as a group. However, she noted that this is a little challenging because we do not want to cut the process off too soon as we often hear from several members quite late; for example, the Monday just prior to a Board meeting. As such, it is hard to give you feedback on the changes earlier and so to address this matter, we decided having these at the table first thing when you arrive and, if possible, emailing them on Tuesday as well.

Mr. Dacey mentioned two matters in particular: the timing of materials and that there seems to be concerns mostly about resources. Therefore, we would need to update the decisions on adding staff and clarify that issue accordingly. If the Board has no other concerns, the report should state that fact before identifying any particular actions we believe are necessary to respond to. We should have an affirmative statement that we discussed the concerns and did not identify any actions that needed to be taken. Moreover, do the Board members have any specific actions that they would take in response to any of the comments?

Mr. Allen replied that he did not know if he would say the Board did not notice any actions but instead would like to say we discussed them and staff would be considering ways that we as a Board may best respond to the concerns raised. Mr. Allen thinks we actually noted these concerns from its due process review of the document and that for example, if we are seeing declines portrayed on the chart on page ten, then he believes we have an obligation to address that matter.

Mr. Dacey concurred saying that Mr. Allen's suggestion was fine and he was trying to avoid any implication that there are the concerns we did not talk about.

Turning to Ms. Payne, Mr. Reger asked her how she felt about that idea to which she agreed and noted that several members have said that one or two additional staff are needed and that illustrates that this is an ongoing concern.

Ms. Payne went on to say that she felt that this matter is fairly addressed in the draft presented. The other items noted on the survey were really the positive result of the direct interaction of bringing more people to the table during meetings. The challenge for staff in sustaining the improvements we have made so far is in getting people here at just the right time for the Board to interact with them.

Mr. Showalter then asked about the comment concerning virtual meetings.

Ms. Payne replied that a few years ago in response to growing budget constraints, the federal community at large was tasked with reducing travel costs. Naturally, the thinking was that FASAB should also reduce travel costs. We do so at the task force level – for example, Ms. Gilliam runs virtual meetings with her task force. What we found is that people who are not present in the room need to be called on for a specific question in order to generate participation. At the full Board level, because it is the non-federal members on our Board who would not be in the room, it would be a disadvantage to them. Ms. Payne expressed her reluctance to put non-federal members on an uneven footing with the federal members. Also, not bringing members in every two months would not save enough to allow us to hire another staff person. We also talked about using virtual meetings to more evenly spread the work so that instead of every two months, you met every five to six weeks, and so like GASB, have a virtual meeting in between the in-person meetings. That is not quite as much putting non-federal members on uneven footing and it might be something we experiment with in the next year or so.

Recalling his days at GASB, Mr. Allen stated that he believed meeting monthly was too often inasmuch as staff could not get ready for the next meeting. What GASB did learn was that there are topics that are best discussed in-person, and face to face, and that there are other topics that can be effectively done in a virtual meeting. However, you cannot simply overlap the two. For example, if you are talking about a three-year plan, that discussion needs interface and members need to be here. On the other hand, if you are talking about final edits to a document that effort could be handled in virtual meetings.

Mr. Showalter stated that he did not know legally what was permissible in the interest of the fair and open nature of the Board meetings. That was his first impression; is this even possible under our framework? His second reason for asking the question was not to reduce the amount of meetings now held but rather, could we possibly move things forward quicker instead of doing email and/or having a conference call.

In reply, Ms. Payne said that if we have a conference call meeting where we have people on the phone, we still have a public access requirement. In essence we would always be in a room with the public being able to observe. There are some challenges with using WebEx and other tools that are for online collaboration. Notably, there are

real challenges to creating a public record. So for example, a lot of people use WebEx to allow participants to type in what they want while others read the screen and react.

If we let Board members do that, we would have to find a way to capture the screen for the public record. Using today's technology we would never be able to satisfactorily capture that information to comply with the FACA requirements as governed by the GSA Secretariat's policy. To Ms. Payne's knowledge, GSA has not yet approved a web-based system although they have experimented with the concept. Therefore, Mr. Showalter is right in noting public access problems. For example, if we had the flexibility to do this, it would have been beneficial to staff when working on the final edits to the Reporting Entity standard. We could have done a conference call halfway between the last meeting and this meeting to go over the wording and any tone issues. Everything that we did yesterday, we could have done with people on the phone.

Mr. Dacey recalled that the Board had some experience conducting a meeting via phone last October because of the government shutdown. He went on to say that he did not know what GASB's experience was in this regard but he thought the meeting was somewhat limited albeit the nature of the topics may have contributed to that experience.

Mr. Showalter made it clear that he was not supporting that idea but he raised the question because we have a comment that says we need to consider technology as if we have not. As such, we may need to think about addressing that in this report.

Mr. Allen added that the Board could simply acknowledge that we have tried it in limited circumstances and dismissed it. Mr. Showalter concurred and added that he realized these are anonymous comments but if any member would like to suggest the technology enhancements, we should consider that would be something good to discuss now. He was not sure what the thought was behind that comment.

Ms. Payne explained that these comments are compiled by our administrative staff and the result is a truly anonymous list. She did not know whose comment that was and when she first read the comment, her thinking was that virtual meetings are currently popular. However, for FASAB that creates public record problems. This might be what the person had in mind.

Mr. Steinberg shared that there was an article in Government Executive Online earlier this week about the ten problems with virtual meetings.

Mr. Granof said that his experience at GASB conforms exactly to what Ms. Payne has said. Virtual meetings are not the same and people must face that fact. Basically, they are somewhat effective if you are doing rather perfunctory work such as editing. However, people do not speak-up the way they do in regular meetings and you always get the feeling that people are doing other things while they are on the phone. The fact is that you miss the body language and an individual's expression while never knowing how your comments are being accepted by others.

Ms. Payne stated that she will add something in the next draft about our discussion of technology, and explore potential opportunities in the long run, not in the near-term that we can consider. Additional challenges with asking you all to participate in a phone meeting and between meetings is scheduling and compensation. Also, such meetings will need to be placed in the Federal Register notice requiring us to think far ahead to announce and plan. In short, there was a lot to pulling off the public meeting, even with a phone line. Ms. Payne concluded by saying that she would address this in the report as a long-term area to think about; that is, how to leverage technology to achieve even greater communication between members and staff.

Mr. Dacey said that there are two sides to consider; one is speed and the other is cost. He does not believe that anyone is proposing that we not have meetings because of cost reasons. However, there could be efficiencies if you did things in between meetings, but he too was not sure if that was the basis for the comment. He went on to say that he did not know why we would substitute virtual meetings for physical meetings.

Mr. Showalter clarified that he did not ask his question in that context. He did not know if having virtual meetings was even possible given FASAB's constraints.

Mr. Allen then said that he did not think there are cost factors pointing to GASB where they did not pay any more because of meeting less frequently. However, FASAB meetings are scheduled to be two days and are often a day and a half and on occasion we have only had one day meetings. He thinks we could say that we will use virtual meetings as needed such as having periodic telephone conference meetings between our Board meetings. The Chairman then stated that he would not be opposed to considering moving some projects forward quicker if we could have short, in-between conference call meetings. Additionally, he did not think there would be enough time to justify having any increased compensation.

Turning to Ms. Payne, Mr. Reger inquired about the requirements over document editing. Ms. Payne answered by saying that we are allowed to do administrative or educational type work and hold non-substantive dialogue in between meetings. Also, staff is allowed to work one-on-one with members. Therefore, when we send you a document, you are communicating back directly to the staff; you are not communicating with the full board nor are you attempting to influence one another. When we work on a document and you send an email to staff, the email will usually be entered into our permanent records to meet our public access requirements. Also, when we discuss matters on the phone and we write notes, those notes also go into the public record. For example, although technically problematic, we could explore how to sequence or categorize existing material permitting us to have a phone call that was not an open meeting. However, Ms. Payne cautioned that this could be a technical challenge.

Mr. Smith stated that one of the things we may want to consider is when we do the schedule for next year, to identify the off months and set a time for us to have a conference call lasting no more than three hours. This would help take some items off the agenda by identifying topics that can be handled telephonically. Also, because we

always have follow-up items, whether it is editing or something else, these in between calls could be used to touch base.

Ms. Payne said that she would check the calendar.

Mr. Allen then asked if Mr. Smith's suggestion is even doable because the sponsors tend to be hardest people to schedule and he wondered if their schedules were flexible enough to consider this suggestion.

Mr. Reger replied that sometimes looking ahead and fixing a date certain is the only way to get it there. However, he then said he was more interested in collaborative tools that he sees in use where multiple people can work on documents. For example, let us take our annual Board report, we could place it out there and multiple people can suggest edits. However, it does not become a document until you get further along down the path and people start to coalesce around changes, and then you have something that you move forward in the process. The Treasury has an online tool to clear documents through Treasury and there is a similar process at OMB, where a document moves around the process where multiple people can edit the document at the same time. We found it very helpful to reach collaboration around concepts, without having to go through huge numbers of layers of re-circulating things over and over again with the same people, by allowing them to all sort of collaborate. Mr. Reger said he did not know how FASAB could do something like that or if it would even be allowed because we are more about influencing people via deliberation. However, such editing tools do seem to function fairly well as a collaborative tool.

Mr. Reger continued with an example of his former Treasury office's use of such tools when composing the MD&A. Mr. Bell might get a draft of some language on economic information from OMB and in turn, he begins to obtain some comments from his colleagues at Treasury. The document goes back and forth several times at that technical level before it actually starts to circulate to people higher up the chain of command. That is, there is an opportunity for our staff to use those electronic tools before we all do. Mr. Reger questioned if the Board needs to be limited by what we face with the existing meeting technology because there seem to be unique ways around the sharing of information intentionally to reach collaboration.

Ms. Payne responded by saying that one thing we could do is to start identifying tools and begin using them with our task forces before adopting them for Board use. This would be a good test case and in the meantime, she will get an update from the GSA Secretariat to see if they have approved any tools for online editing. This is a great idea, but the public record aspect of it may be a huge barrier for us. The GSA Secretariat has talked about how to let outside parties authorize this because we have to document the outside input we receive. So, a simple idea like a public "wiki" where people can offer edits becomes a problem for us. Nonetheless, Ms. Payne stated that she would research the matter further and advise the Board accordingly.

At this point, Ms. Payne redirected the conversation to discuss the three-year plan as it relates to the P3 project and whether a pause between Phase 1 and Phase 2 should be

taken. She referred to the memo where advantages and disadvantages are discussed and then invited Mr. Savini to share any opinion regarding the deferral pending before the Board.

Mr. Savini noted that his federal service includes over 30 years of serving the public and that as a public servant, he will defer to the Board's wisdom in this regard. He asked that members analyze the deferral option soberly because we have all spent a lot of time learning this new area and have gained momentum that we continue to exploit.

Mr. Allen then asked if the memo captured everything that needs to be considered and is there something that we need to focus on more than others.

Mr. Savini provided a simile/metaphor to express his views that each project and project manager have distinct tempos driven by unique variables. Our work can be likened to Formula 1 racing where in addition to exceptional race cars you have highly professional and exceptional drivers. For example, you could take a Ferrari and its driver and put them on a different race track that they are unaccustomed to and you will not get the same performance from either the car or the driver that you expected; the engine will not hum the same, the car will not be to make the tight corner turns, etc. The Board has to understand that we are each professional drivers here on staff and we know how to drive on specific tracks. The assumption should not be that we are interchangeable to the degree that might appear on paper. There are some intangibles that have to go into this, such as personality, style, etc. Also, F1 drivers are not discourteous to one another. That is why it is often called a parade, because they do not bump into one another. We stay in our own lanes because we are professionals.

Mr. Allen then asked if the point being made is that staff wants to stay dedicated to the P3 project.

Mr. Savini replied in the negative noting that his track is whatever track the Board thinks he is best suited for.

Mr. Granof then stated that he was a little confused about this issue and wanted to know how it arose.

Ms. Payne replied that at the end of the April meeting someone asked if in fact we should proceed directly from the disclosure phase to the recognition/measurement phase. That is, the question is if there are really problems in the recognition and measurement area that require our attention or can we wait and see what we learn from the disclosures standard and then come back to work on recognition of measurement.

Mr. Granof then asked if a recommendation was being made.

Mr. Steinberg replied in the negative but added that for various reasons he thought deferral would be appropriate. First, the standard on disclosures will not become effective for a few years out so we will not even see the disclosures to know what is in them to be able to decide what we should do about measurement or recognition, and

second, as we have deliberated throughout this project, we have been asking whether and to what extent P3s exist.

Mr. Allen added that the Board has even wondered whether they would be material enough for the Reporting Entity to report.

Mr. Steinberg concurred with Mr. Allen's comments and went on to say that we do not even know whether agencies will feel P3s are material enough to report. If so, we may not even get that much reporting. Therefore, if we do not get that much reporting, how could we address measurement and recognition issues? The third point is that although there is no doubt that P3s are important, they are probably more important at the local level because the risks have a much greater impact on a local government's finances and a local government politician's ability to stay in office, etc. Mr. Steinberg went on to say that he did not think that P3s were any bigger of a risk than other things such as the Risk Assumed project. Although it is true that we have got a lot of momentum, we started that momentum a year and a half ago, and we did not have any prior to that. As such, we can regain that momentum pretty quickly at any time.

Mr. Granof suggested that we take an approach similar to what the GASB does in such cases. GASB reaches out to constituents and particularly its advisory council and asks them to prioritize various topics. In turn, the staff then does research on those topics. Therefore, to what extent do various constituents, both preparers and users, consider this to be a problem? Staff should indeed investigate to see if there is a problem.

In reply, Ms. Payne noted that when we put the three-year plan out each year we do get feedback from people who have concerns. P3s were at the top of the list about two years ago and a couple of agencies asked if they could join the P3 work, because they thought it was important. We may not get 24 letters from 24 of the largest departments and agencies, but we certainly did not undertake P3s because we thought there is no issue. We can emphasize this matter in the questions that we send out with the plan keeping in mind that you will get those responses before the exposure draft process resolves itself on disclosures.

Mr. Granof then said that when this was first put on the agenda, he was under the impression that P3s were a very important topic and since then he continually hears about P3s. They are in the paper all the time and from FASAB's clipping service we always have articles about P3s. So, what has changed?

Mr. Steinberg asked if the articles about P3s were at the state and local level or at the federal level.

In reply, Mr. Granof noted both. In fact, there was a recent article about the President's discussion of trying to use more P3 arrangements for infrastructure.

Turning to staff, Mr. Smith asked if there is anything that came to FASAB's attention, that would make us believe that P3s are less important now than when we first brokered the subject a couple of years ago?

Mr. Savini replied in the negative and noted that after the Board did its initial identification and ranked this as a priority, staff held fact-finding meetings and in addition to forming a task force, visited agencies and an IG. All of these venues expressed concerns about P3s. Staff went on to say that you could very well defer the project but you are not deferring the problems and this means staff will probably still have to entertain whatever questions might arise. For example, when the Reporting Entity becomes effective, people are going to come and ask us how this impacts P3s. Therefore, you are not really deferring the work but could wind up imposing a greater burden on staff.

Mr. Granof stated that it seemed to him that if we keep phase 2 on the agenda, if we start now with recognition, it will be at least two to three years before we get a statement out, and then another two to three years before implementation. As such, if there is a problem, if we start now, we are looking at a minimum of five to six years before any new standard comes into effect.

At this point, Mr. Savini reminded the Board about what happened with the deferred maintenance project. Initially staff had proposed that the Board develop a definition and as some of you may recall, staff received pushback from certain members. However, if you turn to this month's clippings in your package you will see an article where a House Committee working on federal infrastructure was being briefed by GAO and the GAO representative basically said the government needs to adopt a uniform definition for deferred maintenance. In short, we were not caught flat-footed. Staff believes you have to try to look ahead and intuitively say, do we see P3s potentially rising in importance? If you do, let us stay on top of the power curve and let us stay ahead of it. However, if you do not and later something happens, matters will be harder to address. Again, in staff's opinion you may be deferring the project but not the associated problems or work.

Mr. Smith stated that he thought it is clear that we need to go down the path of recognition and measurement. The Board agreed to start with disclosure and then we take on recognition and measurement next. If we do not go and at least get the input back from people trying to adopt disclosure, then why did we piecemeal the project in the beginning if we are not going to take the benefit of what we learned from disclosures? Whether you call it deferral or something else, you slow down and have a very long time frame. He does not think we can get to what we want for phase 2 purposes until we actually have some people adopting and giving us some feedback. For example, what are the arrangements? How material are they? How big of a problem do we have and where do we want to go? Mr. Smith warned against having to amend what we do in any forthcoming measurement and recognition work because we fail to consider feedback from our disclosure standard.

Mr. Dacey inquired about the interrelationship between the property standard for recognition and the lease standard for recognition, which will essentially put a lot of things on the balance sheet that are not there today. How does staff see that interaction? That is, we may adopt concepts that we develop for the lease standard for

P3s or apply them to P3s. How much do you see as a difference in recognition, that would not probably be addressed through an existing property or a new lease standard?

Mr. Savini understood the question to be really asking about gaps existing in current guidance. For example, when you look at the Reporting Entity standard, Ms. Loughan has done a wonderful job of providing an illustration of a P3 arrangement. Reasonably assuming that some P3s will not meet the requirements of that standard, we are going to need to provide guidance. There is not much guidance out there for preparers to use because the other standard-setters have not really broached this area and have limited themselves to service concession arrangements. Moreover, practitioners will need help addressing what will look like to them as competing guidance. For example, you have the leases standard that will deal with leases next to the Reporting Entity standard and the P3 disclosure standard. That is where the recognition and measurement piece would come into play. For example, what is the appropriate order of precedence that practitioners should follow?

Mr. Dacey stated that dealing with leases is challenging because we have the concept of operating leases, and we are not sure where P3s would fall in today's lease analysis if you tried to apply that to capital versus operating criteria. However, he thinks that the new lease standard will bring in a lot of the concepts which may be directly applicable to many of the P3 arrangements. The question really is more of trying to sort out whether or not it is better to think about the leases project and try to get that done first as a prelude to the P3s so we can capture a lot of the issues that would be P3-related. Mr. Dacey noted that he has some sympathy for that because he knows some of the other standard-setters have looked heavily to the leasing property standard for service concession arrangements to draw their recognition guidance from.

Mr. Steinberg agreed with Mr. Dacey and further noted that staff actually supports the reason why we should stretch this out, when Mr. Savini referenced the Reporting Entity and the Lease standards. For example, the Reporting Entity does not become effective until FY '18 and the Lease standards will not be finalized until FY '17. Both of which means it will not become effective until probably about FY '19. Therefore, these questions that staff says are going to come in are still three to four years away. As such, he was not even sure how we can write standards when we do not even know what the questions are.

Mr. Savini replied that Mr. Steinberg's observation was a fair assessment and although what we are openly discussing is very valuable, staff believes the Board needs to look at two other things. First, its ability to digest information or projects going forward, that is, the type of project the Board is willing to handle. Second, staff needs to know what you expect from them. After you answer these two questions I think you can decide amongst yourselves what you think is best, because there is merit in deferring the project, absolutely. However, what are you getting in return for deferring phase 2?

Mr. Steinberg noted that FASAB has extremely effective staff members and simply put, there are more important projects that staff can be working on.

Turning to Ms. Payne, Mr. Allen asked to talk about the February prioritization meeting.

Ms. Payne said that the February prioritization meeting will be based on the feedback we get on the annual report. Therefore, what members are really trying to decide today is what you want to propose and get people to comment on. That is, based on what you know today, what would you plan to do, and then you might get feedback that would persuade you to not defer or defer. February is when we will start talking about the final decision. Keep in mind that the ranking wraps up around June and that we keep February, April and June open to discuss our plans for the next year going forward. However, the Board will need to make a pretty firm decision in February concerning this project's deferral. Ms. Payne asked members to really look at this issue and decide what they may want to propose. In the meantime, staff will be putting out an exposure draft and doing outreach in addition to addressing/processing the comment letters and assisting other staff project managers, as required. So, there are other activities going on during that 90-day disclosure period.

Mr. Allen then asked Ms. Payne if this was a preliminary decision subject to the more final decision in February.

Ms. Payne replied in the affirmative.

Mr. Steinberg said he believed that there is a problem with that process inasmuch as a preliminary decision shows us moving ahead into the next fiscal year.

Ms. Payne advised Mr. Steinberg that this portion of the plan will need to be updated pursuant to the day's discussion.

Mr. Reger then stated that is why he presumed members were having this discussion now about the P3 project. However, if we were to defer phase 2 for a while until we learn these other things, what would you assign staff to?

Ms. Payne asked members to turn to page six of the briefing memo to review new areas. The first would be the Reporting Model project. As you know, reconciling budget to accrual relates to the reporting model. We made a decision in the last several meetings to try and address this lack of alignment between the agency and the CFR reconciliation. So, that would be the most immediate thing and then after that, also relating to the reporting model, we would envision support on the agency piece of the financial reporting model and conceptual framework. As a result, Mr. Savini would work on one piece of the reporting model, and Mr. Simms would continue working on the global reporting model.

The second option is supporting risk assumed by stepping out of the phases. Currently, we have risk assumed broken into insurance first, followed by the two other phases. Mr. Savini's role would be to come up to the conceptual level and look across and see if we could pull the general concepts together, what disclosures do we have now and where are the voids in our current standards. This could be an evaluation of SFFAS 5 in other words. A third option is tax expenditures. The Board may not have

great or grand expectations of reporting on tax expenditures, but if we went forward with at least a sense of what the minimum requirements should be, readers would be enlightened concerning what tax expenditures truly represent.

Mr. Allen observed that this could be potentially a disclosure standard before a display standard on tax expenditures. This project would probably be broken into two parts.

Mr. Showalter said that it would be helpful to get feedback on whether to defer phase 2. Normally, when you distribute the report we just ask for comments, however, we may want to ask a question to draw attention to this particular area because people may kind of gloss over it. What he has taken away from this discussion is how the Board defines deferral. Is it a deferral or is it a slowdown? We probably have different definitions of deferral in our minds.

In response to Mr. Showalter's observation, Mr. Allen recalled that he remembered this project as clearly demonstrating a need for disclosure, particularly risk disclosures. The Chairman always thought it had been framed in terms of once we complete that phase and get more subsequent information, we would then proceed with the second phase, which is a display phase. That is, it is not an automatic move to the second phase. We would move to the second phase if we decided that there were significant enough gaps that we ought to have those gaps addressed. The Chairman expressed sympathy for those people who say "deferral."

Mr. Dacey stated that he thought there could be some benefit in the short term to conducting some research into that area of interaction between leases, property, and P3s to identify any gaps. If necessary, as we develop a lease standard, it might be helpful to bring in more information if we need to address those gaps and if not, to begin thinking about whether or not we want to do some more research on that gap. Currently, we do not really understand that gap well between Leases and P3s despite the close association between them. One possibility might be to think about a research phase into that gap. In the short term that seems to be a good use of time as it will also inform our Leases project.

Addressing staff, Mr. Reger stated that it struck him as we deliberated P3s that there were lots of things that were coming out concerning such things as what the risks were and what the potential risks might be and how to calculate them, etc. However, when he started reading leases, he became flummoxed and realized that this is all related somehow and it may even be related to the Risk Assumed project; meaning that at some point we need to figure out what the disclosures are for each of these areas. We are likely to lean on that heavily for all three of these projects and somehow they are possibly all related in more ways than we first thought. What is staff's opinion? Also, is there a benefit to pausing? It strikes Mr. Reger that if we piecemeal these and do these one at a time, we are going to look disjointed.

Mr. Savini stated that he shared Mr. Reger's concern that if we are not careful, we will have a disjointed response to inter-related issues. Mr. Dacey is basically describing how staff would begin the second phase of the project in any event. We have already

identified 17 accounting issues, four of which directly touch upon leases and staff thinks that Mr. Dacey's suggestion to conduct a research phase is what needs to be done. Researching is not a simple thing to do and staff is not going to be able to do that with just two hours a day. This is going to be full-time because we need to reach out to technical experts at different agencies, get them together, and begin identifying and validating the issues. Staff reiterated their agreement with Mr. Reger noting that they did not believe handling this in an ad hoc manner is the best way forward.

Mr. Reger noted that he was incredibly enticed by Ms. Payne's suggestion that staff could work on the reconciliation project because he really wants to address that issue and get it done. We might actually be able to resolve this issue at least on Treasury's side of how to get to the consolidated statements, if we devoted the proper resources to doing the research of figuring out the alternatives to doing that. Staff said devoting two hours a day to doing a research project was insufficient, so is half a day enough? Or is this research a full-time job?

Mr. Savini replied that if Mr. Reger was looking for something by February concerning this research initiative, that is going to be full-time work in addition to issuing this ballot, and processing all the comment letters. This will take a lot of work, and you have to understand that we are understaffed. We have lost three people that just cannot be so easily replaced. All of us on staff silently suffer and absorb their loss because there are things that we know we cannot get done like we used to so we do our best sometimes working later or bringing work home on the weekends. This is the human side of this discussion that you do not have to consider but should be aware of.

From a personal point of view, staff notes that regardless of the project they are working on, they desire to make progress and not get stuck in the mud so to speak. Whatever the Board decides will be accepted by staff and in turn, staff will expect the Board's support.

Mr. Granof addressed the question about the relationship of this project and the Leases project. Obviously, there is a relationship but it seems that we have a pretty good idea of where we are going with leases; balance sheet recognition. Although we have a lot of technical issues which have yet to be resolved, it is a reasonable assumption that we are going to take some position comparable to the FASB or the GASB which basically involves showing the liability on the balance sheet. Therefore, is there anything more that we have to know?

Mr. Savini replied in the affirmative noting that we have issues in leases that have to be addressed such as the discount rate that might need to be used as it will probably be a different rate for P3 arrangements as a result of the risk profiles changing. Another issue is that current Lease guidance does not identify or define what an "inception of a lease" means. Is the inception of the lease the same as the inception of the P3 arrangement and how might this affect capitalization or liability recognition?

Mr. Granof then asked staff if we have to resolve the leases first, or if these are perhaps separate questions.

Mr. Savini replied that he thought these are separate questions that require coordination. That is, if the P3 project wants to divorce from the Leases project, it must do so amicably. For example, if we ascertain that for P3s we need to use something more like a market interest rate as opposed to a risk-free rate, we will need to develop a basis that is going to be different from Leases. This will require continued collaboration.

Mr. Granof then asked if staff was telling him that we have to wait until we resolve the leasing issues or that these can be addressed independently. Do you have to defer P3s until we resolve the leasing question?

Mr. Savini turned to Ms. Valentine for consultation in this regard by asking her if she thought we could do this together or independently.

Ms. Valentine noted that she and Mr. Savini are constantly in communication because there are issues that come to her in the leases project that she needs to talk Mr. Savini about.

Ms. Payne replied that what Ms. Valentine was expressing is that there is some synergy among the two projects because some of the same issues are addressed in each. While you are thinking about the discount rate for leases, you are also thinking about them in P3 arrangements and that they very well may need to be different. However, to Mr. Granof's point, one does not have to go first but you can consider them together.

Mr. Allen then said that the staff is working well together. The big dilemma he sees is what our role is as an office. For example, one of the main functions staff has to perform is to answer technical questions that come up. However, in terms of what we are trying to do as a Board, we give standards so that entities can have all of the financial statements prepared in a manner that will hopefully lend to their credibility through the audit opinion process. Hopefully, those financial statements convey the things that we put forth in Concept Statement 1 such as whether the government's position has improved or not. Mr. Allen pointed to the stewardship objective and then asked, with all this in mind, are there issues and questions in this P3 project that are going to rise to that level? Some will say yes and he does not doubt that. However, one could make a career and in the end not really know if these issues or questions had an affect on the entity's financial statement opinion. The Chairman went on to say that in his estimation, he would say probably not, especially when one considers materiality. This seems to hold true even for leases. Thinking beyond GSA, he did not know whether the liability recognition for those assets with an outside party would ever rise to the level that it may affect an opinion on a financial statement. As such, he questioned whether any P3 arrangements are going to rise to a level where they are going to affect the opinions on financial statements. However, there are other issues that are now rising to a level that affect opinions on financial statements and that is what he would like to sort out. Moreover, the Chairman expressed concerns about how staff would even go about monitoring these P3 issues. Again, do any of these issues rise to the level that affect the opinion on the financial statements?

Mr. Savini replied in the affirmative reminding members to think back to the financial crisis with Greece. The issue that kicked off the problem in that scenario was off-balance sheet debt. It seems like the Europeans are a little bit ahead of us here because they realize that there is a problem with off-balance sheet debt. Moreover, bond markets look at the federal government's financial position and condition, and they have to separately calculate what that off-balance sheet debt is in order to determine what interest rates should be paid by the Treasury. However, staff sees that the bottom line is that there is wisdom in deferring the project and no one is disputing that. Staff just asks that members compare those costs of deferring the P3 project to the gains of doing so. Staff has not heard where the gains are specifically expected to come from and remains unconvinced. Meaning this, if I were your investor, I would say wait a minute, you are certainly outlining costs, but what is the return? That is what the Board really has to decide. Staff will help you decide that, but that is your decision, because certainly there is merit in deferring but only in connection to what the returns are expected to be.

In reply to staff's point, Mr. Steinberg said that the return is that the other projects would affect an opinion.

At this time, Ms. Payne reminded the Board concerning the agenda and remaining time.

Mr. Reger briefly recapped the issue by suggesting that the question really revolves around how we ask a question in our plan to which the Chairman and Ms. Payne concurred. Ms. Payne replied by saying that the question could basically ask what is your position, defer or not defer.

Mr. Reger replied by saying that we can still raise the question that this issue has come up and do you have thoughts about whether it is a burden. Moreover, we can also change the wording to say the Board has tentatively decided to defer. Please provide feedback for our February meeting.

Mr. Steinberg said he preferred Mr. Smith's phrase that emphasized a stretch out of the P3 project.

Mr. Allen acknowledged Mr. Steinberg's preference and noted that this has been a good discussion adding a bit of levity saying albeit somewhat confusing.

Ms. Payne stated that staff has succeeded here at the table when they did not in our offices, because staff and she differed as she was leaning toward deferring, but now staff has brought Ms. Payne back to the center. The decision today really has the biggest impact on what Mr. Savini will need to focus on between now and February.

Mr. Allen noted that staff should be focusing on the current ED that needs to be issued soon.

Ms. Payne responded by saying that once we have received and processed the comments, staff will either start looking into researching as Mr. Dacey has suggested or commence new work. That is the trade-off decision.

Mr. Reger said he agreed that how you frame the deferral question is important because we want the reader to appreciate the effect of what we are saying so the comments we get back will be far more helpful.

Mr. Allen then asked what else could be done in place of the research. He then asked members for their thoughts. Do we present this as the Board has tentatively looked at stretching this project out or do we go ahead and leave it just the way it is right now? Do members feel ready to start the vote?

Mr. Steinberg replied in the affirmative, noting that he would vote to stretch the project out until we get the input from disclosures.

Ms. Davis concurred saying that she too thinks we should stretch the project out because we are going to be getting a lot of feedback from the ED that will lead to an informed decision in spite of her personal view to have staff working on the reconciliation effort.

Mr. Reger stated that this is a very hard discussion because he is not sure either. He would like to have the readers' interpretations and feelings on this subject. Which is more valuable? In staff's parlance, which is more valuable to us as a community? Mr. Reger is more inclined to say let us display it in a way that solicits comments without a strong Board view of which result is right or best.

Mr. Allen then asked if that meant leaving the language as it is now presented and ask the question.

Mr. Reger replied in the affirmative.

Mr. Dacey stated that he is not exactly sure what stretching out means or how we communicate that to the reader.

Mr. Allen replied that stretching out means we change the display in the plan.

Mr. Dacey continued by saying that we are getting back to his earlier point. He would like to know what the gaps are to make a better decision in the short-term and then to decide whether or not we should actually defer the project. From the standpoint of a technical agenda, he would envision some heavy duty research for a few months and then part-time support for the leases after that. His preference is to come back and revisit this issue in a meeting or two and see if there are some big issues here that we need to deal with and decide when to deal with them. He has concerns about pushing forward an actual standard development until we get some feedback from the disclosures and some input on the lease project. However, he has some sympathy for doing some research now so the Board is aware of any issues outside of those other

standards and the current standards we are working on that would be important to deal with in a timely manner.

Mr. Allen noted that this sounds like Mr. Reger's position; leave the display the way it is and ask the question.

In reply, Mr. Dacey said he was not sure if his approach is similar to Mr. Reger's and would defer to Mr. Reger for that assessment.

Mr. Reger stated that he was not sure either but he hears basically the same thing which is we need the information from the additional research to actually decide which has more economic impact.

Mr. Steinberg stated that he believed that was stretching out the project and getting feedback.

Mr. Dacey reiterated that what he thinks stretching out means is that we are moving this project down to a technical agenda level in order to develop a standard. However, in his mind we are not ready to commit to that at this point in time.

Mr. Allen agreed in part but noted that when it comes to display, we all are pretty close to the same position. It is a subtle difference to the display if the Board tentatively concludes to stretch the project out versus doing more research. The Chairman stated that he was more comfortable leaving the display the way it is and asking the question.

Mr. Smith stated he prefers stretching the project out so that a reader will see that we are not looking to get to a standard issued any time soon. That is, the Board will need much more information before considering a standard. That does not prevent us from doing things in the interim if there is some research suggesting that we take action. Therefore, as Mr. Dacey suggests, to the extent that we have got some items on the table, we can certainly take care of those now. In any event, Mr. Smith does not see final standard in the near-term. As such, Mr. Smith would change the display so that a reader would see that the project is being stretched out.

Mr. Showalter then suggested that in place of "developing" we should substitute "continue research in known areas". We ought to explicitly say that we anticipate receiving feedback from the disclosure phase before we actually finalize the statement. This is what he believes is the consensus around the table. We ought to be clear that we are probably not going to issue final guidance for phase 2 until a couple of years after the disclosure standard is issued and we have a chance to review its impact. Therefore, Mr Showalter thinks we have to stretch out phase 2 and be clear about that in the display box.

In reply, Mr. Allen said that he was having a harder time in terms of changing the display because part of the box and part of the project time table show a period of time for issuing exposure drafts.

In response to Mr. Allen's observation, Mr. Showalter said that no change should be made to the periods and that we hold fast to what is now shown. He thinks we should go into a research phase and condition the issuance of a phase 2 standard based on the feedback we receive on this document. He would not necessarily call this a deferral nor would he call this stretching out. What he has heard around the table is that members are saying that we are probably not going to finalize the recognition and measurement phase 2 until after we get some feedback. However, we may have some issues that we want to keep in focus.

Seeking clarification Mr. Allen then asked if that meant changing the display and not show the issuance of a final standard. Can we frame the question as a yes or no?

At this point, Ms. Payne suggested that we could make a new box.

Clarifying his thoughts, Mr. Dacey said that he could see us taking the public-private partnership guidance off of the top of page 15 and moving it down to the research box in terms of developing guidance on recognition and measurement. We ought not to be showing a standard-setting project at this time.

Mr. Allen concurred noting that this was his position as well. The Chairman then invited members to comment.

Mr. Showalter stated that this idea was more concrete as it illustrates what the Board means by stretching-out.

Mr. Granof expressed some concern that he was still unclear concerning what the Board really means by "stretch out". When we say "stretch out" are we talking about six years without accomplishing anything? In his opinion, the display changes are not really meaningful and to him what really matters is the amount of time staff is going to spend on this project. Secondly, if we begin work on this project we can stop and make decisions at any time as all of our active projects seem to be "stretched out" because we have one issue as opposed to another cropping up. Consider our work on the Reporting Entity and how that was stretched out. Mr. Granof stated that he was convinced from the outset that this is an important topic. We should go full steam ahead as issues will most certainly arise and this project will naturally be stretched out and delayed, but that does not mean we have to wait ten years to issue a standard.

Mr. Allen then asked Mr. Granof if he would then leave the display the way it is to which Mr. Granof replied in the affirmative.

Mr. McCall then asked what is it specifically that we are trying to decide.

In reply, Mr. Reger noted that the Board is really trying to decide how to nuance the question. He went on to say that the most important thing is that we ask people a question regardless of how it may be nuanced.

Turning to the Chairman, Mr. McCall asked if the disclosure ED mentions phase 2.

Mr. Allen responded by answering affirmatively but noting that it is conditioned, subject to the Board's ultimate decision.

Mr. McCall noted that the condition concerned him because he thinks this is an important topic even if it does not rise to the level that it is going to affect the consolidated statements.

Mr. Reger expressed similar concerns especially regarding the "conditional language" in the draft ED because such a decision needs to be informed by this discussion.

Redirecting members, Mr. Allen repeated the earlier suggestion that for display purposes on page 15, we would take the public-private partnership guidance off of the top of page 15 and move it down to the research box in terms of developing guidance on recognition and measurement. In so doing, we are not saying that we are deferring phase 2, but at the same time we are not saying we are moving to a final standard. What we are really saying is that we will posture phase 2 as important enough for our desire to issue a final standard on recognition and measurement in 2017. However, we could also posture and say that we are probably going to wait until the effective date of the disclosure standard before we would actually move ahead with an exposure draft on recognition and measurement. Keep in mind that if we are going to issue in 2017, you then have to issue an exposure draft in 2016.

At this time, Ms. Payne offered to send a draft of the plan sometime between meetings that will contain two or possibly three versions on how we can deal with the P3 project.

Mr. Allen asked Ms. Payne to choose an option on behalf of the Board to help facilitate the discussion.

Ms. Payne acknowledged the Chairman's request and then asked if there were any other revisions. Feedback was requested by the end of the following week for incorporation into the draft.

Mr. Steinberg asked for confirmation of his understanding concerning the Reconciling Budget and Accrual Information research project. Is this a reconciliation of the government-wide statement to the agencies' costs of operation, the reconciliation of budget to accrual in the government-wide statement, or the reconciliation of budget to accrual in the agency-level statements?

Ms. Payne explained that this research project would address incremental changes that would help the government-wide team get better data from the agencies to support the government-wide presentation. The goal would focus on (1) any quick fixes so that people at the agency level could better support the government-wide reporting level and (2) identifying what the ideal presentation might be to facilitate citizen understanding. Mr. Bell is trying to coordinate a meeting concerning this matter. Ms. Payne went on to say that it was her belief that the change would affect agencies and not the government-wide statement. If anything, there would be better alignment.

Continuing, Mr. Steinberg asked if Ms. Payne meant this would affect the way agencies submit the data to the Treasury department.

Ms. Payne stated that this would affect the reconciliation of budget to actual note in the agency statements. There is now a disclosure to reconcile net obligations to net cost, and so for example, we might change that from net outlays to net cost, or we might provide flexibility, so that it has to simply reconcile and allow OMB and Treasury to develop, through formal content, the pieces they need that they do not currently have.

Mr. Steinberg noted that the agency statement is a reconciliation not to outlays but to obligations which is different than the government-wide statement which is based on outlays. This is going to depend on the reporting model project. What we have been hearing from people is that the budget information they want is a comparison of budget to actual, as opposed to budget to accrual.

Both Mr. Allen and Ms. Payne concurred that the agency statement reconciliation is to obligations and not to outlays. Concerning Mr. Steinberg's second point, Ms. Payne said that she would envision a decision to be made in the reporting model discussion because everything will be on the table in how we present budget versus cost information.

Lastly, Mr. Steinberg asked if this initiative related to work done by AGA circa two years ago and if so, is this issue not more of a systems problem?

Mr. Reger replied in the affirmative noting that AGA did a lot of research and came up with a recommendation including required changes FASAB would need to make to the reporting standards. The basic question is what information should be consolidated and what information should reside at the agency level. Then, the next question is how we get to the AGA recommendation that you take the information from the agencies, gather any additional pieces of information you need and add them up, and then do the same at the consolidated level. We do not do this currently as we take both statements from Treasury's records and they are not reconciled back to the agencies records.

Mr. Dacey stated that this is not just a systems issue. There are systems issues, but it is not just a systems issue. There are two pieces. One is that currently we do not have presented in an audited schedule a reconciliation of accrual net cost down to the net outlays. Net outlays for all the agencies are conceptually aggregated together to give the deficit for the federal government. Now there are some systems issues in trying to reconcile the net outlays agencies report today in their SBR to the deficit that is reported and that needs to be dealt with internal to Treasury. However, what we do not have today is a schedule from the agencies which shows the reconciling items from again, net cost to net outlays. That schedule, if it were prepared by the agencies could be consolidated and put together and form the basis for the schedule in the CFS. However, it is not currently done that way. Mr. Dacey thought that the AGA recommendation was for agencies to submit the information in a format that Treasury can simply consolidate them. In this way, you have audited data from the agencies compiled together just like the other statements in the CFS, all coming together and reconciling.

Mr. Steinberg acknowledged the explanation and stated that he would hope that we do not end up requiring a financial statement because he does not think there would be much decision-useful or accountability information or value.

Mr. Dacey went on to say that effectively in the CFS you have a two-stage cash flow statement where you are going from accrual to cash and stopping at the budget deficit in the process because of the significance of that number. This effectively creates two statements that could be considered one but effectively the two statements together are in effect a cash flow statement. Mr. Dacey believes that these statements are valuable because people ask the question what is the difference between the budget deficit and the net cost.

Mr. Steinberg replied that he could see that point and people asking how the deficit is financed and what is the resultant effect on cash.

Mr. Dacey concurred.

However, Mr. Steinberg said that the idea of a statement that shows how the agency's net outlays reconcile to the federal government's net outlays is purely mechanical and he does not think it should be a statement.

Mr. Dacey replied that although it might be mechanical, unless the agencies reconcile their net costs to net outlays, we cannot pull those all together to get the CFS numbers and validate their reliability.

Noting the time, the Chairman called for a brief recess and invited staff to prepare for the Tab G discussion; Review of the Exposure Draft (ED) entitled, Public-Private Partnerships: Disclosure Requirements.

- **Public-Private Partnerships**

Mr. Savini began the session by reviewing a hand-out of edits that were proposed by members subsequent to the issuance of the Tab G materials. Staff briefly explained each of the edits stating that they were fairly straightforward and non-controversial. No objections were noted to any of the edits.

However, Mr. Reger asked a question concerning the page nine edit proposed by Mr. McCall on Question 6 where the emphasis is on significant. He asked if we have defined significant somewhere. Staff replied that we do to some degree but not to the satisfaction of all members.

Mr. McCall replied by stating that he suggested the edit to conform to usage elsewhere in the body of the document.

Mr. Reger noted that when he saw the "significant" edit he actually liked it. He wondered however, which remote possibilities would actually be revealed. The edit seems to narrow the remote a little bit if that was the intent, but it may not go far enough.

Mr. Steinberg asked about a first page statement which begins, "The second phase of the project is scheduled to cover measurement and recognition issues." Because we do not know for sure what we are doing with phase 2 yet, rather than say "is scheduled to cover", maybe we should say "would cover."

In reply, Mr. Allen said that he prefers "scheduled" just from the standpoint that we do not know whether there really are measurement or recognition issues that need to be addressed. Using "scheduled to cover" is a little more tentative than "would cover."

After a brief discussion primarily between Messrs Allen and Steinberg, it was agreed to retain "is scheduled to cover" as it is clear in the ED that there are two phases and all that is in question is the timing of phase 2.

At this time, Mr. Savini thanked Mr. Dacey for meeting with staff on several occasions and working closely with him on the ED. Nevertheless, Mr. Dacey has advised staff that he would be preparing an alternative view and would like members to consider certain matters.

Mr. Dacey noted that he had several concerns. First, he has continuing concerns over the disclosure of remote risks related to a couple of matters. Disclosure of remote risks is a fairly large area which basically means anything that could possibly happen would be included as remote risks. It would be challenging to operationalize and to calculate such risks. Also, Mr. Dacey shares concerns with respondents to the FASB proposal to disclose remote risks and actually define the concept of severe impact which they deem to be higher than what we consider to be material. There were concerns raised that even as well as FASB tried to define severe impact, people had concerns about whether that definition was in fact workable. It is important for our respondents to think about those concerns in deciding and providing their input to the standard. We should certainly put that question to them to consider in responding to Question 6. Also, Mr. Dacey raised some concerns about the definition and what it might include. He would like the respondents to have an opportunity to decide whether or not in answering Question 2 they feel that our definition is fine. As such, those are the two points with the major one being the remote risk disclosures.

Mr. Granof asked Mr. Dacey if the definition is unclear to which Mr. Dacey replied that he was just raising some concerns that it might include a lot of things beyond P3s. His concern is that the definition would include a lot of things that are not necessarily P3s that when combined with remote risk, creates a potentially significant cost to preparers. Management would be tasked with identifying any and all contracts or agreements that meet that definition and then applying the other criteria that we have in the standard. This would be a fairly detailed process. We should hear from respondents, particularly the preparer community, as to whether they feel that is going to be problem for them or not.

Mr. Granof then asked if Mr. Dacey believed that remote risks that are extremely significant, whatever that might mean, should be disclosed.

In reply, Mr. Dacey stated that he had an operational concern. However, he has some sympathy where there is a contingency provision in the contract itself which says if you terminate early it will cost you X amount of dollars. He recognizes the need for disclosure in such cases, however, he does not think the ED is limited to such matters that are in fact contractual but rather, includes other risks that are associated with the arrangement. Conceptually, the disclosures could include many things that are not in the contract that could for example be an actual disaster. Trying to think of those eventualities in terms of what might be remote would be a cumbersome process. Mr. Dacey noted that he appreciates and understands the Board's position but he believes that respondents should have a consideration of these factors so they can decide whether they believe they are significant enough for them to raise concerns about the standard.

Mr. Granof asked if it was possible just to reword language rather than taking an alternative view.

At this time, Mr. Allen noted that the Board voted on this issue a couple of times before at other meetings and suggested that probably the best way forward was to go ahead with the ED as-is. Alternative views occasionally highlight important aspects of the exposure draft and encourage feedback even in light of the basis for conclusions where we provide some depth on the issue.

Turning to Mr. Dacey, Ms. Payne asked if the alternative view is in fact aimed towards highlighting certain areas in order to elicit respondent feedback.

In reply, Mr. Dacey said that he would express concerns about some areas and if respondents do not feel as concerned; so be it, however they very well may be concerned and the ED as now written does not convey some of those concerns sufficiently or clearly enough in his opinion.

Mr. Granof then asked if members needed to vote or first see Mr. Dacey's alternative view before voting.

Ms. Payne reviewed the process reminding the Board that members have a certain time line to prepare and provide an alternative view. That time line is triggered by requesting ballots. Because we have gone through and completed the final edits we have and are now requesting your ballot. Next, when we receive the alternative view we will send a package including the alternative view accompanied by staff advice noting whether we believe any portion of the document ought to be modified in any way to clarify matters raised in the alternative view. The goal is really for the respondents to have a clear understanding of the distinction between the proposal and the alternative view. Now, if there was something raised in an alternative view that we do not feel has been adequately described in the basis for conclusions we might advise you to add a piece to the basis for conclusions. Additionally, our procedures require that we ask any members whether they wish to retract their "yes" vote in light of the alternative view and staff's recommendation. If after this process we do not have five final votes, we would come back in October and revisit the issues raised. Ms. Payne then stated that because this is

a topic that has been fairly well discussed she believes the basis for conclusions is likely to be adequate as-is. You have ballots in your binders and, if you are inclined to vote now without having seen the alternative view, please do so. If we receive five ballots, we will simply be waiting to insert the alternative view and send it to you with a staff recommendation either confirming your ballot vote or changing it.

Mr. Reger then stated that he was a bit dismayed because he did recall talking about P3 definitions and significant discussions concerning remote risks. However, now hearing from Mr. Dacey about the respondents to the FASB initiative, he did not recall members discussing the proposed rule from FASB and their respondent comments.

For the record, Mr. Savini noted that a significant amount of time was spent discussing this exact matter at the June meeting. A review of the minutes would show that Mr. Sebastian brought this issue forward and that staff disagreed with both his and Mr. Dacey's assessment as to why FASB decided not to pursue their project on remote risks. We in fact discussed the issue of remote risks and that FASB's abandonment of this project was driven by the ABA treaty with FASB. Additionally, staff discussed that his review of the FASB roundtable discussion notes, minutes, and other memoranda clearly shows that the legal constraints were the reason why FASB decided not to pursue disclosure of remote risks. That is, respondents and other constituents expressed serious concerns that remote risk disclosures could basically jeopardize a defendant's position in litigation.

Mr Reger than asked if this is why FASB received the responses Mr. Dacey has mentioned.

Mr. Savini answered in the affirmative noting that in addition to sampling comment letters, staff reviewed roundtable meeting discussions and DoD-contractor comments. The position most often taken was that information dealing with remote risks of loss would be prejudicial to legal cases. Staff went on to note that such a consideration is not an issue that the federal government has to be concerned with and this was expressed to Mr. Sebastian in June. Federal reporting objectives are different than those of FASB. Federal government has a stewardship responsibility that includes being a protector of the people and should not be averse to taking on risk. The FASB issue is not germane to what we have to do in this project about disclosing P3 risks.

Mr. Allen then said we are asking people to do something that we do not normally do in relation to SFFAS 5. Staff explained early-on in the project that some of these risks are so unique that you probably will not have risks that fit neatly into the SFFAS 5 rubric but are nonetheless important to disclose.

Mr. Reger then stated that he did in fact recall that discussion and believes that what we said was that even though a risk may be remote, if it was so large or so material that it could have such a big impact to the entity we thought the reader needed to know these things.

For the record, Mr. Savini stated that the discussion Mr. Reger referred to was in April and that it was Mr. Dacey who provided the Freddie and Fannie examples of remote but significant risks.

Mr. Allen then stated this is why members agreed to require such disclosures even though we know we are going beyond the current requirement of SFFAS 5. Conversely, if it is a remote risk that is not expected to have a big impact to the entity, you are not required to disclose it.

Mr. Savini added that the other subtle point staff made which actually came from Mr. Dacey's observation, is that SFFAS 5 is a measurement and recognition standard and not a disclosure standard. This ED is dealing with disclosures. Mr. Dacey went on to indicate that disclosure standards may in fact have different thresholds from recognition and measurement standards. Staff notes that the Board has adopted Mr. Dacey's thinking in this regard in its basis for conclusions.

Mr. McCall stated that members seem to be struggling with the concepts of significant, remote and material. He asked members to turn to page 12, paragraph 8, line 41 and then read on the next page, lines 4 and 5. From this language we see the very nature of those remote risks we are concerned with; remote but significant. These should be considered for disclosure. Second, lines 4 and 5 state that it is the Board's opinion that we are not concerned with immaterial remote risks. The ED seems to support what we are now discussing.

Mr. Reger concurred saying that if a risk is remote we would not ask for disclosure if that remote risk is insignificant.

Mr. Allen concurred.

To Mr. Reger's point, Mr. Savini reminded the Board that it had decided not to adopt Mr. Dacey's suggestion to incorporate materiality factors that could assist practitioners in analyzing materiality. However, staff believes that Mr. Dacey's idea lends itself to the concept of "significance." As a result, staff has adopted his idea of using factors and setting up a separate filter called "significance." Please note that in earlier draft versions we used "heightened fiscal exposure" to try and convey this separate idea similar to what we did in SFFAS 44. In SFFAS 44, we made a point that determining if a significant event occurred is different from the concept of materiality. Staff is trying to convey that concept here. As such, materiality becomes the last bite of the apple and staff believes that there are sufficient off-ramps to take on this P3 highway for those who are worried that the definition might be too broad.

Borrowing from the P3 highway metaphor, Mr. Reger then asked if a preparer would be required to go down every one of those off ramps to validate a position and ensure that a remote risk is not material. In essence, what would be required to prove management's assessment to the auditor? Is there an order of precedence to the off-ramps?

Replying, Mr. Allen said that there is currently only GAAP for the materiality off-ramp. FASAB standards do not have to be applied to immaterial matters and the method or order in how that is done is a matter best discussed between the entity and its auditor. We have introduced the concept of “significant” because normally when we issue a standard, people implement it whether it is material or not. However, we wanted to safeguard against that up front by using this word "significant" and getting you properly focused before you get to the end of the standard and read that materiality box. Now, is there a difference between significance and materiality? Boards have had this discussion forever but all of them use the word "significant" periodically and rarely, if ever, is a distinction made from materiality. People know about materiality but what we are saying with “significant” is that it helps people reading this ED “raise their eyes a little” before jumping too far ahead.

Mr. Showalter stated that historically when applying GAAP, practitioners are not overly concerned about remote risks. However, what we are saying in this ED is that they just look at their risks, including those deemed to be remote and if they are significant, consider them for disclosure. From a risk assessment or risk management point of view Mr. Showalter believes that practitioners will begin with a comprehensive list of risks that would then need to be classified. In deciding what “bucket” to place a risk into management has to think through these risks. All we are saying is that this “bucket” we call remote, has historically been ignored but now we want you to look at it and to the extent there was significant risk we want you to consider them for disclosure. Turning to Mr. Dacey, Mr. Showalter stated that this is his interpretation of the ED and that Mr. Dacey may have some concern about the completeness of management’s list.

In reply, Mr. Dacey said there were two issues. First, he thinks whether it is obvious or not, the preparer has the responsibility to prepare the list and should always do that for the auditor's follow-up and confirmation.

Mr. Reger noted that if he does not have his universe defined, the auditor's first comment is how do you know you have captured everything?

Mr. Dacey concurred with Mr. Reger’s observation and stated this problem takes us back to the issue of the definition which in Mr. Dacey’s opinion would task management to find everything that meets this definition as their first filter. Next, they would have to ascertain if the arrangements meet the characteristics and lastly, assess materiality. It is relatively easy to assess contingent liabilities that arise that are on the face of contracts, however, it is much more difficult if we start going off the face of the contract and think about things that might happen in relationship with this other party that could trigger obligations or liabilities beyond what is in the contract. Identification of non-contractual risks is where we get into a potential deep hole.

Mr. Reger expressed some doubt stating that he was not sure if he agreed with Mr. Dacey because every time he sits down with the auditor they ask about the universe of possibilities and how did he define that universe. Moreover, when we define our universe of risk, even the remote ones for the first time, if we see a huge remote risk or a very definitive remote risk, in our “bucketing” of that risk, we have to move past

whether it is remote or not to see what the value of that risk is and make some judgment calls along that spectrum before we can dismiss it as remote. Therefore, the answer is yes, that from a cost-benefit viewpoint we are clearly requiring more than they have ever done before because in the past they have just dismissed remote risks. We have to determine whether the cost-benefit of disclosing it as remote risk is well worth it.

At this point, the Chairman thanked everyone for a good discussion, called for ballots and concluded this session.

- **Leases**

Ms. Valentine gave a brief update of the GASB lease project. She noted that GASB is expecting to release a preliminary views document in late 2014, an exposure draft in early 2016, and a final standard by the end of 2016.

Ms. Valentine opened the lease discussion by stating that the objective for the current session is to review some proposed initial guidance on intragovernmental leases arrangements. She also mentioned that she received some comments from Mr. Steinberg and Mr. Showalter.

Mr. Smith asked staff if the intention of the intragovernmental guidance was to account for all intragovernmental lease arrangements using the current operating lease guidance even if a lease would meet the current capital lease criteria. Ms. Valentine responded yes to Mr. Smith's question.

Question 1: *Does the Board agree with the proposed definition of intragovernmental?*

Staff's Recommendation: Although FASAB standards have used the term intragovernmental in several of its standards in the context of intragovernmental assets, liabilities, funds, etc., the term has not been defined. Staff proposes the following definition of intragovernmental to assist in defining intragovernmental lease arrangements.

Proposed Definition - Intragovernmental: *Occurring within or between two or more reporting entities considered "consolidation entities," consistent with SFFAS 47 (Reporting Entity).*

Ms. Valentine noted that Mr. Showalter proposed the following revised intragovernmental definition.

Revised Proposed Definition - Intragovernmental: *Occurring within a consolidation entity or between two or more consolidation entities as defined under SFFAS 47 (Reporting Entity).*

Mr. Steinberg added that the definition of intragovernmental should have a qualifying statement that states that the definition is for accounting purposes only to facilitate eliminations. He also asked who owns the local and district courthouses.

The Board agreed with Mr. Showalter's revised proposed definition.

Ms. Valentine posed Question 2 and staff's recommendation to the Board for discussion.

Question 2: *Does the Board agree with the proposed definitions of lease and intragovernmental lease arrangement?*

Staff's Recommendation: Like GASB, the Board has agreed to explore the single model approach for all leases, with the exception of FASAB's decision to treat intragovernmental lease arrangements differently. Given the similar approaches, staff proposes using GASB's tentative lease definition, "a contract that conveys the right to use an asset (the underlying asset) for a period of time in an exchange or exchange-like transaction," as the basis for the federal lease definitions, along with prior Board discussions. Likewise, the proposed intragovernmental lease arrangement definition is based on the proposed definition of lease and the proposed definition of intragovernmental.

Proposed Definition - Lease: *A lease is a contract or agreement that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.*

Proposed Definition - Intragovernmental Lease Arrangement: *A lease agreement that is between two or more reporting entities considered "consolidation entities" consistent with SFFAS 47 (Reporting Entity).*

Using Mr. Showalter's revised "intragovernmental" definition; the following revised intragovernmental lease arrangement definition was proposed by staff.

Revised Proposed Definition - Intragovernmental Lease Arrangement: *A lease agreement occurring within a consolidation entity or between two or more consolidation entities as defined under SFFAS 47 (Reporting Entity).*

Mr. McCall asked about using the broader term "asset" instead of "capital asset." He went on to talk about other assets such as securities used in lending programs. At the state level, governments have security lending programs – in those cases the program could possibly meet the definition of a lease.

Mr. Dacey commented that the broader use of "asset" in the lease definition may bring in assets not intended to be leased assets. He then asked Mr. Granof how GASB dealt with using the broader "asset" term. Mr. Granof noted that GASB explicitly excluded certain assets from the scope of the lease standard. Mr. Dacey stated that FASAB can use the definition and then use scope-exclude to scope out assets not intended to be covered in the standard. Chairman Allen added that the Board will need to revisit the issue to discuss those scope exclusions.

The Board agreed with the proposed lease definition and the revised proposed intragovernmental lease arrangement definition.

Question 3: *Does the Board agree that lessee intragovernmental lease arrangement payments be recognized as an expense on a straight-line basis over the lease term, unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on a straight-line basis? Or should the payments be recognized on a cash basis?*

Staff's Recommendation: Staff proposed that lessees of intragovernmental lease arrangements recognize lease payments as an expense on a straight-line basis over the lease term, unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on a straight-line basis.

Mr. Allen asked if it is necessary to separate out those costs for federal entities and asked staff to talk to the task force about the burden associated with separating out executory cost. Ms. Davis suggested asking a question in the exposure draft about separating out those costs. Mr. Reger added that it is just a timing issue.

Mr. Dacey explained that the separate costs would not be shown as a line item on the operating statement. The question deals with the period in which the cost would be recognized. Ms. Payne added that the term "lease payment" will be used throughout the standard and will need to be defined. The question will be, does the lease payment only include the cost of the space or does it also include anything contracted under the umbrella of the lease.

Mr. Smith added that the standard needs to be clear as to how to recognize those other cost – straight-lined or when incurred. Ms. Payne added that based on conversations with Hill staff, it was important to be able to identify the cost of the facility separate from any services that are bundled for comparability purposes.

The Board asked staff to discuss this issue with GSA and the task force and to come back with their thoughts.

The Board agreed with staff that lessees should recognize lease payments as an expense on a straight-line basis over the lease term, unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on a straight line basis.

Question 4: *Does the Board agree that the related intragovernmental lease arrangement executory costs (e.g., insurance, maintenance, taxes, etc.) should be recognized separately from lease payments as period expenses? Or should those costs be recognized as part of the lease payments?*

Staff's Recommendation: Staff proposed that lessees of intragovernmental lease arrangements recognize related intragovernmental lease arrangements executory costs

(e.g., insurance, maintenance, taxes, etc.) separately from lease payments as period expenses.

The Board asked staff to discuss this issue with GSA and the task force and to come back with their thoughts.

Question 5: *Does the Board agree that lessees should disclose future minimum rental payments in the aggregate and for each of the five succeeding fiscal years over the period of expected or planned occupancy? Or should the lessee only disclose future minimum rental payments in the aggregate and for each of the five succeeding fiscal years if there is better than a remote chance of continued occupancy?*

Staff's Recommendation: Staff proposed that lessees of intragovernmental lease arrangements disclose the future minimum rental payments required as of the date of the latest balance sheet presented, in the aggregate, and for each of the five succeeding fiscal years for intragovernmental lease arrangements over the period of expected or planned occupancy.

Mr. Smith asked if the opt-out provisions should also be disclosed. Ms. Valentine noted that other disclosures can be added to the standard, like the “opt-out provisions” and as Mr. Showalter mentioned, end of lease obligations.

Chairman Allen did not see a need for the five year schedule because the entity can cancel with a 60-day notice, so what is gained by the disclosure. Mr. Dacey noted that the disclosure was required to express the commitment the entity has made. He also added that it should be for the non-cancelable period of the lease term.

Ms. Payne added that several Hill staffers noted the importance of understanding the cash needs of federal entities going forward as it relates to leasing. Mr. Reger mentioned that federal entities have no liability associated with the non-cancelable portion of the intragovernmental leases. Ms. Payne noted that there is no legal liability, but there is an economic commitment in that they must have space to operate. Chairman Allen made the comparison to employment costs – they are not disclosed using a future payments schedule.

The Board disagreed with staff that the lessees of intragovernmental lease arrangements should be required to disclose the future minimum rental payments required as of the date of the latest balance sheet presented, in the aggregate and for each of the five succeeding fiscal years for intragovernmental lease arrangements. The Board does not believe that the lessee should be required to disclose the future minimum rental payments.

Question 6: *Does the Board agree that the lessor recognition of lease rental income should be symmetrical to the lessee recognition of lease rental expense?*

Staff's Recommendation: Staff proposed that lessors of intragovernmental lease arrangements recognize the following:

- Lessors should present assets subject to intragovernmental lease arrangements in their balance sheet as “leased assets” according to the asset’s balance sheet classification. The depreciation policy for depreciable leased assets should be consistent with the lessor’s normal depreciation policy for similar assets.
- Lessors should recognize lease rental income on intragovernmental lease arrangements as income over the lease term as it becomes receivable according to the provisions of the lease.
- Lessors should recognize lease rental income on a straight-line basis, unless another systematic basis is representative of the time pattern of the user’s benefit, even if the payments are not on a straight-line basis.

The Board agreed with staff’s recommendations on the proposed recognition of intragovernmental lease arrangements for lessors.

Question 7: Does the Board agree that the lessor’s initial direct costs [i.e., those incremental direct costs incurred by the lessor in negotiating and consummating leasing transactions (e.g., commissions and legal fees)] should be deferred and allocated over the lease term in proportion to the recognition of rental income? Or should all of the lessor’s initial direct cost be expensed in the period incurred regardless of materiality?

Staff’s Recommendation: Staff proposed that lessors of intragovernmental lease arrangements recognize initial direct costs [i.e., those incremental direct costs incurred by the lessor in negotiating and consummating leasing transactions (e.g., commissions and legal fees)] should be deferred and allocated over the lease term in proportion to the recognition of rental income. However, initial direct costs may be charged to expense as incurred if the effect is not materially different from the basis used to recognize the rental income.

Chairman Allen asked about the significance of the costs. Mr. Dacey noted that the costs most likely would not be significant.

The Board disagreed with staff’s recommendation and agreed that the lessor’s initial direct cost should be expensed in the period incurred regardless of materiality.

Question 8: *Does the Board agree that lessors should disclose future minimum lease rental income in the aggregate and for each of the five succeeding fiscal years over the period of expected or planned occupancy? Or should the lessor only disclose future minimum lease rental income in the aggregate and for each of the five succeeding fiscal years if there is better than a remote chance of continued occupancy?*

Staff’s Recommendation: Staff proposed that lessors of intragovernmental lease arrangements disclose the following:

- a. Lessors should disclose future minimum lease rental income as of the date of the latest balance sheet presented, in the aggregate and for each of the five succeeding fiscal years for intragovernmental lease arrangements over the period of expected or planned occupancy.
- b. Lessors should disclose a general description of the lessor’s leasing arrangements.

The Board agreed with staff's recommendations that for intragovernmental lease arrangements lessors should disclose items a. and b. identified above.

- **Risk Assumed**

Mr. Allen welcomed Ms. Gilliam to the Board table to discuss the Risk Assumed—Insurance project, Tab I.

Ms. Gilliam noted that she met with the task force three times to discuss the current disclosures. However, staff first wanted to discuss the revised definition, criteria, and exclusions. Staff has reviewed the definition quite a few times with the Board members for the Board's approval. She did receive one comment from Mr. Showalter concerning the self insurance exclusion. His question was whether self insurance should be moved into the actual definition, rather than remain in the exclusions.

Mr. Showalter said the he raised the question to address eliminating all the pending intergovernmental activity by addressing it in the definition. But he did not feel strongly about it.

Ms. Gilliam stated that staff believed that self insurance still belonged in the exclusions, and that to move it up into the actual definition could put a boundary around insurance programs that might let some programs slip out. Mr. Showalter agreed to leave self insurance in the exclusions.

Ms. Gilliam asked if there were any other comments.

Mr. Dacey noted that "other than a defaulted debt obligation" was added to the definition and in a number of other areas. He preferred to have it just in the exclusion section. He asked why we needed to include it in the definition when we have a series of exclusions and whether it is so unique that it needs to be in the definition. Programs that apply this standard will need to look at the exclusions and apply it broadly.

Mr. Showalter agreed with the overuse of "other than a defaulted debt obligation."

Ms. Gilliam noted that "other than a defaulted debt obligation" was added after the April meeting at Mr. Granof's request.

Ms. Payne said that was probably added when the term "insurance and non-loan guarantee programs" was used in order to clarify what "non-loan guarantees" were. Now that the Board approved removing the verbiage "non-loan guarantee," it does not appear to be needed in the definition. She deferred to the Board to approve deleting that from the definition.

Mr. Allen asked Mr. Granof and the rest of the board if they accepted Mr. Dacey's requested change to delete that phrase from the definition.

Mr. Granof agreed, as did the rest of the board.

Mr. Reger asked why we were being so specific about the noting "Robert T. Stafford Act."

Mr. Allen said that he was not as concerned about the Act, but as to the original wording of including only discretionary goods and supplies, when some disaster relief programs

also provide discretionary funding. Ms. Gilliam went back to research that and discovered that some programs can provide funding, and disaster relief always falls under the Stafford Act as it is the only authority to provide disaster relief. She had revised the wording for that exclusion.

Mr. Reger is concerned about calling out the Stafford Act. He asked if it is our intent to call out any programs that provide discretionary funding, goods, and/or services. That we do not usually call out a specific act or law unless there is a specific reason. Ms. Gilliam said that it was our intent to exclude disaster relief programs which we are looking at in the next phase.

Mr. Allen recommended that we take the specific reference out and leave the concept in the body. Ms. Gilliam recommended that staff remove the reference to the act and change it to disaster relief programs that provide discretionary funding, goods, and/or services are not included as insurance programs.

The Board agreed.

Mr. Granof directed the Board's attention back to the definition stating it seemed more like a description than a definition. Insurance programs are about collecting premiums. They provide a transfer of risk for an exchange of premiums. This definition is different than that. He was uncomfortable defining something contrary to its conventional use; that is, taking a common term and redefining it.

Ms. Gilliam noted that it is not conventional for the government as it is in the market place. Insurance programs do collect premiums, but they do not always collect premiums.

Ms. Payne said that generally staff found a lot of diversity and not all collect premiums or what we might think of as exchange revenues because some are regulatory fees where it is not voluntary. Therefore, it is not as conventional as commercial insurance.

Mr. Granof asked if these are insurance programs.

Ms. Payne said that in the economic sense that because they are providing beneficiary protection against risk of loss they are insurance programs. In the business mechanics of it, if you look to a market rate as evidence of being in the business of insurance, then one might say that we are not in the business of insurance. The insurance concept is really separate from the fee that one may charge.

Mr. Granof said that the government acts as insurers in affect even in the absence of premiums.

Ms. Gilliam noted that staff did have the word "federal" in there, but removed it. Did the Board want to put "federal" back in to read, "federal insurance programs?"

Mr. Granof and Mr. Allen requested that staff leave it as it is. The Board did not disagree.

Mr. Showalter pointed out that footnote 3 is defining the term "insurance," but what we are really defining is insurance programs.

Ms. Gilliam clarified that some Board members and task force were confused by the term “non-loan” guarantee and that is what staff was trying to capture there in this footnote. She asked the board if they approve just using the term “insurance” and removing the non-loan guarantee reference?

Ms. Showalter said that the purpose of this definition is to define a federal insurance program.

Ms. Payne clarified that the point of the footnote is to say that insurance programs will include guarantee programs not designated as loan/debt guarantees.

Mr. Showalter agreed, but said it did not totally solve the problem.

Mr. Dacey discussed that under the first exclusion (C.a.) there are programs other than just loan guarantee program such as TARP and investments in mortgage securities that may not meet the definition of insurance programs.

Ms. Gilliam asked if the Board wanted staff to change this to “programs as defined and take out the qualifier?”

Mr. Dacey said he would like to think about that change and would handle that off line.

Mr. Allen noted that members’ comments had been addressed and suggested moving to the next topic.

Ms. Gilliam referred the members to page six and the discussion on insurance liability.

Mr. Allen noted that it in some of these examples it appears that they have recognition that has gone beyond SFFAS 5 and how they calculate the amount that they display as their calculated loss. He asked Mr. Dacey if he was concerned that some of these examples were using a cash flow approach in addition to an SFFAS 5 approach.

Mr. Dacey said that they are not inconsistent with SFFAS 5 and they need to recognize probable losses. Some of the insurance programs have the ability to determine reasonably possible losses, particularly FDIC, which is preparing under FASB standards. They recognize probable, they disclose reasonably possible. Then on top of that, in the insurance industry, there is typically the insurance-in-force which is a number that is disclosed as well. It is the maximum amount that conceptually can constitute a loss.

Ms. Payne said there were premium deficiencies in the long-term contracts as well.

Mr. Dacey agreed that there are premium deficiencies as well and this is consistent with SFFAS 5 where a probable loss is greater than recorded liabilities. Premium deficiency would be along the same lines. The only thing that is incremental with insurance is insurance-in-force is typically disclosed. And in some cases it is hard to come up with the insurance-in-force number. For example, we have the terrorism risk insurance and insurance-in-force is hard to estimate; it is based upon a cap and floor and other factors.

Ms. Gilliam continued the discussion about reserve for premium deficiency which Crop Insurance includes in its reconciliation to support its number and to which Mr. Showalter also provided a comment.

Mr. Showalter said that he looked at reserve for premium deficiency as deferred revenue and not as a liability.

Mr. Dacey said that it was a liability because the premium deficiency is the excess of your expected losses; net of your earned premium.

Mr. Showalter noted that deferred revenue is a liability. But there is a difference—your deferred revenue is revenue recognition. The other side of revenue—accrued liability is the other side of expense. So there are different liability accounts. Mr. Dacey agreed. And the way crop described it in its email response, it sounded like a deferred revenue account, which Mr. Showalter questioned. Mr. Dacey indicated it is an expense.

Ms. Gilliam clarified that the explanation from crop was the appropriation that it is expecting to cover losses not covered by premiums. Does the Board agree with that?

Mr. Dacey noted that the real essence is in the losses. If future losses under contract are expected to exceed future earned premium, then basically you have to book a liability.

Mr. Showalter agreed saying that this implies that crop received the revenue in front of losses; that they got the money before the liability. And we do not book appropriations as revenue, per say.

After a brief exchange regarding the confusing reference to appropriations, Mr. Showalter requested the accounting entry be provided following the meeting.

Mr. Reger said that for next year, to make up for the difference of that loss in the prior year, they are just waiting for the correct amount of premiums to come in. But if the program has a fund balance and this excess loss is against the fund balance with treasury they are not going to recover that in the next year and record that appropriately in the right account.

Mr. Dacey said that unfortunately it is one sided because if you expect a profit for the next year, you do not accrue the gain. If the contract runs from March 31st to March 31st, there is six months left at the end of each September 30 year end. So you look at the six months left in the contract period and that is the unearned premium on those contracts. Would the unearned revenue on those contracts pay expected losses during that six month period? If the answer is no, then you book the additional liability. If the answer is yes, then you do not have any premium deficiency. Then the next year policies are a new issue.

Ms. Payne raised another question that came up with the task force. As the law stands, some insurance programs are required to issue policies each year under set terms. While the contract runs to a certain time, the law may require the program to enter into new policies at a premium that is going to lead over time to persistent losses. Staff found it challenging to say you have to do premium deficiency over the period that the law requires you to enter into contracts at a loss as opposed to saying you recognize the losses on the current contracts.

Mr. Reger asked that if the law requires an insurance program to issue the contract then they are stuck, right? Ms. Payne agreed.

Mr. Dacey said that the law requires us to have the Defense Department. We would accrue the long-term costs of our Defense Department?

And that is what part of the issue is—long-term contracts in the insurance industry are accounted for differently. Most of these are property casualty.

Mr. Allen suggested a possible revision to the wording for clarification.

Ms. Gilliam clarified that crop assumes it is a loss. They do not pay out the appropriation to the farmers; it is used to directly pay any losses. That is why she thinks they are looking at it as part of their liability. She asked the Board if they agree that it stays in the liability and does this go beyond SFFAS 5 or stay within SFFAS 5?

Mr. Allen said he thought that it went beyond SFFAS 5.

Mr. Dacey did not necessarily agree that it went beyond SFFAS 5, that it might just be part of the insurance industry (they way crop does business).

Ms. Gilliam referred the Board to NCUA example on page eight and how they remove their Net Estimated Recovery/Claim on Asset Management Estate (AME) to reduce their liability. Does the Board agree with that in the Liability? That is another place where an agency has created a line item in its note disclosure that possibly we did not expect to see there.

Mr. Dacey said that FDIC does the same thing under FASB. When they have recoveries on bank failures they come up with a net amount they expect to pay and when the bank actually closes, it moves to a receivable. He did not find that unusual under the circumstances to record that. The question is whether to disclose the component pieces or not? Should it be a disclosure item rather than something on the face of the statement? The Board discussed that many will show net expense and some have broken it out.

Ms. Gilliam noted that staff is seeing these agencies breaking out their liability, including different breakouts in their disclosures. She asked if that is what the Board expects to see.

Ms. Payne said that we have a discussion later on the different pieces to disclose where the Board can determine that then.

Mr. Allen requested that we move on to discuss OPIC, their Maximum Contingent Liability.

Mr. Dacey said they call it their maximum exposure if they had losses on all their contracts. And it is a disclosure, insurance-in-force and not a recognition it goes by different names for different programs. FDIC calls it insured deposits.

Mr. Allen states that the Board agrees that per SFFAS 5, this is what they expect to see.

Ms. Gilliam directs the Board to the disclosures and explained that the task force looked at the different pieces that could be disclosed. Her goal for this meeting was to see if the Board did or did not want each one disclosed for insurance companies.

Staff will come back at the next Board meeting to discuss what is in the current standards and recommend changes based on what the Board agreed to disclose.

The first one we will discuss is exchange revenue. Staff recommends disclosing exchange revenue other than borrowings or appropriations to show the revenue that the program is collecting to offset the risk of loss. Most of them do collect premiums.

She noted that Mr. Bell did have a question about the difference between premiums and fees. There are some programs that call their charges fees.

In order to include all insurance programs, staff recommends including the terms fees as well as premiums. For example, when you go to the Post Office and you send a package, and they ask if you want to insure your package. If you answer yes, there is a fee, let us say a \$5 fee. That is an insurance program to protect against the risk of losing your package, where they collect a fee at the time of service.

Another example is the aviation insurance revolving fund which collects fees paid by commercial airline owners and income from investment. So there are some that actually charge premiums, and then there are also ones that collect fees. Does the Board agree to include the term "fees?" The Board did not disagree.

Some programs collect excise taxes. There are some programs that collect both fines and/or penalties. Some programs receive interest from investments and/or net recoveries from salvage.

Does the Board agree with this list?

Mr. Reger asked why the breakdown?

Ms. Gilliam said that staff recommended the breakdown to show if the exchange revenue collected from the public was really risk-based and covered losses. Or is the program relying on some of these other pieces to cover those risks?

Mr. Dacey expressed a preference for requiring disclosure of sources of revenue by significant components. He would not directly require specific components such as premiums or fines. If the specific components are listed then they should be identified as examples rather than requirements.

Ms. Gilliam agreed that it makes sense not to lock down the specifics with a list.

Mr. Dacey and Mr. Reger want to prevent a checklist mentality, where an agency is checking items off the list, rather than disclosing material amounts.

Mr. Dacey agrees with the concept, but suggests the meaningful disaggregation of major income sources and staff needs to work on how to phrase it.

Mr. Allen suggested that it say "major sources" and then "such as."

Mr. Reger asked if the Board cares if it is other than premiums. For example, is it just "premiums and other sources?"

Mr. Dacey said that fees are almost the equivalent of premiums in other programs. He also noted if there are major recoveries from assets acquired in the process, or borrowings that information would be relevant. So, it is not simply a question of disclosing the two sources - premiums and fees. He recommends that this be flexible and depending on the circumstances, the agency would disclose the major sources of income.

Mr. Reger agreed.

Mr. Allen stated that he went through the list and tried to figure how these fines and penalties could be a major source of income?

Mr. Dacey said that was the problem—one cannot know today what the major sources are. He recommends that we give some examples and then leave it up to the agency to figure out what are their major sources.

Ms. Gilliam provided an example of the National Pollution Center, Department of Homeland Security. Where they pay for the losses from oil spills, and then fine and penalize the companies that caused the spill to recover the losses paid out. Therefore, the fines and penalties may be a major source of revenue.

Mr. Allen asked if the Board objected to asking for major sources without a specific list. There were no objections by the Board.

Ms. Gilliam directed the Board to general funding on page 14, which refers to appropriations. She explained that staff started out with the term "subsidized" and changed it to general funding in order to show how much of the taxpayer's money is going towards some of these programs, and how some of them are receiving subsidies.

For example, Crop subsidizes 60 percent and collects 40 percent in premiums. There are a number of articles written about this issue, which makes it a hot topic.

Mr. Reger asked why staff called it general fund instead of appropriations.

Mr. Gilliam clarified that agencies return funds in the future to the general fund, which staff noted in another recommended disclosure. Staff can change to appropriations.

Mr. Reger said that is exactly correct, at least in my understanding of the general fund. But he is not aware that we use the term "general fund" anywhere else.

Ms. Payne said we usually call it "appropriations used" or "appropriations received."

Mr. Reger suggested that we stay consistent with what terms are already used.

Ms. Gilliam noted that staff will change this to "appropriations received" for the programs receiving them.

Ms. Payne reminded the Board that this is a broad sweep-through to find out how far the Board wants to go with the disclosures for these areas. She referred to Mr. Dacey's concern that we are not trying to find the precise wording now.

Mr. Dacey noted what we said above about the premiums, but it is really above and beyond all income sources. He does not know if you need that part. Just if you need whatever the appropriation is. Maybe our focus is whatever they are appropriated.

Ms. Gilliam stated above and beyond other revenue sources.

Mr. Reger corrected it to "all other sources."

Mr. Dacey did not offer specific wording. He noted the goal is an amount net of the appropriation. The appropriation plus all the revenue sources would be the total inflow.

Ms. Gilliam continued to the next subject and asked if the Board wanted to see a disclosure on the borrowed amount. She referenced that task force members said they are disclosing it. That it might not be in the exact place we want it or it might not be connected to their insurance program that clearly.

Mr. Allen noted that if there is borrowing, there is a heightened sensitivity to subsidies, which is a key Issue.

Mr. Smith noted that borrowing is the value of funding, and he found it somewhat confusing. If we are gauging the revenue and the expenses, it seems like we are trying to capture something different when we are picking up the borrowings. That is the shortfall.

He asked what if they do not need to borrow as much this year, because they did not have to pay it out, and the agency is still sitting there with the liability. He saw this as confusing this with another concept by bringing borrowings in, when we are trying to think about the operating statement.

Mr. Reger pointed out that borrowing at Treasury actually refers to two separate activities. One is where Treasury provides actual loans. The agencies go to Treasury to get a loan for the money under the consolidated debt program. The second one is where agencies estimate their cash needs, and if they wind up with a cash problem, in the interim period, then they can borrow.

Ms. Gilliam noted that the second one fits with the insurance program. If you look at the losses from a Sandy or Katrina and they did not have enough funds to pay, they might have to borrow.

Mr. Reger said losses are coming in at the end of the year, within the fiscal period, but not the cash. So that is a borrowing in Treasury's vernacular. But he requested that we may need to be a little more precise about the term "borrowings" and how we are applying it here.

Mr. Dacey said that he understood Mr. Reger's point but the bottom line is that if they have a liability on their books, that we want some additional disclosures about the nature of that liability. Mr. Reger did not disagree but was not sure that the Board would want the cash flow if it is just a short-term cash issue.

Mr. Allen asked about those programs that have the right to borrow. He remembered at least one in particular that made a big deal about that they had the right to borrow but they never needed to borrow. He asked if we were thinking about that too.

Ms. Gilliam said no, because we did include that in the criteria, that some of them by law have the authority to borrow. But they do not all use that authority.

Mr. Reger asked that if a program has not used it, then we are not interested in that.

Ms. Gilliam agreed.

Mr. Dacey noted that typically, a lot of those are disclosed when they have the ability to borrow, particularly if they have expected losses.

Ms. Gilliam clarified that it is more in relation to their losses than the risk. Did the premiums/all the other revenues cover their losses or do they need to borrow. If they need to borrow, this creates another expense, because now they have the interest expense?

And Flood's not sure they are going to be able to pay that back. Therefore, tracking or understanding that is important.

Mr. Dacey said that Ms. Gilliam's last point is the real issue. The flood insurance has a significant liability, and do they have an ability to recover that through future premiums, when they are already being subsidized?

But he did not know how to articulate that in terms of a disclosure requirement. But he referenced the expected inability to pay. But the real question may be their plans to repay or sources of funds to use.

Mr. Smith asked what if a program borrows more or less.

Mr. Dacey said that the issue here is really the ability to pay that liability off, or whether or not the federal government—and he is not saying that they will or will not in this case—the federal government will have to come in and basically forgive the loan.

Mr. Smith said that if we disclose all the revenue sources and we disclose all of the costs, the delta automatically means that you have got to fund it somewhere. He agreed that if there is a shortfall there could be an explanation about how it is being funded. But he does not see why we need to disclose what a program had to borrow in a certain year.

Mr. Reger agreed saying that the flood insurance program has the ability to borrow up to a certain amount out of Treasury's cash, and they are close to that limit and then there is a storm. You know that you are going to exceed that limit. What is the transaction?

Mr. Smith said that if you cannot exceed the limit, then you cannot honor the insurance. That is why he suggests that we disclose what the program will do.

Mr. Allen noted that the reality in the government is that a program can exceed the limit and they can modify it.

Mr. Smith said that is when the new transaction has occurred, when someone decides now to raise the limit. But you still could go and disclose that there is the shortfall. How are we to know that something had to occur?

Mr. Reger said presumably, without going anti-deficient.

Mr. Allen asked Mr. Smith if he would argue against any discussion of borrowing.

Mr. Smith said that he would not disclose borrowings, because he thinks that is more of a funding mechanism which is different (than revenue sources). He does not have a problem disclosing the shortfall, but would not disclose borrowings, because he thinks it could get messy.

Mr. Steinberg said that, he thought that in Homeland Security's financial statements, the fact that FEMA does not think it can pay the borrowings is already disclosed.

Ms. Gilliam agreed that for flood they do disclose information about their borrowing.

Mr. Steinberg asked Mr. Smith to clarify whether he was saying that he would not disclose the borrowings, and yet there is a disclosure that could be even more important. We cannot repay the borrowings. So what is your position on that?

Mr. Smith said that was more related to how you are funding obligations related to the program. He did not have a problem with the program borrowing because their premiums or appropriations are short, and saying they have this issue and this is how they are going to fund it. Or in FEMA's case, if they disclose the fact that they have borrowed and do not have the ability to fund it, that is important to a reader, because it shows a potential future problem. But whatever is borrowed will be a liability on the balance sheet, so why do we need to disclose it?

Mr. Allen agreed that was important, but the ability to borrow may reflect in the sustainability of the organization. The disclosures that he has seen where an agency has disclosed that they have the ability to borrow money were informative. Is that what you are referring to?

Mr. Smith clarified that the ability to borrow then gets to how the program will fund it or what is the most that they could borrow to fund. But in his review, he thought what we are trying to do was look at the five sources of revenue to match the expenses, and borrowing to him is not a revenue source.

Ms. Gilliam clarified that borrowings was not included in exchange revenue on page 13.

Mr. Steinberg said that it is not so much a revenue source, but what it says is that here is a program that is normally funded through premiums, and because the premiums are not sufficient, we have to borrow. Therefore, we are not charging enough through premiums.

Mr. Reger said or your losses were greater than your anticipated premiums when you sent the premiums out. Mr. Steinberg agreed. Mr. Reger continued that programs only set those premiums occasionally. Programs are stuck with the revenue estimates as a result of when you set the premiums.

Mr. Steinberg noted that when programs see that they cannot repay the borrowing, then it is important for users to see that maybe this is not a viable program, the way it is structured now.

Mr. Reger, in reference to the flood program, noted that nobody said that it was not a viable program. In fact, Congress lowered the premiums recently due to the consequences of risk based premiums.

Mr. Allen recommended disclosing information about plans' ability to repay their borrowing.

Ms. Payne recommended disclosing the next five year's payment plan. She asked the Board if they would rather have us approach this in a manner similar to going concern,

where we had a holistic discussion of the rate-setting structure and its ability to meet cash needs, including borrowings?

Mr. Allen noted that is what we would get if we do that.

Mr. Reger asked if that is FASAB's function. Or is our function to report the fact that they borrowed. Let us use an existing example of \$15 billion borrowed. Whose job is it then to figure out whether they are ever going to repay?

Ms. Gilliam noted that if it is on the balance sheet, is there any explanation as to why they were borrowing? That is why staff supports a disclosure that would explain the shortfall. Mr. Reger expanded with, or how it happened, and who is going to solve it? Ms. Gilliam agreed.

Mr. Reger pointed out that Treasury has on its books loans outstanding to certain organizations that it is not clear if they are ever going to get repaid, and they are on there as borrowings.

Mr. Allen recommends that the disclosure say that if there are plans or the ability/inability to repay borrowings in order to tell the reader something about the viability of the program. Mr. Steinberg said and it shows the way we manage these programs.

Mr. Reger said that while it does, it does not show us anything about the viability of the program. It shows you that there is an outstanding loan from the general fund in Treasury to an organization. That is the only thing you can discern. Mr. Steinberg agreed.

Mr. Reger was not sure it is this Board's purview to tell either Congress or the entity that they have to tell us how they are going to solve this problem in this disclosure. It is our job to show the American public that a loan exists. And, he asked Mr. Steinberg, if there is no method of repayment, we should not discuss it, right?

Mr. Steinberg said that he did not quite say that. He clarified that if there is a loan there and it does not look like there will be enough resources and premiums to repay the loans, then that should be stated. If Congress chooses to ignore that, that is their business. But we should at least give them the facts.

Mr. Dacey suggested that staff take a look at some of the existing disclosures. He referenced FDIC that discloses the line of credit that they have available. He knows it is FASB-based, but it might be instructive.

Staff should see if we can categorize that because it seems that current disclosures will provide a good discussion, and we could encapsulate that into the standard. Mr. Steinberg asked if FHA is in that same category. Mr. Dacey responded that yes, let us look at FHA as well. But he recommended that staff look at those discussions to see if we could synthesize a disclosure requirement that would be consistent.

Mr. Reger offered to point out to staff those organizations who might want to contribute towards this discussion. Ms. Gilliam thanked Mr. Reger.

Mr. Steinberg noted that the Helium Fund is another one that has a loan. It is not an insurance program. Interior has this helium program that they borrowed about a billion dollars from Treasury to set up and that they are having difficulty repaying.

Ms. Gilliam referred the Board to acquired assets and net recoveries. She noted that Ms. Davis sent in some questions and wanted to make sure she provided the answer. Ms. Davis said yes. Ms. Gilliam explained that during some losses, programs might acquire assets. The examples she gave Ms. Davis were if there is an airplane that has been shot down due to wartime, then they might be able to salvage the airplane and sell the salvage, the metal or something and then recover money for the banks or credit unions. Programs might also recover financial assets and then they will sell them or merge them into another. But they will acquire the assets of those banks, and then they will get some recovery. Does the Board want to disclose information about those recoveries?

Mr. Allen commented that whenever any specific type of disclosure is called out, it seems like it is always made regardless of materiality, almost like our earlier discussion of sources of revenue, where you requested a list.

While he would like to know about significant required assets and net recoveries, he does not want agencies to just check a box that something was disclosed if it is not material. He requested that staff group everything together and agencies would disclose material/significant items including acquired assets and net recoveries.

Mr. Steinberg agreed with the disclosure. He stated that Ms. Gilliam had something in addition, which he questioned, and that was any material changes should be explained, and he had always thought explanations of differences in a prior year, was something you put in an MD&A rather than financial statements.

And indeed, that adds an extra audit burden in order to make sure that the explanation is valid. His question is whether the explanation of material changes should be in the financial statements.

Mr. Showalter said he did not have a problem auditing it, because actually it is only one year back and it is not forward-looking. He explained that yes, it takes an effort, but instead of putting it on a line-by-line basis, he referred back to Mr. Allen's comment that it should be as a whole.

The way it is written now, you are asking programs to find materiality on a line-by-line basis. He thinks that is a lot of disclosure you do not really look for. So he suggested applying that comment to the whole as a whole. That way it moves that up and you really get the things you are looking for, instead of someone worrying about going line by line item and focuses on whether it is significant.

Mr. Allen asked if that would apply to both the elements as well as significant changes. Mr. Showalter said yes.

Mr. Dacey said there is a subtle difference between disclosing significant events or activities that may affect these, versus disclosing the reasons for the change, because then you are not doing it across the board for all the changes, balance sheet or income statement.

Mr. Showalter pointed out that it just says any material change. It did not say what.

Mr. Dacey clarified that what he said is that the subtle difference is if there was a significant thing that happened to the program during the year that affected the program that would be more of the trigger that is simply explaining why something went up or down.

Mr. Showalter said exactly.

Mr. Dacey was concerned about trying to do that for everything.

Mr. Showalter said that was also his concern that a program would end up doing this a lot.

Mr. Smith said that what he thought it meant was not that if a program brought on additional assets, that they would have to explain if they got additional recoveries. He thought it was if you were changing the valuation to explain the basis of why. Mr. Steinberg noted that there are a number of approaches. What you are saying is significant events that caused the change. It is actually that significant events caused not only the changes; they caused the absolute amounts.

Mr. Dacey added that it is what affected the program.

Mr. Showalter remarked on the comment about when Congress significantly reduced the premium during the year. They may not like that disclosure, but you have a program that is in a deficit position and Congress does exactly the opposite of what any rational human being would do, he thinks that is worthy of disclosure.

Ms. Gilliam reminded the Board that staff piecemealed this out. And we would talk about law changes and assumption changes in their actuarial assumptions. So once we get through all the disclosures, then we can come back and put it together and figure out how we are going to package it up. She noted that one of those changes might have to do with a law change in relation to the premiums.

Mr. Steinberg suggested that staff combine the identification of events that caused significant changes.

Mr. Allen suggested that as we go through the rest of these, maybe we can just answer yes, to, for example, funds returned to the Treasury investments, or reserve balances. Yes, and in the broad context, if it is significant.

Ms. Gilliam agreed that the Board should state "yes" if they want it disclosed. Then staff will figure out how to phrase it for the disclosure without it being burdensome.

Mr. Allen agreed and said that all programs have some circumstances that have to do with frequency in amount and size that are not necessarily worth disclosing.

Ms. Gilliam directed the Board to recoveries of money that programs have received back from a number of different sources. Staff recommends that we disclose significant amounts recovered and the circumstance that caused it.

Mr. Allen recommended moving forward to page 20 to discuss maximum exposure because it is always a significant item.

Then there was a discussion about actuarial assumption changes and if we already have an existing standard, so that somebody can identify that specifically, the effect of actuarial changes? Ms. Payne said that there was a standard that is limited to pensions. Mr. Dacey said that it had a fairly limited scope.

Mr. Allen returned to cash recoveries and said that would fall under the first group (revenues). He emphasized that if there is the change is a hundredth of a percent, then he did not want it want disclosed. But if it results in a more significant change, then he supports disclosure.

Ms. Gilliam noted that the Board meeting is supposed to end at 2:30 and if everybody is okay with the other disclosure pieces that she will present in a different context next time, then she wanted to spend time on risk assumed.

The Board members did not disagree with the disclosures for the other items: recoveries; investments, reserve balances, and interest income; funds transferred to treasury, acquisition costs; new laws/changes in actuarial assumptions; and maximum exposure.

Ms. Gilliam continued explaining that for the risk assumed RSI, she found that the task force was confused about what is in the current statement which explains why we are getting a mixed bag of information. She laid out the pieces that were confusing. She referred the Board to page 26 where staff provided a proposal as to what we would like to include in the updated statement for the RSI risk assumed.

Some of what staff has proposed are disclosures that were discussed earlier. Therefore, the Board will see some overlap.

She requested any comments on the fact that that risk assumed is supposed to provide a projection for the future. Most of the task force members are providing trends back ten years, but as far as projecting forward, we are not seeing that at all.

She asked if the Board wanted to see a projection forward for sustainability. Staff recommended that programs would project out a net present value, based on a ten year past value, because they are already doing the ten year trend. And then we can figure out how many years we want them to project out. The Board will need to clarify what is expected. She noted that she was supposed to take out how it would be discounted because she did not want to discuss the details of the discount rate now.

Mr. Dacey stated that the Board probably did not have enough time today to talk about it, but that this is a serious issue, and he questions the need—now that we have got sustainability and other reporting out there—whether we need to start projecting forward individual programs. In theory, some historical information would be helpful for people to see. What the losses have been on these programs and if we are in fact subsidizing could reasonably decide whether this level of detail is useful.

To project what the property casualty events are going to be over the next five years, or when the next Hurricane Katrina is coming is fraught with some risk of trying to say what the future might be, and historical paths would provide enough information to the reader to make some judgments about

Mr. Showalter said that the reason sustainability works is because you are working off of current law. The problem here is you do not have a definition.

Mr. Allen agreed but was not sure how to do it properly, stating that maybe you get that from past trends. He acknowledges that the past is an indication of the future.

But when we started this project initially, we were concerned about these previously undisclosed risks that the federal government kept finding themselves in, that ended up causing outlays of resources that we did not have any disclosures about. But as we move into some of these other issues (risk assumed phases), when we are just talking about insurance programs and here is the ten year history, he could project that.

But when he looks at all the exclusions and risks that we have said we are going to address later, he does not want to broadly say we do not want any forward-looking information, because for some of these more undefined programs, we do not have the history of the past or the consistency that we do have of an insurance program.

The only thing you could get is the potential estimated magnitude of the government's involvement. He did not know, but however we need to define that. He is okay with insurance, to not necessarily project forward.

Mr. Granof said let us look at FDIC. Based on the last ten years, it would be based on bank failures over the last ten years. Are you asking them to project out another financial crisis?

Mr. Dacey said that was one of his concerns and he was okay with Mr. Allen holding it open. He is not saying do not do it for any programs. He is just not sure that it is as meaningful a measure for insurance.

When we get to these other areas and programs, we will need to look at whether there is fair and complete disclosure of risks that we think are necessary to disclose. Here, we have got insurance-in-force. We have got a clear record of information that would say if this program is subsidized or not.

Mr. Granof said that for some insurance programs, you can project out. The actuaries do that. For others, it is impossible.

Mr. Showalter said that in disclosing the maximum exposure you have identified the program's risk and that is getting to our objective.

Mr. Dacey noted that we do have a lot of data points out there.

Mr. Showalter asked a question on page 26, about item 1C, on the current risk.

There are two parts. One says how the numbers are arrived at. I mean I am assuming you mean calculated? Ms. Gilliam agreed. It says that the insurance program may explain how they calculated their numbers. He assumes that this is an estimate and uncertainty exists. Is this an estimate to resolve uncertainty?

Ms. Gilliam clarified that, yes, a lot of the programs are already doing that, and they talk about the uncertainty of getting to those numbers.

Mr. Dacey asked if we are talking about uncertainties about a projection or the nature of the liability and how they calculated that?

Mr. Showalter agreed that it is unclear about what it means how they arrived at these numbers." He is not sure what that means. That is why he was asking. Is that the method used to calculate the estimated liabilities?

Ms. Gilliam said that yes, the methods and the assumptions they used.

Mr. Showalter said, yes okay.

Ms. Gilliam asked if he wanted her to clarify that.

Mr. Showalter said, yes and the other part is "and any uncertainty that exists." Yes, because a lot of it exists, so we know what you would do with that.

Mr. Reger asked Mr. Showalter when you say you want to know more about how they arrived at these numbers, do you mean for the actuarial, or do you want to know what the actuarial criteria were that went into the projections?

Mr. Showalter said he did not know and that is the question. How much detail do we want to know?

Unknown member said that is a tough one.

Mr. Showalter continued with yes, that is what he was saying. But the way it was worded concerned him about any uncertainty that exists.

Ms. Gilliam said that each program has a different set of assumptions. With Crop, we end on September 30th. But Mother Nature does not follow September 30th. That is where the uncertainty lies. They have to project or figure out on September 30th those liabilities, when something could happen in January, because of weather patterns. Therefore, there is a lot of uncertainty in relation to the fiscal year end in relation to what is really going on out there.

She said that she would clarify that. She asked if all the Board members did not want insurance programs to project out.

Mr. Allen said that we do have a disclosure that is maximum risk that Ms. Gilliam added.

Ms. Gilliam stated that is a program's maximum exposure, which is their insurance-in-force. If everything happened at one time and they had to pay out all of the insurance policies. That would be their maximum exposure.

Mr. Allen said that Mr. Dacey's point is that there is a ten year history of this. It is an established program and they are providing a ten year history. That is a pretty good indication of where we are headed.

Ms. Gilliam noted that yes; they are already doing that, which is nice.

Mr. Showalter said he thinks the best the agency would do would be to continue to draw straight-line along a ten year average. But, he is not sure what that is.

Mr. Dacey agreed and said that historically they move, but that is the point.

Mr. Showalter said exactly. He did not know what you would expect to get from doing it.

Mr. Granof said except for auto insurance and life insurance it is easy.

Ms. Payne said that there are ten year projections in the budget for insurance programs. So they do something, but a lot of it is probably just the straight-line. But there are also cases like PBGC, where you see a solid analysis of the plans that are out there and what the future looks like. There is a huge spectrum of certainty and uncertainty in these programs. The uncertainty is one of the challenges the task forces has had to deal with.

There was a proposal which she does not think went into a vote for CBO, and possibly OMB to study the potential to use a fair value approach for scoring insurance in the budget, which would be similar to the credit reform approach of the loan guarantees. She mentions that because there does seem to be a lot of interest.

Mr. Reger expressed similar concerns, which is, as you know, that we analyze these programs 23 different ways. Right now, we include certain information in the financial statements. If we are looking to identify risks beyond what are currently on the financial statements, and at least disclosing those somewhere, where does the Board want them to go? Do they go in the note to the financial statements, or in a risk-based statement like social insurance and some of the other programs?

Ms. Payne noted that she did not see a ground swell of support for future projections.

She said that she only raised it because the lay of the land is something that I think you should understand, and if there is pressure in the budget community to go to an accrual type approach for insurance programs, some significance may be placed on the fact that the Accounting Standards Board did not even choose to put RSI about projected cash flows or expected cash flows of its programs into the financial reports.

We have looked at these and met with the task force, and on some of the programs there is the questions about what do you do? Therefore, she does not disagree with the decision. She is just giving the Board a backdrop of what people are talking about.

Mr. Allen requested that we leave it open and requested that staff research how these programs are presented in the budget. Ms. Payne said yes, and if they have done a study. Mr. Allen noted that if the programs have already done it for the budget, bring those the next time we meet.

Mr. Dacey said that his concern is at what point do you stop doing ten year projections for every program? How is this different than other programs? That is where he thinks there are concerns about doing this.

He appreciates that programs may do it in the budget, and he knows that GAO has advocated for the budget to include certain information. However, the budget is on a cash basis, basically a claims paid basis, and is not actually showing even the accrual side. There are some advocates for moving the budget to some accrual-based information but is not in the budget currently, in terms of the budget appropriation.

Mr. Allen said that this will remain an open item and recognized that there is concern for an automatic five, ten, and/or twenty years to use for projections.

Ms. Gilliam clarified that those numbers were included for discussion because staff did not know if or how far out the Board wanted to look. We do know that PBGC projects out ten years in their projection report

Mr. Granof said that for PBGC it is relative.

Ms. Gilliam agreed and said that for some of the programs, it is a little easier to project out. She asked if the Board was okay with next steps.

Mr. Allen said okay to next steps, thank you, and the session is adjourned.

Adjournment

The meeting adjourned at 2:36PM.