

**FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD**  
**December 17-18, 2008**  
**Room 7C13**  
**441 G Street NW**  
**Washington, DC 20548**

*Wednesday, December 17, 2008* ..... 1

**Administrative Matters** ..... 1

- Attendance ..... 1
- Approval of Minutes ..... 1

**Agenda Topics** ..... 2

- Natural Resources ..... 2
- Issues arising from Economic Stabilization Activities ..... 17

**Adjournment** ..... 36

*Thursday, December 18, 2008* ..... 36

**Agenda Topics** ..... 36

- Project Plans and Update on Ongoing Projects ..... 36
- Federal Entity ..... 43
- Fiduciary Activities Staff Implementation Guidance ..... 46
- Financial Report of the US Government ..... 46

**Adjournment** ..... 47

***Wednesday, December 17, 2008***

**Administrative Matters**

- **Attendance**

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

- **Approval of Minutes**

The minutes were approved electronically in advance of the meeting.

## Agenda Topics

- **Natural Resources**

Julia Ranagan, staff member, stated that the purpose of the session is to discuss the revised draft exposure draft (ED) that was provided in the briefing materials and to gain consensus on the scope and level of detail to be included in the exposure draft so that staff can present a pre-ballot re-exposure draft to members at the April 2009 meeting. Ms. Ranagan explained the planned structure of the session and then opened the floor to clarifying questions from the members on any aspect of the revised draft.

Mr. Jackson said he is concerned that it is not clear to the reader of the ED that the financial statement illustration of the standard on page 45, which becomes effective in 2010 and talks about having the information presented as required supplementary information (RSI) through 2013, only applies to the information once it is basic. Information that is RSI would not be reported on the face of the financial statement, as appears in the illustration. Staff responded that it would clarify the appropriate presentation for such information while it is reported as RSI.

Mr. Patton said it seems to him that the answers to questions 1 (level of detail) and 2 (scope) are tied together because the more level of detail that is required, the harder it would be to broaden the scope. Staff agreed and stated that the answers may merge the two issues together.

Mr. Dacey said he thinks the board is close to a cost/benefit line and he is curious about staff and other members' views on the matter of cost/benefit.

Mr. Jackson responded that the standard provides a basic rule of accountability, setting in motion the responsibility that the Department of Interior (DOI) has to begin the accounting process at a certain time and it seems that is very important. Mr. Jackson said he is often reminded that a part of this whole process is that the board tells agencies what they ought to account for and how to account for it because otherwise people might choose not to account for it. He said it seems to him that a general standard that triggers when agencies are to recognize assets and liabilities is very important, with some appropriate discretion with regards to how they go about valuing them to make it less costly.

Mr. Dacey said he still thinks it is an asset but he is not sure if it is a balance sheet asset or a stewardship asset because there are substantial resources that are not proposed to be recorded (e.g., trees).

Mr. Jackson said he agrees that the standard should probably be broader than just oil and gas and stated that it may work to improve accountability if the board had standards that trigger recognition in some way. He stated that he would not necessarily disagree about the placement; it could be RSI for the long haul.

## Final Meeting Minutes on December 17-18, 2008

Ms. Payne said she has had the same concerns about cost/benefit but Mr. Jackson makes a good point about accountability. She noted that one of the things that Congress can decide to do, particularly with respect to natural resources, is to increase the percentage of royalties that is distributed to the states. Therefore, she noted that if this proposed standard were in effect, and Congress passed a law to increase the percentage to be distributed to the states from 30 to 60, then there would be an immediate expense for the royalties that had been booked in the past as an asset to the federal government. As a result, one could immediately report the cost of that decision to the taxpayers. She said that she is still troubled that an asset is not recognized until items are being sold.

Mr. Dacey agreed, noting that the government has significant oil and gas resources that are not classified as proved simply because the government is not currently selling the rights to them, but could be available for sale if the government chose to sell them. Mr. Dacey said he thinks they are also assets and there should be accountability for them, but putting numbers on them is where the cost/benefit consideration comes into play.

Mr. Jackson said he is not particularly preoccupied with whether the information is reported as RSI for long-term and additional resources come online—for example, other types of natural resources for which the board has not provided any guidance as to how to measure. Mr. Jackson said he is reminded that back in 1991 there were agencies that felt that receipts and outlays were just about all that they needed to measure and they did not get into asset measurement at all. Mr. Jackson said he believes it is progress to be able to capture and provide guidance at the standards level for asset and liability measurement, and how those types of things are reported is something that could lend itself to long transition periods to minimize the cost and more effectively evaluate the benefit of implementing the standard.

Mr. Farrell said par. 28 of the proposed standard talks about a change in methodology and said it seems to him that it would be reported as a change in accounting principle rather than a change in estimate. Mr. Jackson asked if SFFAS 21 requires a restatement for a change in principle or is that only for a correction of an error. Mr. Dacey responded that it is up to the board to decide. Mr. Jackson said he had the same question. Ms. Payne responded that staff would address that issue as it develops the ED further.

Mr. Schumacher noted that par. 45 is still requiring a narrative and a display for ten years of information on proved oil and gas reserves. He asked if staff had gotten any feedback from DOI as to whether they can provide the information and if all of the information is necessary because it is a lot of information. Ms. Ranagan responded that the component entity RSI is one of the issues that staff plans to present more information on at the February meeting so that the board can decide what changes to make to the currently proposed requirements. Mr. Allen said he has the same concern because the due process feedback the board has received indicates a concern about the excessive disclosures.

## Final Meeting Minutes on December 17-18, 2008

Mr. Patton said par. 27 seems to say to try present value (PV) first, and if that doesn't work try this, and if that doesn't work try something else. He said that seems to be an abdication of the board's providing guidance on measurement at all and if the board actually wants to do that—and he said he doesn't think the board should—then the board would have a very short standard that says here are your natural resource assets, do your best to measure them, and work it out with your auditor. If it does not work, then come back and see us and the board will try something else. Mr. Patton said he is not sure he wants to make that a financial reporting standard. Mr. Patton asked if he was reading the proposal correctly.

Ms. Ranagan responded that par. 27 is intended to provide broad flexibility and staff is seeking the board's comfort with respect to that flexibility in question number one on the level of detail to be provided in the ED.

Mr. Allen mentioned that there are a number of standards that require asset and liability recognition but do not provide specific valuation guidance (e.g., capitalization and depreciation of property, plant and equipment; and accounts receivable allowance for doubtful accounts). Mr. Allen said he reads the proposed standard broadly to say that this is the expected reporting on present value but if the preparer, working with its auditor, can justify why that is not the most appropriate reporting, the preparer and auditor, using their professional judgment, can choose what is the most appropriate reporting in lieu of present value.

Mr. Allen asked Mr. Patton if that is an inappropriate expectation for assets and liabilities for a preparer of financial statements. Mr. Patton responded that if the board had a conceptual framework that included a basic measurement approach for various types of monetary and non-monetary assets and liabilities, then there would be an implicit assumption embedded in there about where one would need to start, but since the board is just now doing the measurement concepts statement and have not gotten but so far on that, then this proposal is just totally wide open. He said he does not think the current measurement concepts are robust enough to provide a conceptual basis for an understanding of what one ought to do.

Mr. Dacey said in responding to Mr. Allen's question to Mr. Patton, that there was a body of practice that existed at the time the standards were developed that pretty much laid out how to do it so when the standards came along there was not quite the same need to provide lots of detail. Mr. Dacey said he questions whether, given the softness of the standard, it would be better to put it in RSI for now rather than commit to moving it to basic at this point in time until the board works out all of the details, and the board itself agrees on what the best method is after it gets feedback and practice. He said that is the purpose of RSI—to put in things that the board is working on and provide flexibility on how to report the information.

Mr. Schumacher said he had the same kind of thought that Mr. Dacey did in that the board had a standard that was very specific and detailed and was rejected, DOI did not want to do it, and the members all felt it was too prescriptive. Now the board seems to

## Final Meeting Minutes on December 17-18, 2008

be moving entirely the other direction and providing the guidance but allowing the estimation process to change as technology develops and the preparer develops the ability to estimate these with more precision. Mr. Schumacher said he likes it this way as opposed to being prescriptive and he thinks it is a way to deal with other natural resources as well as the board moves to coal and timber, etc. He said maybe the answer is to keep it in RSI for now and not put a date on it that it would be basic, and let these methodologies develop.

Mr. Steinberg said in looking at the two questions (level of detail and scope), it seems to him that the second question is the first question and the board should address the oil and gas now and the others later. He said the fact that the board doesn't have them all picked up now doesn't bother him because for 15 years, the government didn't report oil and gas. He noted that accounting standards evolve and he has no problem doing oil and gas now and eventually approach coal, timber, etc. Mr. Steinberg said the reason he wants to see something on oil and gas is the great concern with oil and gas and energy right now. The federal government is being incomplete in its discussion of resources if it does not indicate that it has a fairly large resource in oil and gas; accountability for it is very important. It is not just public disclosure and transparency but the quality of the information systems required to support audits will result in better and more reliable data that can be used for management decision-making.

Mr. Steinberg said Ms. Payne's point about cost sharing was very interesting. He noted that Congress might not have made some of the changes that it did to DOD retiree health care benefits if it had known the financial impact if it was on the financial statements. He noted that reporting the result of a change in the share to be distributed to the states on the statement of net cost may influence Congress in its decision-making.

Mr. Steinberg noted that, in respect to Mr. Patton's point about par. 27 being too wide open, it seems to him that par. 23 contains the operative way the board wants DOI to account for oil and gas (present value)—which may not be the best way to account for value since it is based on what was done in the past—but recognizing the difficulty of determining proved reserves under federal lands, he said he can live with par. 23. He said, if anything, par. 27 is the harder way to determine the amount so if Mr. Patton is concerned that the board is providing too much leeway, then it could just delete par. 27 and if the preparer can't do par. 23 then they would be in a real difficulty.

Mr. Steinberg said that, in regards to keeping the information as RSI, he gets the feeling from reviewing a number of financial reports that the preparers just do not pay that much attention to RSI because they know it is not going to receive the same level of examination as basic financial information. He said he believes the same level of accountability would not be achieved in RSI as it would in basic financial information.

Mr. Allen said the standard seems to be incomplete because it recognizes revenue and a depletion allowance and then recognizes something that more than offsets the expense. In other words, there is a gain from revaluing the asset more than the

## Final Meeting Minutes on December 17-18, 2008

depletion allowance that was taken on this. He said that tells him that the board is not capturing the whole asset, but rather only a portion of it, and if accounting worked right, the board would be capturing enough of the asset so that when revenue is recognized, the government would really have a depletion expense that offsets some of that revenue. He said it may be a troubling equation but he likes the points that Mr. Steinberg and Ms. Payne made regarding accountability and questioned if the board should not start accounting for something just because it is not perfect.

Mr. Dacey said he would support putting a number on the balance sheet if the board can ultimately get to a number that they all support. However, he said that pars. 27 and 28 are needed at this point because of the uncertainty but he thinks the board ought to be the body that decides what the final standard is rather than the agency. Mr. Dacey noted that the proposed standard would not necessitate any board action before it becomes basic information. He would like to see the board redeliberate on the agency's proposal before the information is moved to basic.

Mr. Jackson asked if DOI proposed the present value method as a result of their field test, why would the board offer an alternative to present value given the fact that the field test indicated that was the pathway to follow? Mr. Jackson asked if that was similar to CBO's alternative view?

Mr. Torregrosa responded that CBO used a principle-based approach calling for fair value and said that one way to do fair value for the proved reserves was to use the discounted present value of the royalty stream. He said he thought the field test showed that to be a viable means.

Mr. Torregrosa said he agrees with the need for accountability for these resources. He noted that Congress gives royalty relief to various companies and at the moment that is free relief because the impact of that relief does not show up in the financial statements.

Mr. Jackson said he does not see the need for par. 27 based on the outcome of the field test.

Ms. Payne noted that the auditors had not been involved in the field test. Mr. Jackson said the auditors could be involved in it as RSI for the next three years. If the auditors cannot deal with the present value calculations for whatever reason, then that becomes another issue for the board. The board could extend the RSI period while it considers alternative valuation methodologies.

Mr. Steinberg said that while it is very difficult to determine the quantity of proved reserves, it seems much easier to get a handle on present value of the projected revenues because the past revenues are known. If the board says present value is not the best reflection of what the government owns but recognizes it to be the most feasible way to present the information right now and therefore this is the standard, why would the board allow for a period of experimentation? Mr. Steinberg questioned why

## Final Meeting Minutes on December 17-18, 2008

the board would not just require that the information be basic instead of having a period of RSI.

Mr. Schumacher responded that he thought that was the reason why staff put par. 27 in and provided for a three-year phase-in period—so that if the present value methodology does not prove to be reliable, then the agency could have time to experiment with other alternatives. That is why he thought this proposal worked pretty well. If the agency needs to come back to the board at the end of the three-year period with another proposal, the board could be more prescriptive or provide additional guidance.

Mr. Dacey cautioned that the flexibility provided by pars. 27 and 28 provide for a different foundation upon which to audit than is found in other standards where there are clear alternatives for the auditors to audit against.

Mr. Reid stated that if there is no date certain upon which the information becomes basic, the auditors are not going to work on it. He said the date could always be pushed back at the eleventh hour if it is necessary. He also noted that the board might learn a lot during the experimentation phase if the standard were broadened to include other natural resources. He said he would be more inclined to broaden the standard but it definitely needs to have a drop-dead date. Mr. Reid reiterated his concern about whether the assets are being adequately represented to begin with. However, he likes the revised approach regarding providing the agency with the requirement and telling them to do what is reasonable; he said that is a huge improvement.

Mr. Patton said he would be concerned about broadening the scope based on Mr. Fletcher's response at the October meeting when Mr. Dacey asked him about having enough information about other types of natural resources. Mr. Patton read the following from the recently approved minutes: "Mr. Fletcher responded that if the concept is approached via an inventory/unit and pricing model (e.g., board feet estimates for forestry, acres for grazing, etc.) then yes they can apply that model to other natural resources. However, if the board decides to use the discounted cash flows concept, DOI does not have the systems in place to capture cash flows for different types of resources."

Mr. Patton said DOI seems to think they can do present value for oil and gas but not for other things so he would be reluctant to broaden the scope to other natural resources.

Mr. Reid asked if DOI would not then come up with a different approach for other resources. Several members agreed, noting that having par. 27 remain in the standard would provide for different approaches other than present value to be developed for other types of natural resources.

Mr. Patton said this feels a lot like an extended field test to him rather than a standard; if the board wants to have all of this experimentation, he would rather have it as a rigorous field test period rather than a standard that says do your best.

Final Meeting Minutes on December 17-18, 2008

Mr. Reid noted the difficulty in getting audit input in such cases. Mr. Dacey said there are ways to get that input, whether through OMB or some other requirement.

Mr. Jackson questioned whether using the average first purchase price or wellhead price in par. 27 would dramatically overstate the asset value. Ms. Ranagan responded that the formula in par. 27 comes directly from the previously issued exposure draft. She noted that the board declined to discount that value because the thought was that it was a conservative number to begin with, since it only covers proved reserves and does not cover unproved reserves or undiscovered resources.

Mr. Allen pointed out that the number is an average over a year. Mr. Jackson said he recognizes that it is an average but is concerned that the formula itself is inherently flawed. Mr. Reid said he would argue that a one-year average is probably not long enough.

Mr. Steinberg emphasized the importance of par. 41 and the additional work needed by staff to indicate which changes in the oil and gas calculation should be reported as a change in assumption. He said he does not want to just say apply SFFAS 33; he wants staff to be very specific about which changes to include. When he reads the footnote, he wants to know how much is due to new prices, how much is due to new quantities, and how much is due to changes in interest rates. Ms. Payne said staff would work with DOI to determine what is a change in assumption versus what is a real gain or loss to the government and the resulting display.

Mr. Allen asked for the board members' views on staff's two primary questions:

1. Does the board agree or disagree with the **level of detail** that is included (or omitted) in the revised ED with respect to asset valuation guidance, pro forma transactions, illustrative disclosures and RSI presentations?
2. Does the board agree or disagree that the **scope** of the revised ED should be broadened to address all natural resources?

In addition, based on the question raised by some members about whether the information should remain as permanent RSI rather than being phased in to basic, Mr. Allen asked the members to include their view on **RSI vs. basic**.

The following table summarizes the board members' views on the two primary questions as well as the issue of RSI vs. basic.

Member	Level of Detail	Scope	RSI vs. Basic
Patton	<ul style="list-style-type: none"> <li>- Like par. 23 level of guidance (PV)</li> <li>- Delete par. 27</li> </ul>	<ul style="list-style-type: none"> <li>- Keep the scope narrow to oil and gas only; put other types of resources on field test path</li> </ul>	<ul style="list-style-type: none"> <li>- Keep as RSI for three years and then move to basic</li> </ul>
Schumacher	<ul style="list-style-type: none"> <li>- Okay with par. 23</li> </ul>	<ul style="list-style-type: none"> <li>- Limit scope to oil and gas at</li> </ul>	<ul style="list-style-type: none"> <li>- Allow for 3</li> </ul>



Final Meeting Minutes on December 17-18, 2008

Member	Level of Detail	Scope	RSI vs. Basic
	level of detail – Retain par. 27 - allow agency to experiment if PV does not work	this point	years RSI before moving to basic
Dacey	– Fine with level of detail – Keep pars. 27 and 28 (avoids the audit report having a GAAP exception that says “RSI is not consistent with GAAP”); however supports par 27 and 28 for RSI only; does not believe appropriate for basic financial statement	– Prefers broader scope [Originally said he would prefer to limit ED to oil and gas and deliberate on other natural resources while oil and gas RSI experiment goes on]	– Believes it should remain RSI until the board sets final standard
Werfel	– Agrees with Mr. Dacey; – Standard as currently written is more principles-based and provides flexibility – Keep pars. 27 and 28	– Would not broaden scope to all natural resources	– Use the time frame the board has – Use RSI as learning period with no date certain for movement to basic
Allen	– Supports level of detail in draft; believes basic structure set out in the ED is fine (e.g., DOI may determine that board feet is appropriate for timber) – Leave in par. 27 but agrees with Messrs. Torregrosa and Farrell that par. 27 should be less prescriptive	– Would broaden the scope of the ED because the magnitude of natural resources indicates that the overwhelming majority of natural resources is oil and gas. This board is not likely to want to come back and issue another standard for other natural resources that are only a small percentage of total natural resources; in practicality the board is saying the others do not need to be valued. – Believes agencies have specific responsibilities for NR that are important to them in their own agency report	– Would keep a date certain for moving from RSI to basic

Final Meeting Minutes on December 17-18, 2008

Member	Level of Detail	Scope	RSI vs. Basic
		<ul style="list-style-type: none"> <li>- Believes this is the only opportunity that the board will have to encourage agencies to be accountable for all natural resources</li> </ul>	
Reid	<ul style="list-style-type: none"> <li>- Important to provide flexibility</li> <li>- The board should let agencies do this; there are lots of good people out there and the board should rely on these resources to come up with reasonable estimates</li> </ul>	<ul style="list-style-type: none"> <li>- Broaden scope</li> <li>- Agrees with Mr. Allen because although the other types of natural resources may not be material in dollars, they are clearly assets and would be qualitatively material</li> </ul>	<ul style="list-style-type: none"> <li>- Make it basic; If the board does not make it basic with a date certain then it may never happen</li> </ul>
Torregrosa	<ul style="list-style-type: none"> <li>- Likes flexibility; agrees that other methodologies might be acceptable</li> <li>- Okay with broad level of detail but not par. 27 as written; knows P x Q X R is wrong</li> </ul>	<ul style="list-style-type: none"> <li>- Would not broaden the scope; the board demands a lot of information before getting comfortable</li> <li>- Does not see any harm in requiring field testing of the other types but would certainly not want it as RSI at this point</li> </ul>	<ul style="list-style-type: none"> <li>- Need a date certain</li> </ul>
Steinberg	<ul style="list-style-type: none"> <li>- Level of detail is good</li> <li>- Retain pars. 27 and 28</li> </ul>	<ul style="list-style-type: none"> <li>- Keep scope of ED as oil and gas only; why address other types of natural resources if the other types are not material?</li> <li>- Indicate in the basis for conclusions (BfC) that there are other natural resources that the board may address later</li> </ul>	<ul style="list-style-type: none"> <li>- Believes the information should be required as basic information immediately but okay with RSI then basic</li> <li>- Make sure that there will be disclosure of the reasons for changes in value from one year to the next, including changes in legislation that bring about a change in the distribution</li> </ul>
Farrell	<ul style="list-style-type: none"> <li>- Agrees with level of</li> </ul>	<ul style="list-style-type: none"> <li>- Feels the board does not</li> </ul>	<ul style="list-style-type: none"> <li>- Need date</li> </ul>

Final Meeting Minutes on December 17-18, 2008

Member	Level of Detail	Scope	RSI vs. Basic
	detail in draft ED – Believes the ED needs the flexibility permitted by par. 27 but prefers not to require that the preparer go to the formula immediately after PV - soften the language	have enough information on the pros and cons but agrees with Mr. Allen that it will never come back here after oil and gas – Perhaps there is a middle ground where the board could indicate that the ED addresses oil and gas but the intention is that other natural resources should follow a similar pattern (e.g., set forth that every two years another type of natural resource should be added - DOI should pull others on)	certain to move to basic
Jackson	– Agree with level of detail but not specific provisions (liabilities for collections to be distributed to others should not roll through the SNC) Collections for others should not be shown as an expense – do not book the revenue and then back it out – Have concerns with pars. 27 and 28; agree with Messrs. Torregrosa and Farrell that the formula is a problem because it would produce a wrong number; the alternative methodologies need to be better than that	– Would not broaden the scope – Acknowledge in the standard itself the need to look at other assets in the future and plan out when the board would be able to look at them	– RSI for some period but not sure if 2013 is the right period to end it or not – Could go along with the effective dates as drafted but would leave the dates open for changes

The following table summarizes the sense of the board at the December meeting:

Member	Like Level of Detail?	Modify par. 27?	Keep as Oil and Gas Only?	Keep as RSI for three years and then basic?
Patton		[Delete]	X	X

## Final Meeting Minutes on December 17-18, 2008

Schumacher	X	*	X	X
Dacey	X (if permanent RSI)		[broaden]	[permanent RSI]
Werfel	X (if permanent RSI)		X	[permanent RSI]
Allen	X	X	[broaden]	X
Reid	X		[broaden]	X
Torregrosa	X	X	X	X
Steinberg	X	*	X	X
Farrell	X	X	[broaden]	X
Jackson	X	X	X	X

\* In addition, body language of two of the board members (heads nodding in agreement) indicated that the majority of the board supports a modification of par. 27 according to the suggestions made by Messrs. Torregrosa, Farrell, and Jackson.

Mr. Patton asked Mr. Dacey if pars. 27 and 28 were broad enough that, if it were required as basic information tomorrow, an agency could avoid a negative audit opinion. Mr. Dacey responded that the answer is probably yes but said he disagrees with allowing that much flexibility in a standard as a matter of policy.

Mr. Patton said he does not understand why Mr. Dacey supported retaining par. 27. Mr. Dacey clarified that he is only okay with retaining par. 27 from an RSI standpoint because it would be absolutely critical to avoid a GAAP exception. He would not support par. 27 for a basic financial statement. He thinks the board should come back and revisit the standard after the RSI period to select a final valuation methodology and issue a standard for basic information that only permits one type of methodology.

Mr. Reid said he believes fair presentation is the preparer's responsibility. Mr. Dacey said FASAB needs to define in the standards what fair presentation in accordance with GAAP means. Mr. Reid responded that something is either fairly presented or it isn't. Mr. Dacey responded that the auditor needs a standard to be able to measure fair presentation against (e.g., if the standard says present value, then the auditor can determine whether the information is fairly presented in accordance with present value).

Mr. Allen asked Ms. Ranagan to summarize the board's decisions. Ms. Ranagan responded that based on the board members' views, staff will retain the scope of the ED as oil and gas only, preserve the level of detail in the draft ED except for par. 27, modify par. 27 to move away from the formula, and keep the effective date as drafted (three year phase-in from RSI to basic with a date certain).

Mr. Werfel asked staff to clarify what the par. 27 modification would be. Ms. Ranagan responded that par. 27 currently provides an alternative valuation methodology that is a formula based on the previously exposed ED. Based on the input from the board, the current thinking is that is a flawed formula and is too specific and the language needs to be softened.

## Final Meeting Minutes on December 17-18, 2008

Mr. Werfel asked if the last sentence—"Other methodologies may be acceptable."—would be retained? Ms. Ranagan responded that last sentence would become the crux of the new paragraph.

Mr. Farrell said several members have brought up the cost/benefit issue and he thinks the board should address whether they should even continue with the standard.

Mr. Allen said he would argue for this board to uphold the original board's decision that reporting on natural resources is of a magnitude of importance that should be recognized. He noted that was in keeping with the board's broader goal of accrual accounting and eventually capturing information on all of the federal government's financial and non-financial assets and liabilities.

Mr. Allen asked the other members for their input on the cost/benefit issue.

Mr. Dacey agrees that there is value in the accountability, but wonders if, given the uncertainty, it is prudent to continue with basic statements when RSI may be most appropriate. He said there is value in continuing because the board may ultimately decide to value all natural resources and not just those that the government intends to sell; a lot of valuable information can be learned through experimenting with RSI. However, he is concerned that committing to the full basic statements may not be cost-beneficial at this point.

Mr. Patton asked staff if the current proposal was to retain par. 27, modifying it but still retaining its flexibility, and maintain the date certain to move from RSI to basic. Ms. Ranagan responded affirmatively. Mr. Patton responded that he thinks that is a fatal combination and he would have an alternative view because he thinks it provides too much flexibility for basic statements and puts the determination of measurement approaches in the hands of agencies instead of in the hands of this board which is where he thinks it belongs. Mr. Allen asked him if he would go ahead with issuing an ED. Mr. Patton said he would go ahead with continuing efforts to issue an ED.

Mr. Schumacher agreed that he would continue with the ED.

Mr. Werfel said the guiding principle for the board should be that it has defined an area that is important to the taxpayers that represents a mission or a programmatic or fiscal risk that the board is trying to improve the government's management of, accountability for, or public transparency on and that can help prioritize but it also drives the accounting standard and how the board wants the agency to behave with respect to this asset or liability or area. Mr. Werfel asked if the board is drawing a connection between how this accounting standard is structured and the types of agency behavior that it is driving with the particular public policy objective? If so, the board may be better able to determine if putting it on basic has a marginal benefit to putting it on RSI and the need for more stringent auditing versus not. He said he has heard members say that it may help in some way shape or form but senses a kind of amorphousness as to how this standard ties in to accountability or public policy objectives.

## Final Meeting Minutes on December 17-18, 2008

Mr. Allen responded that it is hard to have those types of discussions because the board is supposed to inform public policy but not drive public policy; it must remain independent and neutral with respect to public policy.

Mr. Werfel said he agrees but noted as an example that the fiscal sustainability and social insurance projects seem to have a much better defined objective and connection to an issue. On the other hand, he noted that the natural resources project is looking at reporting on a large base of assets that have not been previously recognized, but it is not clear what the larger objective is, what is the problem that the proposed reporting for natural resources would help inform.

Mr. Werfel said, on a guttural basis, he senses this is a very important issue, considering transformative policies that will occur in this area over the next 100 years, and thinks the board would miss an opportunity now if it does not start the ball rolling for future boards to help build on. Therefore, he said he would support the standard but he thinks it is important to think a little bit more about what the basic objective is.

Mr. Patton noted that the board has a conceptual framework that says that assets should be recognized, so the board has agreed that these are assets that should be recognized but has been wrangling over whether they can be reliably measured or not. Mr. Werfel said he agrees with that but when debating the question of whether to broaden the ED to other natural resources or leave it in RSI versus put in on the basic financial statements, that is where it would benefit the board to talk a little bit about the potential benefits of what this asset reporting could have to policy-makers, decision-makers, and the public at large.

Mr. Allen reiterated that he would go forward with the standard but could support a discussion in the BfC and the executive summary that addresses the points raised by Mr. Werfel.

Mr. Reid said he thinks the board should go forward because the resources are clearly assets. He is not satisfied with how the assets are proposed to be valued but he is satisfied that the board should begin going down the road. He said he would reluctantly say continue with the ED but may be on the fence on the final vote if he does not think the ED captures enough of the asset to result in fair presentation.

Mr. Torregrosa noted that the draft ED at least provides the possibility of better information for decision-makers so he supports moving forward. He added that he favors looking at other natural resources in the future because, while they may seem immaterial, they appear that way because a lot of them are given away and Congress should be able to identify an opportunity cost if it gives resources below market (e.g., timber, grazing rights).

Mr. Steinberg said he would move ahead. He added that staff could add a discussion about how the project fits into the framework into the BfC.

Final Meeting Minutes on December 17-18, 2008

Mr. Farrell said he thinks the board should move forward; this is an area where, with respect to cost/benefit, the benefits are longer-term to be realized (e.g., better control and better management of assets).

Mr. Farrell asked if DOI had put these assets on their books in 2008 with some methodology and the auditors said this is a reasonable representation of an asset based on what the concepts say, what would have precluded them from doing that? He asked if there was something out there that said they could not do that? He went on to say that what the board is doing is encouraging through a standard like this the things that are written in FASAB concepts.

Mr. Jackson said he would vote to move ahead with efforts to issue the ED because (1) it provides data for decisions; (2) it might assist in providing information about whether additional exploration is needed to reach a certain resource level; (3) if the revenue stream from royalties is being depleted, it would suggest that absent some action by Congress or whomever then it will not be long before not only is the revenue stream depleted but the resources upon which that revenue is based might be depleted; (4) it provides information with respect to revenues to finance government operations; (5) it could be used to determine actions that could be taken by the legislative body to affect consumption of those resources; and (6) it could affect the management of those resources because one cannot manage what one does not know one has. Without an accounting, one could not do anything of this nature.

The following table contains the board members' views on continuing the efforts to issue an ED on accounting for oil and gas natural resources at this time (in general, not necessarily as currently drafted).

<b>Member</b>	<b>Continue Efforts to Issue ED</b>	<b>Drop Project</b>
Patton	X	
Schumacher	X	
Dacey	X	
Werfel	X	
Allen	X	
Reid	X	
Torregrosa	X	
Steinberg	X	
Farrell	X	
Jackson	X	

As noted above, the members unanimously voted to move ahead with continuing efforts to issue the ED.

Ms. Ranagan asked the board members if they were comfortable with the next steps outlined in the staff memo on page 3. She specifically highlighted the next steps for the February 2009 meeting:

## Final Meeting Minutes on December 17-18, 2008

- Provide additional information on the fiduciary reporting requirement to enable the board to reach consensus on whether to retain the recognition requirements as an integral part of the fiduciary activities Schedules of Fiduciary Activity and Net Assets;
- Provide additional information on the classification of short-term vs. long-term liabilities as it would apply to revenues to be distributed to others to enable the board to reach consensus on how to treat the oil and gas liabilities;
- Provide additional information on the ability of DOI to provide the component entity RSI as currently required to enable the board to reach consensus on whether to retain the RSI requirements from the original ED;
- Provide additional information on how to treat custodial reporting for other commodities to enable the board to reach consensus on how the other commodities should be addressed in the interim until standards on all natural resources are issued.

In addition, Ms. Ranagan said she would tee up the issue Mr. Jackson raised regarding showing the gains and losses on the component entity statement of net cost, modify the language in par. 27, and work towards a pre-ballot re-exposure draft for the April 2009 meeting.

Mr. Steinberg said he would also like to see the additional guidance that staff plans to put in par. 41 related to reporting changes in assumptions. He pointed out that there are many different assumptions in oil and gas in addition to the interest rate (e.g., value, quantities that can be extracted, distributions to the states, prices). Ms. Ranagan confirmed that staff would also provide additional guidance for that.

Mr. Allen asked staff to frame two or three options for reporting for other natural resources (e.g., custodial, disclosure, RSI, etc). In addition, staff should indicate whether the options would be in anticipation of or in lieu of another standard on natural resources.

Mr. Dacey said he would like staff to determine if the federal government should be reporting any other type of information on other proved reserves that are not included in the estimate because they are statutorily not available for lease.

There were no other comments or objections on the next steps proposed by staff.

Before wrapping up for lunch, Mr. Patton thanked Mr. Werfel for arranging a tour of the White House for the members and staff on Friday morning.

**CONCLUSIONS / NEXT STEPS:** At the December meeting, the members unanimously supported continuing efforts to issue an ED on accounting for federal oil and gas resources. Based on the board members' views expressed at the December meeting, staff will retain the scope of the ED as oil and gas only, preserve the level of detail in the draft ED except for par. 27, modify par. 27 to move away from the formula in the previously exposed ED (quantity X price X royalty rate),



## Final Meeting Minutes on December 17-18, 2008

and keep the effective date as drafted (three year phase-in from RSI to basic with a date certain).

In addition, as time permits, staff will address the following:

- Provide additional information on the fiduciary reporting requirement to enable the board to reach consensus on whether to retain the recognition requirements as an integral part of the fiduciary activities Schedules of Fiduciary Activity and Net Assets;
- Provide additional information on the classification of short-term vs. long-term liabilities as it would apply to revenues to be distributed to others to enable the board to reach consensus on how to treat the oil and gas liabilities;
- Provide additional information on the ability of DOI to provide the component entity RSI as currently proposed to enable the board to reach consensus on whether to retain the RSI requirements from the original ED;
- Provide additional information on how to treat custodial reporting for other commodities (including other proved reserves that are not included in the estimate because they are not statutorily available for lease) to enable the board to reach consensus on how the other commodities should be addressed. Provide two or three options for reporting for other natural resources (e.g., custodial, disclosure, RSI, etc) and indicate whether the options would be in anticipation of or in lieu of another standard on natural resources.
- Provide additional information on showing the gains and losses on the component entity statement of net cost to enable the board to reconfirm its decision to show the gains and losses on the statement of net cost of the component entity responsible for collecting royalties.
- Provide additional information related to reporting changes in assumptions to enable the board to reach consensus on how to display the changes in long-term oil and gas assumptions.

Staff will work towards a pre-ballot re-exposure draft for the April 2009 meeting.

- **Issues arising from Economic Stabilization Activities**

*Department of the Treasury Participants.*

Department of the Treasury representatives Messrs Al Runnels, Deputy CFO; James Lingebach, Director of Accounting and Internal Controls; Don Geiger, Office of Accounting and Internal Control; and Joel Grover; Office of the Inspector General, appeared before the Board to provide a briefing and answer questions concerning actions taken by Treasury in response to the Emergency Economic Stabilization Act (ESA). The Treasury personnel were accompanied by KPMG representatives Ms. Cathy Supernaw and Mr. Mark McFadden.

Final Meeting Minutes on December 17-18, 2008

On December 16, 2008, Treasury provided via email their presentation material (25 page slide presentation) as well as a 24 August 1998 three page Treasury memo addressing the financial statement presentation of the Treasury entity/non-entity financial information. These materials are included as attachments to these minutes.

Remarks and Presentation from Treasury.

After a brief welcome and introduction of all Treasury participants by the FASAB Chairman and Executive Director, Mr. Runnels offered opening remarks and asked Mr. Lingebach along with Mr. Geiger to conduct the balance of the presentation. Mr. Runnels stated that the last 2-3 months were challenging and that Credit Reform accounting took on a much greater emphasis than ever before. He thanked all those present for assisting Treasury in this endeavor.

Mr. Lingebach began with the 25 page slide presentation with primary focus drawn to major issues/points contained within the Treasury position papers (previously supplied to FASAB). These papers were used to document the accounting policies which Treasury would follow in regards to the different ESA activities announced by the Department. Mr. Lingebach suggested covering the Consolidation paper last since he had some specific slides addressing this matter that could also help answer related questions.

Treatment of Purchases of Mortgaged-Back Securities and Credit Facility.  
(Financial Reporting Position Paper 08-02 dated October 18, 2008)

Mr. Lingebach began by explaining that Treasury determined this to be the easiest of all the actions taken to deal with since Circular A-136, *Financial Reporting Requirements*, and SFFAS 2, *Accounting for Direct Loans and Loan Guarantees*, provided guidance. Approximately \$3.3 billion in MBS purchases were made during FY2008 with probably much more to follow in FY2009. Since these purchases fall under the Credit Reform Act, credit reform accounting as per SFFAS 2 was deemed appropriate to follow. Mr. Lingebach noted that Treasury is in fact entitled to the stream of principal and interest payments with fixed maturity dates on the underlying securities.

Since there were no borrowings in the credit facility program in FY2008, no transactions transpired. Had they, they too would have been subjected to credit reform accounting.

Accounting for Senior Preferred Stock Purchase Agreement.  
(Financial Reporting Position Paper 08-03 dated November 11, 2008)

This area generated the most discussion because it was part of the overall liquidity agreement. In return for the senior preferred stock and common stock warrants, Treasury agreed to provide up to \$100 billion (\$100 B) to each GSE based upon quarterly payments if liabilities exceed assets. After significant internal Treasury discussions, it was concluded that this looked like a guarantee or insurance policy

Final Meeting Minutes on December 17-18, 2008

program. As a result, changes which should have been made to one of the position papers (discussed below) were inadvertently not made.

Using SFFAS 1, *Accounting for Selected Assets and Liabilities*, although not discussed specifically, Treasury ascertained that the preferred shares and warrants should be accounted for at acquisition cost with the subsequent market value amounts disclosed in the footnotes. This practice is also consistent with Treasury financial management guidance which admittedly is not generally accepted accounting principles, but does nonetheless fall under the GAAP hierarchy.

There are several facets to these agreements: (1) receipt of stock and warrants, (2) quarterly payments, (3) initial commitment fee (effective March 31<sup>st</sup>, 2010), (4) ongoing fees, and (5) the commitment itself for \$200 B. The accounting and financial reporting are somewhat complex. First, the receipt of the stock and warrants and related commitment fees are accounted for as nonentity transactions since Treasury is acting as a custodian for the stock on behalf of the general fund. However, the quarterly payments and commitment (overall \$200 B) are treated as entity transactions since Treasury has received appropriated money to pay for this. As a result, different components of the agreement are treated as either entity or nonentity transactions (Please refer to the attached Treasury letter dated August 24, 1998 for related details).

*Classification of GSE-related and ESF Money Market Fund Insurance Transactions as Entity or Non-entity.*

*(Financial Reporting Position Paper 08-04 dated October 25, 2008)*

This issue was considered straightforward as we used SFFAS 1, *Accounting for Selected Assets and Liabilities*. There was a question asked on page 3 concerning the use of a deferred asset account. This was an option discussed at an earlier stage and since Treasury is no longer using this approach it is no longer applicable and should have been revised in this position paper. The original thinking was that the quarterly payments would result in an increase in the preferred stock value resulting in an increase to assets. As it ended up, the entity piece is shown as an expense and when the payment is (actually) made it is at that time that Treasury is entitled to an increase in stock and also increase in liability to the general fund subject to periodic impairment assessments. Treasury expects to clarify the language in this position paper for FY2009 reporting purposes.

*Exchange Stabilization Fund (ESF) Money Market Fund Insurance Transactions.*

*(Financial Reporting Position Paper 08-05 dated November 17, 2008)*

This program was designed to make up the difference if a money market's funds would ever "break a buck." Specifically, the difference is the amount that a fund's liquidation value falls below the \$1.00 per share amount. This program ran through December 18 or 19 and since there were no claims filed against the collected premiums, there was no need to accrue any liabilities as of September 30.

## Final Meeting Minutes on December 17-18, 2008

### Treasury Concluding Comments

This is a broad brush (review) of the position papers and we can now begin discussing specific items in greater detail. However, there was a question regarding the \$200 B commitment. Treasury had an independent firm evaluate whether or not a liability should be recognized as of year end. They advised that since a liability cannot be reasonably estimated, no amount should be reported, but rather (fully) disclosed in the footnotes.

### Open Question and Answer Period.

Mr. Jackson inquired about the difficult process Treasury may have had in terms of achieving OMB quarterly reporting requirements as well as accounting for transactions in what seemed to be an overwhelming environment.

Mr. Lingeback confirmed that the process was difficult noting two points: (1) an ever changing/rapid landscape and various reports that are also due to Congress under the TARP and (2) Treasury was not planning to have a consultant assisting them every quarter due to budget/cost issues. As a result, considering matters such as impairment and given the timing of when the statements are due, Treasury is not afforded with much (analytical) time. As such, they may have to qualify their OMB quarterly submissions.

Mr. Allen confirmed with Mr. Lingeback that Treasury had in fact accrued a liability of \$13.8 billion. It was noted that a payment was made after the year-end but before the financial statements were prepared. Mr. Geiger stated that this amount was first known on November 15 and statements were due November 17.

Mr. Patton addressed the disclosure contained in footnote 24 as it relates to the concept of measuring a liability amount with sufficient reliability. Mr. Lingeback stated that he personally did not have much expertise in the valuation process and relied upon Treasury's contractor to develop the different ranges. Based on their analysis, it was determined that no amount was better (more probable) than another. Treasury's interpretation of paragraph 34 of SFFAS 5 led them to conclude that they did not meet the sufficiently reliable requirement. Mr. Geiger then noted that: both of the GSE's were going through similar complex processes as SEC filers and that ultimately, the amount Treasury did accrue (\$13.8 B) was for Freddie Mac (as a result of some accounting write-offs in the third quarter) and zero for Fannie Mae.

The discussion then turned to the estimate range and Mr. Patton stated that what got his attention was that when you have a range and an amount is not more likely (probable) than another number in that range, typically, you would take the minimum dollar amount in the range. As such, Mr. Patton asked that Treasury (1) confirm if in fact the minimum dollar amount in the range was zero and (2) address what some might say that given the setting, \$13.8 B is not much of an accrual. Mr. Dacey provided additional clarification by saying that the \$13.8 B was in fact the minimum range

## Final Meeting Minutes on December 17-18, 2008

element with the maximum being \$200 billion. He explained that in theory, Treasury valued the assets as of September 30 with the conditions that existed then and any future estimate would be based on future (unknown) market activity, decline, conditions, etc. In essence, Mr. Dacey concluded that this was the best estimate as of September 30.

Messrs. Lingebach and Runnels then responded by saying that in the final analysis, Treasury determined that any number selected would be merely a guess and that by doing so, the Treasury financial statements might have been misleading as opposed to supplying full disclosure. Mr. Runnels added that Treasury had significant discussions about this liquidity projection and the difficulties involved and that he was not surprised that the consultants, based on all the information available, did not believe that this rose to the normal level of reliability for estimation purposes. In essence, Treasury was certain of the \$13.8 B and as a result of that certainty that is what was ultimately booked.

Mr. Torregrosa stated that CBO intends showing some forward looking liability expectation in the budget base line and in their cash projections, the impact of the cash injection amounts. Currently, there are ongoing internal CBO discussions about which assumptions and/or models would be best to use.

It was further noted by Mr. Lingebach that the GSE's did not have much in the way of information that Treasury had any confidence in. For example, the GSE's did not have any cash flow information that was at all reliable and that even their 60 day cash flow projections were questionable.

Mr. Schumacher helped summarize the discussion by reiterating his understanding that (1) the \$13.8 B was in fact a reliable figure based on the GSE's liabilities being in excess of assets as of September 30 and (2) that the GSE's did not have any reliable cash-flow projections beyond 60 days. Mr. Lingebach confirmed this to be an accurate understanding.

Mr. Dacey reviewed that in theory, the September 30 balance sheets reflected GSE fair values as well as write-downs of their other assets; i.e. due to impairment. As a result, and again in theory, if the GSE's remained solvent going forward, then the \$13.8 B would be the extent of the liability. However, Mr. Dacey did point out that the conversations held with the GSE's confirmed that if the market declines further, there would be further losses to absorb. The problem is that one cannot project with any degree of certainty how much further, if any, the market could decline.

Mr. Geiger then went on to say that one of the difficulties the firm had in doing the valuation was that there were some off balance sheet transactions that complicated the analysis and it was not as clear-cut as Treasury had hoped for. Also, the high-end of the range, \$200 B was not an accounting estimate but was a figure developed from a public policy perspective to give confidence to the markets. Mr. Lingebach added that

## Final Meeting Minutes on December 17-18, 2008

although this amount is capped at \$100 B for each GSE, it was not developed based upon any type of analysis of future (i.e. cash flow) needs.

Mr. Werfel noted that it would be difficult enough to try and estimate net position for a firm operating in a normal environment let alone an environment such as this. The added difficulty is that in each quarter that a payment might be made, estimating the future impact of that payment is even all the more challenging or overwhelming.

Mr. Jackson then asked if the Government knew whether or not the liquidity commitment calculation of liabilities in excess of assets would actually solve the GSE's liquidity problems. Mr. Geiger noted that there are two other mechanisms in use in this regard: a line of credit (i.e. credit facility that was not used in FY2008) and an emergency request provision.

Mr. Farrell inquired if these other two mechanisms were being funded from the \$200 B. Mr. Lingebach stated that they were not and that in addition to being separate, they had no limit or cap.

Mr. Steinberg asked Treasury to walk through the financial statements with specific emphasis in regards to footnote 24, specifically the \$13.8 B. Mr. Geiger then proceeded to review the statements; the consolidated statement of net cost (page 141) at the bottom of the page noting that you will see the amount broken out and highlighted (GSE Costs-entity) further noting that assets and liabilities and the GSE's valuation calculation(s) follow private sector GAAP/FASB.

Mr. Patton then inquired about the debit side of the journal entry (refer to Treasury Position Paper 08-04 dated October 25, 2008, page 3) that was going to originally charge a deferred asset account. Since subsequent to the issuance of the paper, Treasury had changed its mind concerning the charge to a deferred asset account, Mr. Patton asked what then would be used to record the debit side of the entry.

Mr. Lingebach then explained that entries were classified according to whether transactions were deemed entity or non-entity. For the entity piece, Treasury would not record anything until an actual payment was made and then it would be to a preferred stock account. When the amount of the quarterly payment is known, Treasury would debit the expense and then credit the liability. Then, when an actual payment occurs, Treasury would charge the liability and credit Fund Balance with Treasury; i.e. appropriated funds. Then on the non-entity side, Treasury would debit the preferred stock investment account and credit the due to the general fund account.

After Treasury's explanation, Mr. Patton then asked to review the language on page 3 of the referenced position paper specific to the journal entry language. Mr. Lingebach confirmed that the language should have been revised to read that the debit would be to an expense and not to a deferred asset. For clarification purposes, Mr. Dacey noted that the asset belongs to the general fund and the expense is incurred by Treasury. Mr. Jackson then added that this is because appropriated funds were being used and that in

## Final Meeting Minutes on December 17-18, 2008

essence, the transaction nets out to a zero-sum noting that the liability is basically “repaying” the appropriation.

Mr. Dacey went on to discuss that there are 3 ways that general fund transactions roll through Treasury financials: first, refunds (IRS) run through the custodial piece, second, there are interest payments on the debt, and third, there are these preferred stocks which run through Treasury’s expenses.

Mr. Reid asked Treasury that if at the end of this quarter, should the GSE’s develop an exposure estimate(s) and also record them, would this affect how Treasury measures and records its Treasury liabilities. Mr. Lingebach responded in the affirmative noting that the estimates would be based on the GSE (FASB) GAAP financials.

Mr. Reid then noted that at September 30 it was probably too early for the GSE’s to develop estimates. As such, they should be in a better position by December 31<sup>st</sup> to take matters into consideration such as defaults and non-payments which are the underlying securities and that Treasury will need to react to that appropriately. Mr. Lingebach responded by stating that the September 30 GSE figures were not audited but it did appear to Treasury that the GSE’s were trying to scrub their figures. He further noted that what triggered the payment to Freddie was the write-off of certain deferred tax assets.

Mr. Farrell inquired that if Treasury recorded this as an expense, did the GSE’s as a result book this as income/revenue or possibly as an accounts receivable. Mr. Lingebach replied that the GSE’s booked these transactions directly to equity. Mr. Farrell then asked that if at the end of the fourth quarter the GSE’s show assets to be greater than liabilities; would they be required to pay the federal government back? Mr. Lingebach replied in the negative stating that there is no repayment provision.

Mr. Dacey went on to explain that at the end of the day, the preferred stocks (subject to valuation write-downs) will be on the federal government’s balance sheet. At this point, Mr. Steinberg asked whether or not it was possible for the Federal government to financially benefit from these transactions. Mr. Lingebach stated yes, but noted only to the extent that the GSE’s do well going forward.

Mr. Lingebach then referred to page 4 of the slide presentation. Concerning the consolidation issue, he explained that Treasury relied on SFFAC 2. Since neither Fannie Mae or Freddie Mac are in the budget, Treasury looked at the six indicative criteria and determined that the first five criteria did not apply and that on number six, although a fiduciary relationship exists as a result of the conservatorship albeit through the Federal Housing Finance Administration, this conservatorship is deemed to be short term and does not constitute ownership.

Mr. Jackson then asked if that thinking would change if Treasury exercised the warrants to obtain 79.9 percent ownership. Mr. Lingebach stated that if that happened, yes. He

## Final Meeting Minutes on December 17-18, 2008

noted that consolidation could occur if Treasury exercised even a lower percentage such as 50.0% or 51.0% or even something less.

Mr. Werfel clarified this by stating that a review of the accounting literature leads to the answer that generally 51 percent ownership would require consolidation with the exception that if the ownership is deemed temporary, then Treasury would not have to consolidate the GSE's. Mr. Werfel further noted that the warrants which are analogous to stock options do not constitute control. Also, if the warrants were exercised with the intention of selling them off, there would be no requirement to consolidate.

However, Mr. Farrell noted that regardless of the exercise of the warrants, it seems that the government has at least the appearance of control as it can replace management and dictate Board appointments, approve certain transactions, etc. This led Mr. Farrell to ask about the concept of control.

Mr. Reid responded by stating that the government has set up this conservatorship in a manner similar to other conservatorships where in those cases the government did not consolidate; noting FDIC as an example.

Messrs Schumacher, Farrell and Allen noted similar concerns regarding the interpretation of temporary and what conditions might arise to redefine the relationship as permanent and whether or not the substance of the economic transactions were missing.

Mr. Reid responded by suggesting that the immediate issue faced by the Board is what the estimate of the government's maximum (financial) exposure is. To this end, he noted that the GSE's have not estimated this exposure (on an accrual basis) and since the maximum exposure has not been incurred on a cash-basis method, it is yet to be determined if the \$200 B is sufficient. Mr. Reid further noted that the decision regarding the nature of the conservatorship is an administrative question and will be based on certain circumstances not yet known. Mr. Reid reminded the Board that the government owning the preferred stock with punitive dividend terms provides incentive for the GSE's to work its issues out as expeditiously as possible. Furthermore, by design, the warrants were issued not to take ownership but rather to devalue the common stock.

Mr. Allen asked whether or not in an economic sense the government exercised the warrants. Mr. Reid explained that the government does not need to exercise the warrants to enter into conservatorship and that there is no economic reason to exercise the warrants since its rights are statutory in nature. Mr. Dacey concurred with this explanation as well as stating that the government has separate rights apart from the warrants.

Mr. Werfel then explained that it is important to understand the government's intention. The intention was not to eliminate the ownership interests but to prevent current shareholder speculation resulting in speculators taking advantage of government intervention at the expense of others. Driving the stock market value to zero prevents



## Final Meeting Minutes on December 17-18, 2008

this manipulation from happening. Further, timing is important since on September 7 when the conservatorship took affect the stated policy and intention was, and continues to be, that the conservatorship is temporary. There are published statements from the Secretary of the Treasury that the goal is to get the GSE's back to a stable fiscal position so that they can go forward operating as they were operating before the conservatorship. Since this is in fact the case, the OMB concern was that by consolidating the GSE financials, we are not only in conflict with the stated policy but the financial statements would be misleading. If conditions in fact change, then another decision will need to be made. This will require continual monitoring over time as circumstances change.

Mr. Jackson asked if the common stock was now worthless from an Internal Revenue Service point of view and Mr. Werfel stated that the shares are now down below a dollar and were trading close to about \$6.00 at the time of the conservatorships' announcement. OMB estimated that the exercise price for the warrants was approximately \$640,000.00.

Mr. Allen then asked the Board if it felt a need to provide additional accounting standards, interpretations or guidance. Specifically, the Chair asked if there is sufficient guidance in either the audit or accounting literature regarding the definition of temporary.

Ms. Supernaw responded by saying that from the KPMG perspective, since Treasury is a Federal agency, FASAB standards are the most appropriate standards to follow. As such, from a consolidation, non-consolidation standpoint, they followed concept statement 2 and did not disagree with Treasury's interpretation. Concerning measurability, reliability and estimates, she stated that there is good guidance in statement 2 dealing with credit reform. Ms. Supernaw emphasized that Treasury relied heavily on FASAB guidance. KPMG's Mr. McFadden then added that there is more language regarding this issue in the accounting literature than in the audit literature. He further stated that he thought that sometime in 2002, the FASB took away the temporary exemption in its statement 144; that is, there is no longer a concept for temporary control in United States private-sector GAAP.

Mr. Allen asked if they (KPMG) saw a specific need for additional guidance to help the preparer or firm determine what is or is not temporary. He then stated that generally, accounting standards try to capture the substance of the economic transactions at the time of the event/transaction since no one knows for sure what is going to happen in the future. Concerning intent for example, one legislature cannot bind a subsequent legislature noting that there is probably nothing that binds one congressional session from the next. Consequently, the concept of what might occur in the future is not given a lot of weight, but rather weight is given to the economic substance of that particular event that has taken place.

In response to Mr. Allen's question, Mr. Geiger responded by stating that Paragraph 50 of concept 2 addressing bailouts could be enhanced.

## Final Meeting Minutes on December 17-18, 2008

Mr. Werfel responded by stating that the larger principle that guides the analysis is whether the events are in the budget or not. That is, if FASAB were to write concept 2 correctly, FASAB would align the proprietary financial statements to the President's budget. Although control is an important issue, FASAB should address and balance such disparate budget and accounting treatments.

Mr. Steinberg suggested that since Treasury has indicated what areas the Board may be able to assist them in this regard, the discussion should concentrate and focus on those immediate issues. Turning to the presentation material, Mr. Steinberg briefly summarized each area; expanding standard number one and standard number two, providing guidance on the use of valuation specialists and "other" such as the need to move ahead swiftly with the Federal entity project.

Mr. Werfel went on to state that if you were to consolidate the financials you would include a large class of liabilities that do not have the full faith and credit of the government. Only a separate act of Congress can give the full faith credit resolution. Although CBO points out that TVA is such a case, it is immaterial by comparison. The Board should keep this in mind if it ever gets to a consolidation decision point.

Mr. Jackson replied to Mr. Werfel's comment by stating that full faith and credit should not be a driving force behind liability recognition since we have other liabilities such as leases that fall into that category. Also, there are examples in the state and local governments such as revenue bonds that do not have full faith and credit of the government. Mr. Jackson made two additional points: (1) He agreed with Mr. Steinberg that concept statement 2 never contemplated events which are now taking place. As such, FASAB may need to go back and look at some of its statements to see if changes are needed and (2) the role of government is at question. That is, the government is taking possession not for ownership sake but rather, in order to protect the general interest and welfare of the people. The sole purpose in this case is to bring stability to the markets and not become owners. Somewhere, whether in FASAB standards or its concept statements, the Board may need to reflect this unique role of government as protector and not proprietor.

Mr. Torregrosa stated that he agreed with OMB to the extent that the budget and financial statements should articulate or link as much as possible. Concerning the indicative criteria, he stated that CBO could reach a different conclusion on each of the six items. AIG may pose an interesting matter to discuss since it was unlike the GSE's; a purely commercial entity. The GSE's always had an implicit guarantee and were close to the budget line. On a fair value basis, he saw nothing temporary about the GSE's insolvency. If AIG were placed in the budget even if we are conceptually correct, that might create more problems. In short, Mr. Torregrosa stated that these entity questions are going to continue to come up and that the Board should be prepared to address them.

## Final Meeting Minutes on December 17-18, 2008

Mr. Werfel explained that Treasury has a limited relationship (some TARP-AIG investment) with AIG since the Federal Reserve is primarily involved in dealing with that issue. A trust has been set up which makes the Treasury beneficiary in order to protect the taxpayers. The AIG scenario raises very different questions for our Board to address.

Mr. Dacey stated that GAO disclaimed on the financial statements as a whole. Generally, in terms of the literature it was reasonably well laid out. Although there were challenges in interpretation, it was principles based and the answer made sense. However, should the Board disagree with Treasury's interpretations, Mr. Dacey would agree with Mr. Jackson's earlier comments and advise the Board to consider the unique role of the federal government. Another key point to note is that the assets of Freddie and Fannie are not available to the government for general government purposes or uses.

Mr. Reid commented that these issues are directly driven by the health of the economy. That is, if the economy gets better then a lot of these issues will go away. In his opinion, FASAB will need to wait until the end of the year before it renders judgments or decides what steps to take next.

Mr. Allen noted that in his opinion, the Board has two responsibilities: (1) to recognize the structure of the Federal government and how the financial statements are correspondingly structured/presented and (2) help ensure that the basic purpose of financial statements measure and communicate the risks assumed by the citizens. We should never avoid measuring those risks because of the (unique) role of government.

Mr. Jackson replied by saying that he was not disagreeing with the Chair but wanted to emphasize the very unique and unusual situation currently being dealt with by Treasury.

Mr. Werfel in addressing the fiscal exposure of the government stated that one needs to consider the concept of remoteness regarding the \$200 B. Each agreement is capped at \$100 B with full disclosures noted in the financial statements. The public policy question that also comes up addresses consolidation. That is, to what extent if any, does the consolidated entity impact the behavior of the consolidator?

Mr. Allen then said that he had asked the staff to advise the Board at the next meeting concerning this very matter; as it relates to incentives and behavior. FASAB needs to better understand how issues such as entity versus non-entity impact (budget) decisions. The Board should exercise a degree of professional skepticism as do auditors, in assessing whether or not management decisions are at arm's-length. An objective should be to help ensure that there is no undue influence one way or the other in making management decisions.

Mr. Steinberg again asked the question, how can FASAB help (Treasury) in going forward? Mr. Allen indicated that if no one had additional questions for Treasury or KPMG representatives, then the Board would take up this question.

## Final Meeting Minutes on December 17-18, 2008

At this point Ms. Payne asked the Treasury representatives a question concerning the Keep Well Agreement. Since Treasury will book the liability as quarterly payments are made, with a corresponding increase to the preferred stock investment account. From the CFR perspective, ignoring the entity / non-entity issue, for every dollar increase in liability there will be a dollar increase to expense and for every dollar in preferred stock you will have a dollar increase in revenue. As a result, assuming no impairment, there will be zero cost. However, is it correct that by applying standard one, market – or fair value - increases will not be reflected? Specifically, the initial \$1 billion from each GSE is recorded at a much lower amount. Should the market pick up, Treasury will not be showing the increase and the resulting net cost to the government will exclude any potential gain.

Mr. Lingeback said that was correct and that market increases would only be shown in the disclosures. Mr. Geiger then added that we should clarify the revenue piece. The revenue received in exchange for the liquidity guarantee in this case amounted to \$7 billion. This represents the standard fee that an organization would get for providing such a guarantee. Subsequent quarterly payments will not increase revenue unless a year-end revaluation is done leading to that adjustment.

Ms. Supernaw said that there are multiple pieces to consider. For example, when a payment is made there is an increase to the liquidation preference. Therefore, you will see increases but not due to market changes affecting the initial amounts received. One of the areas Treasury is seeking additional guidance, is regarding standard one; the investment accounting guidance in the standard is very general.

Mr. Jackson clarified by stating that the liquidation value of the securities would not be recognized until they were actually liquidated and Ms. Supernaw replied in the affirmative also adding that the Treasury team felt it was essential to hold to the FASAB standards.

Mr. Dacey noted that concerning the liquidation value, it is important to note that the GSE's investment is not marketable and that Mr. Jackson's point concerning the exercise of the warrants, should that happen, would require consolidating the financials.

Mr. Savini then asked about (1) the valuation of the preferred stock investment in light of the illiquid market situation and why this stock was not booked at its par value and (2) concerning the warrants, why wasn't consideration given to any potential future increases to the stock assuming that the GSE's would successfully come out of conservatorship. Mr. Geiger replied by pointing to slide number seventeen and Treasury's footnote seven. It was agreed to use the appraised value as of September 8 as opposed to the par value. The reasoning for that was that since the market was in such flux it was highly volatile. Then Mr. Lingeback added that another reason was that in speaking with the people that negotiated this transaction, the \$200 billion was not based on any financial analysis but rather it was based on what people felt would provide comfort and stability to the markets. Then in looking at the \$1 billion in preferred

## Final Meeting Minutes on December 17-18, 2008

stock, the question was what should the fee be for the \$100 B commitment? There was nothing to indicate what the preferred stock was actually worth.

Mr. Allen then added that the point being made is, if Treasury initially valued this at market then why wasn't it subsequently also booked at market?

Mr. Lingebach stated that Treasury received the stock in exchange for the commitment and the question was what did it really get in return or exchange. As such, Treasury was trying to determine what the investment was really worth; this is why we ignored the face value of the stock. Mr. Geiger went on to explain that they treated this as an exchange transaction and recognized \$7 billion in revenue in exchange for the commitment. Concerning the warrants and why consideration wasn't given to any potential future increases, Mr. Geiger stated that because the GSE's could only provide 60 days of accurate information they did not have the information to do that. With the TARP program, this is something Treasury should probably look at; other methods they could use for this type of transaction.

Mr. Torregrosa then asked the question why Treasury didn't take a corresponding 79.9% percentage of the stock value on the transaction date. Mr. Geiger replied, (1) Treasury relied on an independent valuation study performed by an accounting firm and this is actually something Treasury needs additional help with and (2) working within Treasury and in consultation with the Inspector General as well as working with the auditors, this was the best method Treasury could come up with.

Mr. Lingebach then noted this is not ~80.0% of the existing shares but rather the amount that would be determined to represent the ~80.0% at the time the warrants would be exercised, if at all. Mr. Geiger further explained that the valuation of the warrants was the easiest factor since they were valued at what the common stock was valued at in early September.

At this point Mr. Runnels stated that Treasury had basically covered all of its slides with the exception of credit reform on the mortgage backed securities and he suggested that the Board also look at the TARP program briefly and discuss Treasury's need for further assistance.

Mr. Lingebach then proceeded to discuss two comments on the audit report. Please recall that the intent was to put Fannie and Freddie basically on life support and to allow for the next administration to take further steps in dealing with this matter. The question concerning the future role of the GSE's will need to be addressed. As a result, this issue as well as the stated policy by the Secretary of the Treasury led officials to believe that the situation would be deemed temporary in nature. Please know that although the GSE's will be allowed to increase their portfolios through the end of this year, the agreements call for a wind down or reduction of their portfolios thereafter. So the plan for them then is to possibly get smaller, but certainly get better as they cannot continue to operate in the manner they have been.

## Final Meeting Minutes on December 17-18, 2008

Mr. Geiger then briefly discussed the purchase of the mortgage backed securities and the last slide titled *How FASAB can help*. Treasury came to the conclusion that the purchase of the MBS's would be handled under credit reform accounting. Please note that this is a relatively new area for Treasury and that in the last two weeks of the fiscal year, Treasury purchased \$3.3 billion of such assets and now the department is at \$31 billion. Treasury noted that credit reform accounting is basically a discounted cash-flow method.

Mr. Jackson asked if he correctly analyzed that the subsidy for this program was at zero and Mr. Geiger replied that there is actually a negative subsidy which means that they actually expect to earn money for the government. One of the things that FASAB, FMS, and OMB could do is to expand the guidance to include more than just loan programs. Credit reform accounting probably did not contemplate the purchase of these types of assets so there are no good examples to follow. Putting this in perspective, during the end of the year there were voluminous transactions of up to \$1 billion per day purchasing MBS's comprised of 145 transactions using two fiscal agents and this has continued into this year.

Mr. Jackson then asked if Treasury has the option of selecting the securities it wishes to purchase; that is, can Treasury ensure positive returns? Mr. Geiger responded by saying that within that program, there is specific investment guidance that is being used.

Mr. Werfel noted that maximizing the negative subsidy return is not the sole driver. This is probably the number one challenge Treasury has in implementing the program; selecting the correct mix of assets to not only protect the investor but also provide stability. A part of the problem that creates confusion is how the media reports what this is costing the taxpayer. Although up-front costs are flowing out which will show significant budgetary and net cost increases, since the (positive) returns will be earned over a future period of time, these amounts are not being portrayed or factored into what is being reported by the media.

Mr. Allen then noted that Mr. Werfel's explanation makes a very good argument for using accrual budgeting methods. To which Mr. Jackson said that by using credit reform you are in fact following accrual budgeting. Mr. Werfel concurred.

Mr. Torregrosa noted that CBO has a different approach. Under the TARP program, CBO uses an adjusted credit form approach. This approach uses more of a market based risk model which affects the subsidy costs significantly. Concerning Treasury's use of adjusted-credit reform (on MBS's) accounting program-wide in order to achieve consistency, budget inconsistencies are created. CBO has a stated preference to treat Treasury's MBS's as an exchange of assets, executed at market price resulting in no impact. However, that may change.

Mr. Geiger stated that although credit reform is not new to the government, using it on MBS's and financial instruments is a new concept. Therefore, we should all be looking at new ways to handle these types of transactions. Continuing with the presentation,

## Final Meeting Minutes on December 17-18, 2008

slide eleven discusses the guarantee program for the money market funds. This is an insurance program that was designed to deal with any money market fund that may have “broken the buck”, where a fund’s assets would be valued at less than a dollar. As a result, we have incurred both earned and unearned revenues from this program and are monitoring the situation closely. This program was in response to one money market fund actually breaking a dollar. Lastly, Mr. Geiger reviewed the way FASAB can help in that statement number one only deals with Federal securities and not non-Federal securities.

Mr. Allen then asked if there were any other thoughts Treasury might have concerning our technical agenda going forward. Mr. Geiger said yes; an item that is not on slide eleven deals with FASAB’s current GAAP hierarchy project which is underway. Since many (new) Treasury initiatives/actions under the TARP program are commercial in nature, private sector GAAP addresses many of these transactions. As a result, it would be helpful to have clarifying language on how to best use the Federal GAAP hierarchy. Specifically, users need assistance in assessing when they should turn to other standards for guidance.

Mr. Runnels then reviewed slide number twenty three details; capital purchase program statistics, AIG, Citigroup, ASB, etc. Also, Mr. Runnels noted that the TARP MBS acquisitions initiative was on hold for now. Mr. Werfel said that there was an additional piece that is not under the TARP that is worth noting. In order to help the Federal Reserve, Treasury has deposited \$300 B to provide liquidity to the Federal Reserve Bank and complement TARP. Mr. Steinberg asked if this was the reason for the large increase in the Treasury cash amount from last year to this year and Mr. Lingebach replied in the affirmative. Mr. Dymond indicated that this was called the Supplementary Financing Program. Mr. Steinberg observed that the Federal Reserve can only do what it’s doing because of the money that the Treasury is basically supplying on behalf of the government. Mr. Lingebach agreed and confirmed that Treasury is basically making deposits into an account. Very brief and general comments about the money supply and additional Government borrowing were made just before Mr. Allen thanked Treasury for coming and their willingness to answer both staff and Board questions.

The Board took a short recess.

1 At the request of the Chairman, Ms. Loughan re-opened the Board meeting to review  
2 whether or not a separate project should be officially opened. In addition, she asked  
3 what specific areas or issues the Board would like for staff to focus on.  
4

5 Mr. Allen expressed his desire to set this up as a new project but emphasized that he  
6 would like to hear from others; including the preparer and auditor.  
7

8 Mr. Reid stated that there is a significant amount of activity not yet fully known.  
9 However this time next year there will be a better idea as to what the exposure will  
10 actually be and many issues will probably drop out. Mr. Reid stated that there might be  
11 a change in intent with the new administration taking office. Mr. Reid advised that the  
12 Board should wait until the August meeting before proceeding in order to avoid  
13 speculation.  
14

15 Mr. Allen responded by saying that issues such as temporary / permanent and fair value  
16 may need to be addressed in the interim period. Mr. Allen believes that accounting for  
17 investments deserves clarification regarding whether financial assets should be booked  
18 at cost or fair value.  
19

20 Mr. Reid indicated that before one can address how the assets should be reflected; the  
21 answer rests on how you resolve the issue of whether or not the GSE's continue to be  
22 reported as temporary. That is, if they continue to be treated as temporary, that could  
23 justify using fair value as opposed to a permanent relationship that could allow for held-  
24 to-maturity accounting.  
25

26 Mr. Dacey concurs with Mr. Reid that ultimately there may not be a long term position in  
27 equities and that by next year the Board will know more. Mr. Dacey believes that once  
28 you open the question of fair value on financial assets you will then have to look at the  
29 remaining assets on the balance sheet as well. Mr. Dacey does not believe there are  
30 any interpretation issues that are causing problems at the moment.  
31

32 Mr. Allen discussed the indicative criteria and Treasury's review which indicate that they  
33 felt they did not meet the first five elements. Mr. Allen clearly believes this is an area for  
34 interpretation since many would argue differently than Treasury and would come to a  
35 different conclusion. Mr. Dacey agrees that there certainly is control over the GSE's  
36 even though there is no ownership, however, this puts the Board in a position of second  
37 guessing Treasury. Mr. Reid believes that the consolidation decision was not primarily  
38 based on FASAB guidance or criteria but rather past Federal practice and coupled with  
39 the fact that these GSE's are not in the budget one can clearly understand why  
40 Treasury did not consolidate.  
41

42 Mr. Allen noted to the contrary stating that Treasury clearly said they followed FASAB  
43 standards and that in so doing, they came up with a conclusion that many of us would  
44 not necessarily agree with. Mr. Diamond noted that Treasury pointed to paragraph 50  
45 which clearly excludes bailout entities and paragraphs 48 and 49 which also exclude the



Draft Meeting Minutes on December 17-18, 2008

1 GSE's. Mr. Jackson noted however that those exclusions were prior to the government  
2 exercising its right of conservatorship.

3  
4 Mr. Werfel indicated that the Board typically operates on a longer term basis and as a  
5 result, we should take time look at this from a distance before we determine where best  
6 to move or where the gaps and/or problems are. Therefore, if there are areas of clear  
7 failure, then that is where the Board should now focus. However, with the involvement  
8 of all the principal parties to include both the KPMG and IG auditors, Mr. Werfel does  
9 not believe there is any evidence of failure.

10  
11 Mr. Torregrosa expressed concern that there was in fact a reporting failure. However,  
12 since the GSE's were not part of the budget, and absent that fact, he does not believe  
13 that there is anything we could have provided as guidance that would have changed the  
14 results. Also, regarding the valuation of the preferred stock and warrants and specific to  
15 why some markdowns were taken and others were not, he does not believe we  
16 received a clear answer to that question from Treasury officials. Mr. Torregrosa does  
17 agree with previous comments made regarding the rapid timing of these events and  
18 how the new administration will probably make decisions which will ultimately impact the  
19 nature of the GSE's.

20  
21 Mr. Werfel indicated that the bigger question is the accounting for the equity  
22 investments and this is where Ms. Payne reminded the Board that Treasury has asked  
23 for help in this regard. Mr. Steinberg pointed out that we should look at original intent  
24 and the proverbial "smell test" when assessing the applicability of prior guidance to  
25 current circumstances. He reminded the Board that in concept number two, the Board  
26 when addressing bail out language, did not consider the GSE's but rather Lockheed,  
27 Continental and Chrysler. The rationale for excluding the GSE's is that they were  
28 privately owned and the government did not explicitly guarantee the debt and to require  
29 consolidation would in essence abrogate both of those notions. As we look at the  
30 concept of smell test, it is clear that the Federal government is becoming significantly  
31 much more involved in the both GSE's and Federal Reserve and ultimately the citizenry  
32 looks to the Federal Government as being accountable and responsible. As a result, Mr.  
33 Steinberg recommends that we stay focused to what the Treasury department has  
34 asked for help with; expand statement number one to include investments in non-  
35 Federal securities since given the current circumstances, the statement is no longer  
36 complete. Statement number two should be expanded to cover investments in addition  
37 to loan programs. The last piece dealing with Treasury's entity versus non-entity display  
38 as well as the Federal Reserve Bank can be dealt with in the Federal entity project  
39 which is now in progress. Currently, we also have a project underway to review existing  
40 standards where we can deal with both statements number one and two. As a result,  
41 there should not be a significant programmatic change by the Board.

42  
43 Mr. Allen concurred with Mr. Steinberg's comments noting that in all likelihood, an  
44 exposure draft of some sort could be issued to address these issues sometime next  
45 year. In any event, Mr. Allen noted that the Board's intent is not to second guess the  
46 Treasury department but rather remain an independent body through the conduct of its

Draft Meeting Minutes on December 17-18, 2008

1 deliberations in order to fulfill its charter. The Board could decide to initiate a new  
2 project that might take two to three years and it would be worth noting that the project is  
3 not to deal specifically with the situations brought forward to us today but are more  
4 prospective in nature.

5  
6 Mr. Steinberg reiterated his recommendation that existing projects could be expanded  
7 to accommodate these issues. Mr. Allen suggested that a separate project might be  
8 more appropriate since accrual accounting significantly impacts the financial picture and  
9 transcends existing projects. Although Mr. Reid agreed with the impact that accrual  
10 accounting might have, he agrees with Mr. Steinberg in regards to resource  
11 management in addressing these matters noting that modifying the investment  
12 guidance is a priority. Mr. Schumacher then asked if the Board in fact made this a  
13 priority, how would the other projects be impacted; Federal entity and the review of  
14 existing standards projects. Mr. Allen noted that that was a discussion that would need  
15 to be held since we had more projects than staff available to do the work.

16  
17 Ms. Loughan indicated that the Federal entity project was moving along and that an  
18 exposure draft could be expected by the end of 2009 and she advised that some of the  
19 matters such as the consolidation issue could be incorporated into her project. In  
20 addressing earlier comments made by Mr. Geiger, Mr. Savini asked whether the Board  
21 should consider looking at the GAAP hierarchy to see if it would make more sense to  
22 clarify that users should incorporate by reference the FASB literature in regards to  
23 investments as opposed to reinventing the wheel. Mr. Allen indicated that this was a key  
24 discussion point in Tab B regarding FASB GAAP and there is a difference of opinion  
25 among the Board as to how best address FASB GAAP. Ms. Payne indicated that the  
26 Board does not have to include FASB GAAP in its hierarchy project, however, with the  
27 issuance of the technical bulletin the Board can clarify if FASB GAAP applies. Mr.  
28 Jackson objected by stating that since statement one does address investments, we  
29 cannot go to FASB GAAP because FASAB has jurisdiction.

30  
31 Mr. Farrell agreed that we should not second guess Treasury even though he might  
32 have come to different conclusions. We are certainly seeing the function of government  
33 change and such transactions and events are likely to recur. Also, Boards typically  
34 cannot react fast enough to provide on-the-spot guidance to decision makers. Since all  
35 Board members had not yet spoken, Mr. Farrell reserved judgment. Mr. Jackson did  
36 agree that a new project should be established but was uncertain as to its scope. In  
37 addition, Mr. Jackson agreed with Mr. Steinberg that the existing standards needed to  
38 be expanded. Since we can only deal with what we currently are aware of, we might  
39 need to amend the standards more than once as we go forward. Mr. Jackson does not  
40 believe that there is any reporting failure however he notes that we should address  
41 issues as they arise. This might include looking to other standard-setters that go  
42 through a deliberative due process and including guidance in some way.

43  
44 Mr. Patton stated that the consolidation issue as well as some other matters should be  
45 folded into the Federal entity project, if applicable. Concerning the valuation of various  
46 types of financial instruments, Mr. Patton would advise against marking to market at this

Draft Meeting Minutes on December 17-18, 2008

1 time because the measurement attributes projects is currently underway. The Board  
2 should have its conceptual rationale established in place or at least defined in order to  
3 avoid what might appear as reaching a conclusion in an ad hoc manner; rationale is  
4 needed for the basis of conclusion.

5  
6 Mr. Dacey agrees with Mr. Patton and referred to paragraph 148 of standard one which  
7 basically says until the Board reaches decisions about the conceptual framework it  
8 would be premature to recommend a valuation basis for non-federal securities. A  
9 detailed discussion then ensued between Messrs. Jackson, Allen, Patton, and Dacey  
10 regarding how best to proceed in order to avoid a possible auditor qualification that  
11 could result if for example, FASAB accounting standards were at variance with Federal  
12 law. In short Mr. Jackson does not believe we should wait for a concept statement or  
13 rationale to be completed. Mr. Dacey advised that we could look to other standard  
14 setters (i.e. Level D common practice GAAP) who follow a deliberative due process to  
15 adopt other options. Mr. Jackson restated his opinion that since FASAB addresses  
16 some of these issues, the Board should not defer to other standard-setters. Mr.  
17 Steinberg then indicated that we are currently writing standards on natural resources  
18 without having concept statements completed. Mr. Werfel then stated that it would be  
19 helpful for the preparers and auditors to know if the Board in fact had clear opinions or  
20 positions on any particular matter. In particular, such opinions and/or positions should  
21 have a significant Board majority and be clearly communicated to both preparers and  
22 auditors. Mr. Schumacher stated that he was unsure whether there should be a  
23 separate project for these issues or if they should be folded into existing projects.  
24 However, since these transactions are still unfolding we will know better in September  
25 of 2009 and as such, we should only give guidance where applicable.

26  
27 Mr. Allen stated that he felt that no one could really determine if there was a failure  
28 anywhere, however, he noted that the Board now has an opportunity to act. He advised  
29 that since the programs are still unfolding, the Board should get a sense from the staff  
30 as well as certain Board members as to those likely areas that might arise or questions  
31 that a preparer or attester might have to address in the coming year. Mr. Jackson then  
32 stated the Board could look at the GAAP hierarchy project and advise users that they  
33 could also consider other appropriate GAAP in conjunction with FASAB standards. On  
34 an interim basis, the outcome might be to advise via some technical guidance, that the  
35 preparer could move down the GAAP hierarchy to get to an answer under certain  
36 circumstances. Mr. Jackson would like the staff to inform (high level analysis) the Board  
37 at its next meeting as to whether or not the standards have a fundamental weakness  
38 and whether or not the standards permit such a flow down within the gap hierarchy to  
39 facilitate decision-making. In this way, we may not have to amend standards and we  
40 can allow the concept statements project to move at a normal pace.

41  
42 Mr. Reid emphasized the importance of taking prudent steps forward while waiting for  
43 certain Treasury and Fed actions to unfold. Mr. Allen then turned again to Mr. Steinberg  
44 and asked him if this could be a first step we take. Mr. Steinberg reiterated similar  
45 concerns that Mr. Jackson previously expressed that existing standards do not facilitate  
46 or assist the department and the conduct of its accounting for these transactions. The

1 Board will need to update the standards to reflect what is currently happening. Mr. Allen  
2 said that he felt the Board was evenly divided on this issue as to whether or not there  
3 should be a separate project opened. At this point, the consensus of the Board was to  
4 have another meeting to discuss moving forward strategically with staff analysis  
5 comparing current literature to either known conditions or future likely events in order to  
6 identify gaps with recommended solutions; statements one and two in particular. Mr.  
7 Patton reminded the Board and staff that mark to market should not be the only  
8 measurement principal considered primarily since government actions more than likely  
9 will occur when markets are unstable and/or illiquid. Based upon what we are currently  
10 seeing, it makes sense to look at other valuation models for the Federal government to  
11 consider.

12  
13 **CONCLUSIONS:** Prior to adjourning, Mr. Allen summarized what the staff was  
14 expected to do in preparation for the Board's next meeting -- prepare a tentative  
15 draft and short outline of the issues the staff would like the Board to consider for  
16 providing additional guidance.

17  
18 **Adjournment**

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

20

21 ***Thursday, December 18, 2008***

22 **Agenda Topics**

23

24 **• Project Plans and Update on Ongoing Projects**

25 Ms. Payne provided an update for those projects not on the meeting agenda since the  
26 last Board meeting as follows:

- 27 1. Reporting Model Project - Mr. Simms recently held a trial focus group  
28 session with the assistance of the GAO methodologies experts. GAO has  
29 volunteered a neutral facilitator for the focus groups.  
30 2. Cost Accounting Standards Evaluation - Ms. Parlow held a roundtable with  
31 representatives of the CFO community. The results in brief were:  
32 a. Cost accounting needs varied greatly between agencies and  
33 flexibilities are needed. None wanted to see the flexibilities provided in  
34 SFFAS 4 narrowed.  
35 b. The SFFAS 4 standards should not be elevated.  
36 c. The need for best practices and leadership were noted.  
37 3. MD&A Standards Evaluation – Mr. Fontenrose is actively evaluating the  
38 FY2008 MD&As.

39 The tentative project on economic stabilization activities (ESA) approved the previous  
40 day would delay progress on selected projects but not significantly. The project plans for

Draft Meeting Minutes on December 17-18, 2008

1 the three new projects presented in the briefing materials have not been adjusted for the  
2 effect of the ESA work.

3 The Board identified their three highest ranking projects at the August meeting –  
4 appropriate source of GAAP, evaluation of existing standards, and deferred  
5 maintenance/asset impairment.

6 For the appropriate source of GAAP, the related exposure draft on the hierarchy of  
7 GAAP was released and it includes questions related to the follow on effort regarding  
8 the appropriate source of GAAP. The project plan identifies the scope of each as  
9 follows:

10 Appropriate Source of GAAP Objectives:

11 a. Establish requirements necessary to ensure that the stand alone federal  
12 financial reports prepared pursuant to FASB standards meet federal financial  
13 reporting objectives

14 b. Consider any issues arising from possible transition to IFRSs by U.S. non-  
15 listed reporting entities (private companies and non-profits)

16  
17 Companion Objectives from The Hierarchy of Generally Accepted Accounting  
18 Principles, Including the Application of Standards Issued by the Financial  
19 Accounting Standards Board

20 c. Address whether it is appropriate for those federal entities currently  
21 applying standards issued by the Financial Accounting Standards Board (FASB)  
22 to continue that practice (i.e., establish whether GAAP for a federal entity permits  
23 this practice and it is therefore generally accepted)

24 d. Determine whether a newly created federal entity may apply FASB  
25 standards and, if so, under what conditions (i.e., establish criteria for new  
26 entities)

27 e. Provide guidance to address the case of a federal entity consolidating  
28 information from an entity (or entities) applying FASB standards with its own  
29 FASAB based information [Note that this does not extend to providing guidance  
30 for eliminations. If needed, this can be addressed through implementation  
31 guidance or informal assistance.]

32 With respect to evaluation of existing standards, Ms. Payne noted that staff was actively  
33 assigned to the highest three priority standards – SFFAS 6, PP&E accounting; SFFAS  
34 4, Cost Accounting; and SFFAS 15, MD&A. The remaining standards would be  
35 addressed as staff becomes available.

36 Mr. Jackson noted that grant accruals as a result of SFFAS 1 require a significant  
37 amount of resources for little apparent value. Grants represent a continuous flow of  
38 funds and the need to determine the 9/30 accrual is burdensome. It seems to represent  
39 a preoccupation with an agency's balance sheet. Some aspects of the balance sheet  
40 relate to fundamental accountability such as PP&E. Other aspects seem less significant  
41 and he believes grant accruals have relatively low informational value.

Draft Meeting Minutes on December 17-18, 2008

1 Mr. Werfel asked whether there is a way to look at things that may have a high  
2 consensus among members. For example, could the AAPC develop proposals that we  
3 might act on quickly?

4 Reactions included:

- 5 • most topics that come before the Board become controversial
- 6 • perhaps AAPC or staff should bring proposals where the Board simply  
7 acts on a non-objection basis
- 8 • because of the scope of the federal government things that appear easy  
9 are often not and a balanced approach to proposals was needed to guard  
10 against unintended consequences of adopting the recommendation of a small  
11 group of individuals/agencies

12 Ms. Payne noted that staff was aware of difficult or awkward language in existing  
13 standard where an omnibus correction might be useful and would not necessarily  
14 change practice.

15 Mr. Jackson indicated that the work of other groups to develop guidance was helpful.  
16 For example, development of a guide for accounts payable might provide an inventory  
17 of accepted methodologies for dealing with accruals. Such guides might be helpful if  
18 they were acceptable. He noted that contractors are paid over and over again to  
19 develop techniques. If practice aids were available and properly reviewed and accepted  
20 then we could save resources. Mr. Allen indicated that it was worth exploring but that it  
21 seemed more an IG or CFO Council role. Mr. Jackson indicated that it simply needed to  
22 be reviewed in a manner that allowed it to fall within the hierarchy.

23 Mr. Dacey noted that there are large funds in the earmarked funds that have negative  
24 balances. The liabilities exceed the assets set aside. He suggests that we evaluate the  
25 earmarked fund standard. Mr. Reid agreed. Members were asked to share their  
26 thoughts on the remaining projects and at the conclusion of that discussion, members  
27 would be asked to assess whether evaluation of earmarked funds standards should  
28 take a higher priority than other new projects.

29 Mr. Werfel offered a general comment on the agenda. His sense of the transition  
30 activities is that there will be a need for reform oriented thinking around big topics. An  
31 example is how the citizen can interact with the government. The reporting model  
32 project may play a big role and perhaps this should be pursued more aggressively.  
33 Ways to measure productivity in government are being considered. These efforts would  
34 point to cost accounting and deferred maintenance. Are we thinking strategically about  
35 where the transition may take us and how it would affect our priorities?

36 Mr. Reid noted that he thought the general fund ought to be on the list of things to think  
37 about. He noted that some transactions are not subject to double entry accounting  
38 because of the exclusion of the general fund from Treasury. He suggested that we  
39 either affirm that the current treatment is appropriate or not.

Draft Meeting Minutes on December 17-18, 2008

1 Mr. Allen noted that the reporting model project may address this through the purpose  
2 of agency reports. These are fundamental questions. The emphasis on agency  
3 management is unique in federal financial reporting. State and local reporting focuses  
4 on the whole government. Mr. Allen noted that he could not understand the Treasury  
5 agency reports.

6 Mr. Reid noted that fund balance with Treasury is like cash at the agency. There is no  
7 FBWT at the CFR level because it is eliminated. But there is no real elimination  
8 because Treasury does not book the obligation to meet obligations to agencies as a  
9 result of FBWT. Mr. Dacey opined that these amounts don't simply fall away at  
10 consolidation.

11 Ms. Payne noted that in the elements concepts statement the Board spoke to what  
12 items qualifying as elements should be reported with what agency. In addition, the  
13 reporting entity project would address the question of whether the general fund is part of  
14 the Treasury entity or is an entity that stands alone.

15 Mr. Dacey indicated that this is the only area of activity that is not assigned to an  
16 agency. If you believe that all activities should be assigned to an agency then we should  
17 determine what agency should report on the general fund.

18 Mr. Allen asked for comments on the three new project plans.

19 Mr. Jackson noted that the current cost accounting standards were the result of the  
20 National Performance Review demands during the Clinton administration. Whatever we  
21 do now should have more depth to it and should consider performance reporting. With  
22 respect to the general fund, some effort to describe the general fund is needed. We  
23 need to address what the general fund is so that we can then ask how it should be  
24 accounted for.

25 Ms. Payne noted that when projects were considered there was a "linking cost to  
26 performance" project – a broad exploratory project. Ultimately, it was not ranked in the  
27 top three by the Board.

28 Mr. Allen expressed concern regarding the appropriate source of GAAP project. He  
29 initially believed the project would include an assessment of whether entities reporting  
30 under FASB GAAP should continue to do so but staff has not included such an  
31 assessment. He asked members whether they believed the decision in the GAAP  
32 hierarchy project to permit entities to continue to follow FASB GAAP was a permanent  
33 decision or one that would be revisited in the appropriate source of GAAP project? In  
34 other words are we saying that it is off limits in the next phase to tell entities to change  
35 from FASB GAAP?

36 Messrs. Patton and Schumacher believed that the decision was not to make anyone  
37 change at this time.

38 Mr. Dacey indicated that he believed that the decision was that any new entity that  
39 could demonstrate a user need could apply FASB GAAP and that we would not force

Draft Meeting Minutes on December 17-18, 2008

1 the entities that have historically followed FASB to make such an assessment. Mr. Allen  
2 noted that the reasons agencies seemed to have elected to apply FASB GAAP varied  
3 and some seemed justifiable and others did not. Mr. Jackson agreed.

4 Mr. Allen asked whether the members want the staff to broadly evaluate whether  
5 current FASB preparer entities should meet certain criteria to justify continuing to apply  
6 FASB standards. Mr. Dacey noted that there is no evidence to suggest that the reports  
7 are not meeting user needs. Without evidence that user needs are not being met, it will  
8 be very difficult to justify a change. Mr. Allen noted that the current ED provides that  
9 new entities would follow FASAB unless there is a reason to use FASB. He felt there  
10 was a long term objective to justify use of FASB and that over the long term all federal  
11 entities should follow FASAB.

12 Mr. Allen then polled the members for their views and the responses were as follows:

13 Bob Reid – Supports requiring the same basis of accounting for all federal  
14 entities.

15 David Torregrosa – Spending some time on the issue is acceptable but he does  
16 not feel strongly.

17 Hal Steinberg – Prefers to develop criteria to identify who should be on FASAB  
18 and who should be on FASB.

19 John Farrell – Believes entities that will want to switch to FASAB are not very  
20 large; it would be nice to have all entities following FASAB but it is not a high  
21 priority.

22 Woody Jackson – Wouldn't mind developing criteria but believes it is a lower  
23 priority; agrees there are some current FASB preparers that should follow  
24 FASAB but given the size he doesn't believe it is a high priority. Maybe we need  
25 some criteria – the criteria for new entities are in the ED resolve some of his  
26 concern about new entities adopting FASB.

27 Tom Allen – Agrees that it is not a high priority but if we pursue the project we  
28 should develop criteria.

29 Carrie Hug – OMB reviews of the Accountability for Tax Dollars Act reports show  
30 that there are legitimate reasons for some entities to stay with FASB; she  
31 believes most of the current FASB preparers are not material.

32 Bob Dacey – Noted that criteria were laid out in the GAAP hierarchy ED for new  
33 entities; he does not believe it necessary to address the existing FASB preparers  
34 at this time for pragmatic reasons.

35 Ms. Payne noted that the way the project evolved has led to the situation we are in; that  
36 is, the project manager, Julia Ranagan, is now working on two major projects, natural  
37 resources and the appropriate source for GAAP. She asked whether members would



Draft Meeting Minutes on December 17-18, 2008

1 object to the appropriate source for GAAP project being secondary priority given Ms.  
2 Ranagan's commitment to the natural resources project. Members agreed.

3 Mr. Werfel noted that the deferred maintenance project plan may not be asking the right  
4 upfront questions. The foundation seems to be whether deferred maintenance meets  
5 the definition of liability. He prefers that we ask the question "what are the critical risks"  
6 we face from deferred maintenance. We would then ask what we can do to help the  
7 government address that risk. For deferred maintenance, we don't have good  
8 information about deferred maintenance and whether investments in deferred  
9 maintenance have a good return on investment. How can we get smart investment in  
10 repair areas? There does not appear to be a lot of strategic thinking across government  
11 about prioritizing deferred maintenance needs. Decisions on deferred maintenance are  
12 being made in a vacuum. There is not a good framework for assessing investments –  
13 State department does have a reasonable mode with algorithms for making decisions.

14 Mr. Werfel asked whether we could consider the policy objectives we might meet and  
15 then consider how the accounting supports those goals. Mr. Dacey noted that GAO  
16 recently released a report. There is substantial flexibility in deferred maintenance  
17 assessments. He sees an opportunity to look at what is useful for management decision  
18 making. The process is not well defined at this stage. OMB may inform us about what  
19 the decision makers at OMB need.

20 Mr. Allen noted that every standard ought to be driven to meet information needs. This  
21 is true here as well. In this case, you may need financial and non-financial information.

22 Mr. Dacey would not like to see different accounting and management solutions. Mr.  
23 Werfel suggested a roundtable with key facility managers. Ask how they do it today and  
24 how they understand the portfolio of their repair needs. Find out what information they  
25 need.

26 Mr. Jackson indicated that there was a group spending time on this and there were  
27 papers written on this topic. He had been involved in it while he was at OMB. Such  
28 groups may be very useful in assembling a roundtable.

29 Mr. Allen noted that the second part of the project is asset impairment. He asked for  
30 members thoughts on whether asset impairment was an important part of the project.  
31 Mr. Werfel noted that deferred maintenance was a larger risk to the government. Mr.  
32 Reid noted two serious challenges to identifying deferred maintenance – it requires  
33 physical assessment and when are you simply curing deferred maintenance versus  
34 creating a new asset by improving old assets.

35 Mr. Allen noted that the Transportation department was working on a standardized  
36 highway assessment tool. It is very complicated.

37 Mr. Allen argued that asset impairment is not as much a priority. Mr. Jackson indicated  
38 that they can go hand in glove – impairment may be simply due to obsolescence or  
39 arise from deferred maintenance or other sources. So, deferred maintenance may result  
40 in impairment.

Draft Meeting Minutes on December 17-18, 2008

1 Mr. Allen noted that both IPSASB and GASB have dealt with impairment. Mr. Steinberg  
2 noted that the deferred maintenance amounts shown as RSI are huge. He believes the  
3 notion of prioritization is a real challenge but it would be very helpful to find a way to  
4 apply ROI principles.

5 Mr. Patton asked about the role of a financial reporting standard in this arena? What are  
6 the barriers to the agency or a central group like the CFO Council taking up the issue?

7 Mr. Steinberg noted that state/local governments didn't report infrastructure for years.  
8 Rating agencies pointed out the assets were falling apart and they wanted information  
9 about the infrastructure. It took GASB to require information before it was provided.

10 Mr. Allen noted that financial reporting ought to support the effort. Mr. Werfel indicated  
11 that the CFO Act connected audited financial statements to the information for  
12 management. There is a continuum of information that supports day to day  
13 management and is periodically reported. If you don't have the financial information to  
14 feed into the report and to management then you miss the opportunity. If we think about  
15 the information continuum we will create a framework meeting everyone's needs.

16 Mr. Allen asked for any remaining comments on the project plans and no comments  
17 were offered.

18 **CONCLUSIONS:** The projects currently staffed will proceed with the following  
19 taken into consideration:

20 a. SFFAS 27, *Identifying and Reporting Earmarked Funds*, and  
21 SFFAS 1, *Accounting for Selected Assets and Liabilities*, will be  
22 evaluated as soon as possible as part of the Evaluation of Existing  
23 Standards project.

24 b. The deferred maintenance/asset impairment project will emphasize  
25 decision maker's information needs and asset impairment is of  
26 lesser importance than deferred maintenance.

27 c. Consideration of the treatment of the general fund will be  
28 addressed in the federal entity and federal reporting model projects.

29 d. The "Reporting by Federal Entities that Primarily Apply Standards  
30 Issued by the FASB" project (previously the Appropriate Source for  
31 GAAP project) will continue and include consideration of criteria for  
32 entities currently applying FASB standards but not as a high  
33 priority.

34  
35

1           • **Federal Entity**

2   Staff explained that at the previous (October 2008) Board meeting, staff presented the  
3   federal entity task force recommendations to the Board. One recommendation was for  
4   the Board to revisit the issue of whether the Federal Reserve System should be  
5   included or excluded in the Federal Reporting Entity. Currently the Federal Reserve is  
6   excluded from the federal reporting entity because par. 47 of SFFAC 2 provides the  
7   exclusion. The Board agreed that an educational session on the Federal Reserve  
8   would be helpful.

9   Staff discussed the primary objective for the December Board meeting is to provide an  
10   educational session on the Federal Reserve and other English speaking nation central  
11   bank systems so that the Board members have a better understanding of the Federal  
12   Reserve. Staff explained the briefing materials contain a staff paper with information on  
13   the Federal Reserve with appendices of Board of Governors Financial Statements and  
14   the Combined Financials Statements for the Federal Reserve Banks as well as brief  
15   summary of other Central Banks.

16   Staff explained the staff paper includes information about the creation of the central  
17   bank, ownership of the central bank, the roles and responsibilities of the central bank,  
18   structure of the central bank, and the government's relationship with the central bank. In  
19   addition, staff explained the paper includes a discussion of what's included in the  
20   government-wide financial statements and a brief discussion of the central banks  
21   financial statements. Staff discussed the roles and responsibilities of each of the central  
22   banks are generally consistent. Staff also noted that financial statements are prepared  
23   for each of the central banks. Staff explained that all of the central banks are somewhat  
24   accountable to the government; to some degree in a variety of ways. Staff also found  
25   that the structures of the central banks are somewhat similar; in the fact there is  
26   typically one person that is primarily held accountable for the Banks, such as the  
27   Chairman or Governor. In addition, there is typically a governing Board that is  
28   responsible for governance, whether it is the Board of Governors, Board of Directors, or  
29   Reserve Bank Board.

30   Staff explained the ownership of the Federal Reserve is much different when compared  
31   to other central banks researched. All of the other central banks were owned 100% by  
32   the respective government. In addition, treatment of the central banks in the  
33   consolidated government-wide financial statements differs among the countries, with  
34   two countries fully consolidating the central bank activities.

35   Staff also noted the difference in ownership and structure with the Federal Reserve  
36   Banks could lead to looking at the issue of whether the Federal Reserve System in its  
37   entirety (including both the Board of Governors and the Federal Reserve Banks) should  
38   be part of the federal reporting entity or alternatively looking at each one individually  
39   may be more appropriate. For example, the Board may wish to consider whether the  
40   Board of Governors should be included in the federal reporting entity separately from  
41   whether the Federal Reserve Banks should be included in the federal reporting entity.  
42   Staff also explained that reconsideration of the exclusion does not necessarily mean the

Draft Meeting Minutes on December 17-18, 2008

1 Federal Reserve would be consolidated in the Federal Entity; it may lead to determining  
2 there should be some other specific disclosures.

3 Staff explained that just prior to the Board meeting; FASAB Counsel Mr. Dymond  
4 provided a report that may be of interest to the Board as it detailed previous  
5 consideration of the Federal Reserve. Mr. Dymond explained the Report of the  
6 President's Commission on Budget Concepts was published in 1967 with the intent of  
7 presenting recommendations that would make the budget a more understandable and  
8 useful instrument of public policy. Mr. Dymond referred the Board to pages 28-29 of the  
9 report which discussed consideration of the Federal Reserve.

10 The report states "Discussions about the independence of the Federal Reserve System  
11 are concerned with its position within the Federal Government—not whether it is  
12 independent of the Federal Government. The System is clearly a Federal Government  
13 operation." The report explains the budget concepts includes as a receipt the payment  
14 to the Treasury of excess Federal Reserve profits but does not include the receipts and  
15 expenditures of the Federal Reserve System. The report states "Inclusion of the  
16 Federal Reserve banks in the Federal budget might jeopardize the vital flexibility and  
17 independence of the monetary authorities. Moreover, projections of System operations  
18 for a forward period—as would be required if included in the budget—do not appear  
19 feasible at the present time. The nature and economic significance of the Federal  
20 Reserve bank receipts and expenditures are different from those of most other  
21 government programs and activities."

22 Mr. Farrell pointed out that the report presents valid points but one must consider what  
23 the reasoning was for not including the Federal Reserve in the budget. Board members  
24 agreed but noted there were certain political considerations related to public policy that  
25 must be considered.

26 Chairman Allen explained that there are political considerations as well as financial  
27 reporting considerations when determining if the Federal Reserve should be included in  
28 the federal entity. He added that those two considerations are at complete opposites  
29 with each other and that public policy or political expectation is not aligned with what  
30 one would expect for financial reporting.

31 The Board discussed the federal government's relationship with the Federal Reserve  
32 results in a debt burden, not a deficit burden. The Board members briefly discussed the  
33 Federal Reserve financial statements and relationship to the Department of Treasury.  
34 The Board agreed there is a need for a better understanding of the relationship of the  
35 Department of Treasury and the Federal Reserve. Mr. Werfel explained that he  
36 believed the biggest risk or exposure to the federal government in its relationship with  
37 the Federal Reserve is the decrease in profit flowing from the Federal Reserve to the  
38 federal government. Other members viewed it slightly differently and believe there to be  
39 greater risk, especially considering the recent bail out activities of the Federal Reserve.

40

Draft Meeting Minutes on December 17-18, 2008

1 Staff explained the Board of Governors issues separate financial statements from the  
2 Reserve Banks. Staff also explained the Board of Governors is a federal agency but  
3 they are excluded from the federal entity as well. Staff explained the Board may wish to  
4 consider the two separately in determining if it should be part of the federal reporting  
5 entity.

6 Mr. Reid explained the information prepared by staff was useful and that perhaps in the  
7 end there is some middle ground, such as some other disclosures that would be of  
8 interest and helpful to readers in better understanding the Federal Reserve.

9 Mr. Werfel explained one important difference to remain cognizant of is that the  
10 President can force the Treasury to do certain things but the President can't force the  
11 Federal Reserve to take any certain actions. He added that the federal government can  
12 partner with the Federal Reserve on activities. However, the Board discussed that  
13 Congress can legislatively make the Federal Reserve do things because that's how it  
14 was created. Mr. Dymond noted that most of the Federal Reserve actions related to the  
15 economic stimulus actions have been under what was once a rarely used section of the  
16 Federal Reserve Act that is only used in exceptional circumstances and that those  
17 actions do require consultation with the Secretary of the Treasury.

18 Mr. Patton explained that he did not see how the Board could be tackling the federal  
19 entity project without reconsidering the Federal Reserve as well as the Government  
20 Sponsored Entities. Mr. Schumacher agreed the Federal Reserve exclusion should be  
21 reconsidered as well. Mr. Dacey also agreed that it should be reconsidered and pointed  
22 to the need for a more in-depth understanding of the relationship between the Federal  
23 Reserve and the Treasury Department. Mr. Werfel agreed the Federal Reserve should  
24 be considered in the federal entity project but not through a specific project on the  
25 Federal Reserve; instead this is one of many considerations in the federal entity project.  
26 Mr. Reid agreed and suggested that the answer of how to treat the Federal Reserve will  
27 naturally evolve as part of the project. Mr. Torregrosa acknowledged the question of the  
28 Federal Reserve is politically sensitive and most understand the independence of the  
29 central bank and although there are valid questions, the outcome is unclear. Mr.  
30 Steinberg and Mr. Farrell agreed with other members that it should be reconsidered in  
31 the broader federal entity project. Mr. Jackson agreed it should be reconsidered as  
32 well.

33 Mr. Dacey explained that there should be compelling evidence for the Board to change  
34 the position in SFFAC 2 considering the Board had once concluded it should be  
35 excluded. Mr. Dacey added that some of the other non-English speaking countries may  
36 exclude the central banks.

37 **CONCLUSIONS:** The Board agreed that staff will continue working toward  
38 finalizing an Exposure Draft in the Federal Entity project and the Federal Reserve  
39 exclusion would be reconsidered as part of the Federal Entity project once the  
40 criteria is finalized. The Board also agreed it would determine at a later date if  
41 there is a need for a representative from the Federal Reserve to brief the Board.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39

- **Fiduciary Activities Staff Implementation Guidance**

Ms. Parlow opened the discussion by reviewing the nature of Staff Implementation Guidance (SIG). SIG is developed by staff and does not create new standards, but rather addresses implementation questions raised by preparers. Ms. Parlow noted that the required two-week public comment period for the draft SIG ended on December 3, 2008, and that the revised draft SIG would be subject to negative Board approval; in other words, if a majority of the members objected to the SIG, it would not be issued.

Ms. Parlow noted that there was one previous issuance of SIG, and that was SIG 23.1, Guidance for Implementation of Statement of Federal Financial Accounting Standards (SFFAS) 23. She noted that SIG is level D guidance, which is the lowest level of guidance that is included in FASAB's *Original Pronouncements*.

Mr. Allen asked the members if there were any objectionable items in the draft SIG.

Mr. Jackson said that he did not have any objections, but that he did have a question about reporting fiduciary land held in trust, and how the draft SIG would apply to theoretical purchases of land using fiduciary cash. Ms. Parlow said that SFFAS 31 did not establish a new requirement to assign a monetary value to fiduciary land held in trust. She noted that SFFAS 31 explicitly refers to fiduciary land held in trust within the context of non-valued fiduciary assets, which are fiduciary assets for which required disclosure does not include dollar values.<sup>1</sup>

Mr. Steinberg requested and received confirmation that the final SIG would not include irrelevant references to custodial activities.

**CONCLUSIONS:** Ms. Payne noted that a final draft of the SIG will be forwarded to members for a 15-day review period, after which, absent objections from a majority of the members, the SIG would be issued.

- **Financial Report of the US Government**

Mr. Reid called attention to the net operating cost in excess of \$1 trillion. The era of declining budget deficit has come to an end. Revenues were essentially flat whereas the past several years we enjoyed a double digit growth rate in revenues. On the accrual side, the most significant change was in the actuarially calculated costs of veterans' disability liabilities. In addition to discount rate changes, there were more

---

<sup>1</sup> SFFAS 31, paragraph 18(d).

Draft Meeting Minutes on December 17-18, 2008

1 people applying for veteran's disability benefits and there were changes in the covered  
2 illnesses. These are entirely unfunded costs and changes such as these are dramatic.

3 Mr. Reid noted that much of the same information provided regarding fiscal  
4 sustainability last year is included but it is overshadowed by the TARP and GSE  
5 activities.

6 Mr. Allen asked about the decline in the Social Security portion of the open group net  
7 present value. He asked if it was a change in the assumptions. Mr. Dacey indicated that  
8 there was a major change in the immigration assumptions to better reflect what was  
9 occurring.

10 Mr. Patton asked about an FY2007 chart about commitments—he wondered if it was  
11 included. It was previously labeled Table 1. Mr. Reid noted that it is now on the back  
12 page of the Citizen's Guide and named the "snapshot."

13 Mr. Reid described the press conference and noted that the press focuses most heavily  
14 on the budget deficit. The difficulty in understanding accrual information provided once a  
15 year is a barrier to press coverage. The emphasis tends to be on the long-term social  
16 insurance projections. This year almost everyone at the conference published one  
17 article. The headline was that the accrual cost numbers exceeded \$1 trillion for the first  
18 time. The week prior to the issuance of the report Treasury released cash numbers for  
19 November and projected a \$1 trillion budget deficit. This sequence tended to minimize  
20 coverage of the accrual information since the press already covered the "trillion" dollar  
21 story line.

22 Mr. Torregrosa noted that the CBO's TARP estimate on a net present value basis were  
23 \$50 billion – about \$150 billion less than the cash subsidy; so that the cost is expected  
24 to be \$50 billion.

25 Mr. Dacey clarified that for budget purposes Treasury and OMB have reported the  
26 transactions on a cash basis. CBO has used a net present value basis and assumes  
27 that some of the cash will be returned over time. Under the cash basis, the receipts from  
28 liquidating the preferred shares (as well as any other equity instruments) will reduce the  
29 deficit.

30

31

32 **Adjournment**

33 The meeting adjourned at 12:30 PM.