

**FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
December 16-17, 2010
Room 7C13
441 G Street NW
Washington, DC 20548**

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Thursday, December 16, 2010

Administrative Matters

- **Attendance**

The following members were present throughout the meeting: Chairman Allen, Messrs. Dacey, Granof, Jackson, Reger, Showalter, Schumacher, and Steinberg. Ms. Bond was present December 16 with some exceptions. Ms. Kearney represented her during her absence on the 17th and during brief absences on the 16th. The executive director, Ms. Payne, and general counsel, Mr. Dymond, were present throughout the meeting.

- **Approval of Minutes**

The minutes were approved electronically before the meeting.

Agenda Topics

- **Survey and Confirmation**

The survey and confirmation form were approved with minor changes.

- **Federal Reporting Model**

Overview

The FASAB discussed the Financial Reporting Model Task Force (task force) report and deliberated priorities and plans for the reporting model project which includes a review of disclosures. The Board discussed its role with respect to the task force recommendations and determined that an analysis of the recommendations is needed. The analysis should include a discussion of the existing FASAB standards relevant to each of the task force recommendations. The analysis will assist the Board in planning the next steps for the overall project during the February 2011 Board meeting and staff will prepare the analysis. Details of the FASAB's December 2010 discussion are provided below.

Discussion

The task force report¹ presented the following recommendations:

Recommendation No.	Recommendation
1	Adopt an Electronic, Web-Based Reporting Method
2	Explore How Best to Report Additional Government-wide Performance Information
3	Present a Functional Statement of Net Cost in the CFR with Departmental Net Cost by Function as RSI
4	Establish Minimum Requirements for a Statement of Spending

¹ See <http://www.fasab.gov/reports.html> for the full task force report and a discussion of each recommendation.

Recommendation No.	Recommendation
5	Include Intergovernmental Financial Dependency in RSI
6	Enhance the Information Value of the Reconciliation of Net Operating Cost and Unified Budget Deficit Statement through Re-labeling
7	Reclassify the Information in the Statement of Changes in Cash Balance from Unified Budget and Other Activities
8	Re-orient the Balance Sheet Display and Enhance Related MD&A Discussion
9	Explain the Difference Between Net Position and Fiscal Gap
10	Establish a Federal Financial Information Web Site and Raise Awareness of Federal Financial Information

Task force members present for the discussion included:

- Jonathan D. Breul, Executive Director, IBM Center for The Business of Government, and Partner, IBM's Global Business Services, and former Senior Advisor to the Deputy Director for Management in the Office of Management and Budget (OMB)
- Patricia E. Healy, Executive Consultant, CGI, and former Deputy Chief Financial Officer, U.S. Department of Agriculture
- John H. Hummel, Partner and Federal Segment Leader, KPMG LLP, and Chair, Certificate of Excellence in Accountability Reporting program sponsored by the Association of Government Accountants
- Jeffrey C. Steinhoff, Executive Director, KPMG Government Institute, and Managing Director, KPMG LLP, and former Assistant Comptroller General of the United States for Accounting and Information Management and Managing Director for Financial Management and Assurance at the Government Accountability Office.

Task force members not in attendance were:

- Michael J. Hettinger, Executive Director of Practice Planning and Marketing, Global Public Sector, Grant Thornton LLP and former staff director of the House Committee on Government Oversight.
- Edward J. Mazur, Senior Advisor for Public Sector Services, Clifton Gunderson LLP, and the first Controller of the OMB and former FASAB member

- Marvin Phaup, Director, Federal Budget Reform Initiative, Pew Charitable Trusts, and former Deputy Assistant Director, Congressional Budget Office
- Al Runnels, Deputy Chief Financial Officer, Department of the Treasury
- Sheila Weinberg, founder and CEO, the Institute for Truth in Accounting

The FASAB members thanked the task force for their efforts and discussed the role of the Board with respect to the task force's recommendations. Mr. Allen asked the task force members for their view of FASAB's role in implementing the recommendations. The task force members believed that the FASAB should support or endorse the recommendations. Mr. Hummel noted that the task force reviewed the FASAB user needs studies and focused on the issue that citizens were not aware of the information that is currently being made available to them.

Mr. Jackson believed that it would be interesting to know whether the legislative financial reporting requirements could be met solely by an electronic means. Agencies have developed the tools to collect the data necessary to meet FASAB standards and an electronic repository could be developed that permits individuals to drill down for information.

Mr. Showalter noted that the role of the FASAB is to define the minimum set of financial statements. As electronic reporting evolves, questions may arise concerning whether the information is intended to represent a set of financial statements. The task force report has examples of how information can be presented in different ways.

Mr. Dacey noted that audits provide opinions on a defined set of data presented in a discreet way. Mr. Jackson noted that the audit community needs to join the movement toward electronic reporting.

Ms. Bond noted that the Board should define the financial statements, but how to educate the public is a separate issue. The federal government is developing Web sites and, in addition to developing a statement of spending, the CFO Council is considering how to educate the public. Mr. Reger noted that the Department of the Treasury (Treasury) will soon have an interactive web site and he stressed the need to maintain discipline and reporting credible information.

The Board discussed that there may be challenges in ensuring that online users are able to distinguish audited information from information subject to other procedures in accordance with generally accepted government auditing standards (GAGAS).

Mr. Granof noted that, as one drills down, the information can be collected and presented in different ways, such as in a graph. Information presented graphically can be misleading. Currently there may not be a role for the Board, but eventually web-based reporting will revolutionize what the Board has to do.

Mr. Jackson noted that a pilot could be initiated to begin testing electronic reporting. Mr. Showalter noted that the Securities and Exchange Commission (SEC) is experimenting

with extensible business reporting language (XBRL) and the Board should monitor that effort. Mr. Reger noted that agencies are experimenting now with collecting data in different formats. Ms. Bond noted that five agencies will be testing the statement of spending to determine if it can be brought "online" in 2012.

Ms. Healy noted that there is data that is subject to audit and available for various electronic presentations, but there needs to be a standard for "information." What is the minimum "information" that the government is responsible for presenting to the public? That is where standards are needed. Also, the government could provide data sets to the public and let them create their own "information."

Mr. Breul noted that experimentation and piloting efforts are not fast enough actions. The task force stressed urgency and believes that the federal government needs to move more quickly than a two or three year experimentation period.

Mr. Granof noted that the way of the future for financial reporting is a hierarchy with the ability to drill down. The Board may not be able to require electronic reporting, but should encourage it. Also, there are some actions that could be taken immediately. For example, financial statements should be in electronic form and include hyperlinks to detailed information and notes. One should be able to click on a number and go to a schedule that explains that number and link on numbers within that schedule. Also, the project to review disclosures should continue concurrently with these actions and, with the proper use of hyperlinks, there should not be a need to be so concerned about voluminous notes.

Mr. Jackson noted that he would like to know what would be required to implement the task force recommendations, e.g., would there need to be significant systems changes, and who would lead the implementations. The task force recommendations appear to require a change in the method of conveying and presenting information.

Mr. Steinberg noted that task force recommendation nos. 2-9 concern financial data and could be implemented without FASAB standards. Mr. Steinberg noted that recommendations nos. 1 and 10 concern the method of communicating and may be addressed by the Office of Management and Budget (OMB) and Treasury rather than FASAB. Also, recommendation no. 2 concerns performance information. The Board has previously discussed its involvement in this area and might want to revisit the area, particularly in light of the change in selection performance measures to meet a goal that was reported recently by the Washington Post.

Mr. Reger noted that efforts have begun regarding recommendations 1 and 10. An interactive Web site presenting the existing information should be available in March 2011. Regarding recommendation nos. 2-9, an analysis needs to be conducted to determine how the recommendations would be implemented and the difficulty of implementing the recommendations. Some recommendations may simply involve rearranging the information while others may require data that is not currently being collected. In addition, the Board may need to prioritize which recommendations could

provide the most “payback.” Mr. Jackson suggested that the Treasury and OMB could review the recommendations and report to the Board on what would be involved in implementing them.

Mr. Allen noted that the Board has a role in making sure that the financial statements can answer the reporting objectives regardless of how the statements are communicated. He prioritized the recommendations by focusing on the Board’s Strategic Directions document which noted that operating performance and stewardship are the Board’s primary focus reporting objectives. Mr. Allen noted that the stewardship objective appeared to have the biggest deficit in terms of achievement. Mr. Allen determined which task force recommendations related to the reporting objectives and his priorities would be recommendation nos. 8, 9, 3, and 6.

Ms. Bond noted that recommendation nos. 1 and 10 are underway and will be visible in many different formats in the next few months. Recommendation nos. 3-9 do not appear to present FASAB standards issues now. Those recommendations primarily concern form and content matters and can be considered for testing as part of developing OMB Circular A-136 requirements and the reporting model work of the CFO Council. Also, more needs to be done to determine what information the public needs and how to educate them. The need for FASAB standards will come as progress evolves.

Mr. Dacey noted that many of the recommendations do not present a standards issue now, but some experimentation can be done. He would work with Treasury and OMB to study implementation of the recommendations. Also, a means would be needed for determining through feedback whether the changes are actually helpful to the public. With the feedback from testing and the public, the Board can decide on whether actions are needed.

Mr. Schumacher noted that the Board should endorse recommendation nos. 1 and 10 and he would like to see recommendation nos. 2-9 move as quickly as possible. He expressed the concern about, under Web-based reporting, how would a user be informed about what information is beyond the audited information.

Mr. Showalter emphasized that the task force recommended a central location or web site for accessing financial information rather than several web sites. In addition, the Board should keep in mind that the citizen is the reader of the financial report. Therefore, simplicity and context is needed when presenting information. The information needs to be understandable to the average citizen.

Ms. Bond noted that the Performance.gov web site would be up by the February 2011 Board meeting and she would be glad to present attributes of the site to the Board. The site will have links to financial statements, material weaknesses, and other information. Also, she could provide an update on the statement of spending testing.

In response to a question, the task force members clarified that recommendation no. 2 pertained to the government-wide management’s discussion and analysis (MD&A)

rather than the agency level. Mr. Dacey noted that the focus should be on how to inform users about where to find performance information that currently exists. There has been a challenge in determining which program performance level information to include in the financial report of the U.S. (CFR) and selecting what programs to discuss. The challenge is determining whether there are true government-wide performance indicators and what would be the criteria for determining what to present in the CFR. The MD&A of the CFR has a reference to agency level reports for program performance information. Likewise, a robust web site would have a way to inform the reader about where they can find the relevant performance information in agency reports.

Mr. Allen noted that, with respect to recommendation no. 2, the role of the Board could be to address shortcomings in the MD&A. Mr. Jackson noted that the Board is primarily concerned about what needs to be reported and how it should be measured. The Board starts to run into problems when discussing how to report program performance information. The Board would need to define what program performance information needs to be reported and how to measure what needs to be presented.

Mr. Allen noted that the Board acts to require specific information. He clarified that he is concerned about whether there is a potential for a FASAB project with respect to the task force recommendations. He noted that if the FASAB believes that a functional statement of net cost (recommendation no. 3) should be a required financial statement; this would result in a FASAB standard. Also, the MD&A standard could require functional costs and a description of significant changes in functional costs.

Ms. Payne noted that there are provisions in the FASAB standards that are relevant to many of the task force recommendations. Staff could provide the Board with examples of the information required by the provisions that are relevant to each recommendation. This would provide the Board with a sense of the scope of items that might need to change to permit more flexibility for an experimentation period or that may need to be added to better communicate information to citizens. This would also help accomplish Mr. Allen's concern about whether the recommendation *could* be a project and the Board could focus on *should* the recommendation result in a project. Ms. Bond noted that the analysis should also include considering whether the standard needs to be changed to implement the recommendation.

CONCLUSION: Staff will provide the Board with an analysis of the task force recommendations. The objective of the analysis will be to assist the Board in planning the next steps for the reporting model project during the February 2011 Board meeting.

- **Priorities and Plans – Reporting Model and Note Disclosures**

The FASAB discussed priorities and plans as part of the Federal Reporting Model session. See the Federal Reporting Model discussion beginning on page 2.

- **Review Draft Annual Report**

Ms. Payne provided an update on the draft report including changes offered by members prior to the meeting. She indicated that a draft of the remaining page, reporting the results of the survey and confirmation as well as any resulting actions items, would be provided in mid-January. In addition, she will continue to coordinate with the Appointments Panel and AICPA review team in the interim. The goal is for the report to be finalized at the February meeting.

- **Natural Resources**

The purpose of this session on natural resources was to discuss a draft exposure draft of a standard proposing to defer the effective date of Statement of Federal Financial Accounting Standards (SFFAS) 38, *Accounting for Federal Oil and Gas Resources*, for one year. If approved, the new effective date of SFFAS 38 would be for periods beginning after September 30, 2012 (i.e., fiscal year 2013).

Julia Ranagan, FASAB staff member, introduced the draft exposure draft at Tab F titled “Deferral of the Effective Date of SFFAS 38, *Accounting for Federal Oil and Gas Resources*.” Ms. Ranagan explained that the Department of the Interior’s (DOI) Bureau of Ocean Energy Management, Regulation, and Enforcement (BOEMRE) had requested a one-year deferral of the effective date of SFFAS 38. The request was to provide additional time for DOI to adjust to a recent major reorganization of the primary bureau within DOI that will be responsible for preparing the information required by SFFAS 38. Ms. Ranagan asked whether any of the board members had any concerns about deferring the standard for one year or if they had any specific comments on the proposal.

Mr. Schumacher said he is not opposed to the deferral but asked if the board decides to defer the standard for one year, would the information still be presented as required supplementary information (RSI) for three years or would it then be limited to two years?

Ms. Ranagan responded that the proposed standard as it currently stands would leave the RSI period as three years; the proposed standard is only deferring the beginning reporting period by one year. She noted that it could be an option to limit the RSI period to two years if the board decides to defer the standard for one year.

Mr. Showalter said he would be concerned about limiting the RSI period to two years because he thought the board decided that it wants DOI to experiment for three years before it revisits the proper reporting of oil and gas.

Mr. Allen said he views the proposal as still requiring three years of experience. Mr. Schumacher said he was fine with that; he just wanted to get that point clarified.

Mr. Jackson said that it seems to him that the reorganization does not change the notion of proved reserves; it changes who might have the responsibility for carrying out the standard. It is an organizational issue, not a data issue. Mr. Jackson asked Mr.

Scott Mabry, Finance Officer from BOEMRE, who had requested the extension and was sitting in on the meeting as an observer, if that was a fair statement.

Mr. Mabry responded affirmatively, adding that it is also a workload issue as well. Mr. Mabry explained that a lot of the information for the accrual is coming from staff, such as the economics division, who is currently burdened by additional work from the British Petroleum oil spill and related lawsuits. After the MMS reorganization is complete, the resources that will be needed to execute the requirements of the standard will be spread out across multiple bureaus and offices within DOI and not entirely within the Office of Natural Resources Revenue (ONRR, formerly Minerals Revenue Management) or even the new Safety or Leases divisions. Mr. Mabry explained that there is a McKinsey study going on right now to show what the organization will look like post-MMS; that study is expected to be released some time in February 2011. Mr. Mabry said once they have that, they will have a better idea of how things will be aligned going forward.

Mr. Schumacher asked for clarification that this proposal only affects DOI. Ms. Ranagan responded affirmatively.

Ms. Ranagan noted that she had added some language to the basis for conclusions (BfC) in the pre-ballot draft copies that were handed out in the morning. She specifically noted that par. A7 provided draft language that she felt was appropriate for the situation:

A7. While a reorganization in and of itself would not normally be a justification for deferring a standard, the Board members noted that the nature and extent of the MMS reorganization goes above and beyond what would be considered within the normal course of operations. The Board therefore approved the one-year deferral, but emphasized that earlier implementation is encouraged and strongly urged that the standard be implemented for 2012 if at all possible.

Ms. Ranagan stated that early implementation of SFFAS 38 was encouraged in the original standard, and the draft language in par. A7 of the proposed deferral further encourages early implementation.

Mr. Showalter said it is important that the board avoid unintended consequences such as people interpreting the board's actions in other ways. He said he likes the addition of the language in A7; he wants to make sure that there is not a long line of requests to defer standards when it comes time to implement a standard.

Mr. Allen noted that this would have been a good opportunity for DOI to notify the board if they thought there were implementation problems other than the reorganization. Since they have not notified the board of any, he assumes the reorganization is the only barrier to implementation at this point. Mr. Mabry responded that is correct for DOI as a whole; the issue they have to work out is who will be doing the reporting at the sub-component level.

Mr. Allen said he supports the request for deferral based on the reporting responsibilities that DOI has to work out internally.

Mr. Allen asked if there were any objections to granting a one-year deferral for SFFAS 38. None of the members voiced an objection.

Mr. Jackson commented that it is novel that it takes nine months to change "2011" to "2012." Ms. Kearney noted that although the due process timeframe may take nine months, she does not believe it would take up much of the board's time. Ms. Ranagan concurred, noting that the ballot draft will go out via email and then the next time the board discusses it will be after the comment letters are received, followed with another pre-ballot and ballot period that can most likely be done via email.

Mr. Steinberg asked why the deferral needs a 90-day comment period, and suggested that a shorter time frame may be more appropriate.

Ms. Payne said the board has approved shorter comment periods in some cases. Mr. Allen said that is a very good comment; because the scope of the standard is so narrow, he would support a shorter comment period – 45 days or something shorter than 90 days. Mr. Allen asked members if they supported Mr. Steinberg's suggestion to shorten the comment period. After conferring with members, Mr. Allen directed staff to shorten the comment period to 30 days. None of the members voiced an objection.

Mr. Allen thanked staff and concluded the session.

CONCLUSIONS / NEXT STEPS: The board unanimously supported a proposal to defer SFFAS 38 for one year to periods beginning after September 30, 2012. Staff will email a ballot draft to members on Thursday, December 23, 2010. If approved, the exposure draft will be released by January 7, 2011 with comments requested by February 7, 2011.

- **Measurement Attributes**

Ms. Wardlow presented a staff analysis of the responses received to the Exposure Draft (ED) of a proposed Statement of Federal Financial Accounting Concepts, *Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording*. The ED was issued on September 13, 2010, with comments requested by November 30, 2010. The staff analysis covered fourteen of the responses, which had been previously distributed to the Board. The two most recent comment letters were provided to the Board at the meeting. Ms. Wardlow said that a large majority of the respondents were generally supportive of the concepts proposed in the ED and answered the Questions for Respondents in the Executive Summary affirmatively. A majority also supported all the proposed measurement attributes and indicated that the definitions were clear, although a few respondents questioned the appropriateness and/or benefit vs. cost of certain attributes, such as "replacement cost." A few respondents proposed

alternative treatments of certain issues; however the Board had considered such alternatives before adopting the concepts proposed in the ED. Many respondents provided editorial comments for the Board's consideration.

The principal substantive comments and suggestions received, and the Board's decisions after considering them, were as follows.

1. Discuss the cost vs. benefit of remeasurement and of different measurement attributes. The Board reaffirmed its conclusion that cost-benefit issues are appropriately discussed in the context of setting standards, when specific measurement attributes are under consideration. The Board noted that this conclusion is presented in paragraph 22 of the ED.
2. Add "going concern," meaning "the value of the entity as a whole," as a measurement attribute. The Board concluded that "going concern" is not a measurement attribute, which is a measurable characteristic of an asset or liability. The Board noted that the ED addresses the measurement of assets and liabilities in financial statements; it does not address valuation of the entity as a whole.
3. Provide a table or chart to illustrate the pros and cons of different measurement alternatives. The Board concluded that it would be difficult to prepare a table or chart that would appropriately conceptualize the pros and cons of different measurement alternatives and attributes for assets and liabilities in general. This is because the pros and cons of different attributes likely would vary according to the class of asset or liability or transaction. For example, there are different classes of inventory in the federal government and remeasurement might be more useful in some circumstances, whereas reporting at historical cost might be more useful in other circumstances. The pros and cons of different alternatives should become apparent when the Board considers reporting standards for particular classes of assets or liabilities.
4. The concepts statement should either answer the "principal question" referred to in the Executive Summary and elsewhere in the ED—whether and under what circumstances an asset or liability should be remeasured in periods after its initial acquisition—or the question should be reframed. The Board reaffirmed that it was not the intent to answer this question in the document, but rather to discuss the advantages and disadvantages of different alternatives. The "principal question" would be addressed in future standards. The Board agreed that the intent of the concepts statement should not be changed. However, to avoid potential misunderstandings, the statement of objectives in paragraph 2 should be modified to read as follows (footnotes not shown):

Objective

2. The objective of this Statement is to identify and elucidate the conceptual issues relevant to establishing measurement standards in the future for accrual-basis financial statements. A principal question for the Board to resolve in future standards is whether and under what circumstances it might be more

useful for users' decision making to report an asset or liability in periods after its acquisition or incurrence (a) at the amount initially recorded (“initial amount,” i.e., the historical cost, subject to appropriate adjustments for amortization, depreciation, or depletion) or (b) at an amount measured at each financial statement date (“remeasured amount”). This Concepts Statement discusses the advantages and disadvantages of different alternatives for measurement. However, conclusions as to which measurement approach or attribute may be selected for reporting elements under different circumstances are deferred for consideration in the standard-setting process. Standard-setting deliberations also would appropriately consider cost-benefit implications and other practical reporting concerns.

Conforming changes should be made to the related section of the Executive Summary.

5. Remove "replacement cost," "fulfillment cost," and/or "value in use" from the list of attributes. The Board decided not to eliminate any of the proposed attributes. The concepts statement should include attributes that are available for use. Whether or when different attributes would be required for reporting certain elements would be considered when deliberating future standards.

6. Provide examples of how the attributes are used. The Board observed that some of the attributes are not currently used in the federal environment. The Board decided that, rather than providing specific examples of the use of a particular attribute in the federal or other sectors, the discussion of the attributes should clarify how each attribute might be used—that is, the information it could provide.

In other discussion, the Board reaffirmed that the illustration of a mixed attribute financial reporting model that was included in Appendix A of the ED should not be included in the final concepts statement.

In response to members' questions, staff elaborated on the definitions of certain attributes, including replacement cost and fair value, and on a reference to fair value and initial value in paragraph 42, which could be more clearly worded. Staff also indicated that editorial comments received from respondents to the ED and Board members would be considered in drafting the final concepts statement.

The Board decided not to hold a public hearing on the ED.

CONCLUSIONS: Staff will prepare a draft final concepts statement for consideration at the February 2011 meeting.

- **Earmarked Funds**

Ms. Parlow distributed a handout with editorial changes to the draft Exposure Draft, *Revisions to Earmarked Funds Requirements: Amending Statement of Federal Financial Accounting Standards 27*. She said that the editorial changes had been suggested by Messrs. Steinberg and Showalter.

Mr. Jackson said that he had sent suggested changes to Ms. Payne. Ms. Payne said that she would put Mr. Jackson's changes up on the screen when some equipment issues were resolved.

Ms. Parlow said that the questions for the Board focused on whether the draft language adequately implemented the decisions that the members had made.

Mr. Jackson said that he had suggested changes to the definition that made it unnecessary to exempt post-employment benefit funds and exchange revenue funds from the category of earmarked funds.

Mr. Allen asked if any of the Board objected to the draft language in the draft Basis for Conclusions for explaining the rationale for the Board's decisions (to require an external source of funds, to allow flexibility in the placement of information in the statements or notes, and to allow combined totals). There were no objections.

Ms. Parlow asked for the Board's approval of language about the predominant source of funds.

Mr. Jackson said that he suggests language that uses a percentage (20%) to set materiality, but that he would have no problem leaving it out. Ms. Parlow suggested that this ED might not be the best venue for setting numerical materiality standards. Mr. Jackson agreed.

Mr. Jackson said that he suggested changes that made the exemptions unnecessary. Mr. Allen noted that the Board has not yet seen Mr. Jackson's suggested language.

Ms. Kearney asked Mr. Jackson to describe his idea. Mr. Jackson said that his suggested changes to the definition would make all of the exclusions unnecessary.

Ms. Payne said that Mr. Jackson's proposed language would require that the fund must benefit the general public. Ms. Parlow said that only a small part of the population is able to receive benefits through Social Security and Medicare. Mr. Jackson said that although this is true, the program is intended to benefit the general public. He said that it would be best to work with the definition rather than have a list of exclusions.

Ms. Parlow said that the new wording would have to be tested with the Task Force. Mr. Jackson and Ms. Payne agreed.

Ms. Parlow asked if the word “exchange” occurred in Mr. Jackson’s language. He said that it did not, but that the revised definition would effectively exclude exchange revenue.

Ms. Payne said that staff needs to have a better idea of the consensus of the Board. For example, some exchange revenues related to national parks and Yucca Mountain are intended to have benefits for the general public.

Mr. Allen said that when SFFAS 27 was being developed, and he was not yet a Board member, he thought that it was primarily focused on Social Security.

Ms. Parlow said that in developing SFFAS 27, the Board knew that there would likely be hundreds of earmarked funds. However, the Board did not anticipate that the federal post-employment benefit funds would be reported as earmarked funds. The very large negative net positions of these funds canceled out much of the positive net position of Social Security and other funds, which resulted in a failure to meet one of the prime objectives of SFFAS 27 (which was to show the extent to which Social Security and other funds were lending money to the general fund for the government’s general operations). She said that those funds are extensively reported on elsewhere and that this exclusion could be accomplished by adding this category to the exclusions in paragraph 18 of SFFAS 27.

Ms. Payne said that that this could also be accomplished in the definition, by specifying that the fund should benefit members of the general public rather than federal employees.

Mr. Schumacher asked what the new definition would do to the exclusions in paragraph 18. Ms. Parlow said that those exclusions would no longer be necessary.

Mr. Allen asked if the Board originally anticipated large number of funds being reported. Ms. Parlow said that this was the Board’s knowledge and intent. She said that the CFR reports that about half of the federal government’s revenues are earmarked revenues. Mr. Allen mentioned a prior staff analysis that showed that relatively few funds were responsible for most of the activity. Ms. Parlow said that the Task Force had indicated that it was much easier for agencies to report all earmarked funds, because their accounting systems allowed them to tag the appropriate funds and automate the reporting.

Mr. Jackson said that he was not concerned with cutting down on the number of funds, but rather of refining the definition.

Ms. Payne said that there were several possibilities: to exclude all exchange revenue funds; to exclude funds that do not benefit the general public; to exclude deferred compensation funds; or something else entirely.

Ms. Jackson said that he would be available to work with staff on developing language that would be principle-based to accomplish those exclusions.

Mr. Showalter said that he would agree with that approach, but that he would need to look at the language.

Mr. Granof said that the goal was to eliminate funds with negative balances, but that it is difficult to create a principle to do this.

Mr. Dacey said that there are also some negative balances in flood insurance and crop insurance.

Mr. Reger said that the Board should look at what should be “in” and then figure out how to keep everything else out.

Mr. Jackson said that he is available to work with staff on developing a definitional approach.

Ms. Payne suggested that staff come back with more options for the February meeting. The members indicated agreement with this plan.

Conclusion: The Board approved modifications to the standard for the agreed upon changes as well as the rationales for those changes. Staff will continue to develop and test options for refining the definition of earmarked funds.

- **Deferred Maintenance – Measurement and Reporting**

Mr. Savini began the presentation with an overview of TAB I - SFFAS 40, *Definitional Changes Related to Deferred Maintenance and Repairs, Amending Statement of Federal Financial Accounting Standards 6: Accounting for Property, Plant, and Equipment*. Staff noted (a) the receipt of seven ballots and (b) two minor edits made to SFFAS 40 followed by a request for outstanding ballots². Noting no further Board comments concerning the balloting of SFFAS 40, staff proceeded to review Tab J.

Mr. Savini explained that Tab J is an update concerning the measurement and reporting phase of the project. SFFAS 6 does not provide a significant amount of guidance concerning deferred maintenance and sets forth two goals³ of DM&R reporting; first, the measurement of the dollars of deferred maintenance and repairs and second, providing information related to asset condition. As a result, working with the task force, staff has drafted a circa twenty-page document setting forth measurement and reporting standards. Tab J highlights four of the more critical issues staff believes the Board should be made aware of in this draft document.

² All ballots received as of December 22, 2010. No abstentions or dissensions were noted and accordingly, SFFAS 40 was unanimously approved for release.

³ The Board in SFFAS 6 stated that both of these were goals: DM&R costs and information related to asset condition. Please refer to par. 12, footnote 7 to par. 83, and par. 173.

He added that beginning with page 7, project goal number 2 deals with criteria appropriately considered in establishing “acceptable condition.” In December 2009, the board asked the task force to consider providing more robust guidance within the standard concerning this concept of acceptable condition. Since then, the task force has met four times and it is clear that there is no consensus concerning interpretations for acceptable condition. Two research papers, which discuss acceptable condition, have been provided to the task force. Australian researchers opined that condition and functionality walk hand-in-hand along a linear continuum whereas an Army Corps study suggests that functionality and condition are two separate components that must be evaluated separately and not on a continuum. Concerning real property and facilities, staff believes that we are at a point where the task force guidance would lead us to providing these two schools of thought as guidance to assist management in assessing acceptable condition. This would conclude our work regarding facilities.

Moving to the bottom of page 8, we see an illustration that staff developed to address weapon systems (military equipment) and certain personal property. This graphic states that acceptable condition is not at all linear but rather a discrete state. This graphic is based upon the DoD written response from Mark Easton’s office (addressing the maintenance definition) wherein he states that military equipment can be categorized as either mission capable or not mission capable or in the case of personal property, serviceable or not serviceable.

Staff believes that this graphic is the best illustration it can provide that is a fair representation of what the task force experts have said. In addition, it is consistent with Mr. Easton’s written comments.

Mr. Jackson noted the importance of ensuring that the property or equipment, which falls under the category of serviceable or not serviceable, is properly captured or defined. He recalled that DoD has stated that, in contrast to past concerns, they now believe they can provide condition information without compromising national security. Is that correct?

Mr. Savini affirmed that view and explained it was because the data in RSI will more than likely be aggregated at a high level.

Mr. Jackson and Mr. Showalter noted that the level of aggregation may make the information useless. In which case, why even disclose it?

Mr. Steinberg asked useless for what purposes. For example, you could aggregate all of DoD and that information would in fact be useful to Congress. If more discreet condition information was needed for internal use purposes, presumably DoD personnel will be cleared for such information.

Mr. Jackson thought an aggregation of say jet aircraft would never be reported as not mission capable. In essence, such an aggregation might not have any value for financial statement purposes.

Mr. Steinberg thought what would be reported in the jet aircraft example would be the amount of DM&R dollars required to bring these assets into a mission capable status.

Mr. Jackson thought monetizing amounts reflecting status is good.

Mr. Savini noted that the draft presented is the best that the task force can come up with regarding acceptable condition. There is a minority view on the task force that does not embrace the notion of acceptable condition. They believe acceptable condition should not be part of the definition of maintenance and repairs. However, the majority of the task force did not agree with their position. Staff would also like to note that as we will see in the next section, the FASAB glossary does define the term “condition” as you will note on page 15 of Tab J (Staff then addressed the 2 questions on page 11).

Mr. Jackson found criteria a struggle--the challenge remains what would people use as criteria to determine acceptable condition.

Mr. Savini noted that pages 16 and 17 show criteria that one could consider in making that determination. However, we do not have agreement with the task force concerning any or all of these. As one task force member has stated, “*one must use unspecified human judgment*” in making an acceptable condition determination.

Mr. Jackson agreed and said this is why it would be very difficult to qualify (include) this type of information as basic financial statement information. Staff has stated that the Board has considered making deferred maintenance a financial statement element; i.e., balance sheet.

Mr. Steinberg thought either of these models could be used to (generate) criteria by agency personnel to develop DM&R estimates. Some members thought an illustration or model that would demonstrate how this would work in practice.

Ms. Kearney noted that one possibility is to be consistent with what we have said in the past that this concept of acceptable condition falls under the purview (function) of management. She stated how it relates to an accounting standards setter’s role is a bit unclear. She noted that the Federal Real Property Council (FRPC), which has been dormant, is being revitalized and might be the more appropriate group to address acceptable condition. By transferring this to the FRPC we can leave acceptable condition in the standard but refer to its implementation via management and/or agency channels.

Mr. Allen concurred. Mr. Jackson agreed and said DoD has publications that demonstrate what their thought processes are in this regard specific to the cohort or class of assets (i.e., weapon systems). If this were to be pursued by the FRPC, it would be advisable that they work with the DoD. He thought it was difficult to set a standard without some sense of the criteria.

Mr. Savini noted that since acceptable condition is part of our definition, should the guidance that we have outlined here be included within the standards, in an appendix or

somewhere else? Alternatively, as Ms. Kearney suggests, should we transfer the task of establishing guidance on determining acceptable condition to the FRPC?

Mr. Jackson noted he reviewed a JFMIP requirements document⁴ concerning property management system requirements. The document requires capturing as part of federal financial management, via feeder systems such as a property management system, DM&R information. There is a perception that agencies are in fact capturing this type of information—including condition information.

Ms. Kearney explained that, from an OMB perspective, this is management data and that having it in the accounting standard is good as long as management, working with the FRPC and real property experts, retains its (definitional) responsibilities. With this being said I do not believe that OMB would oppose or rule out inclusion of (task force guidance on acceptable condition) within the Basis for Conclusions. Since we continue to struggle with this issue, it might be advisable to transfer the responsibility for determining (acceptable condition) criteria to the FRPC and real property community.

Mr. Jackson agreed.

Mr. Allen asked staff for their reaction to this proposal and stated he would endorse this proposal. Although we must set standards for reporting and communicating, he believes it should be at a high level. He wonders how this will apply in practice. For example, is it going to apply only to capitalized assets or to all (fully depreciated or expensed) assets? This is a huge issue that we need to deal with.

Mr. Jackson said he believed we dealt with that issue previously.

Mr. Savini noted the task force would like the agencies to decide whether to report DM&R information pertaining only to capitalized assets or all (accountable) assets. There are agencies that would prefer showing deferred maintenance information only as it relates to capitalized assets and then there are those such as DoD-Buildings who would prefer showing deferred maintenance on all buildings and facilities regardless of the capitalization threshold. In essence, the task force is recommending that (1) we set a minimum requirement that deferred maintenance information would at least equal or represent (deferred) activities related to assets capitalized on the balance sheet and (2) should an agency so chose; it could report deferred maintenance on those assets that have either been expensed or fully depreciated. To the extent that we could, the task force would like us to require that agencies be consistent in the reporting from year to year.

Mr. Allen asked that by February we see the full scope of what the Board is being asked to address.

⁴ Staff notes: JFMIP-SR-00-4, October 2000. Page 17 of the document states “ The requirement to capture deferred maintenance and condition information on appropriate assets does not affect management’s discretion with respect to: (1) establishing criteria for determining whether there is deferred maintenance and condition assessment/reporting, (2) the methodology used to determine the amount of deferred maintenance and asset condition, or (3) the specific system(s) used to develop or track deferred maintenance and condition information. “

Mr. Savini said staff expects to take the Board input and rework the draft task force document and fashion what a standard would look like for our February meeting. Concerning Ms. Kearney's proposal, it is consistent with what the Board stated back in the 1990's – this Board however, as an ally to management, asked staff to consider providing more robust guidance in the area of acceptable condition.

Ms. Kearney noted although this is good information to have, since the project is two years out we need to ask ourselves if this is essential at this point in time. We should define what is critical for financial reporting (what is our purview) as opposed to what we could provide to management for their use (as an aid to management).

Mr. Steinberg responded that not only is this useful for management, he thinks it is very important for financial reporting because this is one of the items that addresses the liability side of an agency. He is more concerned about making sure that any agency identifies its liabilities or its financial needs for future resources.

Ms. Kearney said she is not suggesting that deferred maintenance not be reported, but rather that the Board not look to define acceptable condition. Furthermore, it would not be for each individual agency to define but rather it would be through a collective structure (collaboration) via the FRPC.

Mr. Steinberg inquired about current standards and if we have inconsistencies in the application of these assessment methods.

Mr. Savini explained the current standard permits two assessment methods. The first being a physical inspection method and the second being the life cycle cost method. Any other method is permitted that will be consistent with either of these two. Inconsistencies arise not only (from) the diverse applications of the assessment methods (chosen) but also in the reporting of the results. For example, you can see hundred million dollar swings from one year to the next without any (meaningful) explanation or you will see pie charts in one year followed by tabular information the next and then followed again by another change to simply narrative information. This is not what analysts look forward to reviewing. We can address this issue of inconsistent reporting without addressing the definition for acceptable condition. (That is,) we can state that the criteria an agency chooses need to be applied consistently from year to year; (with changes being noted and explained).

Mr. Steinberg said as a result we do not have comparability.

Ms. Kearney opined that we would not have achieved comparability anyway.

Ms. Payne added that we accepted that in the definitional phase that management would determine acceptable condition given an agency's unique circumstances. The substance of the task force's work in this regard is on the top of page 9. Even if we were to provide illustrations regarding these factors there would still be confusion. For example, some in the field even question (management's ability) in defining acceptable condition. I believe there is a barrier that may need to be overcome between (two

communities); facilities and CFO. It might be better to provide a suite of illustrations through the AAPC as opposed to the standard.

Mr. Jackson opined that you will never have comparability. If it is done correctly, much of this would be effectively dealt with through the implementation of an impairment standard. He has seen in recent years that the auditors have called to management's attention the need to go through a thoughtful asset impairment process. Other than SFFAS 10, the FASAB standards do not specifically address impairment. If we properly execute the requirements of an impairment standard we will probably deal with some of this. For example, if agencies are in fact following such a process and writing down the value of their assets, in essence accelerating depreciation, this could result in a disclosure of some sort. He has seen at some capital-intensive agencies where such an (impairment) process is being followed. In any event, this impairment process would ultimately lead to a charge being taken to the operating accounts, which could be an indicator of deferred maintenance or loss of utility for other reasons besides deferred maintenance.

Mr. Allen asked where the asset impairment work fits in this project.

Mr. Savini said regarding impairment, if you look at the condition of an asset, that feeds directly into impairment as Mr. Jackson has alluded.

Mr. Jackson said he has made that linkage. For example, if I have an asset with poor condition it begs the question do I have an impairment problem.

Mr. Savini agreed. However, there is no bright line between asset condition and impairment. He explained the task force has spent time on asset impairment issues. The AAPC working with Ms. Valentine has an asset disposal group where they too have spent a significant amount of time looking at (related) issues. We can (combine) the work of these two groups into impairment guidance. Staff responded to the Board that it wanted to give management more robust guidance regarding acceptable condition. This (proposed guidance) is what we are suggesting we can add to the (body of) standard or within the Basis for Conclusions or for that matter we can chose not to accept it at all. Also, keep in mind that when we looked at the definition, staff presented the minority view, which was to delete the concept acceptable condition, however, the Board decided to retain it. This work will feed into the impairment discussion so he does not believe it is lost work.

Mr. Allen said this information resides in RSI and there is nothing that we are doing that rises to the level of what an auditor would be concerned with. So the question becomes, should any of this work rise to the level that in auditor would be concerned with?

Mr. Savini said he believes that it does. As Mr. Steinberg has noted, we have the issue that this represents an unfunded obligation.

Ms. Kearney noted she is not sure if she agrees with that concept, for example it would not be reasonable to expect that minor activities such as painting walls would be accounted for.

Mr. Showalter said we have well-intentioned people on the task force working with very day-to-day issues but not necessarily issues we need to be addressing as a Board. He would challenge the task force to come back in one year not two years to see what they can get done on the things that really matter to this Board. His concern is that this project will continue to go on with the task force addressing day-to-day issues (and not those necessarily concerning financial reporting). Furthermore, some of the issues he does not believe fall under the purview of this Board. We need better definition around the project since the unfunded dollar magnitude is similar to the social security issue we face. Early this morning we spoke about the survey concerning resources and my question is can we afford staff to work on this project for another two years in light of our other issues? He would prefer proceeding down the path of impairment and that any of these other issues should be addressed by different avenues. After reading through all the material, he thought that the Board should do whatever it could to ease the burden and make it easier on the preparers.

Mr. Steinberg initially had trouble understanding this; however he took a different position on this matter than Mr. Showalter. On page 7 the document states *that "In planning for maintenance and repairs, management determines what level of condition it wishes to be sustained..."* For fifteen years management has determined acceptable condition and nothing is changing. What is being proposed is that the standard could provide some criteria, benchmarks or some type of guidance as to how all management can determine acceptable condition if they wish to consider it. He does not see this taking a lot of resources and staff is making pretty good use of the task force.

Mr. Showalter asked why this is taking two years.

Mr. Steinberg responded any of our standards can take two years to complete.

Ms. Kearney pointed out that the asset impairment work will not commence until September 2012. The project might in fact go beyond two years.

Mr. Steinberg said we can (decide to) provide guidance to the community concerning acceptable condition and that advances our progress.

Mr. Showalter said staff has noted that it has additional information, which has not been provided to the Board. We have four issues here and there are other issues that are probably being addressed by the task force that we need to understand before we can see how the whole package comes together. He asked about the scope of the next part.

Ms. Payne said the next part will look a great deal like SFFAS 6 does today. For example, agencies will be allowed to go out and conduct condition assessments or use lifecycle methods. In addition, there will be some improvement in the terminology and consistency requirements from year to year. To that end, staff has included some improvements on display on pages 13 and 18 and is now working with the task force at

refining these. However, in the end there is still this issue of acceptable condition which will (continue to) vary from organization to organization. Finally, there is this notion that the standard should contain condition information beyond that which is currently reported for stewardship assets. This gives you the sense of the scope of what you will be getting. Please keep in mind that although there are some on the task force that would like to see this elevated to the notes, it appears that we are still looking at an RSI package albeit larger considering both DM&R (quantum) and condition information would be explicitly required.

Mr. Showalter asked if we really do not get to the liability question and to potential claims on future resources, what value is this information?

Mr. Steinberg believes that Congress has looked at the RSI amount. Specifically, he has had people from Interior tell him that the (RSI) amount has driven extra appropriations into the National Park Service.

Mr. Showalter said getting to the DM&R number is important. He agrees that the number is the most important thing we can focus on; any assessment is only important inasmuch as it facilitates us reaching that number. Condition assessment should not be an end game in itself.

Mr. Reger said (getting to that number) should not take two more years.

Mr. Jackson agreed that the deferred maintenance number was important. For example, if we had this information monetized it might have allowed for the focused use of stimulus money on needed infrastructure.

Mr. Dacey suggested that we do care about deferred maintenance since we spend time with it in the government wide financial statements; high and low number. The FASAB Staff have worked closely with the task force to try and come up with (suggestions); however the concern he had from the onset was the wide variation in practice among the agencies. He is not sure that we are going to get agreement from those responsible on how to narrow that variation. He believes that there is information that would be valuable for either planning or capital budgeting purposes; he is not sure if this is that (type of) information. He questioned to what extent we can influence or bring together those responsible without the assistance of the Federal Real Property Council. Moreover, we could always adopt the work of the FRPC reflecting its efforts. We should not spend a lot of time in an area where we might not be able to bring about change.

Mr. Reger said it would seem appropriate then to work with the FRPC and their timeline to see how we can best move ahead. These charts reflect wide disparity in how people think.

Ms. Kearney offered to arrange for staff to meet with the OMB real property personnel.

Mr. Savini agreed we do need to transition issues to the FRPC. Staff consulted with the GAO analyst responsible for the October 2008 real property report (which asked us to work with OMB and the FRPC) and was advised informally that she was pleased with

our work on the definition and was hoping that OMB would endorse the definition so that it could be incorporated into the FRPC real property guidance for (fiscal year) 2011. The task force did agree that before comparability could ever be expected to occur, common definitions would need to be in place. There are different assessment methodologies in use throughout government and trying to bring these into greater alignment goes beyond the scope of our Board. Staff would like to take today's Board input and incorporate it into the work the task force has done so far on measurement reporting and brief those results to you in February.

Mr. Allen asked that we do so since it would help us prioritize our discussion in February. He asked staff to identify (1) what can be (transitioned to the FRPC) and (2) those minimum reporting requirements for standard 6 that would make it more consistent. He also still believes we have an application question. For example, we can have an asset base of \$30 billion and \$31 billion in DM&R and this might mean that we have deferred maintenance on assets that have not been reported. Unless we are clear in what the DM&R is applied to, a reader will have difficulty in making sense of the information.

Mr. Savini said concerning the questions on page 14, does the Board concur with the task force's recommendation to eliminate critical/non-critical classifications and substitute them with active/inactive classifications? Additionally, we've broached the topic of comparability (between agencies) and it appears to staff that the Board recognizes the difficulty we would have at this level in pursuing that goal.

Mr. Allen said we do care about comparability and that what staff is asking is whether or not it would be most appropriate to pursue comparability here or transition this issue to the FRPC.

Mr. Reger said we need to understand the FRPC timeline (and standards).

Ms. Kearney noted that concerning the second question about active and inactive classifications, the property council is starting to look at these data elements. There very well may be revisions and changes so it may be beneficial to transfer it to the council. If we are striving for comparability, we cannot afford issuing a standard or guidance that differs in terminology, which would then cause confusion.

Mr. Allen said the Board should still communicate the value of comparability in any way it can. Comparability is what it's all about and it is very important.

Mr. Jackson said an important point is the capacity that (agencies) have in dealing with this. Paragraph 84 of the current standard might allow agencies a great degree of flexibility. When we begin asking agencies to classify assets in the accounting system as we're discussing here (active versus inactive, critical versus not critical, etc.), keep in mind the life cycle of an asset as it travels through each and every one of these classifications. Now you can begin to understand the amount of effort it would take to comply with these classification requirements. This would be a significant undertaking especially when we have agencies that cannot account for their assets even now. Any

inference to asset classifications should not be addressed now. From what I can tell auditors have been paying attention to this area but especially in their existence testing. Auditors want not only to determine if an asset exists, but also whether or not it is being used. Therefore, determining whether assets are in use is an objective of the audit process and increasingly a part of the asset management process.

Mr. Granof said presumably there are personnel attached to assets who are working with those assets and imagine telling those people that they are not mission critical.

Mr. Jackson noted a further complication—asset status changes often say from active to inactive. How much management effort needs to be expanded to track these constant classification changes (that then become definition issues)? How much management involvement from an accounting point of view do you want? I know exactly what happens when you get into such categorization; it becomes a work product in and of itself and we already have strains that we don't need (to add to).

Mr. Savini clarified that the agencies are already required to do this under the FRPC reporting requirements contained in the FRPP guidance. This effort could be considered a sunk cost.

Mr. Jackson said his biggest concern is extending this to equipment.

Mr. Savini explained regarding the classification of equipment, Mr. Easton's⁵ written response said that mission capable and non mission capable would be appropriate for weapons systems and serviceable not serviceable for other types of equipment.

Mr. Jackson said we would probably find this, in practice, quite difficult to do.

Mr. Savini noted the task force believes that classifying (whatever) assets as active or inactive is more meaningful than critical or not critical. Mr. Granof and Mr. Jackson agreed since everyone believes their assets are critical.

Ms. Kearney again noted that the FRPC is currently looking at the data elements, and there is going to be an effort underway to review all of the elements.

Mr. Savini said if the FRPC will be making (future) changes and happen to be operating under a different time line it would significantly impact staff work. He asked if should we work in tandem with them or take a more independent route seeking a principles based approach to the standard and bring this to closure.

Mr. Allen said we need to lay out our objectives, important concepts, and requirements for RSI reporting. As a result, we would leave much of the definitions to the (technical) community and approach this from a high level.

⁵ June 23, 2010 Letter from Mr. Mark Easton, DoD Deputy CFO responding to the FASAB exposure draft on definitional changes. *"In regard to the "acceptable condition" discussion, differences exist between equipment and facilities. For equipment, acceptable operating condition may be defined as the condition that exists when a weapon system or mission support asset is mission capable or serviceable."*

Ms. Payne asked in meeting this high level, are we focusing on external user needs? That is, are we looking at a certain categorization and asset condition scheme at some (desired) level of aggregation for the external user rather than management?

Mr. Allen responded that financial statements traditionally are viewed as eyes looking into an organization from those people who don't have access to that organization. However, he recognized that the Federal government is very unique and that many users are internal managers/users and does not want to ignore that fact or go against their needs. Nevertheless, the first priority is asking ourselves what questions would those external to the Federal government need answered as they look at the financial statements or RSI information.

Mr. Showalter agreed with that and asked that we leverage support from elsewhere to see what works.

Mr. Jackson agreed.

Mr. Steinberg asked to return to comparability; which can be defined in one of two ways. First, the classic way would be that everyone uses the same method to measure acceptable condition. However, we could also say that there's another way (to achieve comparability), that each entity has to decide what the acceptable condition is for its (unique) mission and then that is what becomes comparable; the fact that they are defining a method for determining acceptable condition. Then in turn, they will use that as a basis for developing the dollars to meet that level of acceptable condition .

Mr. Allen said there are two key elements, one is consistency, and the other is comparability.

Mr. Steinberg noted that consistency is really what the (GASB 34) modified approach is. Every agency or government defines its own acceptable condition.

Mr. Allen agreed and said each government defines, discloses and consistently applies (its practices); which is comparability.

Mr. Savini asked to turn to page 16. In order to provide more robust guidance concerning acceptable condition, staff took the current FASAB definition for "condition" which can be found in footnote 12 on page 15 and broke the definition into its key characteristics. For example the definition lists the following as attributes for condition: *the physical state of an asset, its ability to perform, its continued usefulness, and its performance capacity*. Working with the task force experts, staff developed the 27 metrics/indicators you see listed on pages 16 and 17. The task force framed this out as potential information that management could use in ascertaining acceptable condition. Now, turning to the page 18 illustration, it is important to note that reporting dollars and condition information is not a new requirement. SFFAS 6 contains these requirements as well as an illustration (how they could be portrayed). The task force would like to perfect this reporting illustration in order to at least achieve greater consistency.

(Staff then conducted a brief review of each column)

Mr. Jackson asked if agencies use the same definition of replacement value or anything close to how we might define replacement cost or fair value in our measurements (Ms. Wardlow's work) document.

Mr. Savini asked the task force members if replacement value could be defined under the fair value definition or the replacement cost definition. Based upon their review, they agreed that replacement value has a totally different meaning than either of these two FASAB terms. Instead, it involves taking the current footprint of the asset and estimating what it would cost today to build and they're saying that that is not really a fair value.

Mr. Jackson asked if you had the replacement value for a particular building if you were not going to replace that (exact) building (it might have greater capacity and be more energy efficient), then wouldn't that would be a misnomer?

Mr. Savini responded that it did and this is why the task force would caution us in trying to equate replacement value with fair value. The real property community has developed replacement value for use in the calculation of the condition index. They recognize this figure's analytical value. Since the agencies are currently reporting the condition index and this replacement value, there is no added burden for them to include this in RSI reporting.

Mr. Jackson asked if Mr. Easton is suggesting (by and large) that DOD would like this kind of classification of differentiation (mission capable/non-mission capable and serviceable and non-serviceable) regarding equipment?

Mr. Savini said yes; however, he's suggesting that we consider these (weapon system and other-equipment) classifications. Concerning both of these spreadsheets on pages 13 and 18, it is important to keep in mind that both DoD and the Forest Service would like to work with us in trying to perfect these illustrations since reporting this information is not a new requirement.

Ms. Kearney asked, although this is good information, how does it translate into DM&R and future costs?

Mr. Savini said DM&R and future costs are addressed in the illustration on page 13. Staff attempted to take the two goals of DM&R reporting the (quantum) and condition and place them on two separate spreadsheets; pages 13 and 18, respectively. The page 13 illustration that shows the dollars is derived from how the Presidio Trust displays its DM&R.

Ms. Kearney asked how the page 18 illustration relates to the goals of the project.

Mr. Savini said SFFAS 6 has two goals concerning DM&R reporting. The first goal relates to dollars and the second goal relates to information related to asset condition. One could argue that condition information should not be part of the reporting, however we would have to take it out (consider amending SFFAS 6). Furthermore, staff believes condition information helps us prepare and address asset impairment.

Ms. Kearney asked if this is an end requirement that will be in the standard or just for the Board's consideration in getting to asset impairment.

Mr. Savini said this will help us get to asset impairment. Staff would like to show improvements in standard 6 concerning the reporting of both the dollars and condition information. Staff would like to identify some consistent measures that could be used concerning assessing asset condition.

Ms. Kearney said then this is really dealing with performance metrics rather than financial metrics.

Mr. Savini believed this is getting at the requirement that currently exists in standard 6 to provide information related to asset condition.

Mr. Steinberg asked if both of these kinds of schedules would be part of RSI?

Mr. Jackson and Mr. Savini indicated they are there now. (Staff presented to Mr. Steinberg the SFFAS 6 illustration contained in Appendix C on page 545).

Mr. Steinberg said most of the financial statements have two lines or so explaining the total dollars.

Ms. Kearney asked if appendix C was illustrative or a requirement?

Mr. Savini said it is illustrative and I'm trying to improve it with data that agencies use.

Mr. Steinberg said this is illustrative and although we can try to improve the reporting of this information, the agencies are nowhere near this level of reporting.

Mr. Reger asked at the consolidated level how much information are you going to want to carry. This might be information that you might want to see at an agency specific statement.

Mr. Savini said the problem exists because the databases that do have this information have not been accessed by the accounting offices. There needs to be a bridge or link built. This has been difficult and time consuming for staff. Specifically, we have non-financial information that is supposed to be reported in a financial manner.

Mr. Steinberg said both of the proposed schedules is reporting overkill. They may have this information in their records but (compiling it for financial reporting poses a different problem). He would not want to see this in the financial statements.

Mr. Savini said both DoD and the Forest Service have said that if pressed, they could report this type of data. Although staff is fine with not providing additional guidance in this regard, staff does believe that the guidance can be improved.

Mr. Steinberg suggested to staff that even before we look at making any improvements, go back to this current standard 6 requirements, and compare that against the what we

are currently getting. We have many standards that require many things that are not being adhered to, particularly in RSI. We should gear the RSI to what the agencies are most capable and able to do. In addition, we must keep in mind reporting overload issues. This is almost like a bank reconciliation and we don't put bank reconciliations in financial statements.

Mr. Showalter was concerned that the condition analysis aggregated at a high level becomes meaningless.

Mr. Savini acknowledged some on the task force have expressed that same viewpoint.

Mr. Showalter would rather go back and amend standard 6 in order to eliminate the overload. Condition information is not an end in itself but rather, it is a means to getting to the dollar amount.

Mr. Steinberg agreed.

Mr. Showalter said we could help agencies by eliminating the existing requirement and asked the Chairman to consider eliminating it.

Ms. Payne expressed sympathy with that view.

Mr. Allen said that's clearly a possibility. Like the last project we discussed, it might be good to lay out a couple of different scenarios for the Board to consider. For example, here is the minimum that will be required to move us to a point where we could turn it (condition reporting) over to the FRPC or if we continue to work with them, this is what we would ultimately get. (Ultimately) over the next couple of years we may be able to get to an asset impairment standard and elevate it beyond RSI. He acknowledged that staff has done a fabulous job in getting the technical people together and working with them. However, we have fairly limited resources.

Mr. Jackson agreed, staff deserves enormous credit for this undertaking; which could appear as a thankless task. I cannot say enough about the quality of your work. In fact, so much of this needs to continue so that the Board can make some informed decisions in the future. I just want to say to you that you do a great job.

The Chairman thanked both Staff and the Board and concluded this portion of the meeting.

CONCLUSIONS: At the February meeting, staff will provide alternatives regarding the scope of the project going forward.

Adjournment

The Board meeting adjourned for the day at 4:15 PM.

Friday, December 17, 2010

Agenda Topics

- **Social Insurance**

The Social Insurance discussion was canceled. Mr. Allen explained that the preparer and auditor jointly requested time to consider options that would not necessitate board action.

- **Federal Entity**

Staff member Melissa Loughan explained the primary objective for the December Board meeting is to determine if the Board approves the revised approach to the federal entity standard. Staff explained the “change in approach” was detailed further in the staff memo starting on page 2. Staff noted that the federal entity project was not on the agenda at the last meeting. Instead, staff met with the federal entity task force on the revised approach. Staff believes the revised approach, which is a more concise proposal that focuses on what entities should be consolidated versus what is within the boundaries, will address Board member concerns raised during previous meetings. Specifically, based on Board member feedback, the approach is no longer taking a two step approach. (Previously the approach was to 1. Define the boundaries of the government-wide reporting entity and 2. Determine the presentation of the entities within the boundaries. It appeared this approach led to additional steps and unnecessary language within the proposed standard.)

Staff explained consolidation principles are the focus, therefore the terms ‘conclusive’ and ‘indicative’ principles were dropped from the standard considering they both lead to consolidation. This had been a concern noted by at least one or two members. This should also make it an easier transition for the component entity standard. Additionally, most members shared the concern with the indicative principle ‘established by the federal government’ either standing on its own or existing as a principle. Staff explained it is no longer a consolidation principle and instead, if not consolidated, entities established by the federal government could be considered related parties.

Staff also explained the briefing package at Attachment 3, the Related Party Issue paper provides two approaches for FASAB in addressing related parties in the exposure draft (ED) -- 1. Related Party- narrow Related Party reporting (most of the entities would be consolidated or considered an exception (though still a federal entity) to consolidation with alternate reporting disclosures) and 2. Related Party –broad Related Party reporting (most of the entities would be consolidated, but if not consolidated the entities might be considered a Related Party but not a federal entity). Staff noted one of the main difference between the two versions is that in the Narrow version—the Exceptions from consolidation are just that—exception from consolidation—they are still considered federal entities, but not consolidated; whereas in the Broad version, the

related party focus is broader and more entities may fall within the related party area versus being considered a federal entity.

Staff explained there is also a difference in the definition of Related Party for the two versions. The Broad version takes a broader view of related parties and includes more things in the related party, whereas the narrow version relies on the entity definition (and exceptions) to address control of an entity. Therefore, the related party definition in the narrow approach focus is solely based on significant influence over an entity. Staff noted the main difference in the two approaches is the scope of related parties. The narrow Related Party version would identify parties the federal government significantly influences as related parties. Most entities having other relationships would be either consolidated or considered an exception (though still a federal entity) to consolidation but with alternate reporting (note disclosures-summary financial statements) required. In the broad Related Party version, the federal entities that were considered an exception in the narrow version might instead be reported as a related party. It is important to note that from the audit perspective, specific audit procedures are prescribed for related parties in AU Section 334 *Related Parties*.

Staff explained the Federal Entity Task Force preferred the Narrow Related Party Approach because it offered more options and explanation. Staff requested the Board's input.

Chairman Allen asked staff to elaborate on the differences between the versions. Staff explained one could compare the BROAD version to the CURRENT CONCEPTS 2. The Concepts 2 criteria are similar to the standards for consolidation and the fleeting exception provided in Concepts 2 is similar to the temporary exception.

Staff referenced the chart on page 4 of the staff memo which showed the two in a pictorial which staff thought might help with further understanding the difference between the two versions. Chairman Allen asked if it was safe to say that consolidated entities would definitely be larger under the Broad approach. Staff explained that a detailed assessment had not been performed of specific entities but the potential for entities that fall under the exceptions in the narrow approach would likely either be in related party or consolidated in the Broad approach. Therefore, these were made larger in the pictorial to be consistent for the overall size of the government-wide. Chairman Allen noted he believed most would fall to related party. Staff believes this is a fair assumption but until a final assessment is made entity by entity it is subject to change.

Mr. Dacey agreed with Chairman Allen's point and asked if there was a difference in what might be consolidated under the two versions.

Mr. Reger asked if one would have to state which exception it meets under the narrow version, but staff explained the intent is to clarify and offer guidance on what should be disclosed. Staff explained there is acknowledgment entities can meet more than one exception and that doesn't mean an entity would have to have multiple disclosures or discreet disclosure guides, instead it should be a guide (example such as Fannie and

Freddie meeting the conservatorship and intervention). Staff also noted the option for disclosure versus consolidation is an option when it is deemed to be more meaningful than consolidation; it is not a requirement instead of consolidation. The standard should be flexible to provide for transparency and accountability, the exceptions shouldn't trump that.

Mr. Steinberg explained the Narrow approach is very similar to the GASB's approach. The consolidated entities are the primary/core government, the exceptions are the component units/affiliated entities and the joint ventures are related parties and other things. Mr. Steinberg explained that he suggests the Board focus on these groups and develop criteria for each of them versus focusing on consolidation. He added that the Board doesn't have to say a lot about 'related parties' as there are a lot of people/organizations that may be related to the federal government that don't need to be addressed in this standard.

Mr. Dacey explained he liked the revised approach and believes it is much smoother. His observations were that the disclosures for the exceptions and for related parties were very similar and needed to be factored or based more on the relationship, especially for the related party. He added that he viewed the exceptions as related parties. For related parties, one needs to consider what type of information are you trying to convey. Mr. Dacey noted he was concerned that in calling the Exceptions federal entities that it triggers federal GAAP and this is an area the Board should be careful. Chairman Allen noted in GASB 14 there was latitude allowed and that didn't necessarily trigger a change or require a change in the what basis the financial statements were prepared.

Mr. Dacey reiterated that he views all the exceptions as related parties and all fall within the disclosure realm. He noted there is a difference in what we may disclose about them and he likes the range or flexibility given, but there may be a way to construct some principles to guide what needs to be reported so the reader has enough to understand the nature of the relationship, the magnitude of the transactions and the potential of the exposure.

Mr. Steinberg suggested that the Board shouldn't jump too quickly in how to report something; instead the focus should be on defining the different buckets or relationships and then the reporting. Mr. Dacey suggested the reporting may be different even within each bucket. Mr. Steinberg agreed. Mr. Dacey explained he thought the disclosures for the Fannie and Freddie conservatorship would require much more than FDIC receiverships although they may be in the same bucket. Mr. Steinberg noted they may be different buckets. As noted, Freddie/Fannie meet two exceptions but also the proposed standard offers flexibility on what is to be disclosed and one would expect more to be disclosed in the case of Fannie and Freddie. Mr. Dacey noted it's the nature of the relationship and the type of the information one wants to convey.

Mr. Showalter explained he has a difficult time calling the exceptions related parties. He added this would be a total different meaning of what a related party means to most

readers. He added that he also doesn't like the word exception, so he likes Mr. Steinberg's suggestion to come up with a new term to describe these entities. Mr. Dacey agreed it would be redefining related parties, and he is okay with coming up with a new term if the Board wants to—but he doesn't want to call them federal entities.

Mr. Jackson explained that exceptions aren't principles based. He believes the buckets should be criteria based. Chairman Allen explained that it appears similar to what Mr. Steinberg suggested and what staff has been working towards.

Chairman Allen explained it would be helpful to understand the Board's stance on the two versions as it appeared the Board approved the new approach.

Mr. Granof voted for the Narrow version.

Mr. Jackson voted for the Narrow version.

Mr. Steinberg voted for the Narrow version.

Mr. Reger asked what the vote means. Chairman Allen explained that means we would focus on that version. Based on that, he agreed with the Narrow version.

Ms. Kearney voted for the Narrow version because it offered more structure and guidance to the preparer, with the caveat that it needs additional buckets.

Mr. Dacey voted for the Narrow version, with the caveat that he is concerned that the exceptions are not federal entities.

Mr. Schumacher voted for the Narrow version, but agreed with Mr. Jackson in that instead of creating exceptions the focus should be on criteria for the buckets.

Mr. Showalter voted for the Narrow version.

Therefore the Board agreed unanimously for the Narrow approach.

Mr. Steinberg suggested the conservatorship/receivership bucket be split as the two are considered very different. Ms. Payne asked if the suggestion was based on the expected outcome for disclosure. Mr. Dacey explained that it wasn't necessary to split them, in fact both could be seen as interventions.

Mr. Granof explained he believes the first 30 paragraphs of the proposal are the most important as they detail what is in the federal entity and that is what the Board should be focusing on. Mr. Granof explained the Board should be discussing what the government-wide reporting entity is.

Chairman Allen suggested that the Board walk through the proposed standard for Board member comments, starting on par. 16. Mr. Granof explained he had some issue trying

to diagram it as it seemed like it still needed to meet control and/or ownership. Staff noted par. 16 states if it is the budget then it is consolidated, the following paragraph provides entities receiving federal assistance (there are few) then it should be assessed against the other two principles. Staff will work on the wording of par. 17 for clarity, perhaps a footnote will suffice. Staff also noted there is a plan to include a flowchart in the exposure draft.

Mr. Jackson noted that majority ownership would bring in entities such as AIG and GM and there is some concern with that. Chairman Allen explained there are still the exceptions, but one must still have principles that capture the entities to begin with. Mr. Steinberg agreed he would be nervous to say that in the beginning, so there should be something said up front regarding the temporary nature. Staff explained in earlier versions of the proposal there were paragraphs included in the majority ownership and control section that referenced the exceptions (for temporary and interventions) but the Board suggested that a blanket statement be made at the beginning of the document versus being repeated throughout the proposal. Staff explained it could be put back or footnoted if the Board prefers. Mr. Dacey suggested including more discussion in par. 15.

Mr. Jackson noted concern with saying the exceptions are part of the federal government. He believes the federal government often takes action—to protect the general public, but that doesn't make these entities part of the federal government. Mr. Jackson suggested that par. 29 should be expanded to include intervention actions as these are natural functions of the government and they shouldn't be considered control to trigger consolidation. He explained this paragraph could be expanded to include these activities so they are not considered for consolidation. He added that these entities are not considered part of the federal government and he believes the interventions should be included here versus as exceptions. He explained the federal government did what it had to do, but that doesn't make the entities part of the federal government and the proposal needs to be reshaped to reflect this. Mr. Jackson also believes par. 29 may need to be revised slightly as it appears control does exist, but these entities shouldn't be included in the federal entity.

Mr. Steinberg explained that isn't the purpose of par. 29, as it relates specifically to control. Mr. Jackson explained he understood and it can be revised and could be characterized differently. He agreed with some of Mr. Dacey's points that the interventions are not part of the federal government, though he has not determined his final stance on other entities like the FFRDCs and museums.

Ms. Payne explained the term government-wide reporting entity does not assert the entity should follow FASAB standards rather than FASB. Staff asserts the exception entities should not be consolidated, the reason for putting them under the government-wide reporting entity is for accountability. The federal entity is to be accountable because it owns it or controls it and that is the purpose for putting them under the government-wide reporting entity—accountability—not to mandate FASAB standards or consolidation. Ms. Payne commented that once there is a better understanding of the

core or consolidated government, perhaps this will be clearer. Ms. Payne suggested the narrative could be improved with categories of core government, accountable or affiliated entities, and related parties.

Mr. Steinberg explained regarding control, it should be clear that it must be to exercise control. Mr. Steinberg also suggested that par. 28b that reads “Establish or amend the entity’s fundamental purpose and mission, which may include authorizing the entity to exercise sovereign power of the federal government and requiring the entity to carry out federal missions and objectives” should be considered persuasive evidence. Chairman Allen agreed and noted he had the same point. Staff explained this particular indicator was elaborated upon and that based upon the additions it probably should be moved up and if the Board agrees, staff will do so. There were no objections.

Mr. Showalter noted concern with the wording of paragraph 26 in conjunction with 27 and 28. Staff explained that 27 were more persuasive while 28 is viewed in the aggregate to provide evidence. Mr. Showalter explained the standard should be specific in whether one or all needs to be in 27. Staff noted the language in paragraph 26 states the absence of one of the indicators does not lead to a presumption that control is not present (so this allowed for judgment), but agreed it needed to be clearer and staff would revise while still allowing flexibility.

FASAB counsel, Mr. Dymond commented that control includes both power to govern the financial and/or operating policies of another entity with expected benefits and/or risk of loss and asked if the indicators should be considered if they didn’t include both. Staff noted the indicators are included to assist preparers in their assessment. Staff believes it is possible to present indicators that may meet only a portion of the definition of control because the indicators are considered in the aggregate in determining if the entity meets the definition of control. Staff explained strictly showing one side for a particular indicator (benefit/risk) and another indicator (power) to meet the definition of control is acceptable in par. 28 because they are considered in the aggregate.

~~~~BREAK~~~~

After the break, Chairman Allen asked staff for the key questions staff would like to resolve in the remainder of the session. Staff wanted to confirm that the Board agreed with Mr. Steinberg’s suggestion to define relationships and come up with attributes for the terms core/primary government and affiliated/associated government. Mr. Showalter commented it may assist with coming up with criteria for each of the categories as the Board had discussed. Chairman Allen noted based on several nods at the table the Board appeared in agreement with staff developing options for the Board’s consideration.

Staffs also asked for feedback on Mr. Dacey’s point regarding the exceptions are not considered part of the federal entity and instead are related parties. Chairman Allen explained he may be 180 degrees opposite on this issue but it may not matter at this point. He added that he sees value in having the core government as discussed, but

there is also this other responsible / accountable group and a related party. Mr. Dacey explained his point is that the exceptions or responsible / accountable group is not a federal entity. Mr. Reger added that by definition they can't be a federal entity. Mr. Steinberg added that although some may not be considered federal, there may be some that are federal—such as certain corporations and museums. He agreed there may be a middle bucket, but there needs to be some flexibility that allows for some that may be federal and some that aren't. He explained the next task will be to come up with characteristics and criteria for each of the buckets versus the reporting for the buckets.

FASAB Counsel, Mr. Dymond asked if the issue of reporting requirements and whether something is a federal entity for purposes of GAAP, is a distinction that is causing problem or confusion.

Mr. Dacey noted concern if the standard suggests a particular entity is a federal entity; it may lead some to interpret this as saying that they need to follow FASAB. Ms. Payne understood his sensitivity, but noted there is a standard that allows entities to go to FASB GAAP. Mr. Dacey explained he viewed it as a separate issue considering this is a federal entity standard; and therefore required more sensitivity. Chairman Allen suggested the issue be addressed in the wording that is used.

Mr. Showalter explained that the Board is in agreement it is part of the reporting entity, but it is not a federal entity. Chairman Allen directed staff to work on ensuring the language characterizes it as such so it will address Mr. Dacey's concern.<sup>6</sup> Mr. Dacey agreed.

Chairman Allen noted on paragraph 35 that the term "more than several years" was vague and appeared to go against temporary. The Board discussed the definition agreed upon for temporary was that it wasn't permanent. Mr. Jackson noted the phrase was intended to recognize often the voluminous size of the interventions and the fact the time period may last longer than some 'temporary notion' but it doesn't relieve the agencies of efforts to continuously assess the situation. Ms. Kearney noted it wasn't problematic and most likely the auditor and preparer would continuously be working on it together. FASAB Counsel, Mr. Dymond noted the temporal focus of the definition is on the intervention action. Mr. Jackson suggested the phrase could be removed and Chairman Allen agreed. After discussion, the Board agreed it wasn't necessary and agreed to remove the following "may last for more than several years, but it" from the proposal.

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<sup>6</sup> The proposal doesn't require any entity to prepare statements. [Par. 7 states "This Statement does not require any entity to prepare and issue GPFRR. The purpose of this Statement is to enable entities preparing and issuing GPFRR to determine what entities should be included in the federal reporting entity. The Statement provides principles on determining what should be included in the government-wide reporting entity and in each component reporting entity's financial statement and ensures adequate disclosure or alternate presentation of those not included. The Statement also provides information about and required disclosures for related parties.] Staff will continue working to ensure the language is addresses member's concerns.

Ms. Kearney asked if the intervention exception under the narrow approach was sufficient to cover the fleeting or temporary type exceptions currently addressed in Concepts 2. Staff explained the intervention exception was to cover all interventions, both temporary and long term. Due to the fact some of the timing could be long term, staff attempted to drop the reference to the timeframe and rely solely on the fact it was not to be permanent. Staff explained par. 36-37 provides some clarity but it was not the intent to exclude fleeting items from the exception pool and there will be an illustrative guide that will accompany this so we could address an example to assist in that manner as well.

Mr. Dacey asked if staff could consider the factors in the nature and extent of the disclosures for each of the exceptions. Mr. Dacey explained he could assist in this effort if allowed because he has a few ideas. He explained there are four different buckets, and although there needs to be flexibility there should be some factors to help guide preparers. He believed this could bring clarity to the proposal. Mr. Reger suggested that since Treasury is the preparer, perhaps he could participate as well.

Staff asked if the Board agreed with the flexibility or professional judgment provided in the standard. The Board agreed as long as there are parameters that guide what should be presented.

Chairman Allen explained he has an issue with the 80% noted in paragraph 50. Mr. Showalter echoed the concern. Chairman Allen suggested majority which could be 50% and based on other factors or professional judgment. Mr. Showalter suggested something similar to predominance of funding concept. Mr. Dacey asked if the museums are an all or nothing situation, because currently just the federal portion is consolidated. Staff explained the Board agreed at a previous meeting the budget principle would apply and any exceptions would be handled in the reporting. Chairman Allen explained he recalled the Board's decision "not to split the baby" regarding entities like this, meaning all or nothing should be consolidated. Mr. Jackson asked if footnote 8 of par 17 would apply for the Smithsonian (as it includes direct appropriation) but staff explained no because the Smithsonian currently submits a federal portion for consolidation. Ms. Payne explained they use the FASB restricted net assets so if it were consolidated, one could include restricted net assets with earmarks and simply show it as not available to the federal government. There are principles that show one how to present this type of information and reveal that the donated monies aren't federal monies available for use. Mr. Steinberg stated he believes we are creeping ahead and, the focus should be on defining the attributes for the relationships and ensuring the Board is happy with that. The Board agreed the focus of the next meeting should be on the relationships, definitions, and related attributes or criteria for each.

The Board moved on to discuss related parties. Chairman Allen noted that paragraph 54(b) "Related party relationships might expose the federal government to risks or provide opportunities that would not have existed in the absence of the relationship" appears to be more significant and should be listed first. Staff explained the paragraph

(along with par. 52 and 53) provides background for understanding and why related party disclosures are important.

Mr. Dacey suggested putting the definition of the related party in the first paragraph, then explaining these are the things we think about when deciding what to report might be a cleaner flow. Staff would revisit the flow of the related party section.

Mr. Showalter explained he thought paragraph 53 was trying to redefine related parties. Mr. Dacey explained it appeared it was defining what you disclose versus what is a related party. Chairman Allen asked staff to revisit the section. Mr. Showalter asked the Board for its stance on individuals as related parties and whether that should be addressed. In public companies this type of thing is addressed. Staff noted they didn't believe it would rise to the standard level based on materiality but it could be addressed in the standard if the Board believes it should be.

Staff asked if the Board objected to the Misleading to Exclude principle. Ms. Kearney explained it seems the preparer and auditor should be able to come up with something without this principle. No other objections were noted.

**CONCLUSION:** The Board approved staff's revised approach to the proposed standard which focuses on defining criteria for the core and the affiliated or accountable entities instead of a two step boundaries approach. The Board also agreed with the Narrow Version of the Exposure Draft that addresses Related Parties. In the narrow related party reporting, most of the entities would be considered part of the Federal entity as either part of the core or as one of several defined exceptions, with few considered a related party.

The Board agreed with maintaining flexibility in the disclosures but there should also be factors provided to bring clarity to the proposal. The Board agreed with maintaining the Misleading to Exclude Principle.

Although the Board agreed with the approach and some parts of the proposal, the Board requested staff to define and add a description of the different relationships to the beginning of the document.

Staff agreed to work on the following suggestions to the proposal for the next meeting:

- Narrative and definitions describing the categories and relationships of the following: core or primary government, accountable or affiliated entities and related parties;
- Consider the factors in the nature and extent of the disclosures for each of the relationships (there needs to be flexibility, but there should be some factors to help guide preparers to bring clarity to the proposal);
- Flow of the related party discussion; and
- Other changes suggested by Board members.

The Board agreed the focus of the next meeting should be on the relationships, definitions, and related attributes or criteria for each.

- **Steering Committee Meeting**

The Steering Committee briefly discussed the budget and the upcoming appointments panel activities.

**Adjournment**

The meeting adjourned at 1:00 PM.