

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
July 25-26, 2007
Rooms 5N30 & 7C13
441 G Street NW
Washington, DC 20548

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Administrative Matters

- **Attendance**

The following members were present throughout the meeting: Chairman Allen, Messrs. Dacey, Farrell, Jackson, Murphy (attending for Mr. Marron), Patton, Reid, Schumacher and Steinberg. Mr. Werfel attended the meeting all day Wednesday and Thursday morning. The executive director, Ms. Comes, and general counsel, Mr. Jacobson, were also present throughout the meeting.

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- **Approval of Minutes**

The minutes were approved electronically before the meeting.

- **Board Member Evaluation Proposal**

Mr. Allen explained that the intent is to have the member evaluation serve as a management tool. The expectations for members are rather high and the norm will be that a member receives a “meets expectations.”

The members provided initial feedback on the draft policies and procedures and evaluation form provided by staff. It was noted that the evaluation should be linked more closely to the statement of members’ responsibilities. Several members suggested that the evaluation be streamlined. With respect to the policies, Mr. Werfel inquired about the role of the sponsoring agencies relative to the adoption of a policy to conduct Board evaluations. Mr. Jacobson indicated that he was not aware of a legal requirement for direct action by the sponsoring agencies but suggested that the members representing these agencies confer with their sponsors on the issue.

The members discussed the role of the evaluation results in re-appointment. The appointments panel will receive some information about the evaluation results. The maximum will be the numerical ratings of all members but the actual amount of detail will vary depending on the circumstances but will never include the narrative comments. Some members noted that having four evaluations prior to the re-appointment decision provides a fair opportunity for members to improve performance. Another member noted that re-appointment decisions are not based solely on performance; the overall composition of the board may be a factor. Mr. Allen explained that there is also a need to clarify at initial appointment whether re-appointment should be an expectation or not.

Mr. Patton asked about the different resources available to members. Federal members have staff but non-federal members do not. Mr. Allen emphasized that the evaluation is not a comparison among members; it is about how each member can improve performance. Mr. Reid noted that with the added staff also come added responsibilities to brief and consult within the organization. Mr. Werfel noted that he represents OMB and he wishes to distinguish between evaluations of his performance and particular OMB positions.

Mr. Werfel suggested that a less formal approach is feasible. He did not want the paperwork to dominate. He suggested that members communicate their concerns directly to other members; perhaps through a group of three members assigned to give feedback to a member. Mr. Reid agreed that less formal was preferable but perhaps somewhat more structure would be needed. Mr. Jacobson noted that the relationships among the members – for example, a federal member may be involved in deciding whether to re-appoint a non-federal member – make oral feedback challenging because it eliminates anonymity.

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Mr. Allen explained his experience at GASB and indicated that a variety of evaluations was useful because there will always be outliers. In addition, each member would need to be evaluated by the same group to produce consistent feedback. Mr. Jackson and Mr. Schumacher noted that they participated in FASAB to add value and make a contribution. Receiving feedback will help them accomplish that goal. While the form can be improved, they have no concerns regarding the overall proposal.

CONCLUSIONS: Members were asked to convey any specific concerns or suggestions to Ms. Comes following the meeting. The evaluation form and policies will be revised and circulated for review before the next meeting. The members representing the sponsoring agencies will confer regarding the appropriate process for adoption of the new evaluation policies and procedures.

Agenda Topics

- **Technical Agenda Procedures**

Mr. Allen noted that the key question is “how do I know I’m working on the right thing.” The materials lay out the process followed in the past (2005 and 2003).

Mr. Murphy asked about the screening that was done prior to seeking public comment in 2005. Ms. Comes noted that there was a great deal of communication with the community in developing the long list of potential projects. In light of the length of the list of potential projects, the Board decided to seek comment on a shorter list in hopes of encouraging more participation in agenda setting. Mr. Murphy expressed concern that working through the list might discourage others from offering new ideas or supporting projects not initially selected as a higher priority.

Mr. Dacey noted that the nature of FASAB is somewhat different than GASB or FASB. First, we set standards for only one entity and have more direct contact with our constituencies. Therefore, we may have a better sense of the issues in the community. We should ask if the issues on the agenda are the right issues. Second, he noted that staff availability was more limited than the other boards. Therefore, he expressed concerns about whether an annual process was necessary.

Mr. Allen noted that fiscal sustainability was not on the agenda when he began, was now a high priority and was becoming a higher priority. He asked if that was true. Ms. Comes explained that it was part of the conceptual framework – an active project with several phases – and was accelerated when the board decided in 2005 to accelerate the framework project.

Ms. Comes also noted that an annual evaluation did not commit the Board to go through each step in the agenda setting process. In some cases, the Board may simply discuss the current agenda and confirm that no changes are needed.

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Mr. Reid agreed. He noted that we have at most the capacity to add two projects a year but that he believed fiscal sustainability would have been accelerated sooner if an annual review were conducted. Mr. Allen indicated that it seemed to be accelerating without any official agenda setting process – simply by letting the natural course run.

Mr. Allen doesn't want a process if we don't need one but he also doesn't want to work on something for years simply because it was put on the list in the past. He wondered how you have the flexibility to alter priorities.

Mr. Reid asked if an annual feedback process could be developed. He suggested asking several groups for feedback on the current agenda (e.g., the AICPA, AGA FMSB, CFO Council, PCIE...). This would allow for feedback without heavy Board involvement in the early stages.

Mr. Werfel indicated that the strategic plan document (i.e., the Strategic Directions Report) is hard to digest and use as a communications tool. He asked for a link between the technical agenda and the strategic plan. This should include a simplification of the strategic plan. With the new members, perhaps we should consider whether the plan is right and how to present it more clearly. It does not lay out a clear path.

Mr. Allen noted that the Board decided about a year ago that it would not engage in a full blown strategic planning effort. He reminded the Board of the time commitment of strategic planning. It may be that you really need a strategic plan when you are busiest and have the least time to devote to it. He asked if members have thoughts regarding a strategic plan and suggested that we might do this beginning in January of 2008. We might set aside part of each 2008 meeting to discuss plans. Mr. Patton asked what we accomplished in the Strategic Directions report; he recalled setting medium term goals.

Ms. Comes explained that the Strategic Directions report sets out two primary near term priorities (operating performance and stewardship). She believes that a link between the current agenda and these near term priorities could be provided in the interim.

Mr. Allen asked that such a link be developed. He also indicated that the suggestion that the staff go out annually to seek input on the current agenda and long-term potential projects should be taken up. The Board would then do a more formal agenda setting process as staff becomes available to take on new projects. Mr. Reid suggested that we communicate the timing of new projects (e.g., by showing when we expect to complete a project).

Mr. Patton asked how we decide to abandon a project. He would like to have some criteria for that decision. Mr. Allen noted that this issue does come up in projects; staff has posed such a question in the reporting entity project to be discussed the next day. Having criteria for that decision would be nice. Mr. Patton indicated he was seeking stability in the decision making process but not to box in the Board.

CONCLUSIONS: The staff will seek feedback from constituents once a year regarding the active agenda and potential projects. Summary feedback will be provided to the Board. The Board will continue to conduct formal agenda setting in advance of resources becoming available for new projects. At the first meeting in 2008, the Board will consider strategic planning. In the interim, staff will develop a summary document linking the strategic directions report to the current agenda.

- **Elements**

The Board received a revised draft final Concepts Statement on Elements showing changes made since the May draft, and a cover memo explaining the changes. A second staff memo discussed the history of paragraph 44 of the draft Statement, which states that Congress's ability to change the law does not affect the existence or recognition of a liability. The memo included a sample of the responses received to the Elements Exposure Draft on that issue, which were strongly in favor of the substance of paragraph 44. The memo also included excerpts from responses to the Social Insurance Preliminary Views document that mentioned the issue with specific reference to social insurance programs. The responses appeared to be fairly evenly divided.

The Board first discussed the proposed changes to the May draft and made the following decisions:

1. Paragraph 46: Staff had added proposed language to paragraph 46 of the May draft to clarify Mr. Reid's concern about whether the document addressed situations where a potential present obligation is the subject of litigation. For example, would the government be able to make a provision for a potential liability? Mr. Patton said he found the addition confusing. Mr. Allen and Ms. Comes indicated that the issue of contingent liabilities is addressed in standards and the concepts statement does not change the standards. There was also a concern about whether the second characteristic of a liability could be met if litigation is ongoing. Mr. Jacobson and staff confirmed that in an ongoing litigation the two parties can have a common understanding of the events that will trigger settlement, namely the resolution of the litigation either by the courts or by settlement. Thus, the second essential characteristic of a liability can be met. The second characteristic does not require that the settlement date be known. After a brief discussion by the Board, Mr. Reid said his original concern was satisfied and the proposed additional language in paragraph 46 was unnecessary. Mr. Jackson suggested deleting the addition but adding a sentence to confirm that the second essential characteristic of a liability can be met even if there is uncertainty because of ongoing litigation. Staff said they believed the issue of uncertainty was covered in paragraph 46 as previously drafted as well as in several other places in the draft. Several Board members agreed. Mr. Patton agreed with Mr. Jackson. Mr. Allen called for a vote. The Board decided by a

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vote of seven to two, with one abstention, to delete the proposed addition and not to add Mr. Jackson's suggested sentence. That is, paragraph 46 would remain as it was in the May draft.

2. Paragraph 41: Mr. Jackson referred to the last sentence of paragraph 41: "A present obligation is incurred when the government takes a specific action that commits or binds the government and affects another entity." He asked whether there were circumstances when the government could have a present obligation even if it had not taken a specific action—for example, if an event had occurred that placed the government under an obligation. Also, he questioned whether "affects another entity" is essential because there might not be another entity in some environmental clean-up requirements. Several members and staff said that the affected other entity could be the general public. Mr. Jackson responded that he and other readers might not interpret paragraph 41 that way. Ms. Wardlow suggested deleting the reference to another entity in paragraph 41 because the need for two entities was explained in paragraphs 42 and 43. Mr. Dacey agreed. After some discussion the Board agreed to modify the last sentence of paragraph 41 to read: "A present obligation is incurred when the government takes a specific action or an event occurs that commits or binds the government."

3 Paragraph 44: Following a suggestion from Mr. Jackson and a brief discussion, the Board voted five to five on the issue of whether to delete the last sentence of paragraph 44. Mr. Allen indicated that the paragraph had been subject to due process, which strongly supported the paragraph, and a subsequent Board decision was in favor of retaining the paragraph as exposed. There were insufficient votes to support deleting the last sentence of paragraph 44 and, therefore, it should be retained.

4. Paragraphs 44 and A28: Responding to Mr. Murphy's concern that paragraph 44 appears to be written with social insurance benefits in mind, staff said that the Board did not intend to be restrictive and benefits are not mentioned in paragraph 44. However, paragraph A28 in the Basis for Conclusions (BFC) states that the Alternative View in the Exposure Draft opposes paragraph 44 and refers to social benefits. Mr. Allen said that paragraph A28 is intended to present the history of the issue. It also records that some respondents and the Board had pointed out that, if the logic in the Alternative View, which refers to social insurance, were followed, it could eliminate other liabilities. Mr. Murphy said he understood that point. However, he would prefer to add an example, such as environmental clean-up obligations, to paragraph 44 to alleviate the concern that the paragraph would prejudice decisions to be made in the Social Insurance project. Mr. Patton disagreed with adding any example to paragraph 44 because it could be interpreted as prejudging a decision on the subject of that example. He did not think that the Board had provided examples in any other places in the statement. He added that concepts statements are not standards and do not state that specific concepts apply to this program but maybe not to that program; paragraph 44 is generic and covers whatever situations are like that. Mr.

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Jackson offered language for consideration and possible inclusion in paragraph A28. Mr. Allen said there was not a majority in favor of changing paragraph 44 and if the concerns expressed can be satisfactorily resolved with wording changes in paragraph A28, then that is the direction the Board should go. The Board agreed and decided that staff would confer with Mr. Dacey concerning edits to paragraph A28.

5. Paragraph A27: Mr. Dacey suggested moving the following language in paragraph A27, which was included in the Alternative View, into paragraph 44: "The government's ability to change the law may provide additional evidence about whether a present obligation exists and, in some instances, may preclude recognition of a liability." Mr. Patton said that would mean replacing the last sentence of paragraph 44 and Mr. Allen replied that it would mean replacing more than that sentence. Mr. Patton responded that it would mean reversing the substance of paragraph 44. Mr. Allen called for a vote. Five members supported and five members did not support moving the sentence into paragraph 44. Mr. Allen repeated his earlier comment that the paragraph had been subject to due process, which strongly supported it, and a subsequent Board decision was in favor of retaining the paragraph as exposed. Because there were insufficient votes to move the sentence into paragraph 44, the change should not be made.

Following lunch, Mr. Allen asked for additional comments, beginning with Messrs. Werfel and Steinberg who had requested the opportunity to present comments to the Board.

6. Mr. Werfel said that OMB is not comfortable voting in favor of the Elements statement for several reasons. They question whether the document is complete and whether issuing it now might be premature, especially because sustainability reporting probably will become a central part of the consolidated financial statements and the Elements document does not reflect that change; for example, some elements are missing, such as "responsibility" and "commitment." With the introduction of sustainability reporting, the balance sheet might no longer be central. Mr. Jackson said there is a place for traditional financial reporting and a place for new financial reporting, e.g., forward-looking reports. Mr. Allen agreed that traditional financial reporting has a role and that sustainability reporting holds promise for the future. He said the Board should go forward with the Elements statement and see later what reporting, possibly with new elements, the Board decides is appropriate to report sustainability. Messrs. Patton, Schumacher, and Farrell agreed with Mr. Allen and, except for Mr. Werfel, no members, expressed support for delaying issuance of the Elements statement.

7. Mr. Werfel observed that the concepts statement should indicate the guidelines the Board had used to arrive at definitions of elements, given that the definitions differ from those of other standard setters and other standard setters'

definitions also were different from one another. Ms. Comes suggested adding wording to the BFC to state that the Board had looked at other standard setters' definitions and had arrived at essential characteristics and definitions that are similar but use words more suited to the federal government context. Mr. Reid said that Ms. Wardlow was asked to assist the Board because of her experience with other standard setters' definitions and with the issues encountered by the GASB in its early work on elements. Messrs. Reid and Farrell said that from the beginning of the project the Board had looked at other standard setters' definitions and, for all the elements the Board considered, Ms. Wardlow had provided papers that laid out the definitions of standard setters in the U.S. and other countries and those papers are on file. Ms. Comes suggested that, in addition to the comment in the BFC, the Board could add an appendix to the document that would discuss the different definitions and the Board's reasons for the definitions it has chosen. Ms. Wardlow said she thought such an appendix would be confusing if it presented various definitions without an explanation of their underlying characteristics and reasoning. The Board had discussed that issue extensively earlier in the project and it is the reason that the Board has explained the characteristics in the Elements document. Other standard setters have done the same because definitions presented in isolation can be interpreted in many different ways. She added that she had read the other standards and many of the staff papers written for the IASB and FASB's joint project and on many issues their conclusions and the FASAB's are the same. The differences are primarily wording differences that may be attributable to different environments and the preferences of different boards. Mr. Farrell said that he was concerned that the suggested appendix would establish a precedent. He did not think the Board should start explaining why it has done something different from other entities that have addressed similar issues. The Board agreed with Ms. Comes' suggestion to add something on this issue to the BFC. Mr. Reid said he thought that Mr. Werfel's concern was uncertainty about whether the differences among standard setters' definitions would lead to different outcomes or were shades of the same thing. He agreed with Ms. Wardlow that the different standard setters' definitions were remarkably similar. He suggested that the wording added to the BFC should state that there are no substantive differences from the definitions of other standard setters; that is, the FASAB's definitions are not a sea-change, they are evolutionary. Mr. Allen said he would like the Board to go forward with Mr. Reid's framing of an addition to the BFC. He noted that the Board did not support adding an appendix.

8. Mr. Werfel proposed that the definitions of revenue and expense should refer to "inflows" and "outflows," rather than "increases" and "decreases." He indicated that without a reference to "flows," the definitions appeared to be nothing more than mathematical calculations. Some members and staff indicated there are problems with making those substitutions; for example, there is no inflow or outflow of liabilities. Also, the FASAB definitions include gains and losses, some of which are not flows but result from changes in valuation. Staff suggested adding "inflow" and "outflow," respectively, to the revenue and

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expense definitions but retaining “increase” and “decrease” as well. After discussion, the Board agreed to amend the definitions to read as follows:

52. A revenue is an inflow or other increase in assets, a decrease in liabilities, or a combination of both that results in an increase in the government’s net position during the reporting period.

53. An expense is an outflow or other decrease in assets, an increase in liabilities, or a combination of both that results in a decrease in the government’s net position during the reporting period.

The Board requested the staff to check that the additions of “inflow” and “outflow” to the revenue and expense definitions, respectively, would not be inconsistent with other definitions or provisions in the statement.

9. Mr. Werfel proposed adding a footnote to the first sentence of paragraph A10 in the BFC: “The Board members do not know of specific classes of transactions or types of events that would qualify or not qualify as a liability under the definitions in this statement that would not otherwise qualify or not qualify as a liability under the liability definition in SFFAS 5.” In his view, if the Board knows of such a class of transactions or type of events, the Board is obligated to disclose it. The proposed footnote is written not to be binding but to refer to the Board’s current knowledge. Mr. Reid responded that this is a concepts statement and it cannot change a liability under a standard, such as SFFAS 5. He views Mr. Werfel’s question as: If this Elements statement were a standard, would things be done differently? Does the Board perceive this statement as being different enough from SFFAS 5 that it would result in different conclusions? Mr. Werfel agreed and said that paragraph A10 currently says that the Board does not anticipate a fundamental change; if not, what does it imply? Mr. Patton asked whether Mr. Werfel wanted the Board to prejudge the topics that might come before the Board. Mr. Allen said that the same wording as in A10 is in paragraph 1, as amended at the last meeting. He does not believe the Board should go beyond that in a concepts statement. Mr. Werfel said he was proposing that the current language be made more specific. Mr. Jackson said that such language, if adopted, should refer to all the definitions, not just liabilities. Ms. Wardlow agreed with Mr. Jackson but said that a difficulty is that some of the definitions in the Elements statement do not replace definitions; there are no current definitions for those elements. Ms. Comes cautioned that if the added language became too broad it would encompass recognition and measurement issues. Mr. Allen called for a vote. Three members did not agree with the proposed addition. The remaining members agreed with an addition within paragraph A10 rather than as a footnote, but several members did not wish to restrict the added language to liabilities. Mr. Allen summarized that the majority wished to accommodate the proposal, if appropriate words can be developed.

10. Mr. Allen circulated a handout with comments from Mr. Steinberg. Mr. Steinberg said that if he does not like the document it would be inappropriate for him to dissent from it without knowing all of the Board's discussions over the past four years. However, he had a number of concerns related to the uniqueness of the federal government. First, he thought the document did not adequately address reporting by component units. Second, the document did not address the elements of budgetary statements or stewardship accounting. Third, he believes that the powers and resources of the federal government are broader than those for other entities and the differences are not adequately addressed. The staff and several Board members responded to these concerns, explaining how the concepts statement addressed them or why they are not addressed. For example, budgetary accounts are not within the FASAB's jurisdiction. Also, the Board has concluded that the definitions should be established for the federal government as a whole, given that the component entities are not independent entities; federal assets and liabilities are assigned to component entities for management and operations, and the assignments may be changed. The Board has addressed in the Elements statement the role of the component entities and how the concepts apply to them. The Board discussed the foregoing and other concerns expressed by Mr. Steinberg but did not make any changes to the draft Elements statement based on these discussions. Mr. Steinberg indicated that he still feels the Statement is not recognizing the unique nature of the Federal government environment and reporting.

11. Mr. Allen called for a vote on whether the Board should move to a preballot draft on Elements. All members voted "yes," subject to resolution of the agreed or requested changes, except Mr. Werfel, who voted "no," and Mr. Steinberg who abstained. Mr. Werfel clarified that his "no" vote on moving to a preballot draft did not necessarily mean he would vote "no" on the final statement.

CONCLUSIONS: The staff will prepare a preballot draft of the Elements concepts statement, including the changes agreed to by the Board and possible changes to paragraph A28 to be discussed by the staff with Mr. Dacey. The preballot draft will be circulated for Board members' review in the first half of August.

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

The members reviewed the ballot draft of the exposure draft entitled, *Reporting Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*. Mr. Patton requested that the new question (5.3) be clarified regarding the phrase "selecting ALL economic assumptions." The staff explained that the subject is the adequacy of the guidance regarding the need for the discount rate to be consistent

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with other economic assumptions employed. Staff agreed to revise the question accordingly.

The Board discussed the note requirement in paragraph 22. Mr. Dacey asked whether paragraph 22, which addresses component note disclosure, was an aggregate presentation for an entire entity or would require a breakdown by the type of liability. Staff explained that the proposed standard permitted but did not require a breakdown by type of liability. The Board agreed to specify a breakdown by type of liability.

The staff had provided voting ballots, and at the conclusion of the session, nine members presented their affirmative votes to release the exposure draft for comment. The comment period will run from August through November 2007.

CONCLUSIONS: Staff will make editorial changes and release the exposure draft.

- **Social Insurance**

Mr. Allen began by discussing what he hoped the Board would accomplish during this session. He hoped the Board could agree on a direction. He noted that the staff had begun to list issues and had laid out four options, and that the members may have other issues and proposals. Mr. Allen hoped to discuss these issues and options, as this is the time to raise issues and to discuss directions; but he did not see this meeting as one where the Board was going to make decisions.

Mr. Allen said this is the single most important standard with which this Board or any board will deal. He hoped the Board would give it its best effort to make meaningful progress.

Mr. Allen noted that this issue is on the IPSASB agenda. The IPSASB stated at a recent meeting that, because accrual accounting in countries around the world was not sufficiently mature to deal with the financial statement impact of this, the project would focus on disclosure. Mr. Allen said this was where the FASAB was with SFFAS 17.

Mr. Allen mentioned that getting this issue back on the FASAB agenda was driven quite a bit by the FASAB's sponsoring organizations. He said the expectation is that the Board will make progress.

Mr. Allen said it is imperative to have a significant majority or unanimous support of the Board on this issue. He noted that this puts enormous pressure on the individual Board members, and they recognize the challenge. This project involves both accounting and political issues. His personal hope is that the Board can move forward with something all members and agencies feel is meaningful. He said that the Board recognizes the need for compromise. His personal belief is that this is the Board's time in history to make a difference. He hoped the Board could work together to make significance progress rather than develop a deal-breaker or a placeholder. He said frankly that if the

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Board ends up where it is now he would rather kill the project. He mentioned that the Board arrived at SFFAS 17 through lots of controversy and different positions, and the Board acknowledged that SFFAS 17 was not the ultimate answer.

Mr. Steinberg noted that Mr. Allen had said that the issue was back on the agenda due to pressure from the Principals and asked for more information about that.

Mr. Allen said former Principals had wanted it on the agenda in the past, but there had been Board member turnover as well as turnover with respect to the Principals. He added that if you go back to the beginning of the project you had at least two of the Principals who believed passionately that it was a liability, and that the Board needed to take up the project and get it on the books as a liability; that was basically the direction that the Board was given. He said those individuals were no longer around and their successors do not share that view; and that is part of the challenge.

Mr. Steinberg said that from what Mr. Allen said, the Principals wanted it on the agenda but also defined the conclusion they wanted. He asked Mr. Allen if he had a sense as to (a) whether the pressure would be there today, and (b) whether the pressure that is there is for a certain solution. Mr. Steinberg noted that the Board should move ahead with what the Board believes the conclusion should be.

Mr. Allen said he thought the current pressure was probably just as strong to take it off the agenda as it had been to put in on the agenda.

Mr. Dacey said there was a joint statement issued that expressed the concerns about the best way to present information on Social Insurance. It seemed clear to him that there is a consensus to push for sustainability and intergenerational equity. There is no effort by his Principal to not deal with making sure that there is a fair and complete presentation of the fiscal challenge we face.

Mr. Steinberg said his conclusion was that while the Principals may still want it on the agenda they may not want the same conclusion as the prior Principals.

Mr. Allen said he believes that the Board has an opportunity to develop both meaningful sustainability reporting and financial statements display. He noted that this would be consistent with options #3 and #4 in the staff memorandum. He is optimistic that the Board can figure out a way – whether it is re-labeling, re-structuring formats, or whatever – to address both. You can have a statement of position that captures not only legal liabilities but other significant commitments or obligations. In addition, you can have reporting that ties to and supports a statement of sustainability.

Mr. Patton noted that the Board has heard comments like, for example, “the FASAB cannot survive if things go the way they are going.” His conclusion is that there is a clear position, at least on the part of some of the Principals regarding what the outcome ought to be, which is to say no liability.

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Mr. Allen said he hoped the Principals' position was not all or nothing. He hoped there was a way to illustrate in financial statements the information the Primary View wanted as well as being sensitive to those who supported the Alternative View.

Mr. Patton said there may be a way to do that, but the possibilities are constrained to having no liability, if you value the survival of FASAB.

Mr. Allen said the Board's responsibility is to do the best job it can, recognizing current sponsor positions but not being frozen or paralyzed by them. He hoped the Board could reach consensus along the way; but, if not, the Board still had a responsibility to move forward.

Mr. Werfel said one way to think about this is as a proposed change to the current "due and payable" construct, a change from the status quo. He said that when you change something like that the burden is on the changers to provide a compelling case and to answer all the many questions. He said that in this case the Primary View went out with a very dramatic change to the treatment of these payments by putting them into a liability category. Many, many questions have been raised by the Alternative View and the commenters. He thought there is a sense on the Board and obviously a sense from the Principals that unless those questions can be answered in a way that the Board is not at 5-to-5 or even 6-to-4, then we have to find an alternative path. Mr. Werfel said it was very important that the Board move forward in agreement because these questions are so important and fundamental.

Mr. Werfel asked the Board to consider how much time it ought to devote to trying to get a satisfactory answer to some of these questions. He said it could bog the Board down. Mr. Werfel said that, based on the comments received and the testimony, he still thought there is a very complex array of issues about the question of "due and payable" versus "40 quarters" toward the resolution of which he did not see a clear path. He said one avenue would be for the Board to spend additional time on these issues. Another avenue is to change the Board's focus to something where there is more like a 10-to-0, 9-to-1, 8-to-2 agreement. He noted that potentially there is such agreement on the importance of the sustainability report and that component. He suggested that, once the Board has the sustainability piece and has the 10-to-0 vote, it could revisit these other questions, if the Board at that time thinks it is worthwhile to do so. He said it was important that the Board recognize the choice of time and resources going forward.

Mr. Steinberg seconded Mr. Werfel's recommendation. Mr. Steinberg said he heard earlier in the day the word "sustainability" mentioned many times, but the words "social insurance" very little. He concluded the interest was in sustainability.

Mr. Farrell asked whether there is some middle ground. He said whether it is "due and payable" or "40 quarters," all the members agreed there is a calculable number that is very important. The members were all talking about putting it somewhere. He noted that there is a financial reporting model now, including a statement of net position that says where the government is. He did not know what would prevent the Board from adding to that statement, below the current lines, other categories of things about which

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the Board feels people need to know, e.g., additional promises that potentially impact net position, call it what you want. In other words, expand the traditional balance sheet. Keep the information on the face of the statement but present it differently, be creative; do the same thing on the statement of net cost. This effort could be concurrent with the work on the statement of sustainability.

With respect to Mr. Farrell's point, Mr. Reid suggested a possible presentation that would not involve adding any new statements. It would provide an array of information. He noted that the SOSI currently contains benefit computations but does not explain why the numbers changed. A couple of new lines could explain, for example, how much change is due to work in covered employment in the current year, how much is due to benefits paid out during the current year, how much to changes in assumptions – the three or four “big ticket” things.

In addition to changes in the SOSI, Mr. Reid said that the statement of changes in net position could array more than it currently does. He said a new line item for the benefits attributed to work performed in the current year would be useful. For example, you could have an operating surplus reported on the statement of changes in net position, and also show the piece that the Primary View would probably include in cost. He said the amount included on the statement of changes in net position could be simply carried to the SOSI instead of the balance sheet. He noted that currently there is no differentiation in the statements regarding the changes in the amounts reported, for example, between how much of the change is due to past work in covered employment and how much to future work in covered employment. He said that some stratification would be valuable analytical information; more valuable than simply adding a liability. He said he would like to tell this story using the SOSI and not confront directly the liability issue. He can get the message across regarding what the program costs this year without getting into what the effect on the net position of the government or other questions. He said he would like to see the project go in this direction.

Mr. Allen mentioned FR Table 1, which he believes may well be a way to move forward. He thought Table 1 captures the accumulated effect of those things that now are called liabilities and commitments.

Mr. Allen noted that the task force on sustainability recommended having a single focus, a “bottom line,” for better communication. He is pleased that when people talk about the deficit, they often include the “GAAP deficit,” which businessmen understand. They know the difference between the tax or cash basis and the business basis with which they report to banks and others. He said the dilemma right now is that the GAAP deficit does not include the increase resulting from increased commitments for social insurance. To him that becomes incredibly confusing. The Board has an opportunity to make the GAAP change more meaningful.

Mr. Allen mentioned that he had received his Social Security Statement recently and that it stated unequivocally that he was eligible for current and future benefits. As he read the Statement he wondered what obligation the federal government has to people who read it. It seems to him that the Board has an obligation not to sit here and argue

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whether there is a legal obligation or not, or whether the entity can change the obligation or not; but to present some understandable financial information on the government's position that includes what the federal government has promised. Mr. Allen said the FASAB does not make the rules but he believes something is being communicated to everyone who gets an Social Security Statement – which is most everyone in the workforce – and, whatever we call it, statement of position, operating statement, or change in level of commitment, it ought to somehow capture the federal government's position each period. He said he was very open to alternative displays. Mr. Allen hoped the Board would focus on sustainability and move it as quickly as possible with all the resources available, while continuing to explore how the statements can complement each other.

Mr. Patton said he has admired Mr. Reid's efforts in the FR to be creative. However, the statement of net position now purports to present the assets and liabilities of the federal government, and there are definitions of assets and liabilities. He said that the Board should decide whether social insurance is a liability or not. If it decides social insurance is not a liability, then sustainability is the next way. He did not think the Board should let the social insurance project evolve into sustainability without resolving the initial issue. He noted that the Board had spent lots of resources on deciding what liabilities and assets are, and as long as there is a statement that purports to present assets and liabilities, the Board ought to decide whether an item is a liability, given that the Board has gotten this far.

Mr. Jackson was not sure the only way to portray the federal obligations, responsibilities, or liabilities is a traditional balance sheet. He had mixed emotions regarding whether the work of participants in the social insurance system creates the essence of a pension liability. He did not want the Board's thinking to be limited to a traditional balance sheet for programs that represent "social contracts," which is what he thinks social insurance programs truly are. He found it somewhat moot whether it is called a liability. He can see both sides of the argument over that term. The most important thing for him is to portray to people what the commitments are under those social contracts. He concluded by saying that he did not want to see the social insurance project put aside; it would seriously diminish the credibility of the Board.

Mr. Schumacher agreed with Mr. Jackson. He said fiscal sustainability is the right way to go in the long run, but that is a long way down the road. He said he was willing to listen to some sort of compromise, whether that is a new type of statement or calling it something different on the old statement, but he did not think social insurance should be tabled and simply move on to sustainability. Mr. Schumacher said ultimately the Board may call this a liability because the liability question will have to be addressed; it will be answered in how the information is displayed.

Mr. Dacey said it is clear to him from the deliberations, comments letters, and testimony that whatever is presented should be in the right context so as not to be misleading. He said the complexity and interrelationships of these programs must be understood. For example, the bottom line for Social Security and Medicare Part A is that the federal government cannot pay out more than it takes in; that is the law. He said the Board

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does need to consider flexibilities. He noted that some of the comments from public policy groups, most of those at least that understand these programs well, favored the Alternative View because it did put things in an appropriate context. He added that if you look at the European Union's and certainly Standard and Poor's analysis of credit ratings of the United States and any other country, it is based on long-term cash flows not on balance sheets. He said you do not see much analysis of balance sheets at all. The Board needs to think about fiscal health measures broadly and about how they are best portrayed. He noted that social insurance is a big part of it but it is not the only part. The Board needs to think about how these all interrelate and what the balance sheet represents. His personal view is that the balance sheet represents things that already occurred, services provided during the period. However, equally important, the Board needs to understand how the information is best presented so that people can understand it, because even if you do get to something that sounds fine conceptually you need to find a way to communicate it in a concise and understandable way.

Mr. Dacey said the top priority should be fiscal sustainability reporting. In addition, the Board should start looking through some of the social insurance issues; certainly, there is some consensus now. However, he agreed with the AGA's national letter that looking at sustainability is important for drawing final conclusions about social insurance. Even though deliberation and debate should continue, he would hesitate to make any final decisions before the sustainability project is further along than it is now.

Mr. Murphy said he had always hoped or thought that the social insurance project is not about the balance sheet. It is about how to communicate to the Board's audience the context and the situation that we face. He said there are ways to do that. Like others, he has been concerned that the balance sheet is not the best way to communicate. He said he wished there was a way to get a fiscal sustainability report formatted and out in less than four or five years, but the Board needs to spend as much of its resources as are available in that direction. It is critical. He said CBO spends a lot of time trying to figure out how best to communicate the sorts of things the Board is talking about communicating. He was enthusiastic about Mr. Reid's SOSI improvements. He was open to seeing what could be done with the other financial statements to improve communication. He was not optimistic about a liability on the balance sheet.

Mr. Allen said that, when thinking about the balance sheet, trends over time are probably even more important than an amount related to just one year. Nevertheless, he said he was bothered if a balance sheet is issued and did not report something. He said he personally would be very much more comfortable not having a balance sheet than he would be having a [balance sheet that was incomplete]; that is why he would prefer [not to use the term "balance sheet"].

The Board voted as follows on the question of whether to move ahead with both social insurance and fiscal sustainability projects or concentrate efforts on fiscal sustainability:

Move Ahead with Both SI and Fiscal Sustainability	Move Ahead with Fiscal Sustainability
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Jackson	Steinberg
Farrell	Murphy
Reid	Werfel
Dacey	
Schumacher	
Allen	
Patton	

Mr. Steinberg said that, if the two projects are concurrent, the EDs should be issued simultaneously; opinions will be affected.

CONCLUSIONS: Staff will develop issues and options regarding display and measurement.

- **Steering Committee Meeting**

The members reported that they had no immediate concerns regarding the fiscal year 2008 and 2009 budgets. Final approval is deferred until fiscal year 2008 appropriations are completed.

With respect to planned staff research regarding convergence, the members had no concerns to raise.

Adjournment

The meeting adjourned at 5:30 PM.

Thursday, July 26, 2007

Agenda Topics

- **Fiscal Sustainability Reporting**

FASAB's Role

Staff noted that, based upon research and discussions with a representative from the International Public Sector Accounting Standards Board (IPSASB), the FASAB is on the leading edge among developed nations in exploring the potential for including reporting on fiscal sustainability in the national government's general purpose financial reports. The IPSASB is planning a project on this issue, but it will to begin later than FASAB's, since this project will be on the IPSASB's agenda for the first time in November, 2007.

Definition/Objectives

The Board discussed the distinction between budget policy, including targets and budget rules, and financial reporting, and agreed that FASAB's role is to set the standards for what information needs to be reported so that readers of the Financial Report of the U.S. Government (FR) can assess long-term fiscal sustainability, as described in the Board's objectives for financial reporting- specifically, "whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due." This is distinct from a definition of fiscal sustainability, which might involve or imply setting budget policy or rules. The Board did not rule out the possibility that a definition might emerge during the course of the project, but agreed with staff that at this point in the project, objectives for fiscal sustainability reporting would be the optimal foundation for the development of reporting requirements.

Members offered the following ideas for consideration:

- valid benchmarks for information such as the ratio of debt to GDP (for example, international comparisons)
- separate the concept of "what is fiscally sustainable" from the process of assessing and measuring fiscal sustainability because they are distinct
- in the non-Federal environment, such as the states, there are measures of fiscal stress and we might consider measures that highlight aspects of fiscal stress such as the adequacy of tax policy
- trends are also very valuable
- one potential test of sustainability would be whether a state of equilibrium is achieved over time (some members expressed concern that this may suggest a policy conclusion that equilibrium is a goal)

Mr. Allen said that he is a skeptic of long-term projections. He said that 30 years ago, the rise in health care costs was not foreseen. Mr. Reid agreed, and said that a 75-year horizon going backwards would bring us to 1932. He asked what sort of assumptions you would make about today, if you were standing in 1932, and how many of them would be right.

Mr. Allen said that long-term sustainability measures are necessary, but if you're going to inform people, you need to do it in bite-size pieces: this is this year's impact, or the impact of ten-year periods, or of generations. He said that most people realize that if things don't start to normalize at some point in the future, that we're in trouble, but most people don't care about what happens that far out in the future. He said that what people really need to know is did they pay for the services that they received this year, or was part of the cost passed on to future periods. He said that you need both: you need long-term projections, but to inspire action, you also need information about the shorter term.

Strategy for Development of Reporting Requirements (Communications)

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Staff noted that the Communications members of the Fiscal Sustainability Reporting Task Force emphasized the importance of obtaining feedback from representatives of different audience segments in order to evaluate whether the proposed reporting is understandable and useful. Staff said that although it might not be possible due to resource constraints, it would be ideal to have a venue for obtaining feedback on fiscal sustainability reporting. Staff noted that there are many “audience segments” for the FR, (such as the public, public intermediaries such as the media, Congress), and that the way to determine whether the information is resonating with the different segments audience is through feedback. Staff asked the members to begin thinking about whether there might be ways to obtain feedback as part of the development of fiscal sustainability reporting.

Mr. Jackson asked if the feedback would be during the development process, or after the fact, when the reporting was issued. Staff replied that although there is some feedback built into the exposure process, it would be helpful if additional feedback could be obtained during the development process. For “after the fact,” staff asked if the Board might view the initial reporting requirements as a prototype or pilot, subject to change.

Mr. Werfel asked whether there are assumptions about the target audience at this point. For example, are we assuming that the average citizen is the target audience? He said that in thinking about the Performance and Accountability Report, is the average citizen really the audience? He asked if we should be addressing the average taxpayer, or alternatively, the academics, media and think tanks- and then they would handle the communications with the taxpayer?

Staff replied that it would be preferable to try to address all segments of the audience. For example, it is preferable to use “plain English” in the narrative, but not at the risk of oversimplifying. A primary presentation would show a picture, tell the story, and a secondary presentation (or references) for supporting documents and details about the assumptions and where you can look for further information.

Mr. Steinberg asked about leaders, such as the President, the OMB Director, and others. Mr. Patton said that with respect to who has limited access to information, the President and OMB Director are in a position to obtain any information that they might require.

Mr. Werfel said that the President has a team of advisors, including the Council of Economic Advisors, the OMB Director, the Secretary of the Treasury and others. He said that he would expect that the primary focus would be on the short-term economic indicators. What this project would do is to provide some focus on the long-term view. He said that he would agree with Mr. Steinberg that this reporting might be useful.

Mr. Jackson said that he was concerned with who should care. He said that the President and others are only in office for a limited time, and naturally think about what’s going on in their tenure. But as for who should really care, he thinks about the question, “who restrains change?” For example, who restrains change in terms of Medicare

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premiums? It's a citizen such as a retiree. Those who benefit from the status quo are always going to put pressure on the system to keep the status quo. But who should care? How about those people who are going to have to carry the freight? Where is that inter-generational line drawn? It's very important to communicate with the public, because Congress reacts to the public. Arguably, one of the things that restrain change is the groups out there putting pressure on Congress. He asked if we could get focus groups to help us assess the usefulness of the information to them.

Staff replied that in terms of what might be available, there are several academics in the field of communications who indicated an interest in this project, and who might be able to get us some feedback from college students. Mr. Jackson and Mr. Allen indicated that this would be a good idea.

Mr. Patton said that there is a Concepts Statement about the target audience.

Ms. Comes replied that in SFFAC 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the U.S. Government*, citizens and citizen intermediaries are the primary targeted audience, and that getting feedback from college students would be a good idea.

Staff mentioned that representatives of the media had been invited to participate in the Task Force but had not shown an interest, but that two members of Congress were very supportive and participated in the Task Force meeting on June 19, 2007.

Mr. Dacey suggested that staff communicate with the IPSASB and ask what other countries have learned in terms of communicating this kind of information to the public.

Mr. Allen asked Mr. Dacey if there was any assessment mechanism used by the Fiscal Wake-Up Tour. Mr. Dacey said that the Fiscal Wake-Up Tour has been to 21 states, and that they meet with editorial boards and track newspaper articles; *60 Minutes* aired a feature about it, and felt that it had enough value that it replayed it in its entirety a couple of weeks ago. It was also featured on the Colbert report on the Comedy Channel, which reaches young people. The intent is to communicate the situation to the public. Other countries have become aware and set policy goals; we aren't there yet.

Mr. Steinberg asked if there is any systematic tracking of news articles that resulted from the Fiscal Wake-Up Tour. Mr. Dacey replied that GAO's public affairs team tracks the news articles.

Staff said that many newspapers now have online editions that allow people to post comments to stories; it would be interesting to see the comments from the public. Staff would like to see something ongoing for a feedback mechanism, and suggested that reporting on fiscal sustainability might be considered an ongoing iterative process that might result in changes in response to feedback—unless there is a great deal of feedback from the public during the development process.

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Mr. Werfel said that just relying on the exposure draft process is not adequate. Fiscal sustainability is one of the more important issues that the Board is taking up and will be involved in over the next two or three years; if there's any area where we want to tailor our reporting- be smart about meeting the needs of different audience segments, this is the area. He said that he realizes that resources are an issue. We might not have the resources to hire a research strategist who could recommend pilot testing, user groups, etc., and that might get pretty expensive. But he would prefer to err on the side of being more sensitive to user needs and communication issues- more than any other of the Board's projects.

Mr. Schumacher asked if there was any feedback available from other countries that have done fiscal sustainability reporting.

Staff replied that it might be more relevant to focus attention on the U.S., in particular other Federal agencies in the area of public health, perhaps HHS or NIH, to see the work that they have done on reaching the American public.

Mr. Schumacher noted that most people receive a personal Social Security document in the mail. That gets their attention, but do we have the resources available to do that kind of communication?

Mr. Farrell said that, in consideration of changes made during the past year, if there could be metrics to tell people the impact of what Congress has done by legislative actions- positive and negative, by specific laws that were passed. Mr. Allen indicated that this might be a sensitive issue.

Mr. Reid and Mr. Dacey agreed that one possible outcome of fiscal sustainability reporting is the ability to compare last year and the current year and explain what drove the changes.

Mr. Werfel asked if Mr. Farrell was talking about isolating individual laws, and said that you do want to understand what's driving the changes—but would hesitate to go so far as to say, this is what Congress has done.

Mr. Dacey said that this could be done if legislation has a significant impact, such as raising the retirement age—which is really what you want anyway.

Mr. Steinberg said that there are two types of factors: internal and external to the government. There's interest, Social Security and health care- three big factors- which are internal, and then there are external factors such as longevity and other demographics.

Mr. Murphy said that there are existing publications about legislative impact on the baseline. For a lot of people, having a legislative number for something like Medicare Part D would be helpful.

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Mr. Farrell noted that staff had mentioned that a lot of these numbers are out there—it's a question of which ones to grab and format for the FR.

Mr. Allen said that this is what's exciting about this project: we're not necessarily making a lot of new measures, but selecting the measures that might be most helpful to readers of the FR.

Ms. Comes said that she was also excited about finding ways to engage the audience, but wanted to point out that in the development of the MD&A, we learned that the quality of the reporting depends on the quality of the narrative. She does not believe the Board could make a boiler-plate narrative that would last forever. She said that Treasury is going to prepare the first report, and suggested that the Board quickly focus on identifying the elements to be included in the reporting. She said that the communications experts told us that the charts do not engage the audience, and that it's the narrative that is critical. She said that the Board could spend years developing quality narrative, or spend two years identifying elements and getting some requirements out there, and work separately or with Treasury on audience feedback. She did not believe that the Board should spend too much time on audience feedback in advance of identifying measures.

Mr. Reid said that this information has to appear first in agency reports, or it won't be audited. He said that what Treasury does is assemble audit opinions, and present them to GAO.

Ms. Comes said that the technical experts cautioned us against building this from the bottom up from agency reports based on prior experience.

Mr. Steinberg said that this does not have to be audited - that it could be Required Supplementary Information (RSI).

Mr. Jackson said that it could be transitional- that it could be RSI initially, and ultimately could become auditable, but that we do not know what the data will be.

Mr. Allen said that in lieu of being audited, the report could cite the source of the information, which would provide credibility. If the source is credible enough, you might not need auditing.

Staff asked for direction from the Board on what to develop for the September meeting, and said that some sample reporting had been provided to the Communications group at a meeting that was also attended by several of the technical experts. Staff also mentioned the draft project plan handout, which included a milestone timeline showing the minimum amount of time that would be necessary for the Board to issue reporting requirements.

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Mr. Jackson asked about objectives. Staff said that draft objectives would be presented to the Board at the September meeting. Staff said that draft materials, including some options for reporting requirements, would be sent to the Task Force for review and comments before forwarding them to the Board with the September briefing materials.

Mr. Jackson asked if staff put forward reporting options, with various elements in each option, if there could be an explanation of the relevance of each option. For example, on page 16 of the briefing materials, there is a footnote describing “fiscal imbalance.” He said that we need to tell the reader what it means. Another example: the average person is not familiar with “gross domestic product.” Staff agreed, and said that the narrative needs to explain not only what the terms are, but why the information is important. Staff said that at a minimum, there should be requirements about what the narrative needs to include and explain, including “what does this mean to me (or to someone important to me)?”

Staff said that the narrative needs to explain the assumptions for all scenarios presented. For example, one assumption might be that all excess spending will be funded by borrowing, rather than tax increases or spending reductions. An alternative assumption would be if total debt were limited to a certain level, such as the current level, of GDP.

Mr. Jackson said that those assumptions would involve policy. He also said that all assumptions should be based on current law. Staff said that at least one or two Board meetings would be dedicated to assumptions, because assumptions are complex and important. Mr. Jackson said that he would need explanations of what the measures mean.

Staff agreed that the proposed reporting presented to the Board would include explanations of all terms used. Staff said that the Communications group thought that the example cited by Mr. Jackson¹ was too complex, and contained two new terms (fiscal imbalance and fiscal gap) that might distract or confuse readers. The group recommended that a streamlined format should only present one of the terms (fiscal gap). The group recommended that each part or presentation in the report should have a “bottom line” that is understandable.

Mr. Allen asked how the report (showing total 75-year and infinite horizon columns) could show the difference from one year to the next. Staff said that this leads to another important recommendation from the Communications group: that no single presentation can or should capture all of the information that can possibly be included. For example, trend information and summary information should not be squeezed into a single display. For trend information, staff will recommend that the Board do something that perhaps it has never done: recommend a graphic display, which shows trend information more clearly to most readers than a table of numbers.

¹ The example cited by Mr. Jackson was the pro forma statement from the Alternative View section of Preliminary Views: Accounting for Social Insurance, Revised

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Ms. Comes explained that the samples shown were the result of a meeting with the Communications groups and do not represent a consensus or a final recommendation from the larger group- they are a beginning. She said that staff would also be presenting technical information, of which there is a great deal.

Staff explained that the group was asked to react to samples of reporting- this was done because it would not have been realistic to ask a group of people to meet for one day and develop full-blown reporting from scratch. She said that the attachments included all of the straw-man samples and questions for the Task Force members.

Mr. Patton asked if staff had any expectation or vision of the length of the required reporting- one page, two pages? He said that some of the country reports are hundreds of pages long.

Staff said that because this would be part of the FR, it should not be excessively long.

Mr. Allen said that he does not think that a short report would have credibility.

Mr. Reid said that he wanted to talk about Treasury's vision for the report. He said that the paper-based report will be much less significant than it is today. He said that Treasury envisions development of a web page for the report. The first level of information would be, obviously, what's in the report, and the next level would be the detailed information that was used to prepare the report, and the next level would be to go out to these links- for example, it might be the Trustees' Report, or whatever is out there- that would take you more or less seamlessly down to the detail. So that's what's on the table as a vision for this [the FR], and we might want to think about ways that we [the Board] might use that.

Mr. Allen said that when discussing form and content, it doesn't matter what kind of vehicle- electronic or otherwise- that is being used.

Mr. Reid said that it makes it easier to deal with a separate document, and for example, a three-page report could contain enough information, using this method, as a much larger report.

Staff said that the international paper copies couldn't quite convey how the websites, such as Australia, set up their web pages so that you can pick how short and condensed, or long and detailed, a report you want. She said that first we want to figure out what territory we want to cover in the report, and from there think about how we want to convey this in a succinct way that is reader-friendly, but linked to greater detail. For example, if the Board opts for a "Statement of Fiscal Sustainability," nobody envisions a financial statement that is longer than one or two pages, but the accompanying information, in the form of notes or narrative, would be longer than that.

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Staff noted that each presentation should have a sentence or two at the very beginning that explains what the information means, why it is significant. Each graph or other presentation should have this at the beginning, and make a clear point. For example, staff is currently working on reporting that “tells a story” by showing the important drivers of the numbers for the fiscal imbalance: for example, demographic changes, the rise in health care spending that is faster than GDP, and a continuing trend of deficit spending for general government operations. Staff is working on those, and hopes to have examples for the September Board meeting. Staff said that by helping the reader to understand why, you’ve got their attention- you can’t just start in saying, “We’re going to have too high of a debt-to-GDP level.”

Mr. Allen said that the Board should discuss the objectives first, although he would not object to doing this concurrently with looking at reporting options. He said that he would prefer discussing objectives first.

Staff replied that the Board has a very solid springboard for the objectives, in the Stewardship reporting objective in SFFAC 1. Mr. Allen said that the next step below that would be sub-objectives.

Mr. Steinberg said that in developing the Statement of Net Cost, the objective was to show the amount of an agency’s activity had to be funded by taxpayers. He said that for fiscal sustainability, it would be good to envision a “bottom line” and align a statement to that.

Staff said that in order to develop requirements timely, it might be best to work both at once, especially since the Stewardship objective was recently reviewed by the Board with the assistance of focus groups.

Mr. Steinberg said that it would be helpful to have an objective for the Statement of Fiscal Sustainability. Staff replied that this is where a difficulty comes in: the Board has not decided to require a statement—it might prefer a different type of reporting: an expanded MD&A or something else entirely.

Mr. Allen said the Board needs to decide, as recommended by the Task Force and simply put, “what is the bottom line?” Staff agreed that the bottom line should be discussed and will bring this aspect back at a later meeting. Staff asked if the Board had any comments about any of the samples.

Mr. Werfel said that Sample 4 has a note that it did not receive positive feedback. He asked what that comment means. He said that it appears to be a very simple presentation, and wondered why it did not get positive feedback.

Mr. Jackson said that reading tables is not easy, and that to him, Sample 4 is not simple or easy to understand. He said that he can’t put the information presented into perspective.

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Staff explained that the graph may be meaningful to us, because we are familiar with the subject, but not to the general public. Mr. Jackson agreed.

Mr. Dacey said that we need to explain why each piece of information is important, and that it was important to show what happens over time- is it abrupt, or does it happen gradually over time.

Staff said that there are several ways of showing what happens over time, and the Communications group said that graphs, such as Samples 2 and 3 are more visually comprehensible than the chart of numbers.

Ms. Comes said that we still need to have good narrative, without which the graphs or charts will not be meaningful. David Walker at the public hearing (for the Social Insurance PV), the Task Force, and everyone at this table has said this, too. But unfortunately, narrative is the one thing that FASAB cannot preserve indefinitely. FASAB can decide what information the narrative will talk about.

Mr. Dacey said that the FASAB standard can articulate what information the narrative must contain and what it is intended to communicate.

Ms. Comes said that FASAB can provide a starting point. For example, what was done in Social Insurance and in Earmarked Funds, was a sample of things that have to be explained, that are difficult to understand- those things FASAB can do.

Mr. Dacey said that in terms of explaining- going through due process will also help the Board to hone the descriptions of what's needed in the explanation.

Staff said that FASAB has set a precedent in terms of being very explicit on narrative requirements—in the Earmarked Funds standard, SFFAS 27, there is a very detailed requirement for the explanation on trust funds; the standard even provided pro forma language for agencies to use. So, the “trust fund” narrative should remain pretty robust because the Board was so specific about what has to be in it.

Mr. Steinberg said that he thought that looking at the different samples was fun and interesting, but that he could not say which were the best ones. He said it would be helpful to have an objective to figure out what the reader needs to know.

Mr. Allen said that the Board would like to focus on objectives at the next meeting. After that, he would like to see e-mails going back and forth with sample reporting formats. He said that there is a pretty big gap between the September and December meeting dates, and asked if the members would be willing to do that, to keep the project moving along.

Mr. Steinberg said that the Federal government can make itself very sustainable by pushing responsibilities off on the state and local governments. He said that it was his understanding that GASB has just put something on its agenda about this. He said that

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we should look at if and how GASB is developing this- otherwise, our report will have a big gap in it.

Staff said that this is very challenging, and including the state and local picture may not be do-able- it might be similar to other kinds of information, such as the interaction of trends that is not currently part of the projections by OMB, CBO or others- and asked if one of the Task Force technical experts, Mr. Bob Anderson of OMB could comment.

Mr. Anderson said that the “bottom line” question may not be that difficult. The bottom line is what is called the “primary deficit” (or surplus), and it is just the difference between what the government spends on everything except interest and what it takes in. To have sustainability, you have to have a primary deficit of zero. If over time, you’ve got a deficit, then you’ve got an unsustainable position. The basic thing you need to look at, technically, is the primary deficit, and most of the samples are getting at that, presenting it in different ways.

Mr. Reid asked why interest is not counted.

Mr. Anderson replied that the interest is built into the debt and contributes to the spiral. It’s just that if the economy is growing and you have a primary surplus, the debt-to-GDP ratio will go down. That’s just the arithmetic.

Mr. Steinberg asked about the state and local issue and his desire to not be blindsided by something GASB might do.

Mr. Anderson agreed that if you take out the hundreds of billions of dollars that the Federal government spends on grants to the states, and yes, if you cut that out, you’ve made a big step towards “Federal sustainability.” He said that some of these other countries are more integrated with their levels of government than we are in the U.S. and in the U.S. the states generally have balanced budget requirements, so you usually do not have sustainability issues at the state government level. But it’s certainly something that you can think about as you develop this reporting.

Staff said that there are many issues- such as the fact that covering excess spending by continually borrowing is risky in terms of having Japan and China no longer wanting to buy our Treasury bonds- then interest rates would spike. But there’s no telling when that may happen, because you’d have to look at the whole world’s economy. We need to do something that’s do-able, and state and local may not be.

Mr. Steinberg said that he did not mean to put the numbers in for state and local, only be aware of what GASB is doing.

Mr. Reid asked if there was some information from the ratings folks, at which point the Federal interest rate would be impacted.

Mr. Jackson asked if Treasury’s economists would not have that.

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Mr. Steinberg said that there's probably a limit as to what the Federal government can push off onto the states. Maybe that's something that could go into the narrative MD&A.

Mr. Patton said that he thinks that the state and local issue brings up the "entity" issue. He said that the FR is reporting on the Federal government, not on the nation in general. He said that the issue of pushing off onto the state and local would expand the entity to the nation, rather than the Federal government, if you are talking about the fiscal sustainability at the Federal government level.

Mr. Dacey added that the reporting is based on current policy, and that abandoning grants to the states would not reflect current policy. He said that what we need to stay away from making policy. He said that the GASB project does not directly relate to this project, but that it is interesting.

Mr. Jackson said that Medicaid is important, and that there is a limit to what the states can sustain. He said that he does not know what the implications of that are, but it's something we need to keep in mind. He doesn't know what we would do with it, but there are implications for state governments that are constitutionally required to balance their budgets.

Mr. Murphy said that state governments get about a third of their revenues from the Federal government, and there are obviously risks involved in that dependency relationship, for example, Medicaid. What we've been asked [at CBO] to look at is whether there's adequate disclosure in the state and local government financial reports about the dependence on other levels of government for those huge revenue streams. He said that CBO is very early on in this process.

Mr. Allen asked if staff had enough to go on for the September meeting. Staff agreed to draft objectives for the September meeting.

Handout:

Staff distributed a project plan that included draft milestones. Staff noted that the milestones provided a fairly optimistic schedule because they were based upon the minimum amount of time needed for due process.

CONCLUSIONS:

Definition/Objectives:

For the September Board meeting, staff will send the Board members recommended objectives for fiscal sustainability, which will be based upon existing objectives for "Stewardship" in Statement of Federal Financial Accounting Concepts 1.

Development strategy (communications):

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Staff will contact several academics in the field of communications who have expressed an interest in this project, to explore whether perhaps their students might be available to comment on proposed reporting as it is being developed. Staff will also explore any other potential avenues that might arise for obtaining feedback from members of the public, including discussions with IPSASB representatives.

- **Conceptual Framework – Reporting Entity**

Staff member Melissa Loughan began the Federal Entity Project discussion by providing a brief history of the project. Staff explained that the Federal Entity Project is part of the Accelerated Conceptual Framework Project and that the Board approved the Project Plan earlier this year.

Staff explained that the project plan anticipated the project would result in both a proposed Concepts Statement and a Standards Statement. Further, staff recognized it would be important to delineate between what would be included in a Concepts versus Standards as we move forward. Therefore staff prepared outline papers for each—a Proposed Concepts Statement on the Reporting Entity and a Proposed Standards Statement on the Reporting Entity and Consolidation that were included in the July briefing materials.

Staff explained the proposed concepts outline paper includes detail on the organizational structure of the federal government, defines key terms, and discusses the relationships among organizations and reporting entities within the government. The proposed concepts outline paper also briefly addresses Boundaries of the Federal Government Reporting Entity that are much broader than other standard setters—specifically, this broader notion is—the reporting entity should include the organizations that the federal government is financially accountable for, exercises control over, and those that the nature and significance of their relationship with the federal government are such that the exclusion would cause the government’s financial statements to be misleading or incomplete.

Staff explained that the proposed standards would go into much more detail with criteria for each of the three boundaries identified in the concepts statement. Staff explained that the outline paper for the proposed standards is not quite as developed as the Concepts outline paper because input from the Board on the broad concepts (included in the outline paper on the Proposed Concepts) is needed before moving forward on the more detailed aspects of the standards.

Originally, staff anticipated obtaining feedback on the outline paper for the proposed concepts paper at the July meeting. However, staff explained there has been mixed feedback from Board members regarding the proposed approach. Specifically, it appears that some members are in favor of developing a proposed concept statement, while others believe the approach should be to go directly to developing a standard to address shortcomings in the entity area.

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Therefore, staff thought it would be beneficial to get the consensus of the Board on the direction for moving forward on the project. Staff presented three options to the Board and explained that the options differ in how much conceptual work would be addressed in the project as follows:

OPTION 1

- *No Concepts Statement
- Focus on Developing Proposed Standards relating to Boundaries of the Federal Reporting Entity

* NO FOCUS ON REVISING SFFAC 2--SFFAC 2 would remain unless it is determined the proposed standards are not consistent with the concepts developed over 10 years ago. If so, portions of SFFAC 2 relating to entity would be amended accordingly.

OPTION 2

- *Brief Proposed Concepts Statement Communicating the Federal Reporting Entity is Broader than the U.S. Government Legal Entity (No discussion of organizational structure, defining levels, etc.)
- Focus on Developing Proposed Standards relating to Boundaries of the Federal Reporting Entity

* SOME FOCUS ON REVISING SFFAC 2. Focus on potential revisions to SFFAC 2 would be concurrent with developing proposed standards.

OPTION 3

- *Proposed Concepts Statement Communicating the Federal Reporting Entity is Broader than the U.S. Government Legal Entity and Communicating Organizational Structure of the U.S. Government, Definitions of Terms and Relationships, etc. (as presented in Outline Paper in July Board Materials)
- Develop Proposed Standards relating to Boundaries of the Federal Reporting Entity

* SFFAC 2 entity portion (par. 1-53) would be rescinded and replaced with the new Proposed Concepts on the Federal Reporting Entity.

The staff recommended Option 3 because of the following reasons:

- Project plan was to develop a concepts statement and standards statement
- Revised/ proposed concepts will address
 - Different levels of reporting
 - Entities not reporting
 - Weaknesses with terminology and definitions
 - Legislative and judicial issues
 - Organizational aspects of the federal government
 - Improve upon the definition of reporting entity because presently it requires that three criteria must be met to be a reporting entity

Chairman Allen explained that he believes the focus should be addressing items at the standards level. For example, he stated the main purpose of the project is to address the "Other" type of quasi -government organizations (such as Government Sponsored Enterprises, Federally Funded Research and Development Centers, Public-Private Partnerships, Special Purpose Entities, Joint Ventures, and Other Lease / Finance Arrangements) and he believes these types of things can only be addressed at a standards level. The Chairman explained that he believes the major focus of the project

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should be on developing specific criteria that would be used to determine if an organization should be included in the Federal government. He added that the criteria would be best included in a standard. The Chairman explained that he didn't see a problem with defining key terms and so forth as time allowed, but the main focus should be on identifying criteria.

Mr. Dacey commented that the GAAP hierarchy currently defines the federal government entity as something that meets the criteria in SFFAC 2. Mr. Dacey explained that the Board should remain cognizant of that throughout the project. He added that one of the main issues is determining if the criteria in SFFAC 2 are sufficient and whether that should also be addressed in a standard. However, he noted any changes should also be reflected in a concepts statement as well so the balance is maintained in the GAAP hierarchy that is currently based on SFFAC 2. Mr. Dacey also explained that it might be preferred to make all changes geographically within SFFAC 2 because that is what people are currently using. Mr. Dacey further commented that although revising the concepts statement may not be preferred, it would make the most sense to do so.

Mr. Steinberg suggested that it is possible that a future standard with criteria could naturally flow from SFFAC 2 and would not necessarily require amendments. Mr. Steinberg asked if the criteria currently in SFFAC 2 is different from what a proposed standard would have.

Staff explained that it was always anticipated that the criteria listed in SFFAC 2 would be a starting point in testing the criteria. Additionally, staff further explained the purpose of this project is not to define specific entities that must report. Instead, if a particular entity is reporting and purporting to be following GAAP, the proposed standard would determine the boundaries of that entity. For example, the standard would answer the question which quasi-governmental organizations would be included with a particular entity.

Mr. Allen requested Board members state which of the three options they would prefer as the approach to move forward on the entity project. Members offered the following:

Mr. Patton suggested that he would prefer option 3 because it is important to understand the parameters of inclusion before you set specific criteria.

Mr. Schumacher stated he would prefer option 3 as well. He explained that he believes it is important to look at the underlying concepts statement first. He suggested that it may end up that SFFAC 2 only requires minor changes, but it was important to take a thorough look at the concepts as well. Mr. Schumacher explained that option 2 may be viable as well if there were minimal changes required in the in concept statement.

Mr. Dacey explained his preference is more or less between options 2 and 3. He explained the project will probably involve working on both the concepts and standards but where to draw the line may not be as clear until we get further along.

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The OMB representative was not present to offer his position.

Mr. Reid stated that on first thought, he preferred option 1 because it would address the issue quicker, but he believes option 3 would allow for the identification of issues and be a better long-term option.

Mr. Murphy abstained from voting on the issue.

Mr. Steinberg commented that it was important to address the legislative and judicial branches in some manner. Although FASAB cannot dictate standards for them to follow, it is important for that information to be captured. Mr. Steinberg suggested a 4th option—issues be addressed through a standard that picks up on the criteria already set forth in SFFAC 2 and modify them as necessary. If modifications are great, the criteria would also be revised in SFFAC 2. Mr. Allen suggested that Mr. Steinberg's suggestion appears to be inline with option 2. Mr. Steinberg further explained that the proposed standard would add specificity and applicability to the stated concepts in SFFAC 2. Mr. Steinberg explained that SFFAC 2 should only be revised if it is determined to require a major change, meaning no whole re-write. Mr. Steinberg suggested that there were some things from option 3 (such as including the terms and organizational structure) that could be considered in his proposal or option 2. He also agreed that the standards and/or revisions to the concepts statement should address the federal entity as a whole as well as component entities.

Mr. Farrell suggested that there is a foregone conclusion there are entities out there that should be included in the federal entity that are not currently being included. Mr. Farrell explained that he definitely believes the Concepts statement will have to be tweaked and revised but he is uncertain if there is a need for a completely new concepts statement at this point. Therefore, his preference would be in line with Option 2 that would be developing a standard and revising SFFAC 2 as necessary.

Mr. Jackson suggested that an amendment to SFFAC 2 would be the most logical route in addressing some of the issues in conjunction with developing proposed standards. Mr. Jackson says he sees the issue of defining the reporting entity at all levels as important. He added that it is not just at the federal government level as there are entities at all levels that report and it should be clear what should be included at those levels. Mr. Jackson explained that there is probably not much at the federal government entity level that would be considered material, but there are quite a few considerations when looking at the boundaries at lower levels. Mr. Jackson stated that he would support option 3. He added that he did not see a huge difference between option 2 and 3. Mr. Jackson said he believes the inclusion of the definitions, levels of reporting, and such would be quite helpful in a concepts statement. Staff concurred with Mr. Jackson's observations.

Mr. Allen explained his observation that there is a timing issue and a resource issue in determining how much work should be done on a concepts statement. Mr. Allen explained that he is not opposed to working on a concepts statement but he believes

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staff time would be best used in addressing the main problems via a standards statement.

Mr. Steinberg also suggested that staff consider GASB Statement 14 and the notion of component units sitting on the side of the primary government could have some applicability to the federal government. Mr. Allen agreed and stated that the project should also address display along with whether an organization is included or not. Mr. Steinberg also suggested that staff should consider whether the revised concept statement should include a discussion that addresses the nation as a whole.

Mr. Dacey also suggested that wherever the boundaries for the federal government are determined, inevitably there will be organizations that aren't included. Therefore, consideration should be given to determining what other disclosures would be necessary for things such as related party disclosures and other instances where organizations are not included.

Staff recommended that a small task force be formed with representatives from the community to assist with certain aspects of this project. Specifically, considering there are many unique circumstances that may need to be considered in the entity project, staff believes it would be beneficial to obtain feedback on the proposals prior to finalizing. Staff explained the task force would be very helpful when considering the consolidation of other unique relationships and activities. The Board concurred with the staff recommendation.

CONCLUSIONS: Based on input from the Board, staff summarized that the best approach moving forward would be in line with option 2 while including certain aspects of option 3. Specifically, staff will focus on developing proposed standards relating to the boundaries of the reporting entity and specific criteria for each. In addition, staff will concurrently work on amendments to SFFAC 2. Staff will also determine ways to include a discussion of key terms, organizational structure, etc. in the proposed amendments to SFFAC 2 and proposed standards. Staff will also form a task force to assist with efforts in the project.

- **Conceptual Framework – Financial Reporting**

Staff provided an overview of the project and stated that the objective of the project was to develop a proposed concepts statement that would:

1. Establish criteria for determining when financial statements, disclosures, management's discussion and analysis (MD&A), required supplementary information (RSI) other than MD&A, and other accompanying information (OAI) should be used in meeting the reporting objectives (communication methods); and

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2. Describe the financial statements used to present the elements critical to meeting financial reporting objectives and explain what constitutes a full set of financial statements (overview of basic financial statements).

Regarding the first objective, communication methods, staff prepared a proposed concepts statement for the Board's review. Staff prepared the proposed concepts statement using the outline presented to the Board during the November 2006 meeting. The proposal described each communication method and established a hierarchy for choosing among them. Concerning the second objective, overview of basic financial statements, staff recommended that: (1) SFFAC 2 be amended as needed rather than being superseded and (2) amendments related to ongoing standards projects be accomplished as those standards are developed.

The Board agreed with the staff's plans and provided comments on the proposed concepts statement. Some expressed concern about the added value of the proposed concepts and how the document should depict the unique role of the MD&A in federal financial reporting. The MD&A is an important communication method and, in some cases, the only method that users will read. However, currently, the MD&A is not audited. Instead, it is treated as RSI for audit purposes. Details of the discussion on communication methods and overview of financial statements are as follows.

Communication Methods

Staff stated that the proposed concepts statement included a discussion on the features of each communication method and staff provided the following examples:

- Financial statements and disclosures are essential for achieving the financial reporting objectives.
- Financial statements are the principal means of communicating information in a financial report.
- Disclosure is not a substitute for recognition in financial statements.

Staff also noted that the proposed concepts were intended to allow the Board flexibility in determining the placement of information; however, a hierarchy was included to help ensure that information that the Board considers to be essential to the reporting objectives is communicated in financial statements or disclosures.

Mr. Allen noted that, currently, the Office of Management and Budget (OMB) is exploring the possibilities of a new reporting model. However, the proposed statement appears to be written for a "traditional" reporting model such as a statement of financial position and operating statement, disclosures, etc. Mr. Allen was concerned whether the proposed concepts would affect the OMB's plans and the Board's plans for communicating Sustainability information. The initial plans for Sustainability Reporting did not appear to distinguish an item of information by its importance. Instead, it seemed to discuss different levels – one level included summarized information that

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users could easily understand and the next level would be more detailed and would include explanations.

Staff confirmed that the proposed concepts concern a report that contains financial statements, and Ms. Comes noted that the proposed concepts permit accrual and non-accrual basis financial statements. The statement of social insurance is one existing non-accrual basis statement and it has financial information on its face, notes that explain the underlying assumptions, RSI that displays graphs and includes narratives, and MD&A that includes information to facilitate an integrated package. Thus, the proposed concepts could accommodate a non-traditional statement. Mr. Jackson added that he did not view the proposed concepts as too constraining and precluding the Board from considering non-traditional statements.

Ms. Comes noted that when speaking to auditors and preparers through an accounting standard, the Board informs them on how much audit work or assurance should be provided. There may be a mixed-message in that while the MD&A may be considered the most important method, it is currently not audited. As a result, it appears that sometimes the auditor does not attest to the most important information. The Board tried to remedy this condition in the past by creating another category – Required Supplemental Stewardship Information (RSSI). However, this effort failed. Resolving this issue effectively would involve working with the Auditing Standards Board.

Mr. Steinberg noted that the proposed concepts statement appears to present the MD&A as supporting the financial statements. Over the years, the OMB has viewed the MD&A, in a sense, separate from the financial statements. The MD&A in the federal government is something more than the MD&A in the state and local government environment and the private sector.

Mr. Jackson discussed the reason why the federal MD&A has its present status. He noted that the basis for the federal MD&A comes from the Securities and Exchange Commission's (SEC) model. The SEC did not want to expose the MD&A to audit because they wanted to encourage management to discuss certain information. However, the information should be consistent with the basic financial statements. As a result, auditors reviewed the MD&A to determine whether it was consistent with the basic financial statements. At the time, the federal MD&A was very important, but management needed to be able to discuss the future.

Ms. Comes stated that when the Board approved the MD&A concepts and standards, the Board believed that the MD&A was the most important part of the financial reporting package and likely the only part that people would read. Mr. Dacey agreed that the MD&A is an essential part of the package and must be filed, in its entirety, on November 15th.

Mr. Steinberg expressed concerns with how the MD&A is depicted in Appendix B of the proposed concepts statement. The MD&A appears supplemental to the financial statements. Mr. Steinberg suggested using circles – a circle representing financial

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statements, a larger circle representing MD&A, an even larger circle representing other RSI, and an even larger circle representing OAI.

Mr. Jackson stated that the main point is that information should not be deemed a part of basic financial statements and subject to audit when it is not. The information covered by the basic financial statements must be clearly defined. Also, criteria must be developed that auditors can use in conducting their audits.

Mr. Reid noted that we may consider reinforcing particular requirements, such as financial statement analysis. Agencies do not always report information in their MD&A that has an impact at the Consolidated Financial Report level. Mr. Steinberg added that the analysis of the financial statements has been the weakest part of the MD&A.

Mr. Jackson suggested an alternative. He noted that OMB could develop explicit audit requirements regarding the MD&A and the auditor could report on the results.

Regarding OAI, Mr. Dacey noted that GASB had some recent experience on the issue of whether an accounting standards setting board should issue non-authoritative guidance. Their experience may be helpful in developing an approach for FASAB.

Board members will email any additional comments on the proposed concepts statement to staff.

Overview of Financial Statements

Mr. Steinberg noted that the current reporting model was not broken and asked why a concepts statement was being prepared on the financial report. Staff noted that the statement was intended to assist the Board in determining where information should be located within the report. The Board had engaged in placement decisions in the past. Most recently, the Board deliberated placement issues when it decided to eliminate the RSSI category and relocate the information. Some of the factors used for relocating former RSSI were incorporated into the proposed concepts statement.

Mr. Steinberg noted that upon seeing the title, the Federal Financial Report, he assumed two components - what we should report and how we should report. He pointed out that he could see value in the "how", such as are stewardship investments reported in the right place. However, he was concerned about the "what." If the existing concepts describing the "what" component are not broken, why do we need a concept statement? Also, the sustainability reporting project and the "what" component are so intertwined that it may not be feasible to separate them.

Ms. Comes noted that before the evolution of the sustainability project, we knew that there would be a need for some work on the reporting model in the concepts. For example, the concepts on display in SFFAC 2 did not include social insurance and there were issues about the existence of articulated statements and non-articulated statements. There were concerns about whether the articulated and non-articulated statements should be bridged.

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Staff is proposing to decouple the pieces of the reporting model project because they relate to other major projects. For example, as the social insurance project evolves, we may need to amend SFFAC 2 to add some explanatory material and we may develop the bridge that may be needed for the articulated and non-articulated statements. The sustainability reporting project could also develop concepts that would be used to amend SFFAC 2. The Financial Report project would then focus on whether there would be anything we may want to say differently about the balance sheet or statement of net costs, should we amend what we have said.

CONCLUSIONS: The Board agreed that (1) SFFAC 2 will be amended as needed rather than being superseded and (2) amendments related to ongoing standards projects will be accomplished as those standards are developed. In addition, Board members will provide staff with any additional comments they may have regarding the proposed concepts statement on communication methods. Based on the Board's comments, staff will revisit the proposed concepts and how to describe the unique role of the MD&A in federal financial reporting.

Adjournment

The meeting adjourned at 2:00 PM.