

**FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD**  
**June 25-26, 2014**  
**Room 7C13**  
**441 G Street NW**  
**Washington, DC 20548**

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***Wednesday, June 25, 2014***

**Administrative Matters**

- **Attendance**

With the exceptions noted, the following members were present throughout the meeting: Mr. Allen, Messrs. Granof, McCall, Reger, Showalter, Smith, and Steinberg. Mr. Dacey was represented by Mr. Steve Sebastian during the meeting on June 25<sup>th</sup> and June 26<sup>th</sup>. Mr. Reger was represented by Ms. Kearney during brief absences. Mr. Bell attended the meeting on June 25<sup>th</sup> and was represented by Ms. Davis on June 26<sup>th</sup>. The executive director, Ms. Payne, and general counsel, Mr. Marchand, were present throughout the meeting.

Chairman Allen opened the meeting and welcome Dan Ebersole, the Financial Accounting Foundation representative on the Appointments Panel, to the meeting. Members of the panel are encouraged to observe at least one Board meeting each year

and this is Mr. Ebersole's first visit since he was appointed in late 2013. He noted that he was looking forward to working with the members.

- **Approval of Minutes**

The minutes of the April meeting were approved at the meeting.

- **Clippings**

Ms. Payne reviewed the timeline for the annual performance survey and confirmation of member independence. She reminded members that these forms support preparation of the annual report and that the Appointments Panel will receive the completed forms as well as a draft of the annual report in early August. She asked that members complete the forms following the meeting so that a summary can be prepared.

Mr. Granof provided an update on the work of the Governmental Accounting Standards Board (GASB). He noted GASB's recent issuance of an exposure draft on other post-employment benefits (OPEB). He thought this would be more significant than recent pension accounting changes because OPEB is not funded. This means the liabilities will be quite large.

Some entities have cost-sharing plans (such as school districts) and may not yet realize that the proposal will impact them. Up until now with both pensions and OPEB as long as they paid what was required through the cost-sharing plan they had no liability whatsoever. Under the proposal, they may have to recognize their share of the unfunded liability of the larger entity of which they are a member. There was a brief exchange among members regarding the consequences of revealing OPEB liabilities, the assumption that the employer should recognize the liability absent a clear assumption of liability by the cost-sharing plan administrator (for example, the state), and the ways some jurisdictions are managing OPEB costs.

Mr. Granof noted that GASB is also considering fiduciary funds. They may redefine those and set new standards for how they should be reported. This means trust funds and agency funds will probably be eliminated or blended into general rules with respect to fiduciary funds.

The GASB's project on tax abatements is also very relevant. Right now abatements are not shown at all. At the federal level this would be called 'tax expenditures' and would be much more difficult to define. At a local level, Mr. Granof noted it is much easier to define abatements and establish reporting requirements.

Mr. Granof noted there is another project on charitable trusts to be discussed for the first time at the GASB's next meeting.

Mr. Showalter asked about the GASB codification. It was recently released and he thought it be a good model for a FASAB codification. It is widely available online. Ms. Resse (GASB staff member) confirmed that there is a free version on the website.

Mr. Allen asked about the levels in the GASB hierarchy. Mr. Granof indicated that there are now two levels rather than four.

Ms. Payne provided an update regarding Congressional outreach. She indicated that the House Budget Committee staff requested a briefing. While Ms. Payne expected the briefing to be a discussion rather than a presentation, she prepared a handout to leave behind. She asked members for their input on the handout.

Ms. Payne also noted that one of the Committee members attended the briefing. She noted that his interest arose from questions his constituents asked about federal accounting. He inquired about why private sector accounting was not applied and why an actuarial liability for social insurance programs is not recognized on the balance sheet. She noted his willingness to devote an hour to the discussion.

Next steps include continued outreach directed to members of the CPA Caucus and staff members interested in lease accounting.

Mr. Granof cautioned that the public and many members of Congress make no distinction between the budget and financial accounting. He added that in many ways federal standards are more rigorous than private sector but many fail to understand that.

Mr. Steinberg suggested being mindful that many CPA's – including elected CPAs – are unfamiliar with government accounting and the role of the AICPA in recognizing GAAP standards-setters. He reminded her that the Securities and Exchange Commission delegated the AICPA/FASB authority over standards-setting.

In response to questions from members, Ms. Payne noted that the primary interest was accounting for social insurance. The member's staff has followed up with questions about the 2006 preliminary views document as well as the process that led from that document to the current standards. She explained that – as a group – the participants seemed unaware of the extensive information regarding social insurance and fiscal sustainability included in the financial reports. At the end of the briefing, some expressed the view that although available, the information should be simplified for the benefit of the public.

Mr. Allen asked for member comments on the clippings. Messrs. Granof and Steinberg commented on an article regarding the consequences of budget scoring for capital leases. Because agencies are often unable to secure funding to either purchase capital assets or enter into capital leases, they structure leases as operating leases. This drives up the overall cost of using assets. Mr. Steinberg further commented on another article regarding the cost of environmental impact studies. He thought both articles underscore the need for FASAB to ensure standards are getting at the costs or the numbers that matter to management rather than just numbers that are great accounting numbers put on a financial statement. He emphasized that the financial accounting standards for leases should be coordinated with OMB's Circular A-11 guidance.

Ms. Kearney noted that OMB established the existing budgetary treatment of leases in collaboration with the Congressional Budget Office and the relevant Congressional committees. OMB is not free to change the guidance unilaterally.

Mr. McCall inquired about the merits of the Federal Financial Statement Transparency Act introduced by Congressman Renacci. Remarks explaining the content of the proposal were provided by other members but opinions regarding its merit were not offered.

Mr. Allen noted a poll that focused on the “national debt” and asked if a common definition of national debt exists. Mr. Bell opined that “debt subject to the debt ceiling” – which is inclusive of intra-governmental debt to trust funds – was the most likely meaning. Mr. Allen thought that would exclude pension and OPEB liabilities and Mr. Bell agreed. Mr. Allen said absent a common understanding it would be difficult to tell whether progress has been made in addressing “the national debt.”

Mr. Allen recalled that during years of budget surplus, the debt ceiling still had to be increased. That makes it very difficult to communicate clearly to citizens. He thought the reporting model project ought to address this.

Mr. McCall added that the accrual deficit and the budget deficit are different. Understanding that the accrual based debt is a broader measure of debt is important.

Mr. Steinberg noted that we do not use the term “accrual deficit” in the financial statements. He thought the net position provides the right information regarding net debt.

Members discussed the “debt clock” at Times Square in New York City. Members agreed the clock shows the debt subject to the debt ceiling (inclusive of intra-governmental debt).

## **Agenda Topics**

- **Reporting Entity**

Ms. Loughan began by explaining the objectives of the session were to review and obtain approval of the draft of the Reporting Entity proposed accounting standard with all agreed upon changes as well as other editorial changes incorporated into the document.

She explained that staff anticipated most of the revisions would be accepted by members because they were discussed and approved at previous meetings. The goal would be to deliver a pre-ballot after the June meeting and to finalize a ballot at the August 2014 meeting so that it may be forwarded to the sponsors per the previously discussed timeframes.

Therefore, members should bring up any technical issues related to this project during this meeting so that they may be addressed prior to the pre-ballot draft. Ms. Loughan explained that six members provided feedback. She explained the comments from five members had been

incorporated into an updated draft that staff provided for the board's consideration with the changes highlighted. Mr. Steinberg provided comments that were partially addressed and that he may wish to raise some unresolved concerns. Staff explained that those changes could be discussed in conjunction with other comments or after the Board discusses other technical issues.

Staff opened the floor for comments and technical items. Ms. Loughan also explained that before the session ends, if a member plans to dissent, it would be helpful to staff and the other members if that be made known as it would help in preparing the ballot.

Mr. Showalter asked if there were certain areas that were adjusted based on other member comments that might have differed greatly from other members' comments received. In other words, if there were adjustments made to an area staff saw between different members' comments.

Ms. Loughan explained that there were certain paragraphs—such as paragraphs 43, 47 and 50—about which multiple members commented. In making the proposed changes, all comments were considered and staff came to a compromise between the comments.

Mr. Sebastian asked if the comments were fairly consistent among the members. Or were there diverse viewpoints?

Ms. Loughan explained the comments were fairly consistent. For those particular paragraphs it was the manner in which we clarified some of the wording.

Mr. Steinberg explained he provided comments and most of them were addressed, but there were a few that Ms. Loughan said to bring up at the meeting. He explained that sometimes the line between substantive and editorial is a little bit gray. Mr. Steinberg explained on page 20 within the section that's titled "GPFFR Consolidation and Disclosure." The first sentence reads, "Consolidation entities' financial statements should be consolidated for the government as a whole to facilitate an assessment of the financial position..." He added that footnote 40 to the sentence says "The consolidated financial statement should include amounts and balances consistent with applicable accounting standards, even if the amount and balances arise from are supported by different funding sources (e.g., appropriations or donations)."

Mr. Steinberg explained that his concern with footnote 40 is that it could be interpreted by somebody, even though it is not the intention, that the consolidated financial statements would have to consolidate what are disclosure entities in the components. He explained to avoid that, a very simple fix is to say "the consolidated financial statements, comma, including the accompanying footnotes, comma, should include amounts and balances consistent..." And that gets across the idea that if something is a disclosure entity of a component entity and therefore reported in footnotes, then when it gets into the consolidated financial statements it would also need to be reported in the footnotes and does not have to be consolidated.

Mr. Bell asked if we need to make that specification since consolidated financial statements are assumed to include the related notes as well. And if we make that specific distinction there do we need to go back and make sure that every area is similarly specified or perhaps make a global statement to that effect at the outset of the document?

Mr. Steinberg agreed but indicated that in a careful reading of the document this is the only place that could possibly be misread.

Ms. Loughan explained that staff did not believe it was necessary, for a few reasons. Staff agrees with Mr. Bell's point. Staff also believes it may add some confusion because this is the consolidation entity section so we just believe it would bring confusion to address disclosures here.

Mr. Steinberg explained he is not saying address disclosure and he is not quite sure what the confusion is. And if anything, it is clarification because it is saying the consolidated statements have to include footnotes.

Mr. Bell asked if a general statement could be added somewhere. Mr. Steinberg said it might, but in this instance it is the only place where it says "should include."

Ms. Payne explained you have to recall the purpose of the footnote with the emphasis that you are including amounts that arise from different funding sources. By expanding the preliminary wording, it distracts one from that main point.

Mr. Steinberg explained that may even underscore what he is saying because if it was intended for the museums, and he believes a lot of the museums are going to come in as disclosure entities and therefore would not be consolidated, it therefore does not hurt to say "including the footnotes."

Chairman Allen explained he did not know the best direction to take as he had sympathy for what Mr. Steinberg had said and also understood the point the staff had made in response. Here, we are trying to make a fine line between disclosure entities and consolidation entities. And if we put the word "disclosures within the consolidation entities" does that confuse the issue of which are disclosures entities versus which are consolidation entities? Chairman Allen asked for other member views.

Mr. Showalter asked Mr. Steinberg to repeat his concern so he could be sure he understood.

Mr. Steinberg explained the paragraph says consolidation entity's financial statements should be consolidated for the government as a whole to facilitate. The footnote to elaborate upon that says the consolidated financial statement should include amounts and balances consistent with applicable accounting standard even if the amounts and balances arise from the support of very different funding sources. That's to get across the idea that the consolidation is of the components.

Mr. Steinberg explained that some of what the components report will be disclosure entities, but some people could read this as the reporting entity has to bring them up into consolidation even though something was a disclosure entity in the components. However, this is not the intent. Our intent is that when something is a disclosure in the component, it would stay as a disclosure entity in the consolidated. So therefore, to get across that when we are talking about consolidation and to avoid that misinterpretation, he suggested it be revised to say the consolidated financial statements, comma, including the accompanying footnotes, comma, should include...

Mr. Showalter asked Mr. Steinberg if he believed that was clear with his suggested edit. Mr. Showalter explained he was not disagreeing at this point but he was trying to figure out where the fix was needed.

Mr. Steinberg explained that he believes his fix removes the chance that someone will say the consolidated financial statements should include it and take something that is a disclosure entity in a component and now consolidate it in the government wide statements.

Chairman Allen explained that highlighting the accompanying disclosures brings concern that there may be almost more of a chance of what you are concerned with happening than if we do not say it.

Mr. Showalter explained he does not believe Mr. Steinberg's suggestion fixes the problem.

Mr. Smith explained he understood Mr. Steinberg's point, but for a person to get that, that's a stretch. He believed if you have got a person that is going to go make that stretch, he does not believe that is going to fix it, but instead may muddy the waters.

Mr. Steinberg indicated that many read things literally; therefore, the more explicit you can be as to what the intent is, the better.

Mr. Sebastian explained by inserting the suggested language one might infer that what had been a disclosure in the component entity's financial statements before is now going to be included on the face of the consolidated financial statements. That is one way you could interpret that change.

Chairman Allen explained perhaps a general statement that when one looks at rolling up or consolidating entity financial statements one must take into account that they may have consolidation entities and disclosure entities, and they should be treated that way as the consolidation process takes place.

Ms. Kearney explained she was sympathetic to Chairman Allen's point and suggested it was a matter of the right placement of the wording.

Ms. Payne agreed that the classification is the same no matter whether you are at the component reporting entity level or the government-wide level but agreed the footnote was not the correct place for that requirement.

Mr. Bell asked if we need a simple statement that says disclosure entities at the component level should be considered disclosure entities at the consolidated level or something to that effect.

Ms. Payne agreed but she would carefully word it because we may inadvertently imply that if a disclosure entity appears in a component report it has also to appear in a government-wide report.

The Board agreed staff would draft language about the consistency of classification that would perhaps solve the unintended consequences. Ms. Payne explained it would be included in the pre-ballot. Chairman Allen suggested staff find the best natural fit—if in the standard it would be preferred there, if not in the basis.

Mr. Steinberg explained his next issue is with paragraph 68. He explained that several large agencies—HUD, Treasury, Justice— have components that report on a FASB basis. At the government-wide level, Treasury is using the closing package to get whatever conversions to FASAB are necessary. He explained there is no Treasury closing package that says when, for

instance, Ginnie Mae has to be brought into HUD, how they can bring it in so that HUD statements are complete and not misleading. Mr. Steinberg explained a change was made to the proposal in order to make sure that HUD statements do include the appropriate numbers of Ginnie Mae. The word "should consolidate" was changed to "may consolidate."

Mr. Steinberg explained that he believed that may make the situation worse because now there is a situation where HUD looks at the word "may" and says I do not have to make any modifications, and then puts out a statement and it includes only part of Ginnie Mae and it therefore would be incomplete and misleading. Therefore, he believes paragraph 68 needs to be revised in order to be able to accommodate situations such as HUD, Justice, and Treasury's so that they put out a statement that properly reflects their FASB basis component or subcomponents.

The Board briefly discussed the paragraph and asked Mr. Steinberg for clarification of his concern.

Mr. Bell noted that "should" or "may" is referring to the action of conversion. Ms. Kearney explained she also agreed it was for conversion. Chairman Allen concurred as he thought it was conversion that you could make but were not required to make. But he did not think we ever got to the point of saying you could not convert if you wanted to. Mr. Bell explained that if it is conversion, then it seems to be adding or providing more flexibility to the preparer. He agreed "may" is referring to conversion, not the consolidation.

Mr. Steinberg agreed that it is referring to conversion but noted with "may" it just leads into such a way that HUD may feel that they do not have to make any conversions.

Chairman Allen explained they do not.

Mr. Steinberg suggested that if they do not, they may put out a misleading statement. For instance, if they do not make any conversions, there may not be the statement of budgetary resources for a major chunk of HUD which is Ginnie Mae.

Ms. Payne explained she believes that an incomplete statement of budgetary resources is not a matter of conversion; it is a matter of getting the budgetary information from the component. The standalone FASB statements do not have that statement. The entity as a whole has that statement. The measurement is governed by OMB and the committees on the Hill that have responsibility rather than by either FASB or FASAB.

Staff explained that after following up on the process at the component reporting level, it was determined that certain entities convert and the results are meaningful. For example, certain Treasury bureaus convert and this allows presentation of all imputed costs (e.g., pension and OPEB) and all budgetary resources.

Mr. Steinberg explained that is another example, so we do not have to rely on the HUD example, but when he uses the word "conversion" it is picking up all of the things. He explained we could do one or two things. Right now those entities—HUD, Treasury, Justice—they are doing it in such a way that it is not been a problem. Therefore, if we do not want a change in accounting we may not even need that paragraph. However, having said that, we decided we want to address it. Therefore, he suggested something additional be said that if "made" something be added at the very end of the sentence something along the lines of "unless it would result in an incomplete or misleading presentation for the consolidation entity."



Chairman Allen explained that is not a bad comment, but it broadens that paragraph. Now the paragraph is only talking about do you have to convert or not. But if you add that you are also considering what a complete set of financial statements FASAB GAAP requires.

Mr. Steinberg explained he thought it clarified it by saying that the reporting that is being done now is okay.

Ms. Loughan explained that staff had proposed language for the basis in the document provided this morning to address this. She suggested the board look at paragraph A81 on page 48:

A81. The Board initially proposed that activities measured in accordance with FASAB standards and amounts related to intragovernmental were required to be disclosed in the notes of component reporting entities to facilitate eliminations at the government-wide reporting level. However, after further consideration of the comments, the board determined this information may not be relevant for the component reporting entity GPFFRs and was more appropriately obtained in the Treasury closing package. Likewise, the budgetary reporting issues highlighted by respondents appeared to be a reconciliation and system issue that should be addressed in the Treasury Financial Manual instead of an accounting standard. Also during due process it was determined that certain FASB component reporting entities convert their information to a FASAB basis. The preparers, auditors and users believe the information was meaningful for their purposes. While this may be the case in certain instances, but not all, the board did not want the standard to prevent those from wishing to convert if it aids the users or provides meaningful information. However, while conversion may be appropriate in certain situations, it was not for all.

Chairman Allen agreed the staff proposed language addressed the issue clearly. He asked if there were any objections to the new language and if Mr. Steinberg was satisfied with this resolving his concerns. Hearing no objections, he asked for any other issues.

Ms. Loughan explained that Mr. Steinberg had suggested that paragraph 65C be put back in.

65c. The organization's funding is separate from the component reporting entity's funding

Ms. Loughan explained that staff had deleted it because we believed it had been covered in 65a, but Mr. Steinberg believed it would be clearer to maintain it. Staff does not object if other members agree.

Mr. Steinberg explained that his interpretation is one paragraph is about funding and the other paragraph is about the budget submission and that is why they need to be separate.

Staff explained that it seemed to be redundant because 65a was expanded and combined to also include budget execution. Also, considering the sub-bullet, it seemed clearer perhaps and the item begins with the budget submission is combined, with the main point "but is not jointly developed or executed as indicated by." However, staff does not object to having it in to be clear.

Chairman Allen asked if any members object to that. Seeing none, the board agreed to retain paragraph 65c.

~BREAK~

Mr. Steinberg explained that at the last meeting there was a very lengthy discussion about the Federal Reserve disclosures that go into the CFR, and the appropriateness of also being in the Treasury Department's financial statements. He explained his concern is with the language on page 41, paragraph A43. He explained in reviewing the middle sentence that begins with, "The minimum disclosures are in addition to any other reporting requirements" that the board previously agreed to delete the phrase "in a government-wide financial report and any reporting entity to which it may have been administratively assigned."

Chairman Allen asked if he was referring to the standard paragraph 79, not A43.

Mr. Steinberg explained paragraph 79 was fine. His concern was with A43 where we took out the phrase "in the government-wide financial report and any reporting entity to which it may have been administratively assigned" to remove any inference that these kinds of disclosures were appropriate for the Treasury Department. His concern was with the phrase that was added; "at the government-wide or component reporting entity levels." He explained if the Treasury Department wanted to put them in, fine. But we should not even be suggesting because there was some question from the auditors that this was not appropriate for the component. So, he believes that once we took out what we took out in that paragraph, we should not then add it back in.

Mr. Bell noted that the key conjunction in the deleted sentence is "and" and in the new language is "or." So it does not necessarily compel reporting at the component reporting entity level, it just provides for the possibility.

Chairman Allen explained that we are putting it back in in a different context. In other words, minimum disclosures are in addition to any other requirements. And now we are saying you may at the component reporting entity level have some other requirements that have to deal with central banking.

Ms. Payne asked Mr. Steinberg if he believed it implies the minimum disclosures must be in the component reporting entity. Mr. Steinberg explained that it implies the disclosures that are going into the CFR should also be in component. He believes some of those disclosures are not appropriate for the component.

Ms. Payne suggested a wording change: The minimum disclosures for the government-wide report are in addition to any other reporting requirements at the government-wide or component reporting entity levels. She explained this would clarify that the minimum disclosures are only government-wide.

Mr. Steinberg agreed that would be okay. Chairman Allen asked for any objections; no members objected so Chairman Allen asked for the next issue

Mr. Steinberg explained he had one more matter of clarity, related to paragraph A60. He explained the last sentence "hence the statement establishes that disclosure entities would not be required to apply the GAAP hierarchy in federal entities." He suggested that there are a number of disclosure entities that are FASB type entities and they do not apply the GAAP hierarchy. He wondered if there were disclosure entities that are federal entities and would they read this to mean they do not have to apply the GAAP hierarchy therefore they do not have to follow federal GAAP?

Ms. Payne explained that we tried to be clear that SFFAS 34 is required for consolidation entities and not required for disclosure entities and that is within the body of the standards. It does not say that there are no disclosure entities for which FASAB would be the right source and we are not precluding them from adopting FASAB. Ms. Payne explained that they would have to work with their auditors to decide which GAAP hierarchy best aligns with their organization.

The Board discussed various wording suggestions for the sentence and after word smoothing, the Board generally agreed on:

While the hierarchy of GAAP established for federal reporting entities may not necessarily apply to disclosure entities; information about such organizations is still needed for accountability purposes and to meet federal financial reporting objectives.

Ms. Kearney explained that she did not have any comments on the draft itself. It is more on the amendments that was made to SFFAC 2. Her concern related to the fact the amendments took away footnote 4 of SFFAC 2 which basically describes exactly how we are going to implement this standard—that is OMB, GAO and Treasury are going to have to make certain determinations. She explained that there is going to be a need for OMB to make some determinations where there is not agreement as to whether or not it would be part of the government-wide or part of an agency's financial report and OMB has a statutory requirement to make those determinations. Ms. Kearney explained it seemed odd that we had the responsibility of implementing and we have the statutory requirement but then the standard was not addressing it.

Ms. Payne explained after discussing the issue, it was determined the language from the footnote could be added back but footnote 4 by itself seemed odd because we've never pointed to the statutory requirements. Ms. Payne suggested staff combine a previous footnote regarding the statutory requirement with this one and put it into the very first sentence of paragraph 29 of SFFAC 2. Treasury pointed out a change that they would make regarding what really is in the statute, so it was agreed that FASAB counsel would review it.

The new footnote agreed to (but will be reviewed by counsel):

The Office of Management and Budget specifies the form and content of agency ~~and governmentwide~~ financial statements, pursuant to authority assigned in the Chief Financial Officers Act of 1990, as amended (title 31, U.S. Code, section 3515(d) and section 331(e)(1)) through issuance of Bulletins and Circulars. OMB intends to base form and content on the concepts contained in this Statement. Any uncertainty as to what to consider as a reporting entity would be resolved by OMB in consultation with the appropriate Congressional committees.

Chairman Allen asked if this would resolve the issue and if there were any objections. Ms. Kearney agreed that it would resolve her concerns. No other members objected.

Mr. Steinberg explained when he reviewed the concept statement, he identified a few items that were outdated and should be updated.

Ms. Loughan explained reviewing all portions of SFFAC 2 were deemed outside the scope of the project because the Board agreed that it did not want to do a complete scrub of the concept

statement. Further, picking and choosing portions of paragraphs or sentences not rescinded may give the impression the entire portion had been updated.

Chairman Allen explained he recalled that was the Board's decision early on.

Ms. Loughan acknowledged that Mr. Steinberg had identified a few things that had not been updated with previous pronouncement updates. However, staff can make those changes in the next update.

Ms. Payne explained there was one change, an amendment that was included in the dedicated collections, that we did not pick up in the 2013 update. Staff will fix that error with the next handbook update. Ms. Payne also agreed that there a couple of places where the word "earmarked" was not changed to "dedicated collections" when we did the earlier amendments in the standards. She explained that is not controversial, so we can make those types of changes.

Mr. Steinberg explained he had an issue with paragraphs 22 to 24—specifically in paragraph 23 there was no confirmed definition for the term "program." He also noted that the paragraphs are a bit outdated due to the GPRA Modernization Act did require OMB to develop regulatory programs. He suggested that staff check with OMB to see whether or not that the paragraph reflects the reality.

Chairman Allen explained as he recalled from the few meetings that OMB reported that there still was no definition. Ms. Kearney explained they plan a more standardized definition as they implement the DATA Act.

Mr. Sebastian explained that would require another change to the standard at some point once OMB does in fact define the term "program." They are not there yet.

Mr. Steinberg suggested something could be put in a footnote to explain that recent legislation is moving OMB to come up with a definition.

Ms. Payne explained that a footnote could be added about the GPRA Modernization Act but she cautioned the board it is a very slippery slope.

Ms. Loughan agreed and noted that in the document we broadly say that we retained paragraphs 11 through 37 because they just provide concepts regarding a reporting entity and did not modify any of this. Staff believes if we start tinkering with sentences or updating portions of them, we need to review them all. Otherwise, it will give the appearance that the entire document should have been refreshed.

Mr. Showalter explained his concern is we did not ask for comments on the statement. We asked for comments in the context of the suggestions we put out for amendments and we are making decisions about due process. Mr. Showalter explained the only reason we are amending this is because we issued a standard, a standard that was going to impact this because this is what the standard was. He explained that we did not ask for comments on the concept as a whole. Now, we are making changes in here on items that we did not ask our constituents to give us comments on.

Mr. Steinberg explained that he would not characterize the change as a change in the concept statement. He would like to reflect the fact that 20 years have passed and certain things may need to be updated.

Mr. Sebastian suggested he is concerned with that statement though because as of right now there still is no firm definition for the term “program”—so, that statement in paragraph 23 is still factually correct.

Chairman Allen explained that he would just leave it alone. He asked other board members if they wanted to vote on this.

Mr. Showalter explained he would leave it alone because he was concerned about the impact.

Mr. Smith stated he was fine with it the way it is.

Ms. Kearney agreed she would also leave it alone.

Mr. Steinberg explained he obviously has a different view and would rather address it.

Mr. Granof explained he would leave it alone.

Based on the majority vote, paragraphs 22-24 would not be updated in SFFAC 2.

Mr. McCall explained that paragraph 18 and paragraph 79 in the statement establishes minimum disclosure requirements with regard to the central banking system. He explained that when we talk about the central banking system we talk about disclosures and he believes the term "disclosures" and "disclosure entities" gets mixed up at times. His concern is that someone might say since there are minimum disclosures for the central banking system then it is a disclosure entity.

Therefore, he would suggest at the end of paragraph 18 and 79 is saying the statement establishes minimum disclosure requirements regarding the central banking system whether included as a consolidation entity or disclosure entity. This would clarify that there are disclosures, whether it is included as a disclosure entity or as a consolidation entity.

Chairman Allen explained his only concern is we are introducing that before we introduce the concept of disclosure entities and consolidation entities. So paragraph 18, we are still just saying what's included and then later we break into where.

Ms. Loughan explained that it is similar to what we say in paragraph 2 --while not directly specifying the inclusion or classification of the components of the central banking system the statement does establish minimum disclosures. We avoided saying that it is either because it presumes we have decided it is an included organization.

Chairman Allen asked if there were any other comments about changing substance.

Ms. Loughan explained that as of now, all technical issues have been discussed and resolved. The pre-ballot will have the changes discussed at this meeting and editorial items.

Mr. Steinberg asked for confirmation that the next draft includes the changes from the draft that was provided in the meeting.

Ms. Loughan confirmed it would include the changes. She also explained the intent to send the ballot version for the August meeting. Ms. Loughan asked based on this meeting does any board member plan to dissent?

Mr. Steinberg indicated that he planned to dissent on the interventions. He explained that for accounting policy and political reasons they are not appropriate to include in the reporting entity. He said that as he read the document, the very first sentence in the document says the statement establishes principles to ensure organizations for which elected officials are accountable are included in general purpose federal financial reports. He also explained that he plans to review how the partially funded organizations are addressed. While the Board's intent is appropriate, he has a problem with getting across intent in the basis for conclusion or footnotes rather than in the body of the standards.

Mr. Granof asked Mr. Steinberg which paragraphs he was dissenting to.

Mr. Steinberg explained that it is not a matter of which one, it is the whole notion. He stated that throughout the document it says that this is about a reporting entity. Mr. Steinberg explained that he has a problem when it describes what is the reporting entity, that it lists explicitly the receiverships, conservatorships, and intervention entities as part of the reporting entity.

Ms. Payne asked Mr. Steinberg if staff turns the pre-ballot draft around quickly, would he be able to provide his dissent far enough in advance of the August meeting that we could circulate that.

Chairman Allen noted the board has 10 days to respond to the pre-ballot. Ms. Payne clarified that the 10-day clock for receiving a dissent starts when there is a ballot. Mr. Steinberg explained that he would not require the full 10 days.

Ms. Payne explained that would be helpful because the challenge of waiting until we ballot is sometimes the members want to say something in the basis for conclusions about the dissent, or to clarify. Therefore, having the dissent before we get to the point of asking for the ballot is extremely helpful.

Mr. Granof explained that he was concerned that Mr. Steinberg's dissent may make certain points that require certain adjustments or responses to a comment. He would like to ensure there is time for that. He was uncertain as to the timetable.

Ms. Payne explained that the rules of procedure provide that a member can submit the dissent during the 10-day balloting window. However, we strongly encourage that the member provide the dissent sooner, the text of the dissent.

She explained that she is asking Mr. Steinberg if once he receives the pre-ballot, if he can begin writing his dissent and provide it within five weeks so members get a chance to see it and work with staff on whether they want to say anything else.

Mr. Granof confirmed the plan is we will get the pre-ballot draft in the next week or so. Mr. Steinberg will submit his dissent and staff will work on the ballot draft for the August meeting but there will be time to review and submit comments based on the dissent language.

Ms. Payne confirmed that is the timetable, but if we do not get the dissent until the August meeting or there is not sufficient time to review, we end up doing the same cycle after the August meeting.

**CONCLUSION:** Staff will send a pre-ballot draft to the Board with the goal of having a ballot for the August meeting. Any member planning to dissent was requested to work with staff to meet the milestones. In addition, the Board agreed to the following:

- Staff will draft language about the consistency of classification between consolidation entity and disclosure entity distinction, they should be consistent at the government-wide and component reporting entity levels.
- The proposed language in the basis for conclusion (paragraph A81) to explain the change made in paragraph 68 changing “should” to “may” to allow flexibility because it was determined that certain entities convert to FASAB basis and the results are meaningful.
- Add back paragraph 65c. “The organization’s funding is separate from the component reporting entity’s funding”
- Edit paragraph A43 so that it clarified the minimum central banking disclosures apply only at the government-wide but there may be other requirements at either level. The agreed upon sentence change was (“The minimum disclosures for the government-wide report are in addition to any other reporting requirements at the government-wide or component reporting entity levels.”)
- Language to address the GAAP hierarchy applicable to disclosure entities as follows: “While the hierarchy of GAAP established for federal reporting entities may not necessarily apply to disclosure entities; information about such organizations is still needed for accountability purposes and to meet federal financial reporting objectives.”
- Combine footnotes 1 and 4 from the SFFAC 2 and move to the first sentence of SFFAC 29 to address OMB’s concern regarding implementation.
- No updates would be made to SFFAC 2 for other changes such as the GPRA Modernization Act.

- **Update Regarding Department of Defense Request for Guidance**

Ms. Payne noted that the Department of Defense submitted a request for guidance in six areas. Since progress on these areas would be relevant to the discussion of the technical agenda later in the day, she wanted to give the members time to think about progress so far.

Ms. Payne explained that providing guidance may take months or years depending on the complexity. A contract is being developed to support work in two of the areas – the treatment of deployed assets and estimation of values of inventory and related property. The issues DoD raises are highly specialized. She expressed the hope that the contract be awarded to someone able to work directly with the military services regarding what is doable and identify a cost-effective approach to getting the historical valuations very quickly.

Given the limited funds available for the effort, she contacted DoD Deputy CFO Mark Easton in early June to ascertain the department's level of commitment. She noted concerns about timely access to decision makers and availability to relevant information during the contract period. She felt that DoD's commitment to making this a priority was vital to success.

Ms. Payne initially noted that no DoD response had been received. Members expressed concern about placing a priority on the project absent DoD's active participation. Members from OMB and GAO offered to discuss the request with the DoD. However, following the lunch break, Ms. Payne reported that Mr. Easton contacted her to express his support for addressing valuation of inventory and related property and internal use software.

- **Fiscal Sustainability**

Ms. Payne noted that there were 11 responses to the exposure draft proposing to defer the transition to basic information for long-term projections. She indicated the number of responses was consistent with the number received on SFFAS 45; the prior deferral. The respondents generally acknowledge the importance of the information. Two respondents objected to the deferral.

Ms. Payne asked if members had any concerns to raise before discussing next steps.

Mr. Allen stated that he felt positive regarding the responses. While one expects the most federal responses to be in agreement, organizations like AGA and GWSCPA bring a committee perspective of roughly 20 people from different backgrounds. Such committees worked through the proposal and were supportive because the arguments that were put forth were persuasive to them.

Ms. Payne noted that some editorial proposals were submitted on paragraph A7 before the meeting. She pointed to the suggestion to emphasize that even with the deferral, the information will continue to be available and subject to auditor attention.

Members suggested various ways to make clear that the auditors' role would not change from 2013 to 2014 and that the information would remain available despite the deferral.

Ms. Payne suggested that the members consider the version discussed at the meeting the pre-ballot and she would provide a ballot following the meeting.

**Conclusions:** The ballot draft for an SFFAS is to be circulated following the meeting.

- **Reporting Model**

## Overview



The Board agreed on the starting point for developing the ideal reporting model. Earlier this year, in April, the Board members presented their views on an ideal reporting model and many topics arose that could be considered the next steps for the project. For instance, some members noted that the reporting objectives are broad and refer to what should be achieved by financial reporting in general rather than financial statements in particular. Consequently, some members believed that a number of parameters would be needed to help guide subsequent discussions and help ensure that there is consensus regarding what the Board plans to accomplish. Also, members noted that there are various dimensions that could be considered for reporting information, such as cost by programs within agencies and cost by programs that involve multiple agencies, and the Board would need to determine what would be ideal. Accordingly, during the June 2014 meeting, FASAB began discussing these and other topics to determine its next steps for the ideal model project.

The Board generally considered that, given existing resources and the need to make timely progress, the current framework of objectives was adequate for guiding development of the ideal reporting model. As a result, the Board decided to start with cost and budgetary flows and conceptually how they should be aggregated and disaggregated. Also, the Board plans to address how to reconcile cost and budget at a level that would be understandable to users. Because this requires an integrated effort and there is an immediate need to support the government-wide cost and budget reconciliation process, near term options for improvement will be offered. The Board's research has consistently indicated that external users are interested in better understanding the composition of cost and budgetary information and how the two relate. Details of the Board discussion follow.

### The Reporting Objectives

The Board began by discussing whether to revisit or clarify its role in relation to the reporting objectives as stated in Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*. Mr. Simms noted that although the April 2014 ideal model presentations most often addressed improving the reporting of cost and budgetary information, the presentations raised a number of conceptual topics. He noted that these topics should be given some consideration in addition to the topics noted frequently during the presentations. For instance, there was concern with the role of the Board with respect to budgetary concepts and reporting and some members noted changes to the language in the reporting objectives or expressed ideas not explicitly discussed. In addition, some members noted that the reporting objectives pertain to financial reporting rather than audited financial statements. This means that other sources may be better positioned to provide guidance.

Mr. Simms also noted that, during 2005 and 2006, the Board revisited the reporting objectives using a series of roundtable discussions involving experts in federal financial reporting and the roundtable participants agreed that the objectives remained valid and should be broad; that is including objectives achievable by sources other than audited financial statements. As a result, the Board decided to retain the stated objectives and developed its Strategic Directions document.

Strategic Directions discusses that the Board would have a direct role in achieving the Operating Performance and Stewardship objectives and, as a result, these objectives would be the Board's primary focus in the near term. However, the Board has an indirect role in achieving Budgetary Integrity and Systems and Control and these objectives would be its secondary focus in the near term.

Mr. Allen noted that he recalled the Board's discussion at that time and some members believed that some objectives such as the Systems and Control objective should be removed because the Board would not look to accomplish those objectives. Members were concerned whether the reporting objectives should only be those that pertain to FASAB so that they can ensure that the Board is addressing them. Also, Mr. Allen recalled that the Governmental Accounting Standards Board (GASB) discussed budgetary reporting and some noted that the GASB could not set standards for budgetary reporting. As a result, GASB developed requirements for supplementary reporting, demonstrating a supportive role versus a direct role.

Mr. Smith noted that he would be interested in discussing SFFAC 1 because the ideal model presentations included items that were not discussed in the statement and other items that were not directly from the concept statement but that were on the table for the reporting model. The first place to start is a discussion of what do we want or believe should be presented, defining the parameters. Next, the Board could figure out how to present those items and whether we could get the available information.

Mr. Smith also noted that if the Board decides to produce a reporting model that is not going to completely achieve the conceptual framework, it automatically means that this model is a model that we know needs to change. Because if the Board really believes that the conceptual framework is where it wants to go with financial statements, but yet comes up with a reporting model that does not address everything that is a part of the framework, then it is automatically an incomplete standard. With respect to the GASB example, GASB took the fact that said budget was important to have in the model and addressed how it was going to be included, whether it was footnotes, required supplementary information, etc.

Mr. Bell noted that the reporting objectives are broad and provide a reasonable framework and now, the key is finding a model that more effectively and precisely and efficiently helps us meet those objectives.

Mr. McCall noted that there are things in the concept statement that need to be looked at and discussed and possibly changed.

Mr. Smith noted that if the Board decides that an item should be in the model, but the information cannot be obtained that is one issue. However, if we do not include the item in the model because we believe it is too difficult to obtain today and we do not know when we are going to address it, then we need to really address how you get there in the conceptual framework. It does not do the Board any good to go through and say, well, this is what we believe is there. We are the body to come up with the reporting model to get there, and yet we do not address it.

Mr. Allen noted that the way the Board tried to address that dilemma was to identify its direct and indirect roles in the Strategic Directions document. However, Mr. Smith noted that the descriptions were not helpful because they appear to say some items are more important than others, rather than saying what is not part of the reporting model or does not belong in the model. He noted that this distinction is important. If the Board believes that an item such as the budget is completely outside of its scope and will not address it, the conceptual guidance, SFFAC 1, would state that position and remove the expectation that the Board would address it. If the conceptual guidance is intended to describe the kind of 'umbrella' that the Board should work under to ultimately get to the ideal reporting model and we omit distinctions, what we will do is establish an umbrella that we say is not really our goal and we never plan to do it. Consequently, the reporting model will not appear complete.

Mr. Showalter noted that the Board should be clear about what it intends to do. With respect to the Board's ideal model presentations, most presentations somehow challenged the original concepts. It would be worthwhile to revisit the concepts to confirm where we are. For example, budgetary integrity is a part of performance reporting, so it would be difficult to talk about performance reporting without including some discussion on the budget. The Board should be clear about which objectives it intends to set standards. Currently, we are not clear.

Mr. Granof noted that he was not sure whether there is anything in our statement of objectives that we cannot do right now or that we might realistically expect to do. Revisiting the objectives would require a long time and there are some positive steps that we can take which will have a very significant impact.

Mr. Smith noted that he did not envision a lengthy process. However, the Board needs to have a starting point, some clarity regarding the scope. So, for example, if the Board started with budgetary integrity, the Board would need to determine what does budgetary integrity really mean; what would the Board want in a reporting model; and what are those items that are idealistic but the Board is not going to address. Also, there may be some items that the Board believes are important and need to be made clearer. The Board could define those items before getting started.

Mr. Granof noted that Mr. Smith's suggestion would be conceptually pure approach; however, to be timely, he suggested that the Board move forward with the existing objectives.

Mr. Steinberg clarified that SFFAC 1 is the conceptual guidance that discusses what the financial 'reporting' objectives should be and SFFAC 2, *Entity and Display*, is the conceptual guidance that discusses the financial 'statements' that should be displayed. Also, Mr. Steinberg noted that focus groups and other studies have indicated that existing financial statements do not provide users with cost, budget, and program performance information. Developing SFFAC 1 was a lengthy process and unless the Board would like to go through that process again, the Board should focus on SFFAC 2 and say what the display should be to meet the user needs that have been communicated to us by the focus groups.

Mr. Sebastian noted that linking and reconciling budget information to what you do report in the financial statements presents informative information for the user of the financial statement and maybe that should be the focus.

Mr. Steinberg noted that if the Board specified its role in relation to the objectives, then by elimination the Board is saying what should be the role of others. However, the Board cannot say explicitly the role others might play.

Mr. Granof noted that the Board could decide to undertake a project dealing with the relationship between cost and performance, something which everybody seems to want, and the first step would be to justify the project and say that it 'fits' into the concept statement. The justification would be the first paragraph of the basis of conclusion as is the case in other standards.

Mr. Showalter noted that there are two approaches: 1) balance projects against the objectives; and 2) create boundaries before initiating projects. He would prefer to spend some time up front creating the boundaries.

Mr. Allen noted that he believes the Board has already setup the boundaries by specifying where it has a direct role and where it has a supportive role. However, Mr. Showalter noted that when the Board discusses budgetary reporting, there will be questions about what does supportive mean given that budgeting is the role of the Office of Management and Budget.

Mr. Bell noted that the reporting model is so broad that it will likely touch upon each of the four reporting objectives in some way.

Mr. Smith explained that it seems like the Board would want to have some sense of where it is trying to get to, in the beginning, as opposed to developing models, ideas, and concepts, and then trying to figure out where it would like to go after it has already started "down the road."

Mr. Steinberg noted that user groups mature in their thinking. They may initially read and identify the right things and later want to be more precise. That is why they are now talking more about, say, performance and cost. Also, their view may have changed. Originally they wanted budget information as presented in the SF-133s. Now we are hearing that they want budget in comparison to the actual.

Mr. Showalter noted that there is confusion about the purpose of the reporting model project. If the Board focuses on performance and cost, the Board would be simply resolving today's issues that users identified. However, he believed that the purpose of the project was to deal with future changes and create the new vision; think about, based on our knowledge, where this could go; and over time make decisions that would take us in that direction. Users tell us what they want today but they do not tell us what they want in the future.

Mr. Allen noted that previously the Board would discuss that users are looking for information such as the cost of programs that involve multiple agencies and eventually members would note that the information is not available. So, the Board decided to discuss the ideal model or what items ought to be presented without the existing constraints, such as the way we budget, etc. Next, the Board would identify specific projects. Linking cost to performance is a topic that has been identified by users. However, Mr. Showalter noted that the Board would be working on a cost and performance project without first developing the ideal model.

Mr. Allen noted that the first matter we need to decide is do we have the right concepts and the second matter would be do we have a structure for the ideal model? We have a model now and we just need to deal with some of the issues or do we need to examine the overall report being modeled to see if it meets those objectives.

Mr. Showalter noted that he raised the question about whether the statements should articulate and that is one of the questions that needs to be resolved before deciding whether to begin with performance.

Board members provided the following views on whether to start with the reporting objectives:

- Mr. Showalter noted that he would like to get to the ideal model and whether it has to be done with policy is not important.
- Mr. Smith noted that he would like to try to get consensus on where the Board is trying to go, to get some agreement on the big picture that the Board is trying to create when we get to the end. It will be easier to get our big picture concepts out of the way as opposed to trying to bring them in as we go along.
- Mr. Sebastian noted that the he would not revisit the objectives. However, what the Board decides to report must be anchored in the conceptual guidance.
- Mr. Reger noted that he would not reopen a discussion on the objectives and the Board needs to move rapidly towards the next step.
- Mr. Allen noted that he would not reopen the objectives.
- Mr. Steinberg noted that the Board needs to move forward developing a model that meets the needs that user groups have discussed - provide a budget-to-actual comparison, cost information, and performance information.
- Mr. McCall discussed a maturity model and noted that reporting is at a certain point now and there are things that we would like to develop later. However, the fundamental items need to be addressed before proceeding to those other items. He would like a sense that the Board is addressing those basic things first and where these other things fit down the road. So, when the Board discusses, say, financial condition we need to know are we there, or are we going there?

- Mr. Granof noted that we should not allow conceptual purity to become the enemy of progress. He would like the Board to develop a proposal for specific projects. The Board has a general concept of what those specific projects can be and should move forward expeditiously on them.

### How to Aggregate and Disaggregate Information – Possible Dimensions and Challenges

Mr. Allen noted that upon reviewing users' needs research, he observed common words, but those words have very uncommon meaning, such as cost. For instance, the National Academy of Public Administration (NAPA) study discussed the need for cost information, but was that discussing cost at the department and agency level? In other studies, users seem to want cost by the programs of the government and to be able to drill down and find the details of the cost of the government. However, that is not the way we present financial statements. Thus, the Board should have an ideal model discussion - Is there a need to have cost reported by programs as opposed to by department? Also, is there a need to have cost defined so that users can aggregate across departments as well as within departments?

Mr. Allen also noted that, with respect to budget information, what we report at departments is different than what we report at the government-wide. So, we need an ideal model discussion to decide whether we should ask for the same budget information at a department that we do at the government-wide to help eliminate the reconciliation challenges.

Members noted that FASAB standards require agencies to report on responsibility segments and each agency may define their responsibility segments differently.

Mr. Reger noted that different users use the term 'program' differently. Congressional authorization and appropriation committees could use the term differently. He noted that states and local governments have defined segments of cost – police, fire, schools, etc.

Mr. Allen noted that users want to know the government's priorities for spending and the trends – how the priorities have changed over time.

Mr. Steinberg noted that the Board could write a concept statement or standard to say that cost should be reported by program and then define what we mean by 'program.' Then, OMB would identify the programs.

Mr. Reger noted that he was not sure of FASAB's role versus the role of others in defining a program. He noted that Congress is trying to determine, for their needs, what is it we want to all call a program. OMB answered that question last year by asking the agencies to define their programs and published an inventory to which Congress said this is not what we meant.

Ms. Payne noted that users have indicated that the cost information in existing financial statements are not sufficient for their needs.

Mr. Steinberg noted that the Board probably required the reporting of cost by responsibility segments because, at the time, the Board knew agencies did not have the accounting systems to separate it any other way and each agency was doing something different. As a result, we looked for a completely neutral term. OMB guidance permits agencies to define a responsibility segment as a location, a department program, etc.

Mr. Steinberg also noted that the Board could say that cost should be reported by program; define what the Board means by program; permit OMB to get the identification of the programs; and permit the agencies to install the systems to get the cost of the program.

Mr. Reger noted that one school of thought is that we would call whatever is currently termed a Treasury Account to equal a program. The other school of thought is to abandon the current structure and have groups say what the programs are. To tag and flag data as it is collected and then collect it and display it based upon grabbing those pieces of data and putting them in a format. However, it would not be an accumulation system with internal control and processes. It would be an arbitrary collection of data elements towards a display in a category that you decide from minute to minute what you want to present. There would be a concern with completeness.

Mr. Reger also noted that to collect costs for an event you have to identify an account structure before the event. For example to collect cost for hurricane recovery efforts, they would need to decide ahead of time to call that event an account and notify everybody who was about to record costs associated with it that, here is a new code, it is called Event X, accumulate it. The challenge is that we do not know, until after the events have occurred, what we want to review.

Mr. Allen noted that the Board decided that we will develop the framework without constraints and when we get into any individual project supporting that, then we have to see practicality, cost-benefit. So, we should first look at what is this ideal structure without constraints and second identify each of the individual projects.

Mr. Granof noted that his concern is that the Board will spend too much time conceptualizing, drawing out the ideal model, rather than moving onto rather practical projects. Also, Mr. Bell noted that if the Board expands the project too greatly we could have conversations going in different directions and not be able to find a common path.

Mr. Reger offered to provide the Board with demonstrations of how agencies are looking at their own data in really unique ways and allowing their management to do analysis from an operating environment of their existing databases. Although the data is not audited, it is from an audited database. The base they start with is part of how they compile their financials and therefore the inherent information has a level of control around it. It does not have any control in its compilation. If this Board has a role, it would be to write rules around those compilations that would encourage consistency so that anytime somebody does this, you would know that there is some relationship between that report and the actual financial report.

Mr. Sebastian noted that with respect to cost and performance information and how one defines cost and program, everyone could benefit from discussions with agencies and learn what they are doing in the context of legislation that has been passed over the last couple of years and the DATA Act.

Ms. Payne clarified that staff proposed developing conceptual guidance rather than new standards and Mr. Allen noted that he would like to say what would the overall financial statements look like to meet the reporting objectives and then we would identify specific standards-setting projects.

### Proposal for Next Steps

Ms. Payne expressed that the issue is where do we want to start? The ideal model is all about external users, GAAP financial statements are for external users. Also, in the user needs research, users have consistently pointed to the flow area - they do not understand the budget presentations and they do not understand the cost presentations and how one relates to the other. Accordingly, rather than walking away from the ideal reporting model, staff is saying that the starting point for the ideal model 'is' the biggest problem in the room, the flows and how they relate one to the other. That was our designated starting point in a conceptual project.

Ms. Payne also noted that this approach does not mean that the focus would be on how budget and cost relate to each other and how to address reconciling the two at the component level. This topic could be 'spun-off' while work continued on the concepts. Also, with respect to programs, the question for this body is similar to what the Financial Accounting Standards Board (FASB) did with segment reporting. How far do you have to disaggregate the information for the citizen to digest it? And that is our responsibility. If we want to say, well, however management defines a program, that is acceptable, but they need to show at least programs that will be considered major.

Mr. Showalter noted that as part of the ideal model, we would need to telegraph that we not only want information aggregated from the bottom up, but across agencies. The Board would be considering standards that are no longer just a compilation up, but across. Also, Mr. Showalter agreed that the members' ideal model presentations discussed flows.

Mr. Reger asked, does the Board care about the agency as much as it cares about the consolidated or the body of information that represents the whole federal government rather than breaking it down into its current agencies? If a user is concerned about natural disaster activity or any activity that involves multiple agencies, they may not be interested in agency level reports. Those users are focused on a presentation that is different from a traditional agency report.

Mr. Allen noted that based on the user needs responses, citizens could care less what agency was spending the funds. However, Mr. Sebastian noted that the requirement to prepare financial statements and have them audited instills discipline and rigor, improved internal controls and processes. Also, Mr. Steinberg noted that there are



individuals interested in individual agencies and other members expressed the merits of agency information.

Ms. Payne noted that if members did not want to start with conceptual guidance regarding flows, some alternatives would be to discuss the difference between agency and government-wide levels or electronic reporting. These were topics noted by some during the ideal model presentations.

Mr. Showalter expressed caution about the proposed approach. He noted that looking at the frequency of themes presented during the Board's ideal reporting model discussions is not an appropriate way of analyzing the discussion. Members presented a variety of ideas and we did not have a discussion to see whether there might be other topics that the Board should consider. Ms. Payne noted that some of the other topics, such as whether to focus on the government-wide or agency level may arise during the discussion of flows.

Mr. Granof noted that there is nothing inconsistent with discussing electronic reporting and cost. We may determine that the only way to create necessary linkages is through electronic reporting.

Given the Data Act and other initiatives, Ms. Payne noted that if the Board moves too slowly, the Board will miss an opportunity to explain its view on the proper way to aggregate and disaggregate data and possibilities for consideration.

Ms. Payne proposed that the starting point for the conceptual ideal model should be the cost and budgetary flows, including the types of alignments and breakouts external users are seeking and how to reconcile cost and budget at a high level so that it is understandable to them, including options that relate to electronic reporting. Ms. Payne also noted that it is important that the Board send the message that the word 'cost' means X, so that the word can be used appropriately and, if the Board can get to the right level of cost breakdown in a public external report, it will help with the performance side. She noted the NAPA recommendations were for the President's Management Council (PMC) to take the lead on linking cost to performance; the PMC has the right level of leadership. They have the right across government, across disciplines perspective and, if the PMC asks for Board support, the Board is in a great position to support them. She opined that it really is going to take that level of leadership to integrate cost, performance, and budget.

Ms. Payne also reiterated that reconciling cost and budget and supporting the government-wide reporting process could be separated and resolved rather quickly while the conceptual aspect, such as deciding what is the most understandable and useful reconciliation relationship, continues.

Members agreed with the proposal.

**Conclusion:** The starting point for the ideal model will be cost and budgetary flows.

- **Technical Agenda**

Ms. Payne thanked Mr. Simms for his hard work and particularly providing the summary of very divergent ideal model communications from last meeting. The consideration of the technical agenda—particularly the active projects to be presented in the 2014 three-year plan—is the next topic. She directed members to material at Tab C. She reminded members that the DoD response was received and that they are committed to working with us on the valuation of inventory and related property. She advised retaining as a priority project the effort to respond to DoD’s inquiry.

On the research project list at page 16 of attachment 1, we previously identified managerial cost accounting and linking cost to performance. She has heard consistently from the Board that managerial cost accounting is something you would delve into only in a supporting role if asked. Also, she indicated that linking cost to performance was discussed in the reporting model session. For these reasons, she recommended including selected aspects of this project in the reporting model project. This would mean the reporting model project description would be clearer about our next steps and this research project would not be presented as such.

For the other research project on reconciling budget and accrual, she asked for member thoughts on her earlier suggestion to fast track this effort and provide a near term solution to aligning the agency and government-wide reconciliations. This would mean seeking Treasury, OMB and GAO thoughts and drafting a proposal directly rather than deliberating options. If members are comfortable with that, then this would remain a research project with minimal staff and Board time.

Mr. Allen asked if this would include asking if the required disclosure provides needed information at the agency level or if that question would be part of the reporting model.

Ms. Payne responded that the reconciliation project would focus on the right information from the agency to support the governmentwide reconciliation. Then, in the reporting model project, Mr. Simms will ask the larger question of is it the right information for an agency financial report to external users. That question may take longer to address. In response to a question from Mr. Steinberg, Ms. Payne agreed that the reporting model project would consider the budget information to include.

Mr. Bell asked if this created an iterative process—agencies adjust now and may have to adjust again later. Ms. Payne indicated that it would.

Mr. Showalter noted that by doing this in the short run, you may be better informed about the latter part.

Mr. Bell indicated the opportunity for quick wins was acceptable if it does not come at the expense of the larger project.

Ms. Payne indicated that the research project list would now include the DoD request and reconciling budget and accrual.

Members asked for a summary of the resources to be used for these two projects. Ms. Payne indicated that Ms. Loughan would undertake the DoD project with contractor support as soon as the reporting entity work is complete. She committed to look into the reconciliation issue. If the only option for improvement is changing the word "net obligations" to "net outlays" in SFFAS 7, she would not envision a lot of staff work. Her first step would be consultation with OMB, Treasury, and GAO. If they do not envision the need to adjust the existing implementation guidance, she committed to getting it done quickly.

Members asked about the timing of the leases and public-private partnership projects. Mr. Allen suggested discussing that after the next day's discussion of those topics. Members were interested in next steps given the GASB decision to issue a preliminary views (and the FASB's continuing deliberations) on leases and the potential to defer next steps on the P3 project.

Mr. Reger noted that it would be helpful to have Ms. Payne's thoughts on the level of effort needed to tackle other issues so that members would know what might be accomplished during any deferral. Ms. Payne agreed to offer her thoughts in August.

Ms. Payne asked if members would remove any projects from the potential projects list. She noted that respondents rely on the list and if there are projects members believe are not true candidates, removing them would help focus responses.

Mr. Showalter suggested electronic reporting become part of the model project. It sends a wrong message to treat it as a separate project because that is not realistic and we are going to deal with it through the model.

Mr. Allen noted that the statement of changes in cash would also be part of the reporting model.

Mr. Showalter asked if the omnibus AICPA could be removed as well and Ms. Payne agreed it was unlikely that any of the topics would be addressed as a follow on to the "omnibus."

Ms. Payne asked about "outreach through guidance and education" which has not had support for a long time. In response to a question about normal outreach, she clarified that the project envisioned a larger role—for example, an education website where citizens could go and learn about financial statements.

Ms. Payne thanked the members for their input and indicated that they would see a marked list with the August draft.

- **Steering Committee Meeting**

The Steering Committee discussed the budget options presented by Ms. Payne. They agreed to continue discussion within their agencies and address the budget in August.

### **Adjournment**

The Board meeting adjourned for the day at 4:00 PM.

**Thursday, June 26, 2014**

### **Agenda Topics**

- **Leases**

Ms. Valentine opened the lease discussion by stating that the objective for the current session is to decide if intragovernmental leases should be accounted for differently than leases between a federal entity and a non-federal entity. Ms. Valentine reminded the Board of the General Services Administration (GSA) briefing to the Board on its intragovernmental leasing activities at the April meeting.

**Question 1:** *Should intragovernmental leases be accounted for differently than leases between federal entities and non-federal entities?*

**Staff's Recommendation:** *On balance, staff believes a simplified approach for recognizing amounts arising from intragovernmental leases is warranted. Staff recommends that intragovernmental leases be accounted for differently than leases between federal entities and non-federal entities. Staff recommends that a model be developed that simplifies intragovernmental eliminations while relying on other means to provide information about use of assets and continuing obligations.*

Ms. Valentine noted several factors to consider as the Board assesses whether intragovernmental leases should be accounted for differently.

--The information needs are different; risk-based information is not necessary for transactions between federal entities.

-- The cost-benefit associated with the proposed single-model approach. GSA's concern is, if the tenant agencies were to be required to establish a right of use asset and liability based on their occupancy agreement, the tenant agency right of use liability would need to "match" a GSA right of use receivable for this assigned space.

-- The fact that 89% of the GSA OAs are cancelable by the tenant agency at any time after the first year with 120 days notice may result in some qualifying for the 12-month (or 24-) exception.

- Legal enforceability is not a factor with agreements between federal entities.
- The fact that GSA has the authority to assign or reassign space to a tenant agency in any federal government-owned or leased building means agencies intragovernmental rights to leased assets is not as clear as it may be in non-federal leases.

Chairman Allen noted that he initially disagreed with staff's recommendation of a simplified approach for recognizing amounts arising from intragovernmental leases and that intragovernmental leases be accounted for differently than leases between federal entities and non-federal entities. His disagreement was based on the fact that the Board had tentatively agreed to consider the single-model approach for all leases. However, the possibility that the one legal entity (i.e., the federal government as a whole) would show the right to use asset and obligation to pay if the single-model approach is adopted by the Board convinced him to subsequently support staff's recommendation.

Mr. Steinberg agreed that intragovernmental leases should be accounted for differently than leases between federal entities and non-federal entities. He also suggested that the proposed lease standard be titled "leases and other similar arrangements" to differentiate the intragovernmental arrangements from the non-federal arrangements.

Mr. Smith also agreed with staff's recommendation from a practical standpoint, however from a purely conceptually sound standpoint intragovernmental lease should be treated consistently with all other leases. He also agreed with Mr. Steinberg's suggestion to not refer to intragovernmental arrangements as leases.

Mr. Showalter noted that staff's recommendation is a very pragmatic approach based on the previous Board discussions on leases. He also agreed that the transactions should be bifurcated. He added that intragovernmental leases are not necessarily arm-length transactions and should be viewed differently than transactions with non-federal entities. He further noted that this approach will give the Board time to work through the intragovernmental issue without having to consider the other standard setters' proposal and then the Board could wait for the GASB and FASB/IASB proposals for the other types of leases. He also suggested accelerating the intragovernmental proposal ahead of the non-federal lease proposal.

Mr. Granof asked staff how the intragovernmental arrangements would be recognized and what is the rationale for treating them differently.

Ms. Valentine noted that they would be recognized very similar to the current operating lease model being used. Staff believes that a simplified approach would be most cost effective for the intragovernmental arrangements. She also noted that GSA has the authority to re-assign tenant agencies and the FASB/IASB proposal views this authority as a substitution right and not meeting the definition of a lease.

Mr. Granof asked whether, aside from the legalities involved, is not GSA just a conduit for other federal agencies to get leased property.

Mr. Reger stated in response to Mr. Granof, not necessarily, the tenant agencies are not legally obligated to the third-party lessor.

Mr. Granof asked if the payments from the tenant agencies to GSA equaled the payments from GSA to the lessor.

Mr. Steinberg replied no, GSA adds administrative surcharge to the payments. Additionally, GSA may already have space available in one of its leased assets that it can place a tenant agency in without procuring additional leased space.

Mr. Granof asked why should there be different criteria for intragovernmental and non-federal entity lease arrangements.

Ms. Payne noted that, based on the GSA presentation, it appeared there would be many issues of form vs. substance to be sorted out in each intragovernmental arrangement. She questioned the cost-benefit associated with that effort plus the added cost of eliminations upon consolidation. Staff believes that increasing and improving the information in the disclosures, including the future flows would be better reporting of the intragovernmental arrangements.

Mr. Steinberg noted that one disclosure could be a breakout of the lease payables between the intragovernmental and the non-intragovernmental.

Mr. Reger added that outside of the Washington, DC area, GSA has leased buildings that house several different tenant agencies and they view GSA as the landlord.

Mr. Granof asked if the tenant agency is obligated to GSA.

Mr. Reger responded yes, but there is not legal recourse.

Mr. Granof asked about using the short-term exception for intragovernmental arrangements.

Ms. Payne noted that it would not be cost effective to go through the analysis of the likelihood of renewal beyond the non-cancelable period.

Mr. Steinberg noted that it is very important for the cost of intragovernmental arrangements to be recognized in order to reflect the cost of operating programs.

Mr. Sebastian added that disclosing any unique characteristics, like installation clauses and renewal periods, would be important.

Ms. Davis noted that staff's recommendation is the practical approach as long as we require adequate disclosures.

All members with the exception of Mr. Granof agreed with staff's recommendation on question 1.

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

**Question 2:** *If intragovernmental leases are accounted for differently than leases between federal entities and non-federal entities should they be categorized as an exception or should a separate category of leases be created?*

**Staff's Recommendation:** *Staff recommends that if intragovernmental leases are accounted for differently than leases between federal entities and non-federal entities, that a separate category within the lease accounting standard be created.*

Chairman Allen noted that several Board members agreed with Mr. Steinberg's suggestion to refer to the intragovernmental leases as "other similar arrangements."

Mr. Showalter added that he originally suggested issuing a separate standard for the intragovernmental arrangements, but now agrees with Mr. Steinberg's suggestion to refer to the intragovernmentals as "other similar arrangements," which will allow them to be disclosed separately from the non-intragovernmental lease arrangements.

Mr. Showalter also asked staff if they thought the Board would have to give federal-specific guidance to GSA to record their lease agreements with non-federal entities or can we follow the impending GASB guidance.

Ms. Payne noted that staff would have to change the wording to fit our environment, but it would not take the same time it would take if we were developing a full lease standard on our own, having the GASB model will definitely save time. We will have to review GASB's deferred inflow element on the lessor side – it would be deferred revenue for federal accounting.

Chairman Allen suggested that the FASAB not follow GASB's approach to issue a Preliminary Views (PV) document on leases in advance of an exposure draft (ED).

Ms. Payne also asked the Board if they preferred to issue a ED prior to GASB issuing its lease ED.

Chairman Allen noted that he preferred to not move ahead of GASB in issuing an ED.

The Board agreed not issue a PV on leases and to tentatively plan to issue its ED on leases close to when GASB will issue its ED. Staff also recommended using GASB's PV on leases to get informally feedback from the federal community.

Ms. Payne noted that Questions 3a & 3b have already been addressed in the prior discussions with the Board agreeing with staff's recommendations.

**Question 3a:** *If intragovernmental leases are accounted for differently than leases between federal entities and non-federal entities and are categorized as a separate category of leases, should the standard address criteria for intragovernmental leases,*

recognition, and disclosure for these leases? If yes, member feedback on the outline proposed below is welcome.

**Staff's Recommendation:** *Proposed Criteria to Identify Intragovernmental Leases:*

-- Contract/agreement meets the definition of a lease. [Definition: A lease is contract or agreement that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.]

-- Lease contract/agreement is between two or more entities considered "consolidation entities" consistent with SFFAS ## (Reporting Entity).

**Question 3b:** *Should the existence of a cancelation clause or cancelable period be identified as a criteria for recognition as a intragovernmental lease?*

**Staff's Recommendation:** *Staff recommends that the existing operating lease recognition and disclosure guidance be used as a starting point for the proposed recognition and disclosure guidance for intragovernmental leases.*

**Conclusions:** Staff will continue to monitor the GASB's progress on lease accounting standards and develop intragovernmental guidance consistent with the Board's direction.

- **Public-Private Partnerships**

Mr. Savini began this portion of the meeting by handing out a news article submitted by Mr. McCall that addressed the use of a federal P3 in the State of Florida and invited Mr. McCall to provide a brief overview.

Mr. McCall stated that what he found interesting in this article was the innovative use of federal property. Specifically, the government shoreline at Fort Walton Beach has about 17 miles of beautiful waterfront beaches costing \$2 - \$3 million per quarter acre lot. The article notes that a major hotel-chain and the federal government agreed for a hotel to be built on the beach front property in exchange for radar equipment in the shape of a dome to sit on top of the hotel. The hotel-chain gets the use of the federal property and the federal government gets to install radar equipment in exchange for the use.

After a brief casual discussion of the news article, staff then welcomed Mr. Clayton Branche, a Bentley University finance/economics student interested in federal accounting. The Chairman recognized Mr. Branche and thanked him for attending the Board meeting.

Staff then asked members to turn to Tab G and noted that additional changes were proposed pursuant to member input subsequent to Tab G's mailing. Specifically, staff obtained suggestions from Messrs Steinberg, Showalter, Granof, and Dacey. Revisions



which become accepted will be reflected in the next version of the ED. Staff then noted comments made by three Board members during the prior day's meeting:

1. Mr. Steinberg mentioned we are at a natural breaking point within the project and the Board should consider a hiatus after this phase is complete to monitor how results of the first phase come in. Staff asked members to keep in mind that we are in fact towards the end of this phase and it would be advisable to issue the draft ED in the event the Board does decide to adopt Mr. Steinberg's suggestion.
2. The Chairman reminded us that he invites alternative views or dissents, as appropriate, especially during the exposure draft process. Staff asked members to consider this as this phase draws to a close. Should any member wish to do so, it would be good to notify staff fairly soon.
3. Mr. Granof stated that, "I believe that we should not allow conceptual purity to become the enemy of progress." Staff conveyed to members that the ED process is one of refinement providing a venue to better perfect our work.

Mr. Savini then asked members to turn to page 5 to review the project's Next Steps. Specifically, staff proposed that after the day's meeting, the Board would go into a pre-ballot phase where only editorial adjustments to the language would be made. That is, staff would like to iron out any conceptual issues or note any dissents at this meeting so the project can stay on track with issuing the ED for a 90-day comment period, and then reconvene.

Staff then thanked the members who provided input into the June draft ED; Messrs. Dacey, Granof, Steinberg, and Showalter. The common area reviewed seemed to be this issue of materiality. However, Mr. Dacey raised some additional points that staff invited Mr. Sebastian to address in Mr. Dacey's absence.

Mr. Sebastian noted three major points that Mr. Dacey raised:

1. Materiality - in the context of an organization management is trying to make decisions regarding what to disclose. As such, what is the ultimate base on which they are making that materiality judgment call? The document Mr. Dacey sent to staff yesterday attempts to build some of that language by adding some factors that can be considered in making that judgment call.
2. Contractual risks – we would like to ensure that the language is very clear that what we are talking about are contractual risks associated with P3s and that non-contractual arrangements are outside the boundaries of this effort. Mr. Dacey's edits attempt to remind the readers of this.
3. Remote Risks – concerning judgments and materiality considerations, assessing remote risks is extremely broad and the ED should provide some parameters without being too descriptive. Mr. Dacey has provided information on a FASB exposure draft issued in 2010 that talked about disclosures of remote risk. They ultimately abandoned

that project with the primary basis being an overwhelming response from the community that there were no boundaries. Additionally, another concern was there would be so much information in those disclosures that a reader really would not understand the nature of that risk.

Mr. Sebastian concluded by summarizing these three major concerns noting a conference call with Mr. Dacey and staff prior to the meeting.

Mr. Savini then invited members to discuss Mr. Dacey's concerns noting that from staff's point of view, we can all ideally or conceptually agree with everything Mr. Dacey has raised, but not from an accounting point of view. Staff replied as follows:

1. Materiality – in this regard, staff's only caution is that the Board has historically as well as currently taken the position that it does not believe it should provide detailed specifics in an area best managed between preparer and auditor. However, should fellow members agree, staff believes there is room, as Mr. Dacey's edits propose, to indicate that there are some factors that management and the auditors can consider.

Mr. Sebastian stated that he agreed with staff that Mr. Dacey's language is not so prescriptive that we are in essence driving those decisions. Instead, these are factors that should be considered within the overall framework of determining materiality.

Mr. Savini replied that although we need to hear from Mr. Dacey's fellow colleagues, staff thinks that we could work with Mr. Dacey's proposed factors.

Mr. Savini then moved to the second issue:

2. Contractual risks – Mr. Dacey raises a very good point. Staff points to the fact that the definition specifically stipulates that we are talking about contractual arrangements/transactions. Therefore, by definition we are excluding non-contractual risks. As such, staff does not think that this is much of an issue for us to really spend too much time discussing. We certainly can incorporate some of the suggested edits but that seems somewhat superfluous to staff.

Staff then proceeded to the third and final point raised by Mr. Dacey:

3. Remote Risks – Staff's reading and analysis of the FASB ED material and all of the material associated with it, including a fairly thorough scan of the comment letters, does not, in staff's opinion, support the contention made that their project withdrawal rested on the issue of boundaries associated with assessing remote risks. Staff believes differently. The opponents to that draft ED basically reminded the FASB of the litigious environment which commercial entities are participating in and the treaty with the American Bar Association (ABA) that was originally established; giving us the classifications of probable, reasonably possible, and remote. Simply put, the respondents argued that they could not put information in a footnote that for example, they have set aside a contingency loss or a reserve, or that they think they have an 80 percent chance of losing a case. Respondents said that in so doing they would be

tipping their hats to the plaintiffs. You will find this argument made throughout the respondent letters. Specifically, staff went to respondents that do defense work and in addition to raising the above concerns, they also raised the additional fact that they would be waiving attorney-client privileges if the ED requirements became authoritative. Mr. Savini stated that as the technical expert in this P-3 area that we are not dealing with losses. He made the subtle but important point that we are dealing with risk of loss, noting that the edits that are being suggested in some cases are conflating those issues and bringing confusion. Staff closed by noting that when it comes to disclosing not losses, as per SFFAS 5 requirements, but risks of loss – according to Mr. Dacey’s own assessment back in April, if we followed SFFAS 5 requirements it leads the preparer to the point where they would not disclose any remote risks. So from that point of view that Mr. Dacey made in April, staff would agree that we cannot anchor ourselves to SFFAS 5 because in so doing, we will not be disclosing any remote risks that could be significant. Put another way, the FASB ED should not be our driver because it is not germane to the topic primarily because they have different reporting objectives and there are different reasons behind how they recognize losses. The Board needs to be clear that we are dealing with disclosing remote risks of loss and not disclosing remote losses. The P3 standard has to have some latitude to allow preparers to discuss those risks of loss without the confines of a standard that was written in participation with the legal profession’s concern over lawsuits and in essence to limit disclosures. This is something that the government really should not be too concerned about.

Mr. Allen stated that he would raise some of the same comments that staff has made. If one reads SFFAS 5, you come to the topic of remote risks and the guidance in the standard drops off. However, the point that we had discussed before was that there are those remote possibilities that could be very significant. As such, what we tried to put in the draft ED is this concept of recognizing that one does not follow SFFAS 5 to disclose remote instances, but that you ought to consider that even if the risk is remote, but the magnitude of it would be really significant, it should be disclosed. Reading Mr. Dacey’s edits, most of which he does not object to, the paragraph on the top of the fourth page, “The significance of any P3 remote contractual contingencies, recognizing that such contingencies have a reasonably high materiality threshold for disclosure”, it does not capture the essence of what the Board is trying to say. What this says is the same thing as SFFAS 5 says, that you do not have to disclose a risk if it is remote. I think what we were trying to say is if the possibility is remote, but the amount could be very significant, and then do not dismiss it just because it is remote. In addition, if you go to the top of the sixth page where Mr. Dacey begins about mid-paragraph, “However, SFFAS 5 states that if information about remote contingencies or related to remote....it should be labeled as such to avoid the misleading inferences that there is more than a remote chance of a loss of that amount.” The Chairman reiterated that he did not think that this is the issue, instead, he stated that we disclose risk further noting that he did not think that we have to organize risk by those categories. What those categories do is tell us when we have to recognize amounts in the financial statements and when we just have to disclose the risk. However, we are now dealing with the one category that SFFAS 5 says you do not have to disclose but we are saying that if it could be really significant, you ought to consider it for disclosure and if material, disclose it. Mr. Allen further noted

that these two edits proposed by Mr. Dacey clarify SFFAS 5 and do not address the concept that we are trying to talk about.

Mr. Savini added that in his meetings with Mr. Dacey he acknowledged that dealing with remote risks is an excellent conceptual point but staff believes it should be addressed elsewhere and that SFFAS 5 should be looked at afresh. That is, we adopted SFFAS 5 from FASB and as previously explained they were being driven by totally different reporting objectives and legal dynamics. Secondly, staff has repeatedly made this point, enterprise risk management practices have really evolved to a point where they deal with these issues of remote risk, and they do a very good job at teasing them out into finer degrees. Therefore, as much as staff wants to agree with Mr. Dacey, the problem is that accommodating some of the adjustments he has recommended, if we are not extremely careful will result in a standard that, as a former CFO and program manager, he would look at and say, "What are they doing to me? Another requirement that I have to implement that is going to have meaningless disclosures."

He cautioned against muting the disclosures to the point where they revolve around recognition criteria in SFFAS 5. That is, being driven by outside influences that the government should not really be concerned with; litigation risks. Put another way, the government is a protector. The government is the last resort for the people and if there is a remote risk, government is not afraid of being sued because of its sovereign nature that "the king can do no wrong." Government has a heavy burden and we have a responsibility in this standard, as honest stewards, to let the American people know what these material risks are, not the losses, but the risks.

In agreement with staff, Mr. Allen further noted when FASB first issued their Statement 5, it was a practical approach and many years after they later issued a Concept Statement 7 that says there is a much better way of measuring all of this and it is called expected cash-flows. This concept statement went on to say that what you simply do rather than decide if something is probable, likely, reasonably possible, or remote, or whatever the case might be, you assign probabilities to the amount(s). Therefore, if something is remote, it may have a small assigned chance of say three percent, but if it is applied to a \$10 billion base, you would disclose it. In essence, the result could be that you would be disclosing a larger dollar amount than you would for a smaller risk amount that has a much higher probability of happening. So, what they are saying is that expected cash-flows is a superior measure and is in fact the way one ought to look at these matters. Now, they never went back and changed Statement 5, which seemed inconsistent with their concept, however, what we are trying to do in this draft ED is to capture some of this notion of what FASB has in Concept Statement 7. That is, although it may be remote, if it is really big it ought to be disclosed. In closing, what Mr. Dacey has proposed in writing does not do that and it does not tell the preparer to follow this notion. In fact, it reminds the preparer that they do not have to do it.

Mr. Reger then asked if what Mr. Allen and staff were advocating was disclosure of material P3 risks regardless of their likelihood.

Somewhat echoing Mr. Reger's query, Mr. Showalter asked if we were proposing disclosure of black swans.

Mr. Allen replied that what we are in fact doing is addressing the void in SFFAS 5. That is, when one reads SFFAS 5 and tries to apply it in regard to remote risks it figuratively just sends you out of the room and what we are saying in the draft ED is that preparers should at least pause long enough to realize that even if a risk is remote, if it could be really significant, you ought to consider disclosure. However, what Mr. Dacey proposes seems to remind you that you do not have to disclose if the risk is remote, without capturing this concept we are trying to capture that is embodied in FASB's Concept – Statement 7. We are trying to say is that you do not have to following SFFAS 5 and to please be aware that if the remote risk really has this potential to be significant, consider disclosing it.

Mr. Sebastian stated that Mr. Dacey was recognizing the existence of SFFAS 5 and did not think the intent was to tell the preparer they do not have to disclose remote risks. It is for this reason that Mr. Dacey has suggested some of the factors to consider when a remote risk would be deemed material. Preparers do need to think about materiality and ultimately make that decision. In any event, Mr. Sebastian further noted that this would be his intent. He went on to say that he tended to agree with Mr. Reger because when he first read the draft ED his initial reaction or concern was that this would open the floodgates to the point where we are disclosing so much that the disclosures themselves would become meaningless and the reader is left to sort through whether or not they need to be concerned about this risk. Then, in talking with Mr. Dacey, Mr. Sebastian felt that we needed to put some kind of boundary on this without being too prescriptive. In essence this is what the proposed edits by Mr. Dacey attempt to do.

Mr. Savini responded by saying that out of fairness to staff, Mr. Sebastian may not be aware of this, but staff has spent significant effort working on the scope exclusions to the standard in trying to address some of Mr. Dacey's concerns. Specifically, we have exempted plain vanilla leases, and also arrangements/transaction made pursuant to the simplified acquisition procedures. These exemptions will eliminate a significant number of transactions and arrangements which are not even going to be filtered through the process.

Mr. Reger asked staff if these exempted items would not be filtered through the process because we believe they are already covered by some other standard and will be treated appropriately.

In reply to Mr. Reger, Mr. Allen added that these exempted arrangements/transactions are subject to existing controls that are in place so they ought not to result in big contingency losses for the Federal Government.

Concurring with Mr. Allen, Mr. Savini added that leases which are not bundled with other arrangements are not expected to have a high risk profile and should not be subject to this proposed standard. Regarding the simplified acquisitions, we are basically adopting the conclusion reached by the Federal Acquisition Regulations (FAR)

Council, a deliberative body, that certain arrangements/transactions should be subject to simplified procedures because there is little risk to the government.

Therefore, staff notes that because these two types of arrangements/transactions have already been taken a lot off the table, we have much fewer concerns on the back-end of the draft ED when we do deal with materiality. In light of these exemptions Mr. Savini stated that he did not think the disclosures would create confusion or excessive disclosures, because we are significantly limiting the arrangements/transactions subject to the proposed standard.

Mr. Savini went on to address another concept Mr. Dacey proposed from FASB's work in this area and that was the introduction of the term "severe" – that is, a severe impact to the entity would need to exist as a precursor to disclosure. However, staff does not think this will work in the federal environment. Instead, staff has suggested adopting an overarching principle that focuses on heightened fiscal exposure. This is staff's attempt to best address Mr. Dacey's concern and recommendation to use "severe" as a filter. The heightened fiscal exposure language in the draft ED tries to articulate what the Chairman helped us compose in the asset impairment standard. That is, we do not want preparers to use this P3 guidance blindly. We want to tell the preparer and the auditor to elevate their eyes, so they are not looking at small or insignificant types of things.

Staff believes that we have satisfactorily addressed Mr. Dacey's point and coupled with the exemptions, we should be in substantial agreement. In addition, we have additional filters you have to go through; the risk-based characteristics and even after this step you can then apply the materiality filter. Staff then asked how many more safeguards are needed to try and limit these disclosures to only those which are most significant and material. This is why staff encourages the Board to issue the draft ED for comment. We had an outstanding task force that included the Executive Director of the National Contract Management Association (NCMA), the Executive Director of the National Council of Public Private Partnerships from (NCPPP), and DoD's Deputy Director of Privatization among others who helped fashion and review this draft ED. Given all of this, if members still have concerns we should let the community tell us where we are wrong and then can re-deliberate matters. Staff does not advise spending more time discussing conceptual issues related to SFFAS 5 or materiality when there does not seem to be a compelling reason to do so.

Turning to Mr. Sebastian, Mr. Showalter asked if he or Mr. Dacey were more concerned about over-disclosure per se or is the concern more about determining the population.

Mr. Sebastian replied over-disclosure.

Mr. Showalter stated that he thought the concern would be more about the population.

Mr. Sebastian replied that he and Mr. Dacey discussed concerns about over-disclosure.

Mr. Showalter then asked members to consider Mr. Dacey's edits to the materiality language. He then asked Ms. Payne if the Board has ever done something like this

before. Mr. Showalter stated that he had some concerns about the proposed factors. That is, having preparers base a conclusion on guidance we give regarding materiality seems to be a slippery slope where people refer to FASAB guidance when defining materiality. In other words, if preparers consider just those factors they would come to a conclusion. Although he did not really argue with Mr. Dacey's proposed factors, but the particularly leading language is actually pretty strong. That is, "In applying materiality, disclosure factors to consider include..." Such language would be interpreted in the field in a proscriptive manner.

Ms. Payne replied that she agreed with Mr. Showalter and would be a little bit concerned. She further noted that Mr. Dacey has asked whether such guidance should be a basis for conclusions item or contained in the body of the standard. Neither area is a place where we have identified factors to use. Ms. Payne specifically pointed to FASB's concept statement discussion on materiality noting that materiality is very situational, and the concepts statement explains with some examples why FASB does not give factors to consider and this is especially relevant regarding P3s where there is a lot of diversity.

At this point Mr. Sebastian asked if softening the language would suffice.

Mr. Showalter responded by saying that he was concerned about setting a precedent by starting to define factors to determine materiality. Second, Mr. Steinberg stated yesterday how people particularly in the environment that we are in, read things literally.

Ms. Payne added that discussing significance is one of the things the Board has done when it wanted to talk about things people should consider. That is, the Board could discuss what it means to be significant and what a preparer might consider in aggregating or disaggregating things. However, she expressed doubts about how that would work in regards to P3s. She went on to say that she could not find a suitable substitute for Mr. Dacey's intentions.

Turning to Mr. Sebastian, Mr. Allen commented about something he had shared with staff at the pre-brief. That is, the interesting thing is the importance of this standard and its value but yet, in the federal environment, materiality is so significant that it would not surprise him at all if we never saw any P3 disclosures even at an agency level. .

Mr. Reger then asked the Chairman if that worried him.

Mr. Allen replied that it does not worry him at all. He was merely telling staff that – they- and the task force have done a lot of work and as we get close to being done, to keep in mind the uniqueness of the federal government and its very size alone affect materiality in a unique way. Mr. Allen compared this to the asset impairment standard. There are similarities at the state and local level where you issue an impairment standard and occasionally you might see that a state or local government has applied it but not very often. Now, at the federal government can we point to an impairment that would ever rise to the level of materiality?

Ms. Davis said that they were wondering the same thing. Noting that she sits on the P3 task force, she believes she has a good idea of where P3s are most prevalent at the agency level, specifically DoD and VA. She suggested adding a question to the ED about how likely an agency will report under this standard to try to get a sense of whether or not it will come up to that level.

Staff agreed that the question was a good one to ask. Staff recalled reading the Leases survey and seeing that the agencies noted that one of the areas they were interested in was guidance regarding P3s.

Mr. Smith then suggested that as opposed to adopting Mr. Dacey's edits in this regard, the Board could propose a question to see if materiality guidance is needed in implementing the standard. Mr. Smith was concerned that adopting the proposed edits could bring about confusion and that could make it more difficult because while we are trying to give guidance we are also handicapping people in what they need to do when applying judgment to materiality.

Mr. Sebastian said that he did not see it as handicapping preparers and suggested that perhaps we need some modification to the lead-in of Mr. Dacey's proposed sentence.

Mr. Reger asked if we are defining materiality here differently than we generally define materiality. We have fought before not to redefine materiality, however, Mr. Dacey's question is does the unique nature of these arrangements require us to be more precise in our definition when materiality is applied to P3s.

Mr. Allen replied in the negative noting that there are different materiality thresholds that every auditor establishes. For example, they can be half a percent of assets or whatever combination they happen to select. The Chairman reminded members that what started this discussion came from the P3 task force where they basically said if one looks to existing accounting standards concerning risks, SFFAS 5 in our case if the risk is remote you do not have to disclose it. The concern that came from this task force that if a risk is remote and huge, you ought to consider disclosing that risk. This task force concern is what started us down this path.

Staff then said that he thought he reflected somewhere in the draft ED the point Mr. Dacey made at the April meeting that members generally agreed with, that regarding disclosures of remote risks of loss, current guidance is sort of like going into no man's land. Mr. Dacey's point was that we should have a different threshold for disclosures than the thresholds used for recognition and measurement. Although we acknowledge you could have significant P3 risks, we also say you might actually have a higher disclosure threshold to meet than if you were just dealing with the quantum recognition or measurement piece. Turning to Mr. Sebastian, staff said that he believes he and the task force have tried their hardest to address Mr. Dacey's concerns. Moreover, if you look at this closely and in total, we have accommodated many of the requests and concerns from not only Mr. Dacey, but from other members to ensure that we are only



capturing those P3s that are really significant and in the end, staff believes that we are still giving management and the auditor an out with the materiality language that disclosures could very well have a higher threshold to meet. In closing, if we go any further we are going to start watering down this standard to the point where it has no impact.

Mr. Allen asked staff to elaborate on what is meant by a higher threshold and if it applies to remote risks of loss.

Mr. Savini answered in the affirmative and suggested going back to the April minutes<sup>1</sup> but as he could best recall, Mr. Dacey made a case that staff believes members generally agreed with and that is the notion that the materiality threshold you might use for measurement and recognition could be lower than one you would use for disclosures. Meaning that you will book something with a lower threshold but then you would use a higher threshold regarding a disclosure concerning that item. Staff recalls that Mr. Dacey referred to the TARP disclosures and possibly Freddie Mac or Fannie Mae. Staff could be wrong, but he understood Mr. Dacey's TARP example to mean that if the dollars at risk were not as high as they were, Treasury might not have elected to make that qualitative disclosure. In any event, staff noted that the draft ED discusses this point.

Mr. Allen noted that SFFAS 5 already distinguishes risks which are booked versus those which are disclosed. Also, he recalled Mr. Dacey's example and stated that his understanding was that Treasury disclosed the maximum potential even though the probability was not going to get that high. Looking at the proposed GAO modifications some could be fine, but this one sentence is problematic.

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<sup>1</sup> **Excerpt from April 2014 P3 Board Minutes**

Mr. Granof then asked what constitutes a materiality threshold being "unreasonably high."

In reply to both Ms. Payne and Mr. Granof, Mr. Dacey stated that he was fine conceptually with the proposed language and that it is consistent with the Board's March discussion. For example, when the federal government first became conservator for Fannie Mae and Freddie Mac, the government said that it would support up to \$200B, and some people did not think that number was actually likely and felt that it was remote. However, even in light of the final agreement and revised projections which indicated that the federal government was not expected to make any further payments to Fannie or Freddie, the limit to which the federal government might make payments under the agreement is still in the hundreds of billions of dollars. Therefore, even though it is expected that it is not likely that the federal government is going to make more payments, the financial statements disclose that limit even though it is remote by all accords. However, if that limit were \$20B and not \$200B, I'm not sure we would think that would be significant enough or not reasonably high enough to disclose for remote risk. This is what we are talking about when paragraph eight says "...that certain remote risks may have a reasonably high materiality threshold". I think I'd like to figure out a better way to describe this concept, but in practice this is what is used as a thought process.

In reply, Mr. Granof addressed the next sentence which says, "As such, remote risks that are not contingent should not be dismissed from disclosure without further consideration of user needs, qualitative and quantitative assessment, and materiality." This is the definition of materiality.

Mr. Dacey clarified that when addressing remote risks it is not quite the same materiality as you would use for measuring misstatements. In his opinion, remote risks have a higher disclosure threshold level. Simply put, it is a bigger number than you're probably looking at from a qualitative standpoint and saying the risk is remote but if it happened, it is going to be so significant to this entity that you need to disclose it so you're not misleading the users.

Mr. Showalter suggested that we say, regardless of the amounts involved, that preparers should not dismiss disclosing these risks just because they are remote.

Mr. Granof indicated that what we are basically trying to say is that even though you may have a remote risk, it should not be dismissed. This is especially true because it may involve significant amounts of money. Therefore, we are saying that if it is a material risk that is deemed to be remote it should be disclosed.

Messrs. Dacey and Showalter concurred.

Staff agreed with Mr. Allen that some of the GAO edits could be considered and analyzed them as follows:

1. Materiality edits - The greatest value staff sees from Mr. Dacey's proposed edits is in the area of materiality. Staff agrees with GAO that this is an area we need to explore. If members do not disagree, staff could work with the tone and soften it. Staff thought this would help focus a proper discussion.
2. Contractual Risk edits - Staff stated that the edits concerning contractual risks do not appear to be problematic.
3. Remote Risk edits - However, GAO proposed edits in the section discussing remote risks causes' staff concern, which some of the members have pointed out. The edits proposed at A22 and A23 have a tone issue that will lead preparers into not really disclosing that which we are most concerned about and this is not consistent with what the Board has said.
4. Disclosure edits - These edits to the disclosures on the second page of the GAO handout talk about contractual contingencies. However, that is not the issue; these are not contractual contingencies. These are risks, specifically risks of loss, so staff would clarify any edits by referring to risk of loss and keeping the language clear and simple and this also keeps the edits consistent with the rest of the document. We should not conflate matters with SFFAS 5.

Mr. Allen cautioned staff that before proceeding, members should talk about the edits to make sure they are comfortable with going forward.

Mr. Reger stated that he agrees with staff in this case that Mr. Dacey's edits are confusing. For example, the edits we discussed earlier were confusing and the edits about contingencies that GAO made in paragraphs A22 and A23 were confusing as well. However, Mr. Reger noted he was not sure if he disagreed with GAO. These two statements at A22 and A23 are not clear and they need to get clarified towards something, or if we cannot, in our own minds as a Board we need to reach clarity. Then we should ask in the exposure draft -- "We are trying to deal with this concept of remoteness and materiality, and should there be a different application to P3s because of their very nature"?

Mr. Allen then asked the members if they agreed with this statement in the last paragraph of that last page. He asked this because that is a statement that captures the essence of what we are trying to say:

Therefore, consideration should be given to those risks that management does not expect to be likely, but represent a significant exposure to the government if they were to occur. With this being said, the Board also notes that such remote risks may have a reasonably high materiality threshold. As such, remote risks that are not contingent in nature should not be dismissed from disclosure without

further consideration of user needs, qualitative and quantitative assessments, and materiality.

The Chairman went on to say that the points Mr. Reger just made and some that he himself raised earlier concerning the GAO modifications could be viewed as inconsistent with the above statement.

Mr. Reger concurred.

Mr. Showalter agreed that it is a great question to ask and that we could borrow from the enterprise risk management literature. This is a well thought out concept with enterprise risk management and we can make an analogy to what happens there and ask some question related to that here. In essence, what we are trying to do is apply this commonly accepted enterprise risk management concept in this standard. We would be asking if this could be both operational and practical.

Mr. Reger concurred noting that asking that question would be helpful because we are all after the exact same thing and he does not hear a consistent agreement or disagreement amongst the Board members. He offered to work with Mr. Showalter and maybe we ought to help craft a question that also takes into account, "do you think this will apply to you?"

Mr. Savini agreed noting that this is what he has been saying all along that we really need to back and revisit SFFAS 5 and the whole notion of how we define liability and remote risk because things have changed tremendously. However, such an effort is beyond the scope of this project.

Mr. Reger asked Ms. Payne if we could come to agreement on that question fairly quickly, circulate that last question and then continue to move ahead on this project. Mr. Reger noted that he would not like to lose time because this is an ever-growing area.

Ms. Payne agreed and replied in the affirmative.

Mr. Allen then asked how we would ask the question.

Mr. Reger replied that you either make the GAO changes and ask whether there is inconsistency, or you could just ask the question based on the draft ED language.

Mr. Showalter suggested just asking the question without incorporating the edits.

In agreement with Mr. Showalter, Mr. Granof asked if the Board really intended to ask a question about whether our standard has inconsistencies.

Mr. Allen replied in the negative.

Mr. Reger clarified his point that you do not do the additions until you get the answer to the question and the answers we receive may support the question that Mr. Dacey has in fact raised. We should ask the question without the additional wording.

Mr. Allen agreed.

Ms. Davis also agreed noting that the GAO changes to A22 and A23 would lead someone to the opposite conclusion.

Addressing the Chairman, Mr. Granof noted that it is not clear to him what the disagreement is. It seems clear-cut. If you were going to have a vote right now, what would the question be?

Mr. Reger replied that the question would be does materiality overrule likelihood. If you have a transaction that has by every definition a material impact but has a small likelihood, do you have an obligation to disclose it.

Mr. Granof stated that he thought the Board had agreed on that issue. There was a consensus that if something is remote or even very remote and the consequences are significant it should be disclosed.

Mr. Allen noted that this is what the last paragraph says.

Mr. Granof concurred and noted that the Board's problem seems to be that we are in agreement about what we want. We ought to use that language and not quibble about how the language should be re-written.

Mr. Allen replied that we could leave it with staff to develop the question. However, we were just handed proposed GAO edits this morning and feel that there are inconsistencies in some cases especially with this last paragraph.

Mr. Granof acknowledged this but advised the Chairman that this is not something you go out to the public and ask about.

Mr. Allen agreed.

Mr. Savini added that we could ask about this concept in this last paragraph and if the respondents agree with that idea.

Mr. Granof agreed noting that such a question would be legitimate. Simply put, "Do you agree with what we are proposing?"

Mr. Allen agreed and said that this is closer to Ms. Davis' point, that is, do you see this is as applying to you, or is it operational, etc.

Mr. Granof noted that GAO did not take exception to what we are proposing.

Mr. Allen agreed saying that this is why he was wondering if it was intentional that Mr. Dacey's wording seemed to be at odds with that direction, or whether we are just reading his edits wrong.

Mr. Granof added that this is why this discussion is confusing.

Mr. Savini offered to design the question based on the draft ED language and ask the community if they believe, like we do, that these types of risks should be disclosed.

Mr. Granof added and if it comes back from people that they agree, but the statement is not clear, we will fix it.

Mr. Showalter referred back to the materiality paragraph and said that if the Board decides to adopt the GAO criteria, something he would not advise doing, the language would definitely need to be softened. He reiterated that he would personally take the edits out.

Ms. Payne agreed with Mr. Showalter noting that as she looked at the GAO edits in the materiality section, she found it challenging to leave them there and thought possibly that may be why Mr. Dacey did not object to the wording in the last paragraph.

Ms. Davis said she agreed with Mr. Showalter that leaving the edits in would be a slippery slope.

Mr. Granof concurred noting that “materiality” is a term we have been using forever, never understood, but it seems to have withstood the test of time.

Mr. Savini noted that although Mr. Granof and the others are correct, to Mr. Dacey’s point, what is the risk of giving preparers some additional information in the Basis for Conclusions? This section is not authoritative and he is only asking that preparers consider these as factors. Mr. Dacey’s argument seems reasonable from that point of view, albeit a departure from what this Board has historically done.

Responding to Mr. Savini, Mr. Showalter noted two reasons against such a position. First, are we are creating precedent for defining materiality and second, this may hem us in on future projects. Ultimately, we will limit a thought process management and auditors now engage in.

Mr. Granof stated that such a position would be a precedent without the Board having given it major consideration.

Mr. Showalter agreed and stated that is why you do not want to take that position.

Mr. Allen noted that the Board has dealt with this area before and left it alone. Whenever we want to make sure eyes are not too low, we use the word “significant”.

At this time, Mr. Savini offered to revise the draft document and asked for a clear thumbs up or thumbs down regarding pre-balloting procedures.

Ms. Payne suggested that prior to doing so she thought that Mr. Sebastian might want to give us some context for the proposed changes to the disclosures section of the draft ED because Mr. Dacey is suggesting adding two disclosures, which we should get the Board’s views on. Additionally, he is also suggesting or at least asking whether two are

needed, and then he is adjusting the wording for the amounts on the Items 2 and 3 of Item F followed by significant changes to G and H.

In response Mr. Sebastian said that the first two (adding two disclosures) would attempt to provide some linkage with any amounts that are actually reflected in the financial statements.

Mr. Allen stated that the first addition is a good one to include: The amounts recognized in the financial statements related to P3 arrangements. In other words, it is good to know what amounts are already recognized within the financial statement. However, the second addition: The amounts of any contingent losses considered reasonably possible and any probable losses that are not measureable, enters into the SFFAS 5 discussion because it is exactly the definition of those that you have disclosed but cannot accurately measure. It uses all of those words.

Mr. Sebastian asked if Mr. Allen thought that this language was redundant with the disclosure requirement in SFFAS 5.

Mr. Allen replied in the affirmative noting that the language is just repeating the SFFAS 5 wording here and he does not know whether we wanted to go down that path because when we got to the paragraph where we discuss SFFAS 5 and remote risks, we change directions. So, why are we quoting the second paragraph and changing the third paragraph? It seems that if we are trying to set a different context we should not be quoting the second paragraph there. It seems more appropriate to say that if there is something that you have booked we also are now going to tell you what to disclose rather than have the second paragraph. The Chairman said that he would prefer this unless somebody wants to argue to leave B as GAO proposes. Noting that no member disagreed with his suggestion, Mr. Allen directed staff to keep A and not B.

At this point the Chairman moved to D and asked members for their thoughts.

Ms. Davis stated that she agreed with GAO's concern on items D and E.

Mr. Reger concurred with Ms. Davis.

Mr. Savini addressed Item D as follows:

Item D: Decision criteria – staff noted that this disclosure is necessary for financial risk disclosure and provides context. If you think about a P3 arrangement/transaction there are different reasons why you have selected a private partner. It can be because of their technical expertise, their industry knowledge, prior procurement history, etc. For example, take a building that you want built, you have the design, construction, maintenance, and operational risks. Knowing the decision criteria of why a P3 arrangement has been entered into basically tells the reader where the sponsor sees risk and why they turned to a private partner. So, if the decision criteria, for example, is to facilitate and streamline the design-build, then that means the government is

assessing that it is more than likely the private partner will do a more efficient and effective job in the design and build, and that points directly to a risk transfer.

Mr. Allen noted that this is not inconsistent with the objectives we are striving towards.

Mr. Savini added that such a disclosure is in fact a financial risk disclosure and provides context.

Mr. Allen agreed with staff's rationale.

Mr. Reger asked staff whether we would get that same information from item C (purpose or objective). He believed that item D is repetitive of item C.

Mr. Savini expressed doubts about Mr. Reger's suggestion.

Mr. Reger then inquired about item E and said that he did not think information about the individual fund type is important. That disclosure does not seem to drive why a P3 decision has been taken. Moreover, Mr. Reger expressed concerns about the informational value of knowing the relative benefits and revenues being received in exchange for all of the government's consideration.

Addressing concerns over item D Mr. Savini stated that if for example, we are discussing a P3 on military housing, just knowing the purpose or the objective does not inform the reader as to why a private P3 option was selected. We need the decision criteria to understand that.

At this point the Chairman interjected saying that item C may already cover those questions.

Mr. Granof said that he was confused by the term "decision criteria." Do we mean the rationale for selecting a P3; that is, why they entered into the P3? If that is case, Mr. Granof said he agreed with Mr. Reger that item C seems to capture that information.

Mr. Savini replied in the affirmative and asked members if we should adjust item C to read, "The purpose, objective, and rationale..."

Mr. Granof replied that adjusting item C makes it clearer.

Mr. Savini then asked Mr. Sebastian if he agreed with adjusting item C as proposed by Mr. Granof.

Mr. Sebastian replied in the affirmative.

Mr. Savini summarized by stating that members have agreed to adding "rationale" to item C and eliminating item D. Is that the consensus?

Ms. Davis replied in the affirmative.

Mr. Steinberg then inquired about statutory authority and whether that should be retained.

Mr. Savini advised keeping this disclosure because it directly relates to our reporting objectives.

Mr. Allen suggested moving that into item C as well.

Mr. Savini acknowledged the Chairman's suggestion.

Mr. Reger then summarized the change as eliminating item D and taking its important points and placing them in item C and stated that he concurred with these changes.

Mr. Savini explained that item D attempts to help the reader understand the mix of funding used in a P3 and where that funding is coming from. That is, how much is the government invested in this arrangement versus the private partner, equity investors, or others.

Mr. Reger referred back to item C noting that the relative benefits of revenues being received in exchange for all of the government's consideration seems to be part of the purpose or objective. He clarified his thoughts by saying that the only real difference concerns the type of funds being used. He noted that he could not think of other places in our financials where we specifically clarify the various fund groups being used.

Mr. Savini noted that the difference is that in P3s you often have mixed financing. That is, how much does the government invest in the P3 through federal appropriations; we are looking for the investment mix.

Mr. Steinberg expressed his doubts concerning this disclosure. Actually, you do not really have that as a disclosure. The draft ED states federal or otherwise, and then your examples are appropriated or non-appropriated, which are federal, and then you say private capital and investments. Mr. Steinberg suggested clearly saying federal or non-federal, rather than otherwise.

Mr. Allen asked whether it really mattered to know whether it is appropriated or non-appropriated monies. This was his only concern.

Mr. Savini said that he would defer to Mr. Steinberg's advice in this regard.

Mr. Steinberg replied that appropriated versus non-appropriated does not seem to provide informational value because we do not define what non-appropriated funds are.

Mr. Savini responded by noting that for example, the Smithsonian's trust funds would technically be non-appropriated money. Also, if an agency is using a revolving fund, that might also be considered non-appropriated funds.

Mr. Allen then asked why we do not just say the mix of private and federal funding used.



Ms. Davis also noted that the mix of private and federal funding may be more understandable to the reader.

Mr. Allen agreed with Ms. Davis saying that something more general like the mix in the amount of private and federal funding might be better.

Mr. Steinberg suggested federal and non-federal.

Mr. Allen again agreed that federal and non-federal might be better.

However, Mr. Reger noted that he did not think that federal and non-federal are defined terms.

Mr. Steinberg replied that federal is what the government is spending or using to invest in the P3.

Mr. Allen stated that the use of federal or private capital as terms would be better as they express the essence of what we are trying to say but without the appropriated/non-appropriated distinction. The Chairman then asked members to consider the GAO edits for item F (ii). He agreed with the changes and asked members for their input. In other words, it is a clarification. The total estimated undiscounted amount based on the terms of the contract.

Mr. Sebastian then addressed item F(iii) noting Mr. Dacey's question. If you are going to be disclosing annual amounts and you have a 20 or 30 year arrangement, then that is going to be a massive disclosure. Turning to staff, he then asked if there was some way to contract this disclosure.

Mr. Savini replied in the affirmative noting that the intent was just for that specific fiscal year. Staff agrees that this is not clear.

Mr. Smith suggested that we do the current year and then an amount for the next five years or something similar to that approach.

Mr. Allen then asked if the intent was for a single period why do we need item F (iii); that is, would not item F (ii) suffice?

In reply, Ms. Payne replied in the negative noting that item F (iii) represents the total undiscounted, the nominal amount over the P3's life.

Mr. Allen replied stating that the total undiscounted nominal amount over the P3's life is the essence of what is important. What has been paid out this year is already an expense or has been already been recognized. What users care about is what future obligations the government is incurring.

Ms. Payne added that annual payments could be over a period of 60 years and be very small and without F (iii) there would be no sense of the total obligation.

Mr. Allen then pondered if the disclosure should include the terms or the life of the arrangements as well as the estimated undiscounted amounts.

Addressing the Chairman's thoughts, Mr. Savini noted that because the Board is concerned about adding administrative burdens on the agencies, staff advises that we be clear what the Board wants and staff will clarify this disclosure. Staff, in consultation with the task force was hoping to keep this simple in the sense of just asking for the annual amount and the total amount under the arrangement. However, if the Board wants more information, that is fine.

Mr. Sebastian noted that the point Ms. Payne just raised a minute ago was that a user could determine to what extent the P3 is frontloaded by going out just a couple of years. This was not staff's original intent. Mr. Dacey's comment reacts to the fact that it sounded like we were talking about going out over the life of the arrangement on an annual basis.

Mr. Showalter suggested that if you go down that route, you can actually combine items F (ii) and F (iii) because the five years plus the out-year total will equal the grand total.

Mr. Allen stated that we can do that but possibly somewhere else we should require the terms. That is, if you are talking about amounts you ought to also say something about their terms so if somebody knows that if an annual amount is given that this amount covers the life of the P3; 20 or 40 or whatever years.

Staff then summarized by saying that the Board wants to also see the terms of the arrangement and an annual amount, then an amount for the next five-year payment stream, and then a culmination of all of the remaining years.

Mr. Allen replied in the affirmative.

Staff then continued summarizing discussions noting that members agreed with Mr. Showalter's suggestion of folding F (ii) and F (iii). Concerning item G the only clarification staff would make there is instead of calling this contractual contingencies, again in an attempt to be clear and not conflate matters with SFFAS 5, staff would avoid using the term "contingencies" and limit this disclosure to contractual risks or risks of loss. In addition to being clearer, this is consistent with the rest of the document.

Mr. Allen replied in the affirmative.

Mr. Allen then noted that staff would have to make other changes if we used "risk of loss" due to materiality. Staff would have to change a few more words just to transition that in. The Chairman expressed doubt about that wording.

Ms. Payne agreed with Mr. Allen that there needs to be some smoothing in the language. Ms. Payne noted that a member had suggested we include a description of the loss. The intent of the original wording did not call for amounts associated with the risks that were disclosed. We are just identifying significant risks, and that would be

more of a qualitative discussion. She believed that this was one of Mr. Dacey's concerns; that you would put remote loss dollar amounts, which might be quite large and that disclosure would be misleading. She noted that he pulled-in some of the language from SFFAS 5 that talked about this. So, as we think back and forth a little bit, maybe the document was unclear. She asked whether members envision that remote loss amounts be disclosed or do you envision discussing the risks that are remote.

Mr. Allen stated that Ms. Payne made a very good point. Assuming we have already given the amounts up above, we ought to then describe the things that could happen. Readers can then extrapolate if they want to. Otherwise, we would need amounts that for example say if you cancel up to 10 years the termination/exit costs would be this amount; if you cancel up to 15 years then the amount would be this.

Mr. Steinberg stated that a description of the risk and the amount of the loss would be feasible.

Ms. Payne then asked the members if they were comfortable with the description and the amount of loss.

Mr. Allen agreed noting that the key point is the narrative description of the potential effect on cash-flows if the risk of loss were realized. If you do that you can just drop all references to amounts. If they want to insert amounts, they can.

Mr. Sebastian noted that this gives preparers latitude.

Mr. Allen agreed.

Mr. Smith then asked if people would think that if you could calculate something, that you would be required to do so because it is feasible. This gives the impression that if you could calculate something, you should do it as opposed to what we seem to mean; if it makes sense. Put another way, it may be feasible but it still does not make sense to disclose.

Mr. Steinberg then asked if the narrative description of the cash-flows gives us that amount.

In reply Mr. Allen said that we would actually need to take the word "narrative" out if you want to leave it open and provide latitude. Then a description of the potential effect of cash-flows if the risk were realized followed by a narrative if they want to use amounts. They can choose either way.

Ms. Payne noted that Mr. Dacey was editing the one line requirement dealing with item G; contractual provisions for termination payments and related exit amounts, which are very specific. While they might be variable, they are at least described in the terms of the contract. In his editing there was some conflation of the more general risks with those specific payment requirements. So, regarding the amounts, members may want those contractual provisions identified, but then you might also want the risks to cash-

flows being described, and the potential effect on the cash-flows being described; are members comfortable with staff creating two items out of this one?

Mr. Showalter stated that Mr. Dacey significantly expanded this area. We were trying to get the exit costs.

Ms. Payne agreed noting that she thought Mr. Dacey was trying to combine this so we'd bring back the amounts for the exit costs and then have a narrative about the other risks.

Mr. Allen responded saying yes, and the other risks and the potential effects or something similar.

Ms. Payne noted that staff can work those details out.

Mr. Smith cautioned that we may not want to limit the exit costs to a dollar amount because they would be variable and subject to specific terms. You could have an exit term that says you have to put the building back in a certain condition or that you have to do something that you would have no idea of the amount. Therefore, at least the reader could make the interpretation and say this is what they have to do and figure out what they think the dollar amount is.

Ms. Payne agreed noting that this could be made clearer inasmuch as it now refers to contractual provisions but the same line also says amounts. We need a little clarification.

Mr. Allen agreed and noted that the amounts bother him because if it is a 40 year P3, at which point do we give amounts? He cautioned going in that direction.

Ms. Payne asked staff if he was comfortable with the suggested edits so far.

Mr. Savini expressed general agreement with the intentions of the edits but noted some possible concerns with the suggested wording.

Ms. Payne then noted that this brought us to the end of the disclosures and she asked whether members had anything else they wanted to raise so staff could proceed to the project's next steps.

Ms. Davis stated that Treasury had a concern about the due date for the comments on the exposure draft. October is generally not the best time to be expecting agencies to respond to something like that with year-end close and reporting. She suggested moving the due date back after November 15th.

Staff agreed with Ms. Davis' recommendation noting that it made sense.

Mr. Showalter inquired about other June Tab G changes provided to staff and if they would be reflected in a revised draft ED.

Mr. Savini responded that he did not purposely hand out a revised document at this morning's meeting and noted the following: Mr. Steinberg's edits have all been adopted, Mr. Granof's edits have all been adopted, Mr. Showalter's edits have for the most part been adopted with some open issues remaining, and lastly, staff now has Mr. Dacey's suggested edits to consider.

Mr. Savini then inquired about Mr. Dacey's strikeout recommendation concerning significant risks.

Ms. Payne stated that she thought we were putting or adding this disclosure back into the original requirement about contractual provisions for terminations, which was originally this section that Mr. Dacey edited. This section is intended as a substitute for G. So, in some fashion G will be there but with a bit more context around it. The Executive Director then asked staff to discuss the next steps.

Staff stated that he was seeking permission to begin pre-balloting procedures. This would mean that any other edits would be limited to purely technical changes in the sense of grammar and structure, syntax, etc.

Mr. Allen asked if we would then pre-ballot presumably by email and then bring a ballot to the August meeting.

Ms. Payne stated that this would depend on the reactions to the pre-ballot. As long as there are no edits that are conceptual or controversial we could proceed to an August ballot without a public discussion.

Staff noted that he would also incorporate the additional questions members would like raised.

Mr. Allen acknowledged Ms. Payne's and staff's next steps.

Ms. Payne mentioned that as we are working through this we may want to test a couple of paragraphs at a time. If so, we would do that by email just to spare members reading the document multiple times.

Mr. Allen noted that this may help ensure that members do not resume a discussion that was previously deliberated and settled thus avoiding unnecessary controversy.

Mr. Reger noted that some agencies that could be affected by this might want to early adopt but there is no such wording in the draft ED.

Ms. Payne stated that we could propose early adoption.

Mr. Allen asked Ms. Payne if we always have to state that early implementation is allowed or do we state when early implementation is not allowed.

Ms. Payne responded that we always have stated one way or the other, whether it is prohibited or allowed or even encouraged.

Mr. Allen acknowledged the response.

Ms. Payne then mentioned that the Board had planned discussing the technical agenda, however, in light of our discussions on Leases and P3s, she did not think members needed to make any immediate decisions and advised that the discussion be deferred to August.

Mr. Allen noted that this would also allow the Board to better assess the situation at the Department of Defense.

Ms. Payne agreed.

The Chairman concluded the meeting by thanking everyone for their participation.

### **Adjournment**

The meeting adjourned at 12:00 PM.