

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
June 17-18, 2009
Room 7C13
441 G Street NW
Washington, DC 20548

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Wednesday, June 17, 2009

Administrative Matters

• **Attendance**

The following members were present throughout the meeting: Chairman Allen, Messrs. Dacey, Farrell, Jackson, Patton, Schumacher, and Steinberg. Mr. Werfel was absent for some portions of the meeting and was represented by Ms. Kearney during his absence. Ms. Hug represented the Department of Treasury and Mr. Torregrosa represented the Congressional Budget Office throughout the meeting. The executive director, Ms. Payne, and general counsel, Mr. Dymond, were also present throughout the meeting.

- **Membership**

The Chairman noted that this would be the final meeting for members Patton and Farrell. He thanked them for their exceptional service to the Board and acknowledged that they would be greatly missed.

- **Approval of Minutes**

The minutes were approved electronically in advance of the meeting.

Agenda Topics

- **Social Insurance**

The staff memorandum for the April 23 meeting of the Federal Accounting Standards Advisory Board (“Board”) discussed (1) reporting options, (2) other issues from the exposure draft (ED), and (3) accounting for deferred revenue, and provided recommendations. Nine issues were presented for the Board’s consideration. The June staff memorandum followed the same nine-issue approach.

Issue 1 – Which option does the Board prefer for the [new financial] statement, Illustration 2 or Illustration 3 or something else?

Regarding Issue 1, Mr. Fontenrose explained that in April the Board voted affirmatively 6-3 for a new statement. He noted that Mr. Steinberg reserved judgment until he sees the format for such a statement. Regarding the format, the members expressed tentative preferences in April and directed the staff to further develop two options, which the staff illustrated in its June memorandum as “Illustration 2” and “Illustration 3.”

Mr. Fontenrose said that he believed there was strong support among the members for keeping the balance sheet format as it is and combining it with social insurance amounts. However, it is less clear whether the format will be preserved by creating (1) a single, combined balance-sheet-and-social-insurance statement; (2) or a new summary statement; or (3) even a summary within management’s discussion and analysis (MD&A).

The Board discussed the options for format and display.

Ms. Hug said the Treasury Department’s (“Treasury”) position is that the balance sheet should not change, and therefore Treasury does not favor either illustrations 1 or 2. Treasury representatives conclude that financial report already contains enough information about social insurance. They favor something in MD&A.

Mr. Torregrosa said the Congressional Budget Office (“CBO”) position is that the proposal would improve the statement of social insurance (“SOSI”). However CBO stipulates that:

- the open group measure is preferable to the closed group measure,

- all present value numbers should be framed in terms of future gross domestic product (“GDP”), and
- the statement of changes in social insurance amounts (“SCSIA”) should have a line item showing the effect of the change in the reference year.

He said that, beyond this, the CBO was open to some compromise, which would be good for the Board to do. However, CBO does not have a strong view of what that compromise might be because it involves presentation, which is outside CBO’s areas of expertise. Mr. Torregrosa thought that the Board could possibly develop a statement CBO would be willing to vote for, but it was not one of the ones currently illustrated because they failed to meet the conditions the CBO had specified.

Mr. Steinberg said a project that considers new statements should start by considering user needs, which is what the Board’s reporting model project is doing. In addition, the work here seems too prescriptive. He said the statute says that form and content is defined by the Office of Management and Budget (“OMB”). The Board’s role is to identify what to display.

Mr. Farrell noted that this standard came out of the social insurance project for which the Primary View would have recorded social insurance commitments as a liability. He continued that that did not go forward, and therefore the Board was seeking another way to convey this information. His view was that placing these commitments in very close proximity to the balance sheet was a compromise. He favored a revised balance sheet because informed readers would be able to understand it. He preferred Illustration 2 and a revised balance sheet.

Mr. Jackson said he had no problem with any option that would elevate to the balance sheet something that articulates to the SOSI. Although he agreed with Mr. Steinberg that changes in the reporting model ought to be part of a larger project, he noted that the Board rightly did not do that nor discuss doing it with respect to the fiscal sustainability work; nor with the SOSI in 1998, because those projects needed to go forward. He said he thought bringing the social insurance measure to “page one” is important because people will look at it. He did not favor any more new statements; new statements were not needed, because it is hard enough to understand the objectives of the statement now. He favored an expanded balance sheet with additional explanatory language, because social insurance is not a balance sheet presentation.

Mr. Patton and Schumacher agreed with Messrs. Farrell and Jackson.

Mr. Dacey said he did not favor either option. He said the SOSI is presented very close to the balance sheet now. He offered a pro forma display he had developed for the Association of Government Accountants’ (“AGA”) meeting next week that he thought was a better presentation, for the MD&A. It includes the long-term sustainability information rather than just social insurance. He offered the following:

Summary of Financial Condition Measures

	<u>Historical Perspective</u> <u>"Where We Are Now"</u>		<u>Sustainability Perspective</u> <u>"Where We Are Headed"</u>	
Resources	Assets	\$ 1,975	Future Receipts	XXX
Responsibilities	Liabilities	<u>12,178</u>	Future Spending	<u>YYY</u>
	Net		Excess of Future	
Net	Position	<u>\$ (10,203)</u>	Spending over	
			Future Receipts	<u>ZZZ</u>

Summary of Changes in Financial Condition

	<u>Historical Perspective</u> <u>"Where We Are Now"</u>		<u>Sustainability Perspective</u> <u>"Where We Are Headed"</u>	
Resources	Revenues	\$ 2,661	Changes in Future Receipts	AAA
Responsibilities	Net Cost	<u>(3,670)</u>	Changes in Future Spending	<u>BBB</u>
	Net			
Net	Operating Cost	<u>\$ (1,009)</u>	Change in Fiscal Sustainability	<u>CCC</u>

Mr. Dacey said this format presents two perspectives: historical, on the left, which is where we are now; and the sustainability perspective, which is where we are headed, on the right. He noted that this is how it is laid out in the Citizen's Guide. It is a superior way to look at it as opposed to presenting only social insurance and trying to explain to the reader why these amounts are together and why social insurance responsibilities are only part of the picture. He said that this is what he had in mind when he said the Board, potentially, could do something now in terms of the MD&A and put the standard out. He concluded by noting his agreement with Mr. Steinberg's position that, if the Board is going to change the fundamental structure of the statements rather than talking about MD&A, it ought to be part of a broader project that considers the totality of the model.

Mr. Werfel said he agreed with Ms. Hug and Messrs. Steinberg and Dacey and with some of what Mr. Torregrosa had said. He noted especially Mr. Steinberg's comment about OMB's role in determining form and content. He said that the Board had been seeking compromise involving a balance sheet presentation since the fall of 2007 and yet still lacked a clear majority. He said at some point the Board would have to decide when to move on regarding decisions and projects when it does not have a consensus around a fundamental principle. Mr. Werfel added that the question of whether the presentation should go on the balance sheet was a fundamentally important point. Once you take it off the balance sheet there is a real possibility for agreement. However, he agreed with Ms. Hug that there is enough information about social insurance in the

financial report already. He concluded with the comment that, if the Board was going to debate a balance sheet presentation, he wanted to note his agreement with the CBO position that the social insurance amounts ought to be normalized against some metric, e.g., the GDP, based on what the Board had learned through the fiscal sustainability project.

Mr. Allen agreed with Mr. Werfel’s description of the struggle for a compromise. He noted the Board’s decision at the last meeting not to carve out any elements of the project but rather to go forward. He also noted the Board’s 6-4 vote for a new financial statement and that the current discussion involves format and placement. He cares about the change in the government’s financial position rather than about the balance sheet per se. He mentioned that the government’s specific promises for social insurance, which are different than for general programs, argue for a different treatment. He thought the compromise position is a similar approach to the Peterson Report’s presentation.

Mr. Allen asked the members to vote on:

- Issue 1, which asked “Which [financial statement format] option does the Board prefer for the statement, Illustration 2 or Illustration 3 or something else?,” and
- Sub-issue 1.1, “Which [presentation] option does the Board prefer: 1. revised balance sheet, 2. additional statement, or 3. MD&A requirement?”

The Board voted as follows:

	Illustration #1, memo page 52, i.e., the FY 2004 Financial Report table	Illustration #2, memo page 53	Illustration #3, memo pages 54-55	“Something Else”
Ms. Hug				Doesn’t favor either Illustration 1 or 2. Doesn’t want to change the balance sheet. Prefers something in MD&A. Doesn’t want to be prescriptive.
Mr. Torregrosa		X This would be the starting point but it would need to have percentages of GDP for SI, and not add liabilities and SI amounts.		
Mr. Steinberg				Doesn’t favor either Illustration 1 or 2. Prefers something like Mr. Dacey’s pro forma statement in MD&A.
Mr. Farrell		X Revised balance sheet.		

	Illustration #1, memo page 52, i.e., the FY 2004 Financial Report table	Illustration #2, memo page 53	Illustration #3, memo pages 54-55	“Something Else”
Mr. Jackson	X This is his first choice, as a separate statement named “Statement of Financial Position and Social Insurance Responsibilities”			[His second choice is Mr. Dacey’s statement in the MD&A, provided that SI is disaggregated in an acceptable manner.]
Mr. Patton		X Revised balance sheet. This is his first choice. It’s conceptually preferable.		[Second choice would be something that CBO can support, in the interest of getting something done sooner rather than later.]
Mr. Schumacher	X Likes this illustration, as a revised statement, because it leaves the balance sheet in place, shows responsibilities, and allows the reader to select information.	[Originally preferred this, but does not think it can garner support. Thus, prefers #1.]		
Mr. Dacey				Doesn’t favor either Illustration 1 or 2. Offered his own format, as amended by Mr. Jackson, for the MD&A.
Mr. Werfel				Agrees with Mr. Dacey, provided the wording of the standard is generalized.
Mr. Allen	X Agrees with Messrs. Jackson and Schumacher. Also agrees with Mr. Patton. He is open regarding presentations.			Could favor other compromise approaches.

After the vote on Issue 1, Mr. Allen suggested that the Board discuss the sub-issues in the staff memorandum on pages 5-8.

Mr. Fontenrose noted that the Board’s discussion of financial statement format and reporting geography appeared to go as far as it could at this meeting. He suggested that staff return in August with options. One option would be an Illustration like 2 [in the June staff memorandum]: a balance sheet with social insurance line items at the bottom. The other option could be an MD&A presentation with variations reflecting Mr. Dacey’s suggestion, or reflecting Illustration 1 [in the June staff memorandum, i.e., the FY 2004 Financial Report table].

Mr. Allen added that the Board would also be getting important feedback in the interim from CBO on what may or may not be acceptable.

Issue 2 – Should the Standard “Feature” the Closed Group Measure (this is Question for Respondents 7 from the ED)?

Turning to Issue 2, Mr. Fontenrose said that the Board voted in April to “feature” the open group measure. The Board discussed what “featured” means. Mr. Fontenrose explained that it is “short-hand” for being the focus or common thread for the presentation. As required in ED paragraph 27, the open group measure would be “presented and explained” in the MD&A. Also, the components of the change in the open group measure during the accounting period would be presented in the statement of changes in social insurance amounts.

Mr. Fontenrose added that the closed group measure would also be required to be mentioned in the MD&A and appear as a line item in the summary section of the statement of social insurance. He noted that Mr. Steinberg does not think the Board’s approval in June included the requirement for the closed group measure to be discussed in the MD&A.

Mr. Allen asked the Board to vote on the question of whether the standard should require a discussion of the closed group measure in the MD&A as described in item 1b on page 9 of the staff’s June memorandum.

	Should the standard require a discussion of the closed group measure (CGM) in the MD&A?	Comments
Mr. Werfel	No	
Mr. Allen	Yes	Both perspectives are needed.
Ms. Hug	No	Doesn’t have an issue with discussing the CGM but doesn’t want to require it.

	Should the standard require a discussion of the closed group measure (CGM) in the MD&A?	Comments
Mr. Torregrosa	Yes	
Mr. Steinberg	No	Prefers to allow but not require it. A measure in addition to the open group measure could be confusing. Leave it to the preparer's discretion.
Mr. Farrell	Yes	The CGM is discussed in many places.
Mr. Jackson	Yes	
Mr. Patton	Yes	
Mr. Schumacher	Yes	
Mr. Dacey	No	Agrees with Mr. Steinberg.

Issue 3 – Should the Standard Require Key Measures To Be Presented in the MD&A as Described in the Exposure Draft (this is Question for Respondents 1 from the ED)?

Mr. Fontenrose said that Issue 3 involves the proposed requirement in the ED that key measures be presented and explained in the MD&A. He said that the Board's decision in April 2009 to "feature" the open group measure would seem to dispose of part of Issue 3. A "key measure" now will be the open group measure, rather than the closed group measure, although the latter will be discussed in the MD&A.

Mr. Fontenrose asked the members, in light of its previous votes, whether they approved the ED's MD&A requirement with sub-paragraphs 27c and 27e amended as described by the staff.

Mr. Jackson asked whether the notion of "fiscal gap" is relevant for the social insurance standard. He said it includes more than social insurance inflows and outflows.

Mr. Fontenrose noted that social insurance is a major component of and therefore relevant for the "fiscal gap." Also, he said the "key measures" include budgetary information about which a similar argument could be made.

Mr. Dacey said he did not object to the key measures in the ED, as a minimum, because in the MD&A the preparer would include other sustainability information.

The Board discussed the relationship between the requirements regarding social insurance and sustainability. Mr. Dacey noted that only the former requires "fiscal gap" information to be discussed in the MD&A. Mr. Steinberg said he would prefer it in the

sustainability standard. It was noted that the requirement for the “fiscal gap” to be discussed in the MD&A applies only to the governmentwide entity.

Mr. Allen asked the Board to vote on the MD&A question. The Board voted unanimously to approve the MD&A standard with the changes to sub-paragraphs 27c and 27e. Mr. Dacey suggested additional wording for the proposed sub-paragraph 27e regarding “fiscal sustainability information” and “non-interest spending.” Mr. Werfel noted that the Board voted against requiring [a table of] key measures in the MD&A.

Issue 4 – Should the Standard Require the SOSI to Have a Summary Section as Described in the Exposure Draft (this is Question for Respondents 3 from the ED)?

Mr. Fontenrose asked the members whether the staff was correct to conclude, based on the Board’s prior decisions, that the Board approved a summary section of the SOSI with a subtotal for the closed group measure.

Mr. Torregrosa stipulated that his affirmative vote would be contingent on presenting GDP percentages.

Mr. Werfel asked if presenting GDP percentages would comply with GAAP.

Mr. Dacey responded that this would be extra disclosure.

Mr. Werfel responded that, as he understood the requirement, at least the open group measure would have to be a dollar amount, and normalizing it against the GDP would require an additional line item. He wanted to know if the preparer has the flexibility to take information from the SOSI for summary purposes and modify the metric against GDP. He asked staff to consider whether there can be flexibility in the summary to present the social insurance bottom line numbers exclusively as a ratio of GDP or some other mechanism. He mentioned that OMB might be able to support that, although there were presentational issues to be worked through when moving from detailed dollar amounts to summaries using other metrics. He said there was a very strong feeling at OMB – and he thought at CBO, too – about the need to normalize those numbers. He said he would like the opportunity to make a case for it. He noted that the preparer obviously has the ability to present normalized numbers now; but, if a summary is to be required, he would like to consider normalized numbers. He thought such numbers would be an enhancement.

Mr. Allen noted that the standard provides flexibility in the MD&A to explain any way the preparer wants.

Mr. Allen asked the Board to vote on the question of the SOSI summary.

	Should the standard require a summary section for the	Comments
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	SOSI?	
Mr. Werfel	No	He prefers not adding disclosures requirements; he prefers allowing preparers the flexibility to decide what to present. Also, more than one measure may be confusing.
Mr. Dacey	Yes	
Mr. Schumacher	Yes	
Mr. Patton	Yes	
Mr. Jackson	Yes	
Mr. Farrell	Yes	
Mr. Steinberg	No	He is reluctant to vote “yes” without knowing why SSA doesn’t have a summary section.
Mr. Torregrosa	Yes	His affirmative vote would be contingent on presenting GDP percentages.
Ms. Hug	No	Doesn’t want to require it.
Mr. Allen	Yes	

Issue 5 – Should the Standard Require a New Basic Statement that Explains changes to the Closed or Open Group Measure (this is Question for Respondents 4 from the ED)?

Mr. Fontenrose asked if there were any objections to the new basic statement presenting the changes in the open group measure during the reporting period.

Mr. Torregrosa said CBO again advocated GDP percentages or percentages of payroll.

In addition, Mr. Torregrosa said CBO had a minor point to make regarding the need for an additional line item showing the effect of another year, because of the change in the reference date. The Board discussed the proposed standard [ED paragraph 37] and the illustration [on page 62 of the staff memorandum for June]. The illustration shows a line item for “changes in valuation period” that would include “additional benefits accumulated via work done,” and “interest on the obligation.” The proposed standard does not require specific line items; it provides a parenthetical list of examples of line items. Mr. Dacey said that having the example in ED paragraph 37 infers that the line items are required.

Mr. Fontenrose said the question is whether this line item contained components that ought to be disclosed and opined that the preparer would be free to determine the line items. Mr. Torregrosa said that CBO’s technical expert on this subject thinks that these items ought to be separate. Mr. Steinberg suggested that staff discuss this with the CBO technical expert. Mr. Dacey asked the staff to take a look clarifying the requirement. Mr. Fontenrose said he would contact CBO and review the language in ED paragraph 37.

Issue 6 – Should the Standard Require Note Disclosure of an Accrued Benefit Obligation (this is ED Question for Respondents 5 from the ED)?

Mr. Fontenrose reviewed the proposed standard for disclosure of accrued benefit obligations in ED paragraph 38 and the ED's definition thereof in paragraph 17.

The Board discussed the availability of data for the accrued benefit obligation. It was noted that, since the requirement applies to component entities as well as the governmentwide entity, Treasury would not have to develop accrued benefit obligations for itself. Mr. Fontenrose noted that the Social Security Administration (SSA) currently provides an accrued benefit obligation on its actuarial Web site, but that the Center for Medicare and Medicaid Services (CMS) does not. He noted that the proposed standard allows flexibility with respect to approaches for calculating the accrued benefit obligation.

The Board also discussed whether an approach for Medicare was feasible. Mr. Fontenrose said that he believes the CMS has the data to do the calculation, although some new analysis would be necessary to isolate the participant population and accrual periods.

Mr. Allen said he did not want to vote on this issue at this time. He said there seemed to be enough questions about the additional work and availability of information. He asked Mr. Fontenrose to come back to the Board with the answers to those questions, particularly in light of the divided responses received.

Issue 7 – Does the Board Continue to Conclude that the Standard Should Not Require a Line Item on the Statement of Net Cost for the Change during the Period in the Closed Group Measure (this is Question for Respondents 6 from the ED)?

The Board unanimously affirmed its decision not to require a line item on the statement of net cost.

Issue 8 – Should the Standard Provide a General Requirement that Allows Flexibility in the Sensitivity Analysis (this is Question for Respondents 8 from the ED)?

The Board discussed the requirement for sensitivity analysis in ED paragraphs 42-43 and unanimously decided to drop the last sentence of paragraph 43 that mentioned stochastic analysis. The Board preferred to provide maximum flexibility for the preparer to illustrate sensitivity.

Issue 9 – Should the Social Insurance Project Develop Liability Recognition for “Deferred Earmarked Revenue”?

The Board did not address Issue 9.

CONCLUSION

- Regarding Issue 1 and Sub-issue 1.1, the members' preferences are as follows:
 - Three members preferred a statement like Illustration 1 in the June staff memorandum, which is from the FY 2004 Financial Report.
 - Three members preferred a statement like Illustration 2 in the June staff memorandum, one of whom wanted GDP percentages included in some fashion.
 - Four members preferred an MD&A presentation, three of whom liked Mr. Dacey's illustration.

Staff will return in August with options. One option will be like Illustration 2 [in the June staff memorandum] – a balance sheet with items at the bottom. Another option will be an MD&A presentation with sub-options reflecting (a) Mr. Dacey's suggestion and (b) Illustration 1 [in the June staff memorandum]

- Regarding Issue 2, the Board voted 6-4 to require discussion of the closed group measure in the MD&A.
- Regarding Issue 3, the Board voted unanimously to approve the MD&A standard with the changes to sub-paragraphs 27c and 27e.
- Regarding Issue 4, the Board voted 7-3 to require the SOSI to have a summary section as described in the ED. The staff will research the question of presenting the summary in terms of percentages of GDP or other normalized numbers rather than dollar amounts.
- Regarding Issue 5, the Board unanimously approved the statement of changes in social insurance amounts. The staff will clarify with CBO the language regarding line items for additional benefits accumulated via work done and interest on the obligation.
- Regarding Issue 6, the staff will research the availability of information for CMS to develop an accrued benefit obligation for Medicare and report to the Board.
- Regarding Issue 7, the Board unanimously affirmed its decision not to require a line item on the statement of net cost for the change in social insurance amounts during the period.
- Regarding Issue 8, the Board unanimously decided to drop the last sentence of paragraph 43 that mentioned stochastic analysis.
- The Board did not address Issue 9.

- **Long-Term Fiscal Projections**

Messrs. Allen, Dacey, Farrell, Jackson, Patton, Schumacher, Steinberg, and Werfel signed ballots to approve Statement of Federal Financial Accounting Standards (SFFAS) 36, *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government*. Mr. Torregrosa submitted a ballot signed by CBO Director Douglas W. Elmendorf. Ms. Hug indicated that Treasury's ballot would be submitted subsequent to the Board meeting.

[Staff note: Treasury's ballot approving SFFAS 36 was received on June 25, 2009. SFFAS 36 was forwarded to the Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), the Acting Comptroller General, and the Director of the Congressional Budget Office for a 90-day review. Absent an objection from either the Director of OMB or the Acting Comptroller General, SFFAS 36 will be issued as a final standard on September 28, 2009.]

- **Measurement Attributes**

Ms. Wardlow presented a memo that reviewed the goals of the project, Board decisions to date, and an update on the status of similar projects of the FASB and IASB, the GASB, and the IPSASB. Staff solicited members' preferences for the future of the project. Mr. Allen said he hoped the members would give staff their views on the project and what its future direction should be.

The Board discussed what other standard setters are doing on measurement and the possibility of collaboration. In response to Mr. Allen, Ms. Wardlow said she understood from FASB staff that, under their new approach, the FASB and IASB would describe five factors that should be considered when selecting a measurement attribute from among certain basic attributes, such as current and past prices. The selection of attributes would be expected to further the objective of assessing future cash flows. This was similar to the earlier approach. However, the new approach appears to take a more practical or pragmatic view of the selection of measurement attributes, but without going as far as setting standards. Mr. Allen said it appeared to be a core approach that the FASAB could consider and the GASB also has a core approach. He asked Mr. Dacey to comment on the IPSASB's project.

Mr. Dacey explained that the IPSASB's measurement project is part of the conceptual framework that they have just begun to develop. He did not think the IPSASB had decided on a direction for the project, but he thought they wished to move quickly and were not willing to hold up their project to see how the FASB/IASB project might develop. Ms. Payne said she thought it was not just unwillingness to wait for the FASB/IASB project to progress. The FASB/IASB project emphasizes the prediction of future cash flows and the IPSASB believes financial reporting for governments has different objectives.

Mr. Schumacher asked why the FASB and IASB had moved away from the proposed attributes adopted in their 2007 report. He thought that was a reasonable place to start. The new approach seems to be more theoretical, with consideration of the qualitative characteristics. Ms. Wardlow responded that under the former approach they intended to test the proposed attributes against the qualitative characteristics. However, it was difficult to achieve consensus. Many members on each board found the first approach too theoretical and complex. They indicated they wanted something easier to relate to practice. The new approach is intended to be simpler and less theoretical. Also, whereas previously they proposed to develop a single attribute model, they are now considering a mixed attribute model.

Mr. Patton recalled that in the joint FASAB and GASB meeting (August 2008) members of both boards said they favored a mixed attribute model. The key is to decide which kinds of attributes are appropriate for which kinds of items. He views this as an extremely important project that should not trail off into a pragmatic solution based on what is done now. It should take a higher road and carefully consider how best to measure certain dimensions of elements, such as financial and nonfinancial assets, monetary and nonmonetary items, consistent with the objectives of financial reporting. He is not sure what that means operationally for the project, but its main contribution would be in providing a rationale for how we should measure, for example, natural resources.

Mr. Allen said Mr. Patton's comments reminded him of the GASB's approach of distinguishing the kinds of transactions for which they would use historical cost and other kinds of transactions which would be measured at some sort of fair value. He asked Mr. Patton whether he was proposing that approach for the FASAB and whether he thought the FASAB should work with the GASB, or whether he was emphasizing that the project should be conceptual rather than pragmatic. Mr. Patton said he was focusing on the latter; given the GASB's approach on Elements, the two boards might not fit well together on measurement attributes.

At Mr. Allen's request, GASB project manager Roberta Reese commented on the GASB's approach. She said the board's initial approach was to look at whether assets and liabilities should be reported at their original value or should be remeasured periodically. The GASB identified broad groups of assets and liabilities but then realized that not all items within the groups had the same characteristics, so they identified subgroups. The GASB now has a level of comfort with the resulting groupings and has decided on attributes appropriate for each group. The Board is now considering whether there are fundamental principles that would support the selection of particular attributes and that should be included in a concepts statement. There are additional issues, such as cost-benefit, on which the board has to decide whether they are concepts issues or standards issues. However, the main focus is to pull back from the groups and focus on what are the principal issues to consider when selecting measurement attributes that should be addressed in a concepts statement.

Mr. Allen said he liked the FASB/IASB's notion of factors, looking at whether similar kinds of transactions are treated in a similar way. He recognizes that some of the

FASB/IASB's factors are heavily weighted to assessing future cash flows. The FASAB might not wish to consider those factors, but he thinks that using the combination of factors and measurements is a reasonable approach. He does not know whether the FASB/IASB's factors are the right ones, but it sounds like the GASB is taking a similar approach. Ms. Wardlow said the GASB has added a step that the FASB/IASB has not, namely, to group assets and liabilities into categories. She is not sure whether the FASB/IASB will do that. FASAB also has talked about identifying some categories of assets and liabilities or possibly transactions. She said she was unsure whether the FASB/IASB intended to identify links between specific factors and measurement attributes. The idea appears to be to discuss how consideration of the factors might affect the choice of an attribute, but it was not clear how they would do that without identifying categories of assets and liabilities. Mr. Allen thought one would have to link the factors to specific measurement methods. Ms. Wardlow thought it was not a one-on-one situation and it would be difficult to do. She thought the idea was to talk about the circumstances under which the factors might lead to one measurement attribute or another. Mr. Allen mentioned "confidence level" as an example factor. If it is really important to have a high confidence level, then that would lead one to historical cost rather than some fair value measure. Ms. Wardlow responded that there were also tradeoffs because another factor is "cost" and achieving a high confidence level would likely be more costly than a lower confidence level. Mr. Allen said he thought consideration of the factors might lead one to particular kinds of measurement attributes.

Mr. Jackson wondered whether the FASAB could use some of the FASB/IASB factors to evaluate what the government does today—not start conceptually from the bottom up, but start from the top down and identify what we have today. He said there is a limited array of accounts that we need to be concerned with and there are requirements to report information about them. The first factor in the FASB/IASB list is relevance and that is what we have to be concerned with first. We have reporting requirements in standards. The level of confidence in some of the measurements used might be low, but the relative importance of reporting that information to management and external parties might also be low. Having those two factors working together might lead to a standard that would allow use of a measurement attribute or approach that would be somewhat simplistic, not onerous, and very cost beneficial, but would be faithful to the overall standards and allow one to capture a relevant piece of information and yet craft a standard that would be very cost effective in its implementation. He thought that he and Mr. Allen were taking a similar approach. Ms. Wardlow commented that they had included an intermediate step of looking at transactions, or the assets and liabilities that result from transactions. Mr. Jackson said he likes the idea of looking at what the government does today, because starting with the factors was too intangible for him. He said there are many considerations and he likened his suggestion to putting a variety of things in a petrie dish and working with them and seeing what came out. He would like to see not just concepts but a result that Board members can work with. For example, one would want to look at how any conclusions would work with the three largest transactions of the federal government.

Mr. Allen said the Board must consider objectives and goals. In New Zealand, for example, the objectives led them to decide they wanted to cost their services in such a way that the citizens are paying for the cost of using up assets, and from that perspective historical cost is meaningless. So they revalue assets every three years and calculate depreciation based on replacement cost; that becomes a cost to the citizens. That basic decision about cost of services drives many things, including measurement focus issues. He does not think that approach has been taken in the United States by FASAB or GASB. FASB does it, with cash flows becoming more and more important, looking at their Concepts Statement 7, for example. It would be good if we asked what the financial statements should be telling people. If we could decide that it would help us identify the appropriate measure for assets and liabilities. Mr. Patton asked whether Mr. Allen was proposing that the objectives of financial reporting be narrowed to one objective. Mr. Allen said he was unsure, but GASB talks about the cost of services. Ms. Reese said that the GASB concluded that measuring cost of services would be promoted by reporting at historical cost rather than replacement cost. Mr. Jackson asked what one does if the replacement cost of services is less than the historical cost of services. He is not sure that replacement cost is appropriate for measuring the cost of services today. Mr. Allen said GASB's statement on asset impairment provides some guidance. He did not have a specific proposal, but he thought that if the Board knew what the objective of the statements was, it would be easier to decide how to measure reported items. Ms. Wardlow asked whether Mr. Allen was making a distinction between the objectives of financial reporting, which the FASAB has established, and the objectives of specific financial statements. Mr. Allen responded that FASAB has established the broad concepts of objectives of financial reporting but he thinks New Zealand has gone beyond that; they not only have an objective of reporting cost, but they want their cost measure to be such that it drives financial reporting—that is, the amount of expense has to be sufficient to provide for replacement of the item. For example, the cost of depreciation of a water system charged to the citizens should be sufficient to replace the water system. Mr. Jackson pointed out that there is a difference between charging citizens for what they use today and charging them for what they will use in the future. The replacement cost of the system in the future may be X times the current cost, and if the government is going to charge the citizens for services based on the replacement cost, one can see what the revenue accumulation from that cost base will be, but it is not clear how the revenue would be used.

Mr. Patton said he continued to be concerned about the definitions of the measurements or parameters of the categories. FASAB has established a stewardship objective and a cost of operations objective. It is conceivable that some assets are held for a stewardship purpose and others for an operating purpose, so maybe the purpose of the item will lead to a different kind of measurement. He is not sure whether those two purposes are the right ones to work with, but he would like to see development of the characteristics that would define categories: the purpose of holding an asset and, perhaps, on the liability side the nature of the expected settlement. Another consideration might be whether the item is monetary or nonmonetary. Mr. Jackson agreed. Mr. Patton said that if the Board takes a multi-attribute approach, then the Board should discuss when the different attributes would be appropriate. Mr. Allen

asked whether Mr. Patton's approach would be similar to the GASB's. Mr. Patton said the GASB may have done some of the work that the FASAB needs to do, but he did not know the details. He asked Ms. Wardlow to comment. She said she thought FASAB would reach some of the same conclusions as the GASB. However, some of the GASB's conclusions reflect what is reported now and she would like to be careful not to endorse the status quo without looking at what would be the most useful attributes for the future. She views the GASB's work as very helpful, but the FASAB will need to consider the issues in relation to its own environment. Ms. Reese said the GASB has developed categories but they also need to consider how one decides what should be in each category. For example, a piece of property might be used in operations or the government might sell it, and each alternative might lead to a different conclusion on how it should be measured. So, one factor is the government's intent. Ms. Wardlow said she was nervous about embracing a concept of intent, especially implied intent, because it could change according to what management wanted to report.

Mr. Dacey said his comments were similar to Mr. Patton's. He thinks some of the work the FASAB needs to do may have been done by the GASB but he is not sure of the details. He would like to know more about the GASB's thought processes and how they arrived at their current conclusions. Mr. Patton said there is a long tradition in accounting of having to predict the future in order to know how to account for something today. For example, when you talk about an asset you have a concept of future resource flows. Therefore, to him the concept of intent has been acknowledged in the past. There followed a brief discussion of the pros and cons of intent as a concept and its practical limitations. Ms. Wardlow said she thought the Board had discussed at a previous meeting doing some of the things the GASB has done, such as looking at different measurement attributes in the context of different categories of assets and liabilities and the financial reporting objectives. At the October meeting the FASAB had looked at the results of staff research into the attributes required under several FASAB standards. The Board concluded that the elimination of duplications and other considerations would reduce the initial list of over twenty attributes to perhaps three or four. Staff has begun work on that. She thought this effort would be similar to the GASB's, although the FASAB might arrive at a different place. Mr. Dacey agreed that the FASAB might arrive at a different place, but understanding the GASB's work as well as performing the Board's own work would be helpful. Ms. Wardlow said there are some alternatives to be considered with the GASB's and the FASB/IASB's work and some of that work seems to be similar.

Mr. Allen said it would be useful to lay out some proposed courses. He recalled that previously the Board had decided to await the results of the FASB/IASB project. Subsequently, the Board decided to start some work of its own in the interim. The Board should now decide what work it wants to do or whether the Board should pause in its work on this project. He asked Ms. Wardlow and Ms. Payne for some alternatives. Ms. Wardlow said that one alternative discussed last October was to continue to wait and see where the FASB/IASB project is headed. Most members thought that the Board should do something in the interim. Another idea was to try to identify three or four possible measurement attributes from among those currently required in FASAB standards. Another possibility was to begin to work with an expanded outline of a

concepts statement that would identify what it should discuss. She said looking at what other standards boards are doing can be very helpful but one difficulty is timing differences. The FASAB has spent a lot of time waiting to see what the FASB/IASB would do and now they have changed their approach. The new approach may be better and more helpful to the FASAB, but trying to coordinate the two projects is difficult. Looking at other boards' progress is useful but at the same time the FASAB needs to consider the work that needs to be done in its own environment. She would propose that the staff work on developing some factors and three or four candidates for measurement attributes in the federal reporting arena and an expanded outline of what could usefully be covered in a concepts statement. She also proposed considering some issues that the Board has not yet discussed, such as whether the Board needs to distinguish between entry and exit prices. Mr. Jackson asked whether it would be possible to put the three or four candidates for attributes in the context of accounts or transactions. Ms. Wardlow said it would be important to look at the attributes in the context of what the government is trying to report and categories of federal assets and liabilities. She asked Mr. Jackson whether he agreed that the focus should be on what it would be useful to report and not necessarily what is currently done. Mr. Jackson agreed but said that it would nevertheless be appropriate to look at what is currently done.

Mr. Patton said he disagreed with the possibility of putting the project on hold because there would be a loss of momentum and new start-up time. He thinks the project is important because the FASAB will continue to encounter different exchanges or items that need to be valued, and in order to avoid "ad hoc" solutions and inconsistencies, the Board will need some conceptual guidance and discipline. He believes that moving ahead would be much better than pausing, and he volunteered to help Ms. Wardlow with his support as requested. Mr. Allen agreed with Mr. Patton with regard to Ms. Wardlow's proposals, but he believes at some point the Board must decide whether it wishes to align with the GASB, IPSASB, or FASB/IASB or pursue its own path. He would like Ms. Wardlow to go ahead with her suggestions and he would welcome the assistance offered. It would be particularly important to explain why the Board has selected particular attributes. But the Board needs to decide at some point what its core direction will be and whether or not it should align with another board. He would not rule that out now. Mr. Jackson said until the Board moves in a particular direction, it cannot decide whether it wants to align with another board or not. He thinks the Board should move forward and consider alignment at some point in the future. Mr. Allen asked for any other comments.

Mr. Torregrosa said he recalled that in the discussions of oil and gas the Board considered that there are reserves and how to value them. The Board looked at the flows, then arrived at discounting, and then it came to fair value if discounting flows is not possible. He thinks that having a framework for thinking through these things would be helpful so that inconsistencies do not arise. He sees the project has value. He shared some of Ms. Wardlow's concern with including the notion of intent in issues of valuation. Ms. Payne said she is pleased to have the project back on the agenda. She would like to see it move much more quickly. Ms. Hug said that Board thought this project was important enough to put on the agenda and she agreed with Mr.

Torregrosa's reasons for supporting the project. She disagreed with a pause; either the project is important enough to move ahead or it is not important and should be dropped. She likes the idea of looking at what FASB/IASB is doing, but either FASAB should align with FASB/IASB, GASB, or IPSASB or the FASAB should move ahead consistent with its own needs. She would prefer to move forward.

CONCLUSIONS: Ms. Wardlow said that the staff would continue to monitor the progress made by the FASB/IASB, GASB, and IPSASB. Staff will provide an issues paper, based on the input received from members, for discussion at the next meeting.

- **Updates on Active Projects**

Federal Entity

Ms. Loughan noted that staff had recently met with Federal Reserve officials to discuss the relationship of the Federal Reserve to the government and whether the draft criteria for consolidation were met or not met. Staff expects to receive an assessment of the Fed against the draft criteria before the next meeting. In addition, the task force will be meeting again before the next meeting.

In response to a question from Mr. Jackson, Ms. Loughan noted that the tentative view of the Federal Reserve staff was that the current treatment – not consolidating based on SFFAC 2 – remained appropriate. However, they preferred that the treatment not be considered an exception. Mr. Steinberg noted that some of the proposed regulatory reforms may affect the relationship of the Federal Reserve and the federal government. Ms. Loughan agreed and indicated that she was monitoring new developments.

Mr. Farrell asked about the recent transactions to support specific companies and whether that changed the Federal Reserve's authorities or relationships. Ms. Loughan noted that the Federal Reserve relied on existing authorities in making what are unique investments for them.

Mr. Patton inquired about the related party issues in Mr. Simms project and asked whether the issues were being coordinated. Ms. Loughan indicated that they were.

Mr. Dacey noted that an equity position in General Motors was likely to be acquired soon. He noted that it seemed more like a pseudo-regulatory activity than an investment activity with profit motivations. He pointed to the bailout provisions in SFFAC 2 which may cover the relationship. He wondered how we would deal with such situations as the standard evolves. Ms. Loughan indicated that the task force would be asked to discuss such relationships. Mr. Steinberg wondered if one criterion was whether this was a "normal government function" and another was temporary versus permanent. Mr. Dacey noted that the duration was likely to be longer than normally associated with "temporary" but still not permanent.

Mr. Allen noted that the discussion may center on “normal roles” but that one should be cautious. Much of the role of accounting is to capture what is unusual and send up a red flag. If you aren’t going to consolidate then you ought to have very rigorous valuation methods for your equity position.

Mr. Torregrosa noted that Fannie Mae and Freddie Mac appear to be controlled, owned and managed by the government. When Treasury used the SFFAC 2 criteria for in or out they concluded these entities were “out.” He brought the criteria to CBO staff and they concluded the opposite of Treasury. He wondered if that decision might be reconsidered. Ms. Hug indicated that Treasury was continually reviewing the many relationships that exist.

Mr. Farrell noted the goodwill associated with the federal government’s financial reporting that has been built up over the years. He feels that goodwill is at risk as the means of reporting these major transactions are worked out. This is a credibility issue. Mr. Allen noted that his comments were an important reminder about our responsibilities to the public.

Mr. Dacey noted that the general purpose of all the transactions is recovery and the goal is to figure out how much we will recover of the taxpayer funds expended. The subsidy for all the transactions has been put in the budget - and it was adjusted recently – but the press has not picked up on it even though Treasury, CBO and OMB have highlighted it.

Mr. Torregrosa noted that TARP is done on credit reform with modified discount rates, non-TARP is done on traditional credit reform with risk-free discount rates, and the FDIC uses a different approach altogether. Thus, even the budget is difficult to analyze. He noted that sometimes a loss can change to a gain by changing methods.

Mr. Dacey noted that FDIC reported a substantially higher allowance for bank failures this year over prior years. However, the press did not pick it up.

Reporting Model

Mr. Simms explained that since the last meeting he has focused on Congress. He developed a survey and expects to receive responses shortly. The three responses received to date show that they do use the financial reports. He plans to augment the survey by interviewing those who deal with Congress such as CBO and the Congressional Research Service. He is also exploring ways to reach program managers. This is more challenging because there is no available listing of program managers. A random sample is not feasible so they plan to do targeted interviews based on organizational directories. The goal will be to find out what type of information they use.

Mr. Simms noted that citizen’s focus groups are also planned. There will be one local test group and then regional focus groups. These activities will cover the user needs phase. Then data will be assembled and conveyed to the Board. It will take at least through the end of the fiscal year and that is optimistic.

Mr. Simms explained that a focus group with program managers had been held earlier in the year. The result was not satisfying. Managers were in so many different camps that the discussion was not useful.

Mr. Allen suggested scheduling something with citizen intermediaries. They've spent their careers figuring out how to convey information to citizens. Ms. Kearney conveyed Mr. Werfel's desire to see the project move faster given the significance of the issues.

Mr. Allen asked whether they are differentiating between agency and government-wide statements. Mr. Simms indicated that so far people are indicating that they see the need for a different model at the agency level versus the government-wide level. He noted that agencies are not generating revenue for themselves – they are seeking appropriations and using them. Users so far have focused heavily on the agency statements. No one so far has indicated using the government-wide.

Mr. Allen referenced the USA Today article – those outside the Beltway are almost exclusively focused on the government-wide. This will be a key point in designing a new model.

Mr. Patton commended Mr. Simms for not racing out to do surveys. A richer understanding of people's needs is crucial. He has higher hopes for this survey than the many wasted user needs studies he has seen.

Deferred Maintenance

Mr. Savini explained that he had formed a task force with diverse backgrounds. So far, the task force has met twice—reviewed the history and looked at initial research. The task force is divided into two subgroups; one for real property and another for personal property. They've found a wide assortment of assessment methodologies and condition indicators. The goal is to increase the comparability among methods.

Mr. Savini noted that the task force finds the definitions in SFFAS 6 deficient. The group will be developing changes to propose to definitions. The next step will be measurement and then how to report. The common theme is that a single number or metric doesn't tell you much.

Mr. Steinberg asked about an index of condition used in California. He asked about the modified approach to infrastructure reporting permitted by GASB 34. He wondered what states were doing. Mr. Allen said it had been about half were using the modified method. Mr. Savini noted that the modified approach gave you much more information. Mr. Allen recalled that engineers generally favored the modified approach because of the information value while accountants generally favored depreciation because it was easier.

Mr. Jackson noted that in the 90's a proposal to use the condition reporting approach for military equipment. He felt that a condition assessment was much more important but some objected on security grounds. Ultimately, the proposal failed.

Mr. Patton asked what barriers there would be to using the GASB standard for asset impairment. Mr. Savini indicated that the use of the asset was a driver of the GASB model. However, when you look at the GASB impairment model it looks to cash flows. He is interested in exploring replacement value as a way to assess impairment. He would like to consider whether impairment can be assessed through non-financial measures.

Mr. Patton noted that there ought to be a feedback loop into the measurement concepts work. He felt Mr. Savini's suggestion has significant implications for how you do initial measurement.

Mr. Jackson noted that he wasn't convinced that lower replacement cost means an asset is impaired. Mr. Allen agreed but that it may be an indicator. He also noted that he did not find the GASB model to be a cash flow approach.

Management's Discussion and Analysis

Mr. Fontenrose noted that some had noted that currently MD&A's are not what they should be—instead they are short on analysis. The task force would be asked to determine if there is a problem and, if so, what the source of the problem is. He noted that there is the standard, OMB form and content guidance, and finally implementation to consider in identifying any barriers to improvement.

Mr. Patton noted that we've had discussions about FASAB being too prescriptive. One issue is whether the current standard is flexible. Mr. Fontenrose noted that the standard is very flexible. Mr. Patton asked whether there might be benefits to being more prescriptive.

Ms. Hug noted that the agencies have a hard time giving forward looking information because the MD&A is issued before the budget is completed. One problem is that agencies try to put everything in it. Perhaps a strong suggestion to not put everything in it would improve this.

Mr. Steinberg asked about the auditor's role in MD&A. Since it is RSI, the auditor should point out any missing components. He asked if there was any auditor representation on the task force.

Mr. Dacey noted that the auditor has a hard time asserting that a poorly done MD&A does not at least meet the basic requirements in SFFAS 15. Mr. Steinberg asked about forward looking information being omitted – clearly that seems to be a failure to meet the standard.

Mr. Dacey asked if there is a way to highlight best practices or to point out which are the higher quality MD&As. Ms. Kearney noted that the form and content update team had discussed the need to improve MD&As and were sharing best practices.

Mr. Allen noted that GASB illustrated unusual transactions such as the sale of park land. Subsequently, every government that ever sold park land included it. What you're

looking for in MD&A is the most significant things and some years you simply don't have a significant thing. It is hard to avoid boiler plate in such cases.

Mr. Farrell noted the SEC's role in assuring the quality of MD&As. He wondered if someone could provide a critique recommending changes to MD&A. He thought that might be a way to move things along. Ms. Kearney noted that a number of individuals in OMB look at the MD&As and recommend changes. The agencies get feedback from many sources – in trying to satisfy each set of comments, you end up with huge MD&As. Ms. Hug noted that, in addition to the accountants, the budget and performance professionals look at MD&As. She also noted that at some point you run out of time for changes.

Mr. Steinberg noted that the AGA CEAR program and the Mercatus Center provide comments on the reports. He asked if OMB takes such efforts into consideration. Ms. Kearney indicated that they do but that they do not raise them to the level of mandates.

Mr. Fontenrose indicated that the project would be on the agenda for October.

Update on AAPC Draft Implementation Guide on Equipment Cleanup Costs

FASAB Project Director, Monica Valentine, noted to the Board that the purpose of this update is to inform the Board of the AAPC's current work on an implementation guide on equipment cleanup costs. She noted that in January 2008, the Accounting and Audit Policy Committee (AAPC), established the General Property, Plant, & Equipment (G-PP&E) Task Force to assist in developing implementation guidance for federal G-PP&E as it relates to SFFAS 6, SFFAS 23, and other related G-PP&E guidance developed by the FASAB. The task force includes federal agency representatives who are experiencing G-PP&E implementation issues and those who have G-PP&E implementation best practices to share with the federal community. The task force is being led by two AAPC members, Donjette L. Gilmore, Department of Defense, and Daniel Fletcher, Department of Interior.

The AAPC G-PP&E task force was divided into four subgroups that will be addressing a set of related issues. Each of the sub-groups meets separately on a regular basis to discuss its set of issues and report back to the full task force on its progress towards the development of implementation guidance. The four sub-groups are

- G-PP&E Acquisition
- G-PP&E Use
- G-PP&E Disposal
- G-PP&E Records Retention

The disposal subgroup has worked diligently over the last 18 months to develop implementation guidance on cleanup cost associated with equipment. The subgroup includes members from the following federal agencies:

- Department of Defense
- Department of Energy
- Department of the Interior

- Government Accountability Office
- General Services Administration
- National Aeronautics and Space Administration

The scope of the implementation guidance is to address cleanup costs associated with equipment as it applies to SFFAS 1, 5, 6 and TR 2. The guide focuses on clean-up of hazardous waste associated with equipment and when the cleanup should be recognized as an environmental liability and when it should be expensed as a routine operation. The guide is separated into two sections – one addressing when SFFAS 1 should be applied and the other when SFFAS 6 should be applied. In addition the guide includes two examples – one example is associated with equipment cleanup when a liability should be recognized and one is associated with equipment cleanup when the costs should be expensed as routine operations.

This proposed implementation guide provides steps that can be followed to help federal entities consistently apply existing standards to help ensure consistent, accurate and meaningful application of the standard and should allow for consistent application of the provisions listed in the current standards. The proposed guidance will also assist federal entities to provide reasonable estimates of cleanup costs associated with the disposal of equipment assets, when required.

In January 2009, the G-PP&E disposal subgroup presented a draft equipment cleanup issue paper to the AAPC for review. The AAPC asked the subgroup to better clarify when the equipment cleanup cost should be recognized as a liability and when the costs should be expensed as routine operations. The Committee also asked the subgroup to include an additional example in the guide for a nuclear ship to show the distinction between the disposal of hazardous waste materials during the normal operations of the ship and the disposal of hazardous waste materials at the point of decommissioning the ship. In May the subgroup returned to the AAPC with a revised version of the implementation guidance that included the requested clarifications as well as the ship example. The members provided some additional comments to the subgroup on the guide and agreed to review a pre-ballot exposure draft of the guidance before the July AAPC meeting and then have a ballot exposure draft available at the July meeting.

Ms. Hug asked about the status of the work of the other three subgroups. Ms. Valentine noted that the Acquisition subgroup was working on implementation guidance on the impending SFFAS 35 and did not want to issue that guidance ahead of the final release of the SFFAS. The Record Retention proposed guidance was being vetted by the community via a questionnaire related to the proposed changes to the National Archives and Records Administration general records schedule as it relates to G-PP&E. The Use subgroup was addressing an issue on contractor financing payments. Mr. Jackson asked if this was the same issue that the Department of Defense (DoD) has been dealing with over the last several years. Ms. Valentine noted that the subgroup consists of a small group of representatives from both DoD's OIG and OCFO. The group is slowly and methodically walking through all of the related guidance surrounding the issue and is hopeful that a resolution will be reached.

Adjournment

The meeting adjourned for the day at 4 PM.

Thursday, June 18, 2009

Agenda Topics

- **Steering Committee Meeting**

The Committee met briefly to discuss the implications of CBO's decision to discontinue its participation on FASAB. The members each indicated that they regretted the loss of CBO's input. Members indicated a desire to find another federal participant to replace CBO. Mr. Allen noted his preference that any replacement be substantially independent from the Administration. For example, he wondered if a judicial branch representative might be appropriate. The committee noted that the most immediate issue was to fill the budgetary shortfall. Mr. Werfel asked if the vacancy would create operational issues for the Board if the MOU were not immediately amended. Ms. Payne indicated that it would not since the operating procedures provide guidance on voting in case of a vacancy or abstention by a member. The members agreed that the sponsoring agencies should work to resolve the budgetary and membership issues arising from CBO's withdrawal.

- **AICPA Omnibus**

Overview

The FASAB discussed a draft exposure draft (ED) that proposes to adopt three accounting and financial reporting topics from the American Institute of Certified Public Accountant's (AICPA) professional auditing standards - related party transactions, subsequent events, and consideration of an entity's ability to continue as a going concern (going concern). For the June 2009 meeting, the draft ED only discussed subsequent events and going concern and staff planned to present a related party transactions discussion at the August 2009 meeting. The FASAB believed that the transition from the auditing literature to the accounting and financial reporting standards should not result in a change in practice. Accordingly, the FASAB intended to adopt accounting and financial reporting requirements essentially as they existed in the AICPA's professional literature.

In discussing the topics to be included in the ED, the Board believed that the subsequent events literature could be adopted essentially as it existed in the auditing standards. Regarding going concern, the Board decided to exclude this topic from the ED. The Board has developed a draft standard for long-term fiscal sustainability reporting and an objective of the standard is to help provide users with information to determine whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due. The Board will consider the need for additional guidance in the future and the basis for conclusions section of the ED will discuss these reasons for excluding the going concern guidance. Also, considering that

the audit literature was developed for the private sector, staff will adapt the subsequent events guidance to the federal environment by incorporating applicable examples.

Discussion

Mr. Simms introduced the project and noted that staff is continuing with efforts to adopt certain guidance for accounting and financial reporting issues that currently reside in the professional auditing literature. Staff prepared a draft ED that proposes to incorporate three topics from the auditing literature – related party transactions, subsequent events, and going concern. Presently, the draft includes guidance for subsequent events and going concern, and staff will propose guidance for related party transactions at the August 2009 meeting.

Going Concern

Mr. Simms noted that the Board had decided to adopt the accounting and financial reporting requirements essentially as they existed in the professional auditing literature; however, the requirements for going concern raise issues that may require some Board deliberations and substantive revisions to provide meaningful guidance in the federal environment. The going concern guidance in the auditing literature concerns a short-term time horizon, while federal financial reporting users are concerned about the long-term sustainability of federal programs and the Board has developed guidance for long-term sustainability reporting.

Mr. Allen stated that that the going concern guidance, as currently stated, does not have relevance in the federal government. It does not seem that the Board would be responsive if it decided to move the literature over and it is not applicable. Mr. Jackson noted that the notion of going concern at the national level could be addressed in the context of sustainability of the entity's programs rather than whether the entity could continue in existence. Mr. Allen was concerned that if a long term horizon was used in the standard, how that would affect the position of the auditor.

Mr. Dacey remarked that the revised Yellow Book notes that an auditor may want to talk about matters such as long term sustainability in an emphasis paragraph. Also, it would be uncharacteristic for an auditor to discuss a matter in an emphasis paragraph that management did not already acknowledge in the notes. The auditor typically refers to management's discussion in the notes.

The Board could say that fiscal sustainability reporting provides sufficient information so that a separate standard is not needed. Going concern is inherently a part of fiscal sustainability reporting. Also, a few entities have an "economic dependency" disclosure as well as an auditor reference because they depend on the Congress giving them money or they would not be able to operate within their revenues. The auditor reporting guidance has driven management reporting for a long time; therefore, we have the current effort to move guidance from the auditing standards to the accounting standards. So, if there is an economic dependency issue or similar item that would be

presented in an auditor's emphasis paragraph, is there a need for a corollary requirement in the accounting literature to have management report the matter? Currently, the auditor is driving some management reporting rather than generally accepted accounting principles (GAAP) requirements.

Mr. Steinberg noted that it appears that entities have to present something in the notes about the existence of a situation that presents a financial stress on the organization and the auditor would build on that by providing an emphasis paragraph. He added that it is not necessarily that a component will go out of existence, but it may not have enough money to provide the programs that they were originally legislated to provide, such as the Social Security Administration.

Mr. Farrell noted that we have sustainability reporting and there are lots of people saying "unsustainable" fiscal path but there may not be a requirement to make an assessment and disclose that the entity is on a sustainable or unsustainable path. Is there a point where we would require the preparer to make a judgment that the information presented in the statement indicates that the situation is sustainable or unsustainable?

Mr. Allen suggested that given that members are raising a number of good points and given that the federal government is unique, the Board probably should explore a project in terms of defining sustainability – what should be the horizon that would key a disclosure of concern about being able to continue to provide a program. Due to the significance of the related party transactions and going concern subjects, the Board could look at re-scoping the project.

Related Party Transactions

Mr. Steinberg noted that it seems that the related party project and the entity project would need to proceed in tandem. There is a connection between related parties and what the entities are. Until we define the entities we will not know who is related and who is not.

Mr. Dacey noted that if we confine related parties to entities that are not part of the consolidated entity, we could go ahead with a related party standard. The standard would not necessarily need to define where the "line" is. The standard could say that, if an entity has relationships on the other side of the "line," disclosures need to be made about those relationships. There are some things we will want to disclose wherever the "line" is drawn. The idea is to tell the reader enough so that they understand the nature of the relationship.

Mr. Dacey reiterated that the auditing standards are driving some of the reporting on the government-wide financial statements and noted that the AICPA is in the process of changing the auditing standards related to subsequent events, related parties, and going concern.

Mr. Ferrell added that, in the private sector, one of the concepts of related party disclosures is to look at particular transactions with related parties and to make a judgment about whether the cost structure would have been different if the entity was dealing with an independent party. In the federal government, agencies use the Department of the Treasury for their banking functions and disclose the related party relationship. However, they do not have the ability to go to anyone else and there is no other party for comparison regarding whether the cost structure would be different. There are some substantive differences between the federal government and what private industry may disclose for related parties.

Mr. Allen noted that where the FASAB decides on the boundary for the federal government entity may be different from where the Financial Accounting Standards Board (FASB) decides for companies. They may say that if you have an ability to control an organization, that organization is a part of the entity. However, we may have a number of organizations that are not part of the entity that the federal government does have the ability to control. If that is the case, our disclosures for related parties may need to be different than related parties that are outside of the entity's control but has some relationship to the entity. Where we decide on the entity's boundary will drive the related party disclosures we want to require. Mr. Dacey commented that the principle disclosures should be the same, such as the nature and extent of the relationships and dollar volume.

Mr. Jackson noted that it helps to have illustrations as part of the definition of related party transactions. This will help address questions from preparers. For example, the Air Force and Defense Logistics Agency (DLA) are reporting entities that are components of a larger reporting entity, the Department of Defense. When the Air Force buys material from the DLA, does this create a related party transaction? Mr. Schumacher and Mr. Farrell noted that wholly owned subsidiaries of parent corporations would present disclosures.

Mr. Steinberg noted that he could see three sets of guidance: (1) reporting entities within a reporting entity; (2) reporting entities within the government (the standard general ledger provides for these differently and, if the FASAB issues requirements based on reporting entities within the government, the FASAB will get questions from reporting entities within reporting entities saying that the standard general ledger does not provide for that); and (3) reporting entities dealing with reporting entities that FASAB defines outside the government entity, such as Fannie Mae.

Mr. Dacey commented that the related party disclosures are not a nuance in the federal government. They have been a part of federal government auditing, driving the disclosure requirements for a long time.

Voting on Issues

Members voted on whether to incorporate the subsequent events requirements, essentially without change, into the accounting literature.

MEMBER	INCORPORATE SUBSEQUENT EVENTS	EXCLUDE SUBSEQUENT EVENTS	COMMENTS
Allen	X		
Hug	X		
Torregrosa	X		
Steinberg	X		
Farrell	X		Include more meaningful examples in paragraph 17 of the draft ED.
Jackson	X		Examples could be more applicable to the federal government
Patton	X		
Schumacher	X		
Dacey	X		
Werfel	X		

Mr. Jackson noted that paragraph 16 of the draft ED discusses both recognized events and nonrecognized events. The last sentence of paragraph 16 states,

Subsequent events such as changes in the quoted market price of securities ordinarily should not result in adjustment of the financial statements because such changes typically reflect a concurrent evaluation of new conditions.

This sentence could be moved to paragraph 17 because paragraph 17 is solely devoted to nonrecognized events.

Because importance to a user's understanding would be difficult to enforce, Mr. Dacey suggested the following change to paragraph 14 of the draft ED.

Nonrecognized events consist of those events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date. These events should not result in adjustment of the financial statements. Some of these events, however, may be of such a nature that their disclosure in the notes to the financial statements is important to facilitating a user's understanding of the financial statements required to keep the financial statements from being misleading.

Next, staff suggested excluding the going concern topic from the ED and members voted on the recommendation.

MEMBER	EXCLUDE GOING CONCERN	INCORPORATE GOING CONCERN	COMMENTS
Allen	X		Within the discussion of why we excluded the topic, we could state that the Board has the sustainability standard and that the FASAB will consider, in the future, the need for additional disclosures or audit emphasis because what would "trigger" the responsibility for the auditor emphasis? We should indicate that we will consider something in the future.
Hug	X		Should include the reason for exclusion, and It would be difficult to revise the language for the federal government

Torregrosa	X		The time spent revising the language would not be worth the return and resources need to focus on the reporting model project
Steinberg	X		The going concern notion was developed for the private sector, and it does not apply to a national government. On the other hand, there is something similar that the federal government has – continuity of programs. If the Board wanted to have a parallel to going concern in the federal government, it would be continuity of programs.
Farrell	X		Should include the reason for excluding the topic. The reason being that the FASAB has a draft standard on long term fiscal sustainability and this standard would fill that void.
Jackson	X		The topic is being addressed from the sustainability perspective. An agency may “disappear” because the congress decided to consolidate the entity into another entity.
Patton	X, concerned that the entity project could bring in some unit for which going concern issues are a possibility and the accounting standards would need to include some guidance to allow the unit and the auditor to report on the matter		
Schumacher	X		Include a the reason for exclusion
Dacey	X		For an agency, there are some other issues that should be considered separately from this project, and the GAO will dedicate their resources to help draft that standard because a lot of reporting is driven by the auditing standards.
Werfel	X		The federal government is unique.

Conclusion: The FASAB agreed to incorporate the subsequent events requirements, essentially without change, into the accounting literature. However, the FASAB decided to exclude the going concern guidance. The Board has a draft standard for long term sustainability reporting and will consider the need for additional guidance in the future. The basis for conclusion section of the ED will explain the Board’s reason for excluding the going concern guidance and staff will incorporate member’s comments and propose guidance for related party transactions at the August 2009 meeting.

- **Natural Resources**

Ms. Ranagan, staff member, began the session by providing a brief history of the project and summarizing the main changes made to the revised draft exposure draft (ED) since the April meeting. She noted that a question had been added to again request feedback on the disclosure of fiduciary activities because staff had not received

a substantive response from the Department of Interior (DOI) regarding the cost / benefit of the disclosures; however, she noted that since the requirement for fiduciary activities disclosures is not a central aspect of the ED and has not changed since the previous ED, she felt that the board could go ahead and release the revised ED without resolving the issue.

Ms. Ranagan noted that she had received favorable feedback from several of the board members and the DOI field test team and she is not aware of any board members that plan to prepare an alternative view at this time. She requested board member feedback on the changes made as well as Mr. Steinberg's request that the proposed effective date be reconsidered. She stated that her main objective is to obtain approval of the pre-ballot draft revised ED so that she can provide a ballot draft to members before June 30.

Fiduciary Activities Disclosure

Mr. Allen said that he believes it is okay to expose with the fiduciary asset disclosure remaining in because it is better to expose with the more stringent requirements first; the board can always decide to reduce the requirements after it receives feedback.

Mr. Torregrosa (CBO representative) inquired if staff had requested that someone from the Office of Management and Budget (OMB) call DOI to push them to respond to the question on disclosure of fiduciary activities. Ms. Ranagan replied that she had not done that. Mr. Torregrosa then noted that DOI appears unresponsive at times. Ms. Ranagan responded that she believes that the lack of response by DOI on the fiduciary activities issue is not because they do not deem it important but rather due to a lack of resources as well as the sensitive nature of the topic.

Exposure Period

Mr. Allen asked the other members if they thought the deadline for comments ought to be extended. Reasons for extending the deadline include providing enough time to receive comments from the "on the ground" (DOI) audit partner, particularly with respect to the valuation flexibility provided by the proposed standard. Some did not want to extend because massive outreach efforts and a 6-month comment deadline for the previous ED had only resulted in nine comment letters and people tend to wait until the last minute to respond, regardless of how long the comment period is.

Mr. Dacey stated that it is important to find out if the auditors feel comfortable that they could audit the quantity; are they willing to accept the representation that these quantities are based upon with no way to validate it. That would be a legitimate question that the board needs to find out so it can deal with it.

Mr. Allen said the proposed standard includes a lot of flexibility and the board needs the auditor's feedback on it. The board also needs DOI's feedback on the cost / benefit of the fiduciary activities disclosure.

Mr. Steinberg countered that if DOI does not respond within the 60 days or requests more time, the board can always extend the comment period.

Mr. Allen requested a vote on extending the deadline for comments. The vote was 6-4 in favor of leaving the 60-day comment period, as follows (names in *italics* are acting):

Member	Leave as 60 days	Extend to January	Comments
Allen		X	
Dacey		X	Could be okay with leaving it since we have to get the feedback from DOI anyways before we go any further, but am sensitive to the audit season and the effect on the entities that are receiving the distributions.
Farrell	X		Not sure what difference an extra 30 days would make if they are not responding now.
<i>Hug (Treasury)</i>	X		
Jackson		X	Voted to extend but noted that they can always write in and say they need more time.
Patton	X		Leave it the way it is for now.
Schumacher	X		Leave it the way it is and then if we have to extend it like we did last time, then we will.
Steinberg	X		
<i>Torregrosa (CBO)</i>	X		
Werfel		X	

Effective Date

Mr. Allen asked Mr. Steinberg if he wanted the board to vote on the effective date. Mr. Steinberg said normally he would say that an effective date four months after issuance is pretty unreasonable, but he is okay leaving the effective date as is for the same rationale that Mr. Allen provided regarding the fiduciary assets disclosure – expose the more stringent requirements first and then the board can make the requirements less stringent (i.e., push back the effective date) based on comments received.

Paragraph 10

Mr. Dacey asked about the intent of the last sentence in par. 10 (“This Statement does not preclude entities from reporting any information about other types of federally-owned natural resources.”). Ms. Ranagan responded by first noting that similar language was included in SFFAS 33 about not precluding agencies from displaying and disclosing information about other long-term assumptions. Then, she stated that the statement was added in reference to a comment Mr. Farrell had made at a previous board meeting. There is nothing in the proposed standards on oil and gas that would preclude entities from looking at SFFAC 5 and then going through the hierarchy and applying the standard on oil and gas to other types of natural resources. She noted that

staff believes the statement could lead preparers and auditors to think about whether they should be recognizing other material types of natural resources.

Mr. Allen noted that he liked the sentence in par. 10 because the likelihood of the board returning to other types of natural resources in the future is very slim. The question about the statement in par. 10 is how encouraging does the board want to be? The statement “not precluded” is much less encouraging than “the auditors may apply.” Mr. Dacey responded that whatever position the board takes, there should be an explanation in the basis for conclusions (BfC) and a corresponding question for respondents because it is a significant issue.

Mr. Dacey recommended that the concept of recognition be added in par. 10. The proposed sentence was revised from “reporting any information” to “recognizing or otherwise reporting information.”

Mr. Dacey also noted that the balance of fiduciary activities might change as a result of the implications of par. 10 because there is a lot of grazing on fiduciary lands. He suggested that staff add a question to request feedback from respondents on the potential impact of par. 10. Mr. Farrell noted that the phrase “federally-owned natural resources” in par. 10 would exclude fiduciary assets. Mr. Dacey agreed it would if that was the intent of the board.

Mr. Dacey said that the inclusion of par. 10 means the board is bordering on saying “these and like assets should be fair valued.” The question becomes is that a bad thing?

Mr. Jackson noted that the hierarchy of generally accepted accounting principles [as laid out in SFFAS 34¹] should get preparers and auditors to this proposed standard for other natural resources as well through analogy.

Mr. Allen noted that par. 10’s language is neutral; it is neither encouraging nor precluding agencies from applying the standard to other natural resources through analogy.

Mr. Farrell suggested that staff revise the last sentence in par. A2 – “Additional categories of natural resources may be addressed in a future project” – because the board does not intend at this time to ever go back to address any of the other issues, but believes if such assets become material to other entities, they can follow the hierarchy and find appropriate accounting guidance on recording them.

Mr. Patton noted that it is generally a bad idea to put things that are quasi-standards in the BfC; if the board is going to say it, it should say it up front in the standard.

¹ SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, was approved by the board and sent to the principals for a 90-day review period; the board expects to issue SFFAS 34 as final in July 2009.

Mr. Dacey said he believes the board should include par. 10 and ask a question about it, because otherwise, if the board omits it from the ED, it will never get feedback on it.

Mr. Allen stated that par. 10 could say something like, “While not specifically addressed, entities may consider guidance similar to this standard in their consideration of whether they ought to recognize and report other types of natural resources.”

Mr. Jackson noted that par. 10 could not be applied to oil and gas assets not under lease because they are addressed by the proposed standard. The other board members agreed to revise the par. to read “federally-owned natural resources other than oil and gas.”

Mr. Allen stated that a question related to par. 10 could be included to ask “Do you believe this could result in inappropriate reporting.”

Mr. Patton agreed with Messrs. Dacey and Farrell that there is a need for a paragraph in the BfC that explains why par. 10 is being included.

Mr. Allen called for a vote on whether to drop par. 10 or revise it and include a question for respondents. At the time of the vote, the revised language entered on the screen by Ms. Payne was:

- “10. Federal lands contain a variety of natural resources other than oil and gas that are not specifically addressed by this Statement. This Statement does not preclude entities from recognizing or otherwise reporting information about other types of federally-owned natural resources.”

The vote was unanimous in favor of revising par. 10 and adding a question, as follows:

Member	Drop par. 10	Revise par. 10	Comments
Allen		X	Support going forward with the proposed modifications to this with a question.
Dacey		X	As long as there is a related question for respondents.
Farrell		X	Originally favored dropping par. 10 but okay with including as long as there is a related question for respondents.
Hug (Treasury)		X	Do not see any reason why we cannot ask a question about it.
Jackson		X	Originally favored dropping par. 10 but okay with including as long as there is a related question for respondents.
Kearney (OMB)		X	OMB would favor dropping the sentence in par. 10 but they do not have a problem going forward with the ED with a question for respondents.
Patton		X	As long as there is a related question for respondents and a par. in the BfC that explains

			why we are including par. 10.
Schumacher		X	As long as there is a related question for respondents.
Steinberg		X	No problem including the revised language and a question for respondents.
<i>Torregrosa</i> (CBO)		X	Originally favored dropping par. 10 but okay with including as long as there is a related question for respondents.

Other

Mr. Schumacher asked if the information required in new par. 42f (“a schedule of the total amount of estimated petroleum royalties to be distributed to other federal entities, by entity”) was readily available. Ms. Ranagan responded that DOI would provide the information based on the calculation of its estimated petroleum royalties asset. Mr. Schumacher responded that he thought there was some problem with the federal entities not knowing they would be getting it. Ms. Ranagan replied that the federal entities know that they are getting it; the problem was that the previous ED required the receiving entities to recognize a receivable on their balance sheet and that caused significant concerns because several adjustments would need to be made during the tight year-end audit timeframe because of year-end accruals and audit adjustments. In addition, one of the primary reasons for moving to disclosure versus recognition was because over 50% of the distributions each year go to the Treasury General Fund that is not going to recognize a receivable so DOI would need to keep that portion on its statement anyway. Ms. Ranagan said that DOI knows to whom the distributions will be going but some of the estimations will be less reliable (e.g., there is no historical trend for distributions that go to the Department of Energy Strategic Petroleum Reserve because of annual policy decisions, etc, so that estimate will be much more difficult).

Mr. Dacey pointed out that the terminology in question two (Q2) regarding the discount rate should be the same as the terminology used in par. 20 (discount rate “based on interest rates on marketable Treasury securities with maturities consistent with the cash flows being discounted” versus simply “a risk-free discount rate”). Ms. Ranagan responded that she would make them consistent.

Mr. Dacey inquired if the amount to be distributed to the other federal entities in par. 44 is over time forever or for a specified time period (e.g., 12 months). Ms. Ranagan responded that it is the amount to be distributed over time (i.e., the entities’ portions of the entire asset).

Ms. Kearney (sitting in for Mr. Werfel from OMB) requested that the language in the BfC regarding the reason why the present value measurement approach preferred in the ED is not fair value be revised to note that it is not the use of the risk-free discount rate in and of itself that prevents the measure from being fair value but, rather, the lack of consideration of the market risk premium. Ms. Ranagan responded that the language would be clarified.

Mr. Schumacher stated that he had a couple of minor editorial comments that he would provide to staff after the meeting.

Ms. Payne noted that the changes were not significant enough to require another pre-ballot draft so staff would be sending a ballot draft via email within the next week. She asked if the members wanted to reconsider the 60-day comment period given the discussion of par. 10 and the potential impact to agencies other than DOI. Mr. Farrell asked if staff could pinpoint the other agencies that would potentially be impacted (e.g., Department of Agriculture and Forest Service) and send the ED to them with a note. Ms. Payne responded that staff would do that but noted that the agencies will be heavily engaged in the year-end financial statement audit. None of the board members argued to extend the exposure period beyond the 60 days previously agreed to.

CONCLUSION / NEXT STEPS: With some minor wording changes, and the inclusion of additional discussion of other types of natural resources with a corresponding question for respondents, the members approved the pre-ballot draft and gave staff the approval to provide a ballot draft. Staff will provide a ballot draft via email within a week of the meeting.

Adjournment

The meeting adjourned at 12:30 PM.