

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

March 2 - 3, 2005

Room 7C13

441 G Street NW

Washington, DC 20548

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Wednesday, March 2, 2005

Administrative Matters

- **Attendance**

The following members were present: Chairman Mosso, Messrs. Dacey, Farrell, Patton, Reid, Schumacher, Zavada, and Ms. Cohen and Ms. Robinson. Mr. Anania attended by phone.

The general counsel, Jeff Jacobson, and the executive director, Wendy Comes, were present.

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- **Approval of Minutes**

Chairman Mosso noted that the minutes had been approved in advance of the meeting and a copy of the final minutes is in the binders.

- **Other Administrative Matters**

Executive Director Comes announced the cancellation of the December 7-8, 2005 meeting. Due to the conflict for federal members involved in preparing the consolidated financial report – due for publication each December 15th – a meeting in December is not feasible. The 2006 calendar will be arranged so that meetings occur – to the extensive feasible – in odd numbered months. Members were asked to provide any known conflicts to Ms. Comes as soon as possible.

Ms. Comes inquired about the nature of any comments on the pre-ballot draft statement of federal financial accounting standards regarding inter-entity cost. Members indicated that any comments were editorial in nature rather than technical. Therefore, the discussion scheduled for the afternoon session was cancelled and members were asked to provide their comments to Melissa Loughan.

Agenda Topics

- **Concepts – Objectives**

Ms. Comes opened the Concepts – Objectives discussion by explaining to the Board that a tentative staff plan has been developed for this project and that the plan will be shared with the Board at the end of the Objectives “white paper” outline discussion. Ms. Comes noted that the objectives for the meeting were (1) to get consensus from the Board on the objectives of the “white paper” outline and (2) to determine if those objectives would be met by the proposed outline.

Ms. Robinson commented that the outline was evolving as the Board had expected. She also commented that she would like to see a more explicit discussion on the relationship between the Federal Financial Report (FFR) and the Budget. Ms. Robinson stated that she would benefit from an analysis that would include a description of (1) the distinctions in information between the FFR and the Budget and (2) how these two reports compliment one another (or not) and should they compliment one-another.

Mr. Patton asked if the purpose of the “white paper” was to clarify SFFAC 1 or is it an opportunity to include additional objectives for consideration? Ms. Comes noted that the purpose of the “white paper” is to move towards a concept statement that could modify and/or add to SFFAC 1 as necessary. Ms. Comes added that she would also like to survey the community on its ideas on each of the four current objectives. Since we do not currently have the resources to survey the entire community, we will look to a smaller groups with expertise related to each of the four objectives. For example, on operating performance a group including individuals versed in GPRA and possibly including former Board members could be convened for discussion of options.

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Mr. Dacey asked if the purpose of the concept statement is for use by the Board to help guide Board's direction or is it to be used by the user community to interpret or apply the standards. Ms. Comes noted that main purpose of the concept statement was its use by the Board in setting its direction. Mr. Mosso noted that the users have always been kept in mind as an audience when discussing the concepts. Mr. Mosso also stated that the revised concepts could be used as a basis for the Board's communicating to the user community.

Mr. Anania (along with the Board Chairman and another Board member) complimented Mr. Jacobson on his paper to the Board on the "Statutory Framework for External Federal Financial Reporting". Mr. Anania expressed his hopes that once the drafting of the concepts document begins the Board would look at the "whole world" of federal reporting, scope it down to where the Board believes its role and responsibilities are in federal reporting, and then develop a strategic plan that would tie into the AICPA recommendations. He also asked the Board if they agreed with his approach or if they were leaning more towards the approach described in the "white paper" outline section C. "Nature and Limits of Federal Financial Reporting." Mr. Mosso agreed with taking a broader approach to the objectives of federal financial reporting and then drill down to FASAB's role and responsibilities. Mr. Anania also suggested adding this broad approach to the concepts project objectives. Ms. Comes agreed with this addition. Ms. Robinson also agreed with Mr. Anania's approach being added to the project objectives.

Mr. Patton expressed his agreement with the "narrowing down" process discussed in section D.2 of the "white paper" outline. He also asked if the concepts statement will end up with some operational statements, such as "the objectives of FASAB are...." Ms. Comes noted that she also would like to see the project take an operational direction. Ms. Comes noted that the project objectives should be expanded to include more details on what needs to be clarified in the current objectives.

Mr. Patton asked if the stewardship and operating performance objectives would allow for the consideration of non-monetary information. Mr. Schumacher had a similar question about non-monetary information as described in the "white paper" outline. Ms. Comes noted that one aspect of non-monetary information relates to performance reporting in the context of a performance and accountability report. One example of other aspects of non-monetary information is demonstrated in the reporting of stewardship land and heritage assets. Ms. Comes also gave reference to a paper about GASB and GFOA written by Sam McCall, City Auditor of Tallahassee, Florida. The paper discusses the tension between GASB and GFOA on the issue of performance reporting and the roles and responsibilities. The paper also describes why in the government performance reporting is essential for fair presentation and adequate communication to users.

Mr. Mosso asked what the next steps for the conceptual framework project are. Ms. Comes noted a conceptual framework triangle illustrated in the 12/28/2004 issue of *The FASB Report* and included in tab G of the meeting materials. She asked the Board if all of the areas covered in that illustration should be encompassed in this phase of the concepts project or if the areas other than objectives, elements, and the reporting model

should be addressed in separate phases of the framework project. Ms. Comes recommended addressing those three areas first and then moving on to the others separately due to the fundamental nature of first three areas. Mr. Mosso suggested using the triangle as a model to guide the Board on the full scope of the conceptual framework project.

CONCLUSION: Ms. Comes stated that since the retirement of staff member Bob Bramlett, she plans to designate one staff member as the integrator of the concepts project and then have assigned pieces of the project to go to two or three other members of the staff. This first phase would include the areas addressed in sections III.A-C of the outline. She stated that a good draft could be accomplished in 2 or 3 meetings. Staff would also be asked to coordinate roundtables for each of the four objectives and at those roundtables share a draft paper describing the Board's current thinking on that objective. She stated that she would like to see about 10-12 participants included in each meeting and possibly include two former Board members in each of those groups.

- **Fiduciary Activities**

Staff presented three issues for discussion and a preliminary draft revision of the April 2003 Exposure Draft ("revised ED") that incorporated changes that had been recommended by the Board or FASAB staff. The three issues developed in the briefing materials were:

- Unpaid Payroll Withholdings and Garnishments
- Deposit Fund Activity in the Federal Government
- Seized Property

Payroll Withholdings and Garnishments

Staff opened the discussion of unpaid payroll withholdings, noting that several Board members at the December 2004 Board meeting had indicated that unpaid payroll withholdings might be excluded from the reporting requirements for fiduciary activities. The rationale was the payroll is an element of the Federal Government's cost of operations and the related liabilities should be reported on the face of the balance sheet, rather than in the fiduciary note disclosure.

The Board members had no objections to the draft exclusion paragraph, and turned the discussion to deposit fund activity in the Federal Government.

Deposit Fund Activity in the Federal Government

Ms. Robinson noted that the staff paper recommended the rescission of paragraph 370 of SFFAS 7, which was not sufficiently clear on whether deposit funds are required to be included in the component entity's financial statements. Ms. Robinson asked if the revised ED should include an explicit statement that deposit funds not meeting the definition of fiduciary activity should be reported on the face of the principal financial statements. Mr. Mosso said that there would be no harm in adding a positive statement

about deposit funds. Staff offered to draft an additional sentence, such as “For example, a deposit fund that does not meet the definition of fiduciary activity should be reported on the balance sheet, in accordance with current standards.” Ms. Comes noted that staff had considered this issue before the meeting. She expressed concern that some deposit funds had predominantly revenues or expenses held in a “clearing account status”, rather than balance sheet items, and said that “would be subject to other reporting requirements” would be preferable. Alternatively, a staff recommendation to include a general reference to the principal financial statements would also be acceptable.

Seized Property

Staff noted that seized property meets the definition of fiduciary activities, and recommended that conforming changes be made to the revised ED to amend SFFAS 3 for reporting requirements for seized property.

Board members had no objections to the staff recommendation for seized property.

The discussion was then opened to the revised ED for comments from the Board members.

Balance Sheet reference

Mr. Schumacher noted that the revised ED provided for a sentence at the bottom of the balance sheet indicating that fiduciary assets were not reported on the balance sheet, and directing the reader to the proposed fiduciary note disclosure. He asked if there could be a line item without an amount. Ms. Robinson said that at the December Board meeting, the Board had decided not to require a separate principal financial statement and explicitly have a statement that fiduciary assets were not assets of the Federal Government, and that a line item would be contrary to that idea. She said that it was very important to indicate that fiduciary assets do not belong to the Federal Government.

Ms. Comes said at the last Board meeting, it had been suggested that the reference be in Note 1 (Significant Accounting Policies) but that FASAB standards do not currently require a Note 1 or a note on accounting policies. She said that it was a dilemma as to how to accomplish the reference. Several Board members said that the bottom of the balance sheet was not a good place for the reference to the fiduciary note disclosure.

Ms. Comes said that perhaps the revised ED could reference the source requirement for Note 1, and state that Note 1 should include the statement that fiduciary assets and liabilities are not recognized on the balance sheet. Mr. Mosso agreed. Staff said that this could be added in the paragraph numbered 15 in the briefing materials copy of the revised ED.

Terminology

Mr. Patton noted that although the title of the revised ED is “Fiduciary Activities,” the focus of the proposed standard is on the fact that fiduciary resources and obligations are not assets or liabilities of the reporting entity. He said that he objected to the term “fiduciary asset” since fiduciary items are not assets of the Federal Government. He said that he preferred the terms “fiduciary resources,” and “fiduciary obligations” instead of “fiduciary liabilities.” Mr. Mosso replied that they are assets; what we are saying is that they are assets owned by the beneficiary, held in a fiduciary capacity. Mr. Mosso said that he did not see any problem using in the term “asset.”

Mr. Patton said that they are not Federal assets. Mr. Mosso said that they are assets, and that the note explains that they are owned by the beneficiaries. Mr. Patton said that including them in the statements implied that they were Federal assets. Mr. Farrell suggested the term “non-Federal fiduciary assets.” Staff noted that in the glossary, the definition of “fiduciary” used as an adjective said that in the proposed standard, “fiduciary” referred to a situation where the Federal Government had custody over assets in which non-Federal parties have an ownership interest that the Federal Government must uphold. Mr. Jacobson said that the glossary reference to “fiduciary assets” referred to the same definition, and made it clear what the term means.

Ms. Robinson recalled a previous Board discussion that the inclusion of fiduciary activities in the Federal component entity’s financial statements might imply that the assets belonged to the Federal Government. She said that the issue here was how much contortion is needed to make the distinction clear. She said that the Board needs to decide whether the glossary and the term are clear enough for an informed reader to understand what is being reported. Mr. Mosso said that there would be a note in “accounting policy” that explains the nature of the fiduciary relationship. He said that you have to call them something. Staff agreed, and said that the disclosure of the flows was called a schedule of fiduciary activities, and that the disclosure of the other information was called a schedule of fiduciary net assets. Staff directed the Board to the draft illustration of the note disclosure in the appendix of the draft revised exposure draft.

Mr. Jacobson asked Mr. Patton if his concerns might be addressed if, at the beginning of the proposed standard (page 7, line 40), where it states that fiduciary assets are not to be recognized on the balance sheet, if it stated, “Fiduciary assets are not Federal assets and therefore are not to be recognized on the balance sheet.” Ms. Robinson said that it is an issue of your philosophy of presentation. She said that at the Congressional Budget Office, there was a rule that any table should be able to stand on its own. She said that the question is whether the proposed schedule is clear enough to prevent misunderstanding. Ms. Comes said that one way to demonstrate the degree of explanation necessary would be for staff to come back with a comprehensive disclosure for a hypothetical component entity. She said that with the revision to paragraph 15, an explanation of fiduciary activities will appear in Note 1. In addition, paragraph 16 requires a narrative in the fiduciary note disclosure explaining the nature of the fiduciary relationship, emphasizing who the owners are and stating why the Federal Government

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is involved in the activity. She said that the actual disclosure will emphasize the fact that the Federal government does not own the fiduciary assets. Ms. Comes recommended that the next version of the exposure draft include such an illustration.

Mr. Mosso said that Mr. Patton objected to the term “asset.” Ms. Comes replied that there is a risk in confusing interested readers who want to see a report that they can understand. In addition, logistically, we have proposed imposing federal generally accepted accounting principles (GAAP) upon fiduciary reporting such that assets and liabilities and related flows would be afforded recognition and measurement consistent with federal GAAP. . If we now deny that the elements are assets and liabilities, and would have to deny that there are revenues and expenses, how will we impose the rest of the GAAP requirements on the numbers that will be reported? Mr. Mosso agreed.

Mr. Patton said that he does not agree that the elements are assets. Ms. Comes believes they are assets of the beneficial owners and replied that introducing novel terms would only serve to confuse the reader.

Mr. Mosso asked about the other suggestion, that the term “non-Federal” be inserted. Mr. Farrell said that this would only be necessary about four times in the standard. He said that maybe the re-written footnote would be an alternative. He said that there is one awkward spot where you would have “non-valued non-Federal fiduciary assets.” Mr. Mosso asked if other Board members were as concerned as Mr. Patton about the terminology.

Mr. Anania said that he shared the general concern, but that an alternative solution would be to include several times in the summary, the introduction and perhaps a third time, an explanation that the term as used in this document refers to “non-Federal” as indicating “not owned by the Federal government.” He said that this would be a mechanical solution.

Disaggregation of information on the Government-wide financial report

Mr. Anania added that he had a concern regarding the Government-wide financial report. He asked whether the proposed standard was sufficiently clear on what is required. Ms. Ann Davis, representing Mr. Reid, said that Treasury had concerns about whether the disclosure might be too lengthy. Mr. Anania asked whether the “materiality box” would allow a sufficient level of summarization. Mr. Schumacher said that he had the same question. He also said that he had the same concern about the requirement to report the liability for fiduciary Fund Balance with Treasury separately, regardless of whether it might be material or not. Mr. Schumacher said that he concluded that it does go back to the materiality clause in the standard. Ms. Comes said that the term “reported” may need to be changed to “recognize” and that staff did not intend to require a separate line item in the financial statements. Ms. Comes said that unless the Board objected, staff could come back with language that required only component entities with “major” fiduciary assets to be listed in the Government-wide note and to allow all others to be aggregated. Mr. Farrell suggested that the list could be called a “summary list.” Ms. Comes agreed.

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Staff offered to add an illustration of the Government-wide note disclosure to the appendix of the exposure draft.

Mr. Dacey said that in his opinion, the summary listing only fiduciary net assets by component entity was insufficient disclosure on the Government-wide level. He asked the Board to think about this requirement, and said that reporting only the total by component entity would result in the loss of some clarity about what types of activities and assets were being reported. He said that he does not know what the right balance is, but that he would prefer to see more detail at the Government-wide level. He said that the standard did not even require a narrative explanation of fiduciary activity. Members and staff agreed that a requirement for the narrative should be added to the next version.

Ms. Comes asked Mr. Dacey if he is interested in seeing a parallel to the component level reporting for the top two or three fiduciary activities, or for all fiduciary activities. Mr. Dacey said that he would not go that far, but that he wanted to see a narrative disclosure simply describing the top two or three activities of the Federal government. He said that this would help the reader to comprehend what fiduciary activities are. He said that the current requirements for dedicated collections might contain useful examples that might be carried over into the fiduciary standard. Mr. Mosso said that staff would do so.

Fiduciary Activities to be Reported Individually

Mr. Patton referred to the language in paragraph 17 regarding disaggregation. That paragraph contained a requirement carried over from the April 2003 exposure draft to report individually activities that comprised more than 25 percent of a component's total fiduciary activity. He noted that this was unclear, because it did not specify whether it was 25 percent of income, outflow, or ending balances of certain elements. Board members agreed with a staff suggestion that this requirement should be changed to language similar to that in SFFAS 27, *Identifying and Reporting Earmarked Funds*, which described both quantitative and qualitative factors to consider in selecting earmarked funds to be reported individually.

Illustrative Transactions

Mr. Dacey asked about the flow of information for Fund Balance with Treasury through the consolidated statements. Staff replied that staff was already working on a clarification of the illustration to provide additional separation of the note disclosure information from the information that would be recognized on the face of the financial statements. Staff said that working the eliminations is a very complex issue, and that is why the illustration is included. Mr. Dacey said that this would be helpful.

Mr. Dacey asked whether fiduciary cash held by Treasury would show up as a liability in the financial statements. Staff confirmed that the liability would be reported. Staff said that it is easier to visualize the liability for investments in Treasury securities, because the concept of "debt held by the public" is already familiar. However, there is also a

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liability for Fund Balance with Treasury that is held for beneficiaries, and that would be reported on the face of the Government-wide balance sheet. The illustration includes both liabilities.

Mr. Patton questioned whether there was a need for illustrative transactions including journal entries. Staff explained that it is actually quite difficult to do the accounting in such a way that would fulfill all the information requirements of the proposed standard, particularly on the Government-wide level. For example, several new U.S. Government Standard General Ledger accounts will be required to accumulate information for the required note disclosure. Staff said that the case study would help to establish those new accounts and have the new accounts implemented in a uniform way throughout the Federal Government, rather than have each agency fend for itself in terms of how to capture the necessary information. Mr. Farrell asked if we could distribute the case study in a form other than the standard. Staff noted that SFFAS 27, the companion standard to fiduciary, included a case study, and that the April 2003 exposure draft included a case study. Mr. Mosso recommended that the case study be retained in at least the exposure draft.

Mr. Mosso said that staff will e-mail a revised draft to the Board members prior to the May 2005 Board meeting. He said that the next step would be a pre-ballot draft for an Exposure Draft to be issued.

Conclusions

- 1) Staff will draft language for paragraph 15, referring to the OMB Form and Content requirement for Note 1, and requiring that an explanation of fiduciary activity be included in Note 1.
- 2) Staff will add narrative language to the illustration of the fiduciary note disclosure.
- 3) Staff will add language allowing aggregation in the list of component entities in the Government-wide note disclosure and calling it a "summary list."
- 4) Staff will add an illustration of the Government-wide note disclosure in the appendix to the exposure draft.
- 5) Staff will add a requirement for a narrative disclosure to the Government-wide note disclosure, similar to the requirement on the component level, and including a description of the top two or three fiduciary activities of the Federal Government as an example. Staff will review the current requirements for dedicated collections for examples.
- 6) Staff will change the language regarding disaggregation on a quantitative basis to language describing both quantitative and qualitative factors to consider, similar to SFFAS 27.
- 7) Staff will continue to work on the illustration of the consolidation worksheet to provide more separation of information required in the note disclosure and information required on the face of the financial statements.
- 8) Staff will send a revised draft to the Board members as soon as possible so that a pre-ballot draft could be presented to the Board at the May 2005 Board meeting.

- **Display Options**

(The discussion of "Display Options" was moved up from its scheduled start time on Thursday due to the availability of time on Wednesday.)

Ms. Ranagan introduced the topic by explaining that it was not a formal project, but rather a product resulting from staff observations of prior Board meetings. Ms. Ranagan explained that, over the course of the last year, staff has observed that various Board members have suggested alternative ways that the Board can bring attention to certain liabilities. She expressed her belief that, while deliberating on the liability definition and social insurance projects, the Board members may like options to consider in addition to recognizing liabilities on a traditional balance sheet. Staff felt it would be helpful to capture these ideas on paper so the Board members could decide if they are interested in pursuing any of these ideas further or just keep the options in the back of their minds as they deliberate the social insurance liability project.

Ms. Ranagan stated that if the Board finds this particular type of research helpful, staff could then go on to address note disclosures, which was not covered by the paper presented. She also noted that these display options could potentially be applied to other elements (e.g., assets).

Ms. Ranagan described the organization of the paper starting with a list of the three different display options to be presented: reporting exactitude, reporting equation, and reporting concepts. She brought the Board's attention to an excerpt from the report, "The Future of the Accounting Profession," the product of a November 2003 meeting of the American Assembly, which is affiliated with Columbia University. She emphasized that the report represents general agreement from participants but no one was asked to sign it. The meeting included participants from FASB, PCAOB, SEC, IASB, academic institutions, and corporations as well as the Comptroller General of the United States. Ms. Ranagan noted that she found the excerpt helpful in setting the tone for the paper and the topics to be presented. She referred members to the three appendices: (1) an article from *The Economist*, "For accounts to reflect reality, they need to be more volatile and less precise;" (2) Chapter 13. Stewardship from the FY 2006 Analytical Perspectives; and, (3) GASB Exposure Draft on concepts related to Communication Methods.

Ms. Ranagan inquired if there were any general comments before she began discussing each of the display options individually. There were no general comments from members so Ms. Ranagan began her discussion of the first display option presented, "Reporting Exactitude." She highlighted two objectives from SFFAC 1: under Operating Performance, "2A. the costs of providing specific programs and activities and the composition of, and changes in, these costs" and under Stewardship, "3B. future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due." Ms. Ranagan felt that the display options being presented to the Board would help address these two objectives if the Board ultimately decides that those objectives are under the Board's domain, as opposed to some other entity within government.

Ms. Ranagan quoted the following main point from “The Future of the Accounting Profession” excerpt:

What Should Financial Reporting Look Like in the Future?

The balance sheet of the future will be a more flexible instrument, able to adapt to a wide variety of industries and circumstances. It will include a variety of non-financial information, and should encompass a wider array of numbers so that users recognize when management and auditors are making judgments on transactions and asset valuations that are not, and cannot be, ‘hard and fast.’

Ms. Ranagan stated the main point being communicated by the American Assembly was that traditional financial statements, which include point estimates, may mislead users to believe that the numbers on the financial statements are “hard and fast.” However, there are some note disclosures that indicate that is not the case. She provided the example of Note 12, Environmental and Disposal Liabilities, in the 2004 Financial Report of the U.S. Government, which states “estimating DOE’s environmental cleanup liability requires making assumptions about future activities and is inherently uncertain.” However, that uncertainty is buried in the footnotes and the significant estimates and assumptions that support that point estimate are not evident on the balance sheet.

Ms. Ranagan quoted the following excerpt from “The Future of the Accounting Profession” excerpt related to audit considerations:

**In order for this new kind of financial reporting model
to be implemented, a new kind of audit opinion must also exist**

She recalled that Mr. Schumacher had raised a concern in a previous meeting about how auditors would audit uncertainty if it were presented on the face of the financial statements. Ms. Ranagan stated that she believes while the information presented should always contain the appropriate balance of relevance and reliability and proper consideration should be given to cost/benefit, the logistical audit concerns should be secondary; audit requirements should not drive what gets reported as financial information.

Ms. Ranagan summarized that traditional financial statements are made up of point estimates and do not provide the sense of uncertainty that is inherent in producing the statements.

Ms. Ranagan emphasized that the options presented in this paper are intended to encourage a discussion by Board members and do not require any decision-making by members. Individual Board member “leanings” or thoughts towards each of these options may prove helpful for staff working on the liability-related projects.

One option suggested by a Board member in a previous meeting was to present the uncertainty on the face of the balance sheet by segregating liabilities into levels of uncertainty. Ms. Ranagan presented a Balance Sheet and Statement of Net Cost that

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illustrated three levels of uncertainty: (1) short-term due and payable; (2) near-term actuarial payable; and (3) long-range estimate payable. Uncertainty was farther defined through the use of a range of estimates versus one point estimate. She indicated that the supporting footnote 13 could include the assumptions used to develop the ranges (e.g., the discount rate might range from 5 to 5 ½ percent).

Another option suggested by a Board member in a previous meeting was to present changes in liabilities resulting from changes in normal operations separately from changes in liabilities resulting from changes in assumptions. Ms. Ranagan presented a Balance Sheet and Statement of Net Cost to illustrate how one might present the changes in liability due to changes in assumptions separately from the liability without running them through the Statement of Net Cost.

Ms. Ranagan noted that she had included a list of things that would need to be taken into consideration if the Board decided to pursue reporting ranges as a display option. She noted that there may be an inherent predisposition to change and some academic research has been conducted on the reactions of users to confidence interval financial statements. She summarized that there has been no definitive or conclusive evidence based on this research. There has been some recent research reported in the *British Accounting Review*¹ that individuals that are given incentives (e.g., performance-based cash awards) to use confidence interval information perform better than those that are not given incentives to use such information.

Mr. Schumacher asked for clarification about whether the changes in liability estimation that staff had presented would be due to changes in actuarial liabilities or assumption changes. Ms. Comes clarified that it would be due to assumption changes.

Ms. Ranagan asked the Board members for comments on the first display option presented.

Ms. Robinson said it is a great idea to present more information on uncertainty and ranges. She said it is something that CBO has explored in terms of budgetary presentations as well. As such, she wanted to share some of the issues that have come up as a result of such presentations that have caused them to say “this sounded like a great idea but we didn’t realize how much we were biting off.” Ms. Robinson noted that for the government in its entirety, the numbers are huge. For example, the cash balance deficit five years out can vary by as much as five to six percent of GDP, which is in the hundreds of billions of dollars. She stated that since it is a fact and is true of these presentations, there is also the argument that the government should let the reader/user understand the magnitude of these uncertainties. On the other hand, they are so large that they are uncomfortable and one would have to figure out how to do that.

¹ “The interaction of incentives and information disclosure: the case of confidence interval information.” Soon-Yau Foong, Michael Lawrence, and Marcus O’Connor. *The British Accounting Review* 35 (2003).

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Ms. Robinson said that when CBO presents range estimates, users still want to have the point estimate so it has generally been a good idea to provide both. That leads to some interesting conundrums, however, that have to do with the economics of how one values the point estimate versus a range of possible future outcomes. A point estimate is not necessarily the middle for a variety of reasons, mainly having to do with the valuation of risk. Point estimates that are in federal financial statements generally discount with the treasury rate, embodying a philosophy that the government is not undertaking risk on the part of the taxpayer and one would need to look at the future returns in the framework of bonds, a non-risky investment. Yet there are a lot of transactions that the government engages in (e.g., assets, investments in stocks) that are inherently taking on risk. Showing the uncertainty in the future of those would be including the risk. It becomes very difficult to walk from point estimates to range estimates when one is trying to show users what future outcomes could be versus how one values the government engagement. Ms. Robinson said it is difficult to explain but for all these reasons (e.g., evaluating risk), she knows that, in actuality, when one prepares a point estimate versus a range estimate, it is very hard to explain to the user how to walk from one to the other. She said she would love a user to be able to understand all of those points and more but she thinks including these issues of uncertainty would be biting off a lot. She said she encourages the Board; she would love to do this but recognizes it is a big undertaking.

Ms. Ranagan responded that one of the possible considerations she had included was how the user would feel about such a range and whether they could use it or not.

Ms. Cohen stated that as a user of financial reporting, she does not feel that ranges are useful. She said users tend to shrug them off and look for a middle point or something that is somewhat more tangible. She said that, in her experience, she believes the users can make their own ranges and when she sees a range presented she would tend to take a walk from it, but that is from one user's perspective.

Mr. Mosso said, from his observations, that is true of social security where three figures are presented – high, low, and medium – but he never sees anything talked about but medium.

Ms. Ranagan asked Ms. Cohen to clarify if her comment about ranges being unhelpful applies to both ranges of estimates as well as ranges of uncertainty. She provided the example of Social Security – short term due and payable would be the typical due and payable, near-term actuarial payable might be for those individuals that have reached eligibility and can begin collecting benefits if they so choose, and long-term estimate payable might be for those individuals who have entered work in covered employment and/or attained 40 quarters. Ms. Cohen responded that if the Board actually undertook this, she would expect the options to be better defined (e.g., “near-term” is whatever anyone wants it to be). She said she does not see any value in a range in the near term because a difference in the value is minimal. It is easier to work with one number and then one can either “buy the number or not buy it.” She said she thinks anybody who is a user of any financial information has to understand that once one starts talking about

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actuarial numbers that uncertainty and changes in assumptions (whether it is pension funding, social security, or anything that involves estimates of the future), one should know the numbers depend on the validity of the underlying assumptions and actual experience will bear out that assumption. That is why if one looks at the rate of return on pension funds, one has to take a long-term average, because otherwise one would not know what one was dealing with. As far as long-term estimate payable is concerned, Ms. Cohen said that the numbers are so huge, what's the difference whether it is six trillion or nine trillion? One starts moving into Never Never land anyway.

Ms. Cohen said that she works a lot with state governments and what everyone likes to do at the state level these days is to state that they have a budget gap of 10 or 20 billion. One starts to mentally discount it because it has become a political ploy for what the state has to do that year and if it does anything, it is so clever because it got rid of 10 of the 20 billion when one knows that half of it is manipulation of assumptions. She said that is just where she comes from as a user of financial information.

Mr. Anania stated that it is a very thought provoking piece and the Board could probably spend half a day on it. He recalled that at a prior Board meeting he had raised the notion of splitting the liability section somehow, a different title that would alert the reader to the complexity and variability of it. At the time, Bob Bramlett had sent him the report "The Future of the Accounting Profession" that was included as an excerpt in the staff paper and an article that was titled something like if a person really wants to understand the accounting, do not look at the statements, look at the notes. The article got into long-range liability issues such as retirement, pension plan, medical benefit plans, and environmental cleanup. From his recollection, Mr. Anania summarized that the article suggested that the liability section needs to have three different pieces to it: (1) "sure" numbers – accounts payable, payroll withholdings, etc; (2) estimations but "tight estimations"; and (3) complex estimations, very variable, changeable factors under which social security would qualify. Mr. Anania said he is interested in the idea; FASAB could be the trailblazer to try to do something. To his knowledge, he is not aware of anyone that is trying to do this.

Mr. Dacey said there are a couple of activities that are taking place now. He said that a couple of years ago, the SEC dealt with something called "critical accounting estimates" and they were proposing additional disclosures in the MD&A. They were looking at additional disclosures to inform the readers of uncertainty and looking at a variety of factors. SEC put out an exposure draft and received comments. SEC is still considering what to do with that, but believe there is still something additional required. They were not necessarily looking at segregating the balance sheet but looking at providing enhanced disclosures for the "critical accounting estimates," significant areas defined by the SEC. Mr. Dacey said that on the auditing side, both IAASB and PCAOB are considering the issue of auditing estimates and dealing with the issue when the range of possible estimates is large relative to materiality and should there be some enhanced disclosures? They have not focused on segregating the balance sheet but they have talked about how to better inform users of the uncertainty. The concept that

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the auditors are looking at is uncertainty risk and which risks should be better disclosed.

Mr. Anania summarized that no one has an active project or active research that he is aware of. He indicated that his reaction is that he would like to go forward with this but not in a narrow way but rather in a “controlled for the federal government” reporting way with a few areas of examples. He stated that this could become the main element of a white paper or building something in to the other white paper that the Board discussed. To move forward in this area would be like the first time breaking the sound barrier or the first four minute mile. He thinks the Board needs to be careful not to bite off too much and chew up too many resources in an area where he thinks there is a fair amount of academic support. He believes analysts would understand it but it is very revolutionary. He would say proceed cautiously, get input, narrow it to a few examples that would be fairly representative of our federal government environment, and keep the volume of items reasonable.

Mr. Patton noted the academic research done on the topic of presenting ranges to people to see what they do with the range information as opposed to point estimates. He summarized that most of this research is twenty years old and in most of those studies, the answer was that the people did not do anything or took the midpoint and went on from there. The evidence is that range information on the face of a financial statement does not really affect performance. The most recent paper that staff cited is from 2003 where they took people with a little more experience (MBA students) and gave half of them significant incentives. The ones that received incentives in this experiment did better with range information than those that did not receive incentives. Mr. Patton stated that there was a “spark of hope” that range information would make a difference but the kind of users that one would assume would do better in the real world would be highly motivated, skilled users. Given the evidence the government has so far, it does not have much of any user of the federal financial statements. He thinks it is conceivable that range information on the face of the financial statements is likely to help somebody but it is more likely to scare away users of financial reports rather than help them. He went on to say that the way to get that type of information to a highly motivated, skilled user might be in a footnote so that the face of the financial statements is simple enough for an ordinary user to understand.

Mr. Mosso directed staff to move on to the second display option presented – Reporting Equation.

Ms. Ranagan introduced this option by stating that the accounting equation (Assets - Liabilities = Net Position) has evolved into the reporting equation but believes that the boundaries of financial reporting need not be constrained by the accounting equation. She suggested an alternative equation for reporting: (Assets plus Additional Resources) – (Liabilities plus Additional Responsibilities) = Financial Condition. This would take reporting further than net position and is based on OMB’s Chart 13-1 from the FY 2006 Analytical Perspectives chapter on Stewardship. Ms. Ranagan noted that OMB has included a chart such as 13-1 in its Analytical Perspectives for the last 10 years or so

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and suggests reporting on the financial condition, which goes further than just the assets and liabilities to include long-run federal budget projections, actuarial deficiencies, national wealth, and social indicators.

Ms. Ranagan presented a slightly modified version of OMB's chart as a proposed "Statement of the Federal Government's Financial Condition." She highlighted the portions that would be considered "Net Position" versus "Financial Condition" and noted that she added the closed group/open group calculations for all government programs, as recommended by Jagadeesh Gokhale in the round table discussion on June 30, 2004. She further noted that "Projected Outlays" could also include unrecognized liabilities.

Ms. Ranagan asked how the Board members felt about requiring a Statement of Financial Condition and how such a statement might figure into the reporting package.

Mr. Anania responded that he would be opposed to the Board even trying to head in this direction. He thinks it is too difficult, it would be a many, many official documents type exposure to deal with, and he does not think one would find even among experts in many areas exactly what the definition of financial condition is and what the elements are that have to go into it in the reporting equation. He does not think it would be very practical for the Board to deal with it. Mr. Anania thinks the Board should devote its resources to other areas that are currently on our agenda or can be added to the agenda. He believes it is interesting and it makes sense; it brings more economics, forward-planning, and stewardship into the arena of reporting but he does not think it would be very practical for the Board to move ahead in this area.

Mr. Mosso said the Board will be looking at the notion of financial condition as part of its reexamination of objectives and he would suspect that this kind of format could stop after the second blocks if the Board decides it does not want to move into the lower levels.

Mr. Anania replied that he is concerned about the ability to obtain a common understanding of what additional resources and additional responsibilities are and then how those get estimated to the point where one would have a number.

Mr. Zavada said presenting other responsibilities like social insurance programs is a type of presentation that OMB has always been interested in. He said he thinks the beauty of it is that it is scaleable – one can stop after the second box or go part of the way through the second box; one need not take it all the way as an "all or nothing." Mr. Zavada asked Mr. Anania if his concern was primarily with the third category (national wealth and social indicators). Mr. Anania replied that his concern is just getting a common understanding of the second box and the elements in the second box. If the Board is concerned with the degree of complexity and the variability of certain liabilities, imagine what the Board would get into with additional resources and additional responsibilities. Mr. Anania said the first part of his concern is the more practical one

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about meeting the Board's current or revised objectives in a timely fashion. The second part of it is a resource practicality concern.

Mr. Patton said he might frame the issue a little differently with respect to the chart and talk about what entity the chart is referring to. Is it referring to the federal government, the nation or something else? Mr. Patton said he has been thinking about the entity as the federal government itself, not the nation. That would draw the line up a little bit in the chart, but it might not exclude some things beyond assets and liabilities. He thinks that the more narrow the definition the Board ends up with for assets and liabilities, the more important the other stuff will be to report effectively because the other stuff is there and may not be particularly visible if the Board has narrow definitions of the basic elements of asset and liability.

Mr. Dacey said the first two boxes on the chart drive him more towards thinking of the second stewardship objective, which is whether future budgetary resources will be sufficient to sustain public services. He thinks sustainability is important, especially when looking at the rather daunting numbers for Social Security and Medicare. In looking at that, it becomes a question of whether or not sustainability is an important item, because if one looks at sustainability one could probably quickly come to the point under any number of different assumptions, that the government does not have enough revenue net of other expenses to pay for Social Security and Medicare liabilities. If the Board is concerned about sustainability as something it wants to demonstrate, he thinks this statement or something like it comes closer to demonstrating the sustainability concept in the financial statements. He said other Board members may feel differently, but whether it is a Statement of Financial Condition or another statement, he likes the idea of bringing the concept of sustainability into the financial statements.

Ms. Robinson said it is an issue of duplication and whether or not the financial statement needs to get into sustainability, which is what budgets are all about. CBO and OMB have baselines and already do long-term projections and layout that taxes will have to go up if Medicare does what it did for the last 30 years. She thinks it is a philosophy of what needs to be in the financial report. She said users can look at the financial report and the budget and get all of this information already. Does the Board want the financial report to represent everything, including sustainability? That is a fundamental question that the Board needs to face in terms of whether it wants to embark on this area.

Ms. Comes said the Board has already embarked to a certain extent; it has had a toe in the water in MD&A by requiring management to present forward-looking information that drives the discussion that is in this year's and last year's CFR. The Board also previously required a Current Services Assessment from the OMB President's Budget to appear as RSI in the CFR. The Board had to walk away from that because of timing issues, but the Board has already gone there and already justified that it is in the Board's reporting objectives. Whether the Board wants to keep that focus in the reporting objectives is another issue. Ms. Comes noted that, in response to the IFAC

Public Sector Committee ITC on social policy obligations, some of the respondents talked about the accounting standard-setter's role relative to sustainability questions. She said she does not think that there was a clear consensus but recalls that most who objected were objecting to the notion that accounting standard-setters – as opposed to public policy experts -- get into sustainability. One of the comments that she thought relevant was the flexibility needed to present policy options – that if one was going to address sustainability, it is most meaningful to a user if one talks about what kinds of changes need to take place in order to attain sustainability. She raised that point not to be counter to what the Board has already done but to point out that what the Board has already done in MD&A affords great flexibility to address sustainability.

Mr. Zavada said he does not have a problem with the financial statements addressing sustainability. He thinks it reiterates a lot of the story that is being told in the budget and he does not have a problem with that. He likes Mr. Dacey's idea of an additional statement that picks up these responsibilities consistent with the concept that OMB has laid out in the budget. Responding to Mr. Anania's concern about defining responsibilities, Mr. Zavada said that he thinks that there is a lot of agreement about what could be in this responsibilities bucket, with social insurance programs being the biggest element of it. He does not see a problem with defining that category or defining these additional responsibilities that the Board could pick up in an additional statement or additional disclosure.

Mr. Dacey added that the Statement of Social Insurance is coming into being and it will have very large numbers and putting those large numbers into context of sustainability may become more important now than in the past with those large numbers on the Statement of Social Insurance. He also noted that one thing that is not being shown now are changes in the Statement of Social Insurance or what the effect is of changes in that statement. He stated that the statements do not do a good job right now of articulating what the change in responsibilities for Social Security and Medicare is from one period to the next.

Mr. Mosso stated that the discussion has been very useful. He summarized that the Board does not want to adopt or reject either of these options at this point but maybe the Board should leave these options on the table for possible future use in solving some of the Board's issues. Mr. Mosso asked staff to go onto the third display option.

Ms. Ranagan explained that the third option referenced the GASB Exposure Draft on concepts related to Communication Methods. The exposure draft created a conceptual framework for placement of financial information. She said she had noted significant Board discussions on where to place information during deliberations on earmarked funds and fiduciary activities. Ms. Ranagan noted that while the GASB ED is high-level and not lengthy or technical, she felt guidelines such as those developed by GASB would be helpful to drive Board discussions and assist preparers in determining where to place information in the financial statement package. She noted that in preparing the ED, GASB visualized the framework as being helpful to GASB in selecting

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communication methods in future standards and evaluating communication methods in prior standards, and also to preparers when selecting communication methods.

Mr. Mosso asked if the different categories of communication methods are also broadly defined. Ms. Ranagan clarified that the different communication methods (financial statements, footnotes, required supplementary information (RSI), and supplementary information (SI)) are broadly defined.

Mr. Patton said that FASAB has a really good start on the factors in deciding what is basic versus RSI in SFFAS 25. He noted that as far as the decision of footnotes versus financial statements is concerned, it seems that the GASB document is fairly high-level. If an item meets the definition of an element, put it on the face of the financial statements. If it does not, it has to go someplace else. Mr. Patton said that is not going to operationally get FASAB too much further than it is now and GASB put a lot of good effort into producing the document. He indicated that investing resources to follow that up with our own study would not be very effective or efficient.

Mr. Zavada asked if the GASB guidance addressed just principal statements and footnotes or if it also addresses alternative categories like the forward stewardship section? Ms. Ranagan clarified that the ED addresses financial statements, footnotes, RSI and SI.

Mr. Patton said his point is that FASAB has already said how the Board will treat basic versus RSI and then the difference between the footnotes versus basic is whether things meet the element definition.

Mr. Zavada said that some of the alternative presentations discussed earlier are very different from what currently exists which might lead us into other areas that might be more appropriate to show in supplementary sections. In other words, these new presentations may not cleanly fit into our current categories.

Mr. Mosso said that some of this is addressed in the outline for the objectives white paper. Ms. Comes said that this question is part of our overall conceptual framework project but is just not in an active phase at the present time. She stated that when the Board got to it, the question would be does the Board want to adopt SFFAS 25's basic versus RSI plus the general concepts that are pretty pervasive in FASB and GASB's literature and does the Board have a need to go further? Does the Board need a more robust set of buckets (what stewardship was after) in order to accomplish meeting our reporting objectives. Almost everything in this paper is envisioned as being part of some other piece of what staff is working on, but this part is explicitly included in a piece of the conceptual framework project.

The Board adjourned for lunch at 12:00 PM.

- **Display Options contd.**

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Mr. Mosso asked Bob Attmore, Chairman of GASB, who had been observing the meeting, to provide an impromptu briefing on the background of the GASB ED on Communication Methods and where it is headed. Mr. Attmore said GASB expects to finalize the statement and issue it in April. The concepts statement was put on the agenda because there were a number of Board members who felt it was important to clarify the process that the Board members go through and hopefully eliminate some inconsistencies that have occurred in the past and may occur in the future by having some definitions for what goes where in general purpose external financial reports that contain basic financial statements. It includes four components: (1) recognition in the statements; (2) disclosure in the notes to the financial statements; (3) required supplementary information; and (4) supplementary information. The ED defines what goes in which category, lists some criteria, and provides a hierarchy to help make decisions about placement.

Mr. Attmore said it is likely that some of the requirements for recognition or disclosure in prior standards will not necessarily fit the definitions that have been established in the ED. When GASB goes back and reviews standards that have been in existence for awhile against the new statement, they may be making some changes to accommodate the new concepts. Mr. Attmore stated that, as it goes forward, the GASB will now have this decision framework to help it determine what needs to be recognized, what goes in footnotes, and so forth. In line with earlier FASAB discussions about what goes on the face of the statements versus what goes in the notes, it is GASB's belief, which comes through in this concepts statement, that it is impossible to get everything on the face of the financial statements; the notes are absolutely essential to understanding the financial statements. Any relatively informed user understands that one would need to read the notes to understand the financial statements. Any financial analyst that knows what he is doing would say that he lives in the notes to the financial statements and the statistical trend information as opposed to just looking at numbers on the face of the financial statement.

Mr. Attmore informally summarized the concepts statement as follows: (1) If an item of information meets the definition and criteria for financial statements, it is recognized on the face of the financial statements. (2) If it does not meet that definition but is essential to understanding the financial statements, it goes in the notes. (3) If it does not meet either of those criteria but it is essential to put the information presented in the statements and notes into an appropriate operational, economical, or historical context, it goes into RSI. (4) If it does not meet any of the above but needs to be reported for reasons other than GASB requirements (e.g., legal, program, etc), it is reported as SI.

Mr. Patton asked for an example of what GASB thinks would be changed as an example of this ED. Mr. Attmore responded that there are some things that were decided at a point in time that absolutely needed to be recognized that, based on the new definitions, may wind up in a note and something that is currently in a note may wind up in RSI. He said he does not want to pre-judge what those things are but there are some of those. Mr. Attmore noted that sometimes, when the Board focuses on a specific standard, everything about that standard becomes more important than when the Board steps back and takes a big picture view. When one is really focused on an

issue, it is not unusual to tend to think that something is so important that it requires recognition or disclosure but when one actually steps back and looks at things from a different perspective, one may realize that those decisions were not necessarily the best ones.

Mr. Patton noted that GASB is also working on elements definitions and if those definitions evolve, a lot of things might be up in the air. Mr. Attmore agreed.

CONCLUSION: Staff may present some of these options to the Board again as part of other projects that it is currently working on or will be working on at some point in the future.

- **Inter-Entity Cost and Heritage Assets and Stewardship Land**

NOTE: During the Administrative Matters discussion in the morning, Ms. Comes inquired about the nature of any comments on the pre-ballot *Inter-Entity Cost Implementation* draft statement of federal financial accounting standards. Board Members indicated that comments were editorial in nature and there were no technical issues for discussion. Therefore, the discussion scheduled for this was cancelled and members were asked to provide their comments to Melissa Loughan.

Staff began the discussion of the Heritage Assets and Stewardship Land project by explaining that the Board binders included a ballot draft (both clean and marked versions) for SFFAS 29, *Heritage Assets and Stewardship Land*. Staff explained that a ballot form had not been transmitted with the ballot draft due to an unresolved concern of OMB. Staff further explained that at issue is the following sentence from par. 25b and par. 40b of the ballot draft:

“While not all encompassing, the policies should address preserving and maintaining condition, providing public use or access, and enhancing the heritage assets’ value over time.”

Specifically, staff explained that OMB has suggested that the sentence be removed as it may suggest to some that the accounting standard requires that certain policies exist rather than simply requiring the disclosure of the policies addressing certain aspects of asset management. Staff asked if Mr. Zavada would like to discuss OMB’s position further to the Board.

Mr. Zavada explained that there was an Executive Order (EO) issued approximately a year ago that related to real property management and that EO led to the establishment of a Real Property Initiative on the President’s Management Agenda. Mr. Zavada further explained that a Government-wide Real Property Workgroup was established that is developing performance measures specific to the management and utilization of real property. He explained that this comment was brought up by participants on that work group. Mr. Zavada explained that the concern was that the sentence at issue actually deals with what policy should be in place and that goes beyond financial reporting. Mr. Zavada added that it could also lead to some complications with the

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auditor's interpretation as to whether the auditor is auditing the disclosure or the policy itself.

Staff explained that the issue warranted further Board discussion because of the history of the paragraph and the fact that the sentence in question had been previously added based on Board member's comments. Staff distributed a detailed history of the paragraph that detailed the changes to the paragraph along with excerpts from Board minutes that initiated the changes.

The history provided that the following changes to the stewardship policies paragraph had occurred based on Board discussion and deliberation (with changes annotated):

Draft wording, July 2003

A brief description of the entity's stewardship policies for heritage assets.

Exposure Draft wording, August 2003

A brief description of the entity's stewardship policies for heritage assets. Stewardship policies for heritage assets are the goals and principles the entity established to guide its acquisition, maintenance, use, and disposal of heritage assets consistent with statutory requirements, prohibitions, and limitations governing the entity and the heritage assets. While not all encompassing, the policies may address preserving and maintaining condition, providing public use or access, and enhancing the value over time.

Pre-ballot wording, December 2004

A brief description of the entity's stewardship policies for heritage assets. Stewardship policies for heritage assets are the goals and principles the entity established to guide its acquisition, maintenance, use, and disposal of heritage assets consistent with statutory requirements, prohibitions, and limitations governing the entity and the heritage assets. While not all encompassing, the policies should address preserving and maintaining condition, providing public use or access, and enhancing the heritage assets' value over time.

Staff also explained that the paper included staff proposed language on the last page to address OMB's concern as follows:

Staff Proposed Wording for Final Standard

A brief description of the entity's stewardship policies for heritage assets. Stewardship policies for heritage assets are the goals and principles the entity established to guide its acquisition, maintenance, use, and disposal of heritage assets consistent with statutory requirements, prohibitions, and limitations governing the entity and the heritage assets. While not all encompassing, the disclosure should include existing policies regarding preserving and maintaining condition, providing public use or access, and enhancing the heritage assets' value over time.

Ms. Comes explained that she did agree with Mr. Zavada in that the wording may be unclear and could be interpreted to mean something beyond disclosures. Ms. Comes explained that staff proposed new language that they believed to address that concern (see Staff Proposed Wording for Final Standard above.) Staff explained that the proposed wording had been shared with OMB, but OMB still preferred to remove the

sentence. Therefore, Ms. Comes asked the Board if they were comfortable dropping the sentence or if they wanted to consider revised language that would preserve the sentence.

Ms. Robinson explained that the additional language had been added because the Board believed the disclosure was to be broad and the sentence offered detail as to what kind of stewardship policies the Board was referring to. Ms. Robinson asked Mr. Zavada if the workgroup believed the policy shouldn't address the items listed in the paragraph. Mr. Zavada explained that the workgroup doesn't disagree with it and the workgroup is actually working on performance measures in this area. He explained that a lot of the measures already exist for non-heritage type assets and the workgroup's goal is to come up with measures for these types of assets as well. Ms. Robinson reiterated that it was her belief that the sentence was to provide insight as to what should be disclosed about the policies.

Ms. Cohen suggested that perhaps the word "policies" in the sentence could be replaced with "description" which would also fit with the first sentence that reads "A brief description of the entity's stewardship policies for heritage assets." Mr. Farrell pointed out that staff's proposed language also appears to address the concern. Mr. Zavada explained that he still believed it could be interpreted to be criteria in an accounting standard and preferred to remove the sentence and not speak to the policy at all. Mr. Zavada reiterated that he believes there is potential for problems with the auditor's interpretation and whether the auditor is auditing the disclosure or the policy itself.

Ms. Robinson reiterated that the main reason for previously adding the wording was because the Board believed there would be some question as to what was meant by "stewardship policies." Mr. Zavada explained that the workgroup is working on things such as determining what the policies should address, criteria for condition, and performance measures for these types of assets.

Mr. Mosso asked if changing the word "should" to "may" in the sentence would address OMB's concern. Mr. Zavada explained that it would help, but he still preferred to drop the sentence and not dictate what should be in the policy.

Ms. Comes clarified that the intent of the language was to explain what should be included in the disclosures, not dictate what should be in the policy. Ms. Comes asked the Board if they were comfortable with the fact that the sentence was illustrative versus prescriptive and if they believed it would be helpful to clearly state the fact that it is illustrative. Ms. Comes suggested that the sentence could begin with "For example, the disclosures might address aspects such as" Mr. Zavada believed the proposed language was an improvement but he still had concerns.

Mr. Farrell suggested that it would be more limiting to actually remove the sentence because the previous sentence ["Stewardship policies for heritage assets are the goals and principles the entity established to guide its acquisition, maintenance, use, and disposal of heritage assets consistent with statutory requirements, prohibitions, and limitations governing the entity and the heritage assets"] actually details several aspects

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of stewardship policies. He explained that eliminating the following sentence may lead to the interpretation that all of those aspects in the previous sentence should be addressed. Mr. Zavada explained that there was some internal discussion regarding that sentence as well, but as a compromise they believed at a minimum the last sentence should be dropped.

Mr. Dacey suggested that he believed the second sentence was clear because it refers to "...principles the entity established..." and therefore should not be interpreted to dictate policies.

Mr. Mosso explained that he wanted to poll the Board members on dropping the sentence at issue. Mr. Farrell stated that he would agree to the change, but he also believed the previous sentence should be dropped. Ms. Cohen explained that she preferred to revise the sentence to replace the word "policies" with "description" but she would be okay with deleting it as well. Ms. Robinson agreed with Ms. Cohen's suggestion and added that probably no grave harm would result from dropping the sentence. Mr. Reid was not present to vote. Mr. Zavada supported dropping the sentence. Mr. Dacey, Mr. Schumacher, and Mr. Patton agreed to dropping the sentence. Mr. Mosso said that he was fine with dropping the sentence, so with the majority vote, the sentence was dropped.

Mr. Mosso asked if there were any other issues that needed to be addressed before ballot.

Mr. Zavada explained that there was one other issue identified by the workgroup that related to defining condition as discussed in par. 26, footnote 11. Mr. Zavada noted that there was concern about defining condition for heritage assets and some question about whether some of the criteria, such as obsolescence, in the footnote apply to heritage assets. Staff explained that the footnote language comes from existing standards (SFFAS 8) as the Board has not addressed issues other than the classification. Ms. Comes explained that the Board should be mindful that the condition reporting is classified as RSI and not basic. Ms. Comes explained that SFFAS 8 (and therefore the condition reporting) has been in effect since 1998 and there has not been a technical inquiry on the definition of condition. Mr. Zavada explained that the new workgroup prompted this as they will be addressing some of these issues. Staff explained that the definition is provided for reference and should be applied as appropriate and if something does not apply, then it does not apply. Mr. Zavada explained that he was comfortable with that. He added that he believes as the workgroup efforts progress, it is possible that they may come up with more criteria. Mr. Mosso explained that since the footnote and definition in question comes from existing standards, then it really is off limits to try and amend within this standard.

At the conclusion of the session, staff distributed the Ballot for Statement of Federal Financial Accounting Standards 29, *Heritage Assets and Stewardship Land*. The ballot contained the following additional language to incorporate the change agreed to by the Board:

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Your approval is based on the February 18, 2005 Ballot *Heritage Assets and Stewardship Land* that was included in your Board Binders with the following changes:

- Par. 25b. is revised to strike the last sentence and read as follows: A brief description of the entity's stewardship policies for heritage assets. Stewardship policies for heritage assets are the goals and principles the entity established to guide its acquisition, maintenance, use, and disposal of heritage assets consistent with statutory requirements, prohibitions, and limitations governing the entity and the heritage assets.
- Par. 40b. is revised to strike the last sentence and read as follows: A brief description of the entity's stewardship policies for stewardship land. Stewardship policies for stewardship land are the goals and principles the entity established to guide its acquisition, maintenance, use, and disposal of stewardship land consistent with statutory requirements, prohibitions, and limitations governing the entity and the stewardship land.

Staff explained that the ballot allows for the required 10 day period for completion, with ballots due by March 16, 2005. Staff pointed out that if any member is ready to vote and prefers, they may submit the ballot at the Board meeting. Additionally, members not responding by March 22, 2005 will be considered to have abstained.

CONCLUSION: After agreeing to drop the last sentence from par. 25b and par. 40b of the ballot draft, the Ballot for Statement of Federal Financial Accounting Standards 29, *Heritage Assets and Stewardship Land* was distributed at the end of the Board meeting. Ballots are due by March 16, 2005. After the Board vote is final (the standard is anticipated to pass) there is a 90 day clearance for OMB and GAO to offer an objection. Additionally, since this standard relates to capital assets, the CFO Act requires a 45 day Congressional review period. Therefore, FASAB does not anticipate release of the final standard before summer.

• **Natural Resources**

Staff, Rick Wascak, led the discussion. Staff explained specific issues raised by Board members at the December 2004 meeting were addressed, within the document presented to the Board, in the form of a Basis for Conclusions (BfC) with proposed changes and issue papers.

Before discussing the BfC and the issues, staff explained it would first like to review the illustration of Federal components of oil and gas resources, which was presented on page 8 of the Board's material. Staff wanted to ensure members of the Board understood the meanings of the components and subcomponents of Federal oil and gas resources. In addition, while describing the components and subcomponents, staff wanted to provide a description of information currently reported about the components and subcomponents; and, to present the information proposed to be reported about them. Staff proposed requiring information similar to that presented on page 34 of the material provided to the Board for "undiscovered resources." In addition, staff proposed requiring information, pertaining to the production of proved reserves, similar to the information presented on page 37 of the information provided to the Board.

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Mr. Patton noted that he has had some concern about the reliability of the EIA estimated quantity of proved reserves. He noted that the document provided to the Board members tries to talk about the verifiability of the EIA quantity. However, there is no empirical verification of the estimated quantities of proved oil and gas reserves in the fields. He said this creates a questionable notion in his mind that these quantities are verifiable.

Mr. Patton noted that the 3/2/05 oil and gas document provided to the Board members indicates the following: EIA states with high reliability that, at some point, the amounts producers report as possibly being extracted at some point in time has a high possibility of being extracted. As a result, the Board could state that the amounts provided by the EIA are conservative estimates of proved oil and gas reserves. Therefore, Mr. Patton could defend the use of the EIA estimated quantity of proved oil and gas reserves because of its conservatism but not because of its verifiability.

Ms. Robinson stated that the information maintained by the EIA is the best information available about proved oil and gas reserves. She added that changes to the estimated quantity of proved oil and gas reserves can be explained.

Mr. Mosso asked Mr. Patton where in the document, which was provided to the Board, was his concern about "verifiability" presented. Mr. Patton directed the Board members to paragraph 29 of the document. Ms. Robinson asked for further explanation about his concern. Mr. Patton asked if the producer's estimate of proved oil and gas reserves was ever demonstrated to be accurate or not. He said it was his impression that there is no comparison between what was estimated and what was ultimately produced. Ms. Robinson stated that there is a comparison between what was estimated and what was actually produced.

Mr. Farrell asked if all the information generated by the EIA would be used in developing the estimated Federal royalty share reported on the balance sheet. Staff responded that only information pertaining to the estimated quantity of proved oil and gas reserves provided by producers was relevant for purposes of the proposed standards. Mr. Farrell stated that the remainder of information provided in the BfC about the EIA was, therefore, irrelevant.

Mr. Mosso stated that the verifiability of EIA information is more to the fact in that the EIA does some edits and checks on the information provided to it from the producers. Mr. Patton stated that this information helps him because, based on the information presented to the Board, he believed the EIA was more central to the proved oil and gas reserves estimate than it really is.

Mr. Farrell indicated that he believes information pertaining to EIA's edits and checks is more relevant than the EIA background information describing the projections it performs. Ms. Robinson noted that information about the EIA's audit and checks was presented later in the BfC. Ms. Robinson suggested that the background information about the EIA's audits and checks be moved forward in the document to take the place of the EIA's background information pertaining to its projections.

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Ms. Comes noted this could be done. However, she wanted to put the EIA background information into context. She explained that there are various Federal agencies involved in different ways in relation to oil and gas resources. She added that staff was attempting to describe the role and responsibility of each Federal agency in relation to oil and gas resources. Ms. Comes noted that the current focus of the proposed oil and gas standards has been at the government-wide level. But, the coverage of the standards will be expanded, hopefully soon, to the agency level to determine which piece or pieces of the entire oil and gas resources process each agency would be responsible for under the standards for component entity accounting. Mr. Farrell suggested that the EIA background information pertaining to audits and checks be highlighted in some manner, possibly italicized, for further discussion; and, that it not yet be deleted. Other Board members agreed.

Ms. Robinson asked if the proposed wellhead price represented a national average of all fields or a wellhead price for each field. Staff responded the proposal was to use a national average of all fields. Ms. Robinson indicated that the MMS had the wellhead price for each field. She said she believes the wellhead price for each field should be used in place of a national average wellhead price. Mr. Anania supported Ms. Robinson's suggestion of using the wellhead price from each field. Mr. Mosso noted that everybody would prefer to be more specific if they could be. Staff responded it would investigate this suggestion.

Ms. Robinson also raised an issue about discounting the balance sheet value of the estimated Federal royalty share. She noted the SEC currently requires discounting the value of proved reserves. She said that if the value of the estimated Federal royalty share is not discounted, she believes the assets of the Federal government would be overstated. Mr. Mosso indicated that he reconciled this concern with himself by acknowledging that regardless the value for the proved reserves that is booked, it is less than the value of all undiscovered and discovered oil and gas resources. Ms. Robinson noted that discounting is used by the private sector. Mr. Mosso replied that a flat 10% discount rate is used as a practical compromise.

Mr. Anania asked if, at the time leases are put up for sale, is there information available on what the timeframe would be for the wells. That is, from the time the lease is signed until the production is completed. Staff responded it would investigate this matter.

Mr. Farrell noted there must be statistical data available which shows historically some average length of time that oil and gas wells produce. He said he agrees with Ms. Robinson's suggestion of discounting the estimated Federal royalty share and the average production length of time could be used in calculating a discount value for it. Mr. Mosso asked that staff perform more research on this discounting issue.

Mr. Patton asked what sort of decision-usefulness is there for information in this area; and, what kind of accountability is the Board seeking? Ms. Robinson indicated that there is not a lot of disclosure to the public regarding asset transactions. For example, the Federal government may give away parcels of land; however, the asset was not valued and only foregone revenue is recognized. She added that on average, there are

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roughly 50 bills per year that involve some similar kind of asset transaction. She said she believes the Federal government is currently on a track to try and value these types of assets. Ms. Robinson indicated the balance sheet is the place to account for these assets. Mr. Mosso agreed and stated that you cannot get full accountability without putting a dollar value on the balance sheet for assets.

Ms. Robinson stated she hoped the disclosures in the proposed oil and gas standards would allow users of the financial statements to transparently figure out that: 1) undiscovered resources, reported as RSI, become proved reserves; 2) the proved reserve, reported as the estimated Federal royalty share of proved reserves on the balance sheet, are produced and reported as productions; and 3) the production of proved reserves generates revenue and depletes the estimated Federal royalty share of prove reserves. Mr. Mosso asked if there was any interest in disclosing undiscovered resources, which are identified based on assessments.

Ms. Robinson indicated that she would vote to disclose the undiscovered resources as RSI. She said the information about them is quantitative and is quite good. Mr. Mosso noted he would make this information RSI and asked other Board members their reaction. Mr. Patton asked if the RSI would pertain only to quantitative information. Staff responded it would be based on quantitative information, similar to what was presented on page 34 of the material provided to the Board.

All Board members agreed that undiscovered resources should be required as RSI, except for Mr. Reid and Mr. Farrell. The person representing Mr. Reid indicated that whatever is reported should be auditable and if it is not, it should be dropped. Mr. Farrell believed only a narrative about the resources should be provided, including a discussion about what can and cannot be done with them. Board members asked that another term be used for "undiscovered resources." Otherwise, the term "undiscovered resources" should be thoroughly explained in the standards. Mr. Mosso asked staff to proceed on the basis of reporting undiscovered resources as RSI

There was discussion on the unknown meaning of the term "adjustments", which is used in the calculation of proved reserves. Staff responded it would investigate this term and provide a clearer understanding of the term.

Mr. Patton questioned the nomenclature used in the proposed accounting entries at the government-wide level. One was the nomenclature "Fund Balance" and the other was "Custodial Revenue." Staff concurred that "Fund Balance" should be changed to "Cash" and "Custodial Revenue" should be changed to "Revenue" or "Other Revenue."

Various Board members asked that the term "estimated Federal royalty share", which represents the estimated value of royalties due the Federal government at the end of a reporting period, be changed. Staff asked if there were any suggestions. Board members agreed that the term "Estimated Petroleum Royalties" be used. Staff agreed to make this change.

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Mr. Anania noted he had trouble dealing with the asset side for these assets without addressing the liability side for cleanup costs relating to these assets. Ms. Comes indicated that a link to these liabilities would be addressed in a staff paper and incorporated in the oil and gas standards.

Conclusion

For future Board meetings, staff will:

1. Highlight the EIA background information pertaining to audits and checks in some manner, possibly italicized, and indicate further discussion is needed.
2. Investigate whether or not the wellhead price for each field should be used in place of a national average wellhead price.
3. Investigate whether there is information available on what the timeframe would be for oil and gas wells. That is, from the time the lease is signed until the production is completed.
4. Investigate discounting the estimated Federal royalty share.
5. Change the terminology “estimated Federal royalty share” to “Estimated Petroleum Royalties.”
6. Research cleanup costs relating to oil and gas wells for incorporation into the oil and gas standards.

• **Agenda Setting**

Ms. Comes opened the discussion by explaining the plan to have staff solicit written input on a list of five potential projects as well as the option of accelerating existing projects. The meeting objective is to identify any revisions to the project descriptions and if there are any projects to be added.

Mr. Schumacher inquired whether the plan related to reporting on long term construction contracts is specific to Department of Defense. Ms. Comes explained that the issue arose in the context of DoD and reporting on national defense PP&E but that the Board had previously decided the issue, if addressed, should be resolved in a way that has government-wide applicability.

Mr. Patton asked if the federally-funded research and development (FFRDC) issue could be included as a consolidation issue. Ms. Robinson felt that they could but that the issue for FFRDCs goes further than “how governmental are they” [and thus should be consolidated]. She suggested that some FFRDCs are consolidated now but that how they get consolidated is at issue.

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Mr. Dacey expressed the view that we don't know today whether SPEs and FFRDCs are always federal entities. If they are not federal entities, there may still be issues of how we account for aspects of these activities.

Mr. Mosso indicated that the two questions appear to be:

1. Should they be consolidated? (Are they a federal entity?)
2. If not, are there aspects of the activities for which accounting standards should be developed?

Ms. Robinson explained that there are government-owned government-operated are clearly federal. The government-owned contractor-operated are an issue. For example, the pensions of contract employees are not federal liabilities.

Mr. Dacey agreed that these are questions. In addition, FFRDCs may not always be consolidated.

Ms. Comes summarized by stating that once we resolve the question of consolidation we may not be done. There may be a need for additional standards to address specific assets and liabilities.

Ms. Robinson agreed and noted that there is deep suspicion that something has fallen through the cracks. It is feasible that it is simply a matter of maturity and ability to meet the existing standards. This may extend to activities other than FFRDCs as there may be other instances of entities using federal assets.

Mr. Dacey suggested the project focus on establishing a principle for treating these types of entities. If the principle results in non-consolidation then the question remains whether there are assets and liabilities.

Mr. Mosso agreed that consolidation is the central issue and that questions may remain regarding certain assets and liabilities.

Mr. Zavada asked if the question is different with respect to government corporations – the question there seems to be what standards they follow? Mr. Mosso agreed.

Mr. Patton expressed concern that – with the loss of Mr. Bramlett and the coming end to Mr. Mosso's term as chairman – we may lose momentum on the conceptual framework. He suggested that a separate project description is preferable to simply listing the topic in the preamble to the document soliciting comments. Putting more staff time on the conceptual framework may help the Board complete the conceptual framework in a timely manner. Mr. Mosso asked if there were comments on other projects. Mr. Zavada noted that the federal real property working group will be doing a lot of work in the area of asset impairment and deferred maintenance. His preference would be to defer action in this area until the results of the real property working group are available.

Ms. Comes agreed but reminded members that it would be about a year before the selected projects are on the active agenda.

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Mr. Mosso asked that the leases write-up place greater emphasis on the “new approach” so that the respondents will know what our approach is likely to be on leases.

Ms. Robinson explained that there are many creative arrangements there now. Federal entities are creating SPEs. Rules for how to score leases are loose. Sufficient private sector contributions are at issue. The boundaries are being pushed and there are big stakes on the budget side because of the difference in full funding versus pay-go funding.

Ms. Comes suggested that some examples or estimated dollar activity would be useful to non-federal respondents.

Mr. Mosso asked if CBO remains interested in cost of capital. Ms. Robinson indicated that they were not and would be fine with dropping it. Mr. Anania agreed.

Mr. Anania asked what we know about the international work on the new approach. Ms. Comes indicated that the International Accounting Standards Board continues to address the issue but has not produced an exposure draft.

Mr. Anania agreed with Mr. Mosso’s preference to emphasize the new approach. Mr. Mosso did not want to limit our progress to international progress but that we should learn whatever we could from their efforts.

Mr. Mosso indicated that the government corporations issue was not in the same class as the other issues – the issue is really whether we want to retract the exemption. Mr. Zavada indicated that he viewed the question as what are the appropriate standards for these types of entities. Thus, there are some issues he would like to see addressed. Ms. Robinson asked what we would lose and what would we gain. Ms. Comes explained that the Corporation for National Service is an example. They followed FASB standards and did not provide a Statement of Budgetary Resources despite its appropriated funding until this year. She views the omission of this statement as the biggest loss under the status quo.

Mr. Mosso opined that we probably wouldn’t know what all the issues are until we require the change.

Mr. Zavada indicated that he thought it was a good project. Mr. Dacey indicated that some may have statutory requirements to follow FASB standards and some are business type activities. However, he did not think it was impossible for FASAB to say that some entities should follow FASB standards with certain added items.

Mr. Mosso noted that business type activities that are not government corporations follow FASAB standards. He commented that some of the statutory requirements are not explicit regarding the required accounting standards.

Mr. Jacobson noted that there is also no statute requiring government corporations to follow FASAB standards or the standards for Executive Branch agencies generally. Mr.

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Mosso noted that the AICPA raises this exemption in its Rule 203 reviews in light of the requirement that GAAP for federal entities be based on FASAB standards.

Mr. Dacey noted that the AICPA's auditing standards governed auditor behavior and not preparer behavior.

Mr. Anania noted that some foreign firms report on something less than full FASB GAAP. It might be feasible that we might identify the major items that entities like government corporations had to comply with to be considered GAAP.

Mr. Mosso noted that a reconciliation was required but for only major items.

Mr. Anania noted he was simply adding options to consider. Mr. Mosso agreed.

Mr. Mosso referred to the two requests that had been received – concessions and inventory held for repair.

Ms. Robinson asked if the property was simply federal property in the hands of the contractor. Mr. Dacey explained that the concessionaire receives the right to build facilities on federal property, ownership rests with the federal government, the concessionaire operates the property and the government has some responsibility to pay the concessionaire for its investment in the absence of a payment from a successor concessionaire.

Mr. Zavada noted that OMB staff has been working with National Park Service and its auditors to resolve the issue. Ms. Comes explained that the parties have been analyzing issues of risks, reward and control. She noted that the objective was to have the preparer and auditor agree on the application of GAAP. If they are unable to agree, staff could offer either staff implementation guidance or a Technical Bulletin.

Mr. Zavada emphasized his desire to see the issue resolved.

Mr. Mosso noted that the situation reminded him a bit of the securitization issue. Each party must account for his own piece of the asset or liability.

Mr. Mosso noted that the inventory held for repair issue comes from a contractor. He asked if OMB or GAO was aware of the issue. Messrs. Zavada and Dacey indicated that they were not.

Mr. Mosso described the issue as very narrow and may not be of comparable importance with the other projects. He did not view it as a major project. He asked members if they wished to address the issue in some way other than a major project.

Ms. Comes explained that a lot of time and energy has been devoted to developing policies at DoD to implement the standards for accounting for inventory held for repair. She is reluctant to dive in absent a sense that there is no consensus among.

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Mr. Anania asked if there were sources of guidance other than FASAB. Ms. Comes indicated that DoD or other entities could draft its policy in detail and present it to AAPC for a determination of whether it was compliant with the standard.

No members indicated a desire to take up the issue.

Mr. Mosso polled the members on their preferred projects. The following table presents the result.

Member	Preference
Patton	Conceptual Framework
Schumacher	Leases, Conceptual Framework, Deferred Maintenance/Asset Impairment
Dacey	Consolidations & FFRDCs, Leases, Source For GAAP
Zavada	Leases, Conceptual Framework, Consolidation (The Interior Issue is a short-term number 1 priority.)
Reid	Consolidation, Leases, Government Corporations Source For GAAP, Long-Term Construction, Cost Of Capital
Robinson	Consolidations plus FFRDCs, Leases, Asset Retirement Obligations, Conceptual Framework
Cohen	Consolidations, Leases, Government Corporations, Deferred Maintenance, Asset Retirement Obligations
Farrell	Conceptual Framework, Consolidation plus Source For GAAP, Leases
Anania	Deferred Maintenance, Consolidations, Asset Retirement Obligations, Leases, Ffrdcs
Mosso	Consolidations and FFRDCs, Leases, Source For GAAP

Messrs. Dacey and Zavada indicated that display options should be brought forward as a project. Mr. Mosso indicated that we were not ready to move ahead with that as a separate project.

Ms. Comes said the discussion we had this morning was intended to meet some members needs to get a snapshot of options beyond the traditional statements. She also noted that each of the existing projects has a component that addresses display options. For example, in social insurance we will have to make choices about display options regarding changes due to actuarial assumptions and conveying the degree of uncertainty in the estimates. There is no barrier to considering options from Ms. Ranagan's report in each project. Further, the conceptual framework will address the

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reporting model and how well it meets the reporting objectives. If additional statements are needed to meet objectives then we could add them in that project.

Mr. Anania noted that the consolidation project would demand early research into the efforts of other standards. Thus, he would do a long period of research before the Board begins deliberating on that issue. Mr. Mosso suggested that the request for comment might include a request for feedback on issues unique to the federal government.

Ms. Comes indicated she would include specific requests for examples of consolidation issues at federal agencies. Also, she will prepare a draft of the conceptual framework acceleration project and request feedback from interested members. Her concern is selecting the pieces that can be accelerated to be concurrent or ahead of the objectives, elements, and recognition criteria.

CONCLUSION: Staff will prepare a project description for acceleration of the conceptual framework project and a staff request for comments on the potential projects. Project descriptions will be modified to (a) broaden the scope of the consolidations projects to include consideration of issues arising from non-consolidation and (b) emphasize the new approach in the leasing projects and provide examples. The projects for solicitation of comments are:

- 1 – Consolidation (broadened)
- 2 -- Leases
- 3 -- Conceptual framework
- 4 – Appropriate Source for GAAP

Asset retirement obligations and deferred maintenance/asset impairment were tied for ranking as fifth. However, in light of the significant level of interest in the first three projects, absent objection I will solicit comments on these with an opportunity for respondents to propose others.

Adjournment

The meeting adjourned at 4:30 PM

Thursday, March 3, 2005

Agenda Topics

- **Concepts – Elements**

Ms. Wardlow gave a brief overview of the documents she had sent to the Board and explained that the focus of the meeting would be on Attachment 1 to the cover memo. Attachment 1 contained a first draft of a section about liabilities that would be part of a possible concepts statement on Elements of Financial Statements.

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Ms. Wardlow said that the goal of the meeting was to agree on the substance of the essential characteristics of federal liabilities, which appear in paragraph L7 of the draft. The subsequent paragraphs explain the characteristics, and the cover memo provides more information about how she arrived at some of the proposals in the document. Her aim had been to incorporate in the draft the majority view or consensus of the Board on the various issues discussed at previous meetings on liabilities. She reminded the Board that the focus of those meetings and of the current draft was on how a liability should be defined and not on whether or when it should be recognized in the financial statements. It was possible for an item to meet the definition of a liability but not meet the necessary recognition or measurement criteria to be included in a statement of financial position.

Ms. Robinson asked what the role of Congress is at the consolidated level. It is consolidated at the budgetary level, but she questioned whether the powers and discretion of Congress, its ability to change laws, was part of the consolidated federal entity or external to the entity. The Board's views would help her decide certain issues, such as whether references in the draft to "little or no discretion" of the entity and "social and political consequences" to the entity were appropriate. Is Congress part of the government in its operations or is it external?

Ms. Mosso asked Ms. Wardlow to comment and she said she thought the Congress was external. She noted that the GASB had defined state and local government legislatures as one of the three primary user groups of financial reports. She thought that the issue was not clear cut, but her view was that a reason for financial reports is to hold the Executive accountable for the operations of the government. She thought that the federal legislation on financial management seemed to support that view and that Congress and the public were what the Executive was accountable to.

Mr. Mosso said that in its concepts statement on the overall financial report the Board had taken the position that the Congress is part of the reporting entity. The report's basic audience is the citizenry and in that sense both Congress and the Executive would be accountable to the citizenry, though Congress is listed as one of the important users. Within the federal establishment, there are elements of internal and external at all levels. For example, an agency at the lowest level reports externally to a department head, who in that sense becomes an external user, but then the department reports to OMB and the President, so that at each level there is an internal and an external reporting. Ms. Comes confirmed that the reference Mr. Mosso recalled is in Concepts Statement 4. The Board did envision the Congress as a user of the consolidated report.

Mr. Anania asked Ms. Robinson whether she was thinking of the power of the Congress to change things, rather than thinking of Congress primarily as a user of the financial report. Ms. Robinson agreed and said that there is a difference at the consolidated level whether one includes the powers and discretion of Congress in the report—in the powers of the entity—or whether the Congress is considered external and the entity is responding to that and therefore could have a liability generated by external action. She thought it important to decide on the model. The current model seemed to include the Congress and its actions as part of the report, because it stops short of describing a lot

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of things as a liability, consistent with acknowledging the sovereign power of the government and the discretion of Congress. One could say that the goal is to communicate to the citizenry what governments do.

Mr. Mosso said that in the FASAB model the citizens are sovereign, not the government, and accountability runs to the citizenry. Ms. Robinson indicated that similar questions arise with respect to the President and Executive Orders, so one also needs to decide whether they are part of the consolidated report or external. Mr. Anania said he had difficulty distinguishing between the consolidated report and what the Congress might do that would have a material effect on a given agency. He agrees that one has to consider Congress's role as a user and in some aspects their power, but he does not think that is exclusive to the consolidated report. He thinks there is a difference between what Congress might do and what they are currently doing when an assessment about whether a liability exists is being made. Many bills are introduced and nothing happens to them. However, when bills are at the drafting stage and are being deliberated, he thinks that should be taken into account when all the current conditions are being assessed. So, he thinks of the issue in terms of the "here and now," as opposed to a veto power that can change anything at any time.

In response to a question from Mr. Mosso, Mr. Anania said that we are accountable to the public first, but also to the Congress to provide the information they may need to do their job, and we are accountable to all the key branches of government. He doesn't think the problem is unique at the federal level; state and local government have a similar problem. He understood from Ms. Wardlow's comments that the GASB considers the legislature a key user, but he does not know whether they take into account, when considering assets and liabilities, what the legislature may be doing, or whether GASB has deliberated that aspect of it.

Mr. Mosso asked Ms. Wardlow to elaborate. She said that she did not think the GASB has deliberated that aspect of assets and liabilities. However, they must have deliberated the role of the legislature when they developed GASB Concepts Statement 1 and identified the user groups. There is discussion about the role of the legislature, but she thinks that the GASB model is that the legislature is a very important user group, the citizenry and the financial community being the other two user groups. She does not think that anyone would deny the power of the legislature, but the model has been to look at the status quo right now, and not the possibility that the legislature might change something in the future. She did not think that was very different from the private sector model. It also looks at what is happening now and not at the possibility that a law might be passed tomorrow that would change things, or that some decisions might be made that would mean what you thought yesterday was a liability now turns out not to be one. Mr. Reid agreed that it was not unusual at all. For example, a manager may make a decision that this asset is held to maturity. That simply is a management decision and it drives the accounting, but it does not preclude management from changing its mind tomorrow, and the accounting that goes with it.

Mr. Zavada said, for the record, that he found it very difficult to work on a definition and then apply it in the next two papers at the same time. It seems that we are applying

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elements of the old definition and elements of the new definition, which he finds confusing. Ideally, the Board would have defined a liability in the Elements project and then applied it in the other projects.

With regard to the proposed liability characteristics, he thinks that the two changes from the FASB's definitions are the omission of the words "probable" and "little or no discretion." He asked Ms. Wardlow why she proposed those omissions. Ms. Wardlow said that, in her view, and as the Board had discussed for assets, the issue of probability in liabilities is a measurement issue. In the definition, one is looking at whether an item meets the conditions to be considered an asset or a liability now. In the FASB's definition, probability is associated with whether there will be a future outflow of resources, which is a measurement notion, rather than a definitional one. She briefly reviewed the history of the FASB's inclusion of the word "probable" in the definition. The inclusion responded to concerns raised by respondents about whether there had to be certainty that an item met the definitions in order to consider it an asset or a liability. However, the discussion of uncertainty in FASB Concepts Statement 6, a copy of which discussion she had provided to the FASAB members, states very clearly that, in the FASB's view, probability is not part of definition, it is part of measurement. She said that the FASB had not changed its view.

With regard to the phrase "little or no discretion," Ms. Wardlow said she was not sure what it means in a government context. The Board had discussed the fact that liabilities are supported by law, so that she thought that once the entity has concluded it has an obligation, the only discretion the entity has is not to honor it. She did not think that the possibility of dishonoring an obligation needed to be included as an essential characteristic. However, the notion of discretion is included in the discussion of the characteristics. Mr. Jacobson observed that some of the notion is embodied in the discussion of the "requirement to settle" characteristic. It is just not discussed as a separate characteristic.

Mr. Zavada said he understood Ms. Wardlow's comments about probability being part of the measurement of a liability. However, if probability is not in the definition, then the definition seems so broad that almost anything would fit. Including both probability and "little or no discretion" in the definition would help one to hone what a liability is. Mr. Reid asked Mr. Zavada whether he would have a problem with having a liability that was not recognized. In other words, the item met the definition of a liability but there was such a low likelihood of a future outflow of resources that one did not record it? Or was Mr. Zavada uncomfortable with the fact that it was classified as a liability? Mr. Zavada asked what was the point of having a liability that was not recognized? Mr. Mosso said that they often become recognizable in time, which is one of the reasons for providing information that lets people know that other things exist that have the potential to become recognized as liabilities.

Mr. Dacey said he also had a concern, but it was related to the criteria for recognition and measurement and how they distinguish a recognized liability from one that only meets the definition. Recognition may be next on the agenda after definition has been decided, but he is having difficulty conceptualizing the possible differences between a

liability that meets the definition but is not recognized and a liability that is recognized. He can conceptualize it from practice and existing standards, but the Board has not discussed what some of the factors are.

Mr. Reid gave an example of a military facility that the government has disposed of and is now a residence. The government would have an obligation to clean up any left-over munitions. Now assume that the community has been there for fifty years. Mr. Reid believes the government still would have a liability for clean up of anything found in the future, but there is such a low probability of finding munitions that it would not be recognized. He would want it to be characterized as a liability, even though the probability of finding anything that would be material that you could record or was even measurable is virtually zero. Mr. Dacey agreed that, traditionally, probability and measurability come into play frequently in the recognition. However, he was uncertain whether there were other criteria that would come into the discussion. Mr. Reid thought there would be. Mr. Dacey thought it was difficult to think through the process of a definition without some idea of what the recognition criteria might be.

Mr. Mosso asked Ms. Comes whether recognition is the next topic in the conceptual plan. She said it probably would be. She referred members to the FASB's conceptual pyramid, which is included in the articles in Attachment 3 of Ms. Wardlow's paper and a copy of which she had distributed to the members. In terms of that chart, the FASAB had spoken to qualitative characteristics, although they might be revisited in the Board's project on objectives. At the next level (operational level), one finds recognition criteria. The FASAB has addressed them to some extent in some of its literature, but not in the depth that the FASB has. Recognition criteria go beyond measurability and probability because there also is a notion of relevant and reliable measures, so that one does not recognize things that people cannot understand or use.

Mr. Anania asked Ms. Comes whether the FASAB had considered these concepts in discussions of environmental clean-up and whether these notions of probability or little or no discretion would help. Is there any guidance or anything in the Board's discussions at the time? Ms. Comes responded that the term "clean-up costs" only applies to government-related accidents or decommissioning problems. It does not extend to government-acknowledged events, such as providing assistance to the private sector or overseas. There are laws that require clean-up and the FASAB did compile those laws in its project. Sometimes the Defense Department, for example, may request an exemption from a particular law, so that they do not have to clean up the base facilities to the degree required in other circumstances. Clean-up costs are based on the requirements of law. They do not extend at this point to things that are not required by law and certain asset retirement obligations are not covered. In terms of probability, the FASAB addressed it in the classic contingency model of whether it is probable and measurable, so those components are included in the clean-up liability standards. In terms of recognition criteria, Ms. Comes did not think that those discussions would be helpful to the Board's current discussions. In the FASB's concepts statement, their recognition criteria include a place to talk about relevance and reliability. She does not think the FASAB has written as much on the issue. Relevance and reliability are probably underlying factors in the FASAB's treatment of nonexchange

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and government-acknowledged transactions, but she does not believe the FASAB has clearly explained that in its literature.

Mr. Mosso said that the Board should get the asset and liability definitions as advanced as possible first, but should look at recognition criteria before completing the definitions. The question of probability keeps coming up and the Board will not be able to resolve it until probability is brought into the process in either definition or recognition, wherever it best fits. Mr. Reid said he thought that could be determined by a sense of the Board about whether it is all right to have liabilities that you do not recognize. That is, something is a liability but, for whatever reason, it is not recognized as a liability. If that is acceptable, then we do not need to deal with probability in the definition. If it is not acceptable, then we do need to resolve the issue before completing the definitions. Mr. Mosso said that, before making a decision about recognition, one has to have something to deal with. Mr. Reid responded that was why he thought that the Board had reached the point of having something broad enough that we are sure we have covered the range of possibilities. Then we would allow the other techniques to come in to see what is recognized and what is not. Mr. Mosso agreed that the definition is a screening device. It screens out a lot of things that are not candidates for recognition. Then one looks at those that meet the definition and, therefore, are candidates for recognition, and one applies the recognition criteria.

Mr. Reid said that he would much prefer to have the definition be broader and deal with recognition in those other areas, than have people simply say “that is not a liability because . . .” so that one cannot get to an agreement that it is a liability. One is not down at a measurement decision point, but still up at the basic definition level, and by reading the definition the way one wants to read it, one somehow manages to take things out. He would prefer to reduce those possibilities. He would prefer to have broader definition and then deal with narrowing through recognition and measurement. Even if one has sometimes to specifically exclude certain items, he would rather do that than have them defined out.

Mr. Patton observed that no one has put in “measurable” as part of the definition. So, it appears one could have a liability that is not measurable and, therefore, not recognized. Mr. Reid agreed and said that if one looks at it in a hierarchical sense, it could be a recognizable liability but one cannot measure it. Mr. Mosso said he thought that measurability was the basic recognition criterion. If it is measurable, it is probably recognizable. Relevance and reliability are axiomatic; they do not tell one anything about recognition. However, in response to Mr. Reid, he agreed that relevance and reliability are important qualitative characteristics that recognized information should have.

Turning to “little or no discretion,” Ms. Robinson said a problem she has is that the Board is taking a snapshot of Congress and its decisions to date as a guiding principle, but then the Board also has concepts like “little or no discretion” and “adverse social, political, or economic consequences,” which are future concepts. The idea is that someone will exercise discretion in the future or have a consequence in the future so that they do not have a realistic alternative to compliance with the obligation. She

believes there is an inherent conflict in those two approaches. If the Board went entirely to “legally required” as an essential characteristic of a liability, she could agree with that. But the Board seems to want to go further. In that case, she thinks there is an inherent contradiction in denying the power of the government to have discretion and to respond to adverse consequences by taking a snapshot of the government and saying that their intent now is what rules.

Ms. Comes said that she finds difficulty with the notion of “the intent now is what rules” perplexing, because there is, from the accounting perspective, a value in knowing where one stands now. Then one can decide which options to choose, how much is past cost and past liability, and how much one’s future policy choices reverse or cure or improve where one is now. Mr. Farrell said that he didn’t think they were trying to predict the government’s intent, but to state what its past actions were. For example, the government was intending to do lots of things with social security, but their past actions have brought us to where we are, and that is what we are dealing with, not their intent.

Ms. Robinson responded that all of the Congress’s past actions are passing laws, and they understand their sovereign immunity and ability to change those laws when they pass them. So, if the Board is going totally to a legal standard, she would accept that, but the Board is putting in other things, such as “adverse social and political consequences,” because the Board is trying to capture more than legal liabilities. One of the problems is that in the private sector there is an entity that is definable when you do a specific set of reporting. She would argue that, in the government, one has the President and the Congress and it is very difficult to discern what an action means except for the law itself. So, she thinks that when the Board goes further than the legal consequences, the scope of the entity and whether or not you recognize the ability to exercise discretion in the future and avoid consequences immediately become an issue, and you have to acknowledge the sovereign power of the government.

Mr. Reid said he did not see those particular concerns in paragraph L7 of the draft and Ms. Robinson responded that she was looking at paragraph L12, about the requirement to settle. Mr. Jacobson pointed out that one has to refer to L7. One has to look at it as two steps: first, whether one has an obligation, which is present, and then, second, whether one has a requirement to settle, which is a present requirement to settle, but the actual settlement will necessarily be in the future. The question is, when that settlement is to occur in the future, what has the government already done to set it in motion? And because the government is sovereign, Congress can change the laws and the Board recognizes that. But to determine liabilities, the Board needs something more than “Because it could be changed, there are no liabilities.” Also, one does not want to limit liabilities to only those that we acknowledge as such. He thinks that some believe that liabilities should not be restricted to obligations that are legally enforceable. So, the question is how to bridge the gap? Mr. Jacobson said that he thinks that the draft is trying to say when one looks at the laws and sees a requirement to settle but not an enforceability, there could be other factors that should be considered? And those other factors are simply to look at the totality of the circumstances in which those laws and the

programs exist to see whether the future decision not to settle a present obligation is a “free lunch” or will it be very difficult?

Ms. Robinson said that the definition as it stands seems to her to lead the Board down the path of booking everything the government does—and the Board might like that or she might like that. Essentially, the Board would be taking what CBO does as a baseline. Because, if the Board goes into adverse social or political consequences, she thinks there will be an adverse consequence to shutting down the Defense Department. Mr. Jacobson responded that the first question is whether that even meets the characteristic of a present obligation. Before one even gets to the issues Ms. Robinson is raising, one has to decide whether it meets all of the criteria before paragraph L12. Ms. Robinson responded by quoting from paragraph L8: “An obligation is a duty or responsibility to act in a certain way.” Mr. Mosso pointed out that the obligation is to another entity. Ms. Robinson asked if it was an obligation to the taxpayers. Mr. Mosso said that might be, but it would not qualify for accounting recognition.

Mr. Zavada said that he agreed with Ms. Robinson. He did not see how one would weed anything out of the definition as it is currently written. One would include practically everything, and he would like to see something narrower. He thinks that “little or no discretion” is important to the definition because, if one looks at the numbers, the size of the numbers “down the road” means that something will have to be done. It would not be right to call that whole amount a liability because something will have to be done to change it.

Mr. Mosso asked Ms. Wardlow for her reaction. She asked what would give the entity little or no discretion, other than the law, if the Board is not limiting the issue to a specific law that tells you that you have a liability? Ms. Robinson asked whether the Board had a problem with limiting liabilities to legal liabilities. She would greatly prefer that approach. Ms. Wardlow responded that the Board had discussed that possibility and had concluded that it wanted something broader than items that are obviously liabilities because there is something in the law that one can point to. On the other hand, many members were uncomfortable with something as broad as the FASB’s notion of constructive liabilities. She said that her current draft attempts to stay between those two possibilities and to address this issue: When there is no law that says you have a liability, but there are other things that lead to the conclusion that there is a liability, what are those other things? What makes one conclude that there is a present obligation? As Mr. Jacobson mentioned, one has to take the first step of asking whether there is a present obligation. But both characteristics are necessary. So, there may be some back and forth between the two characteristics. What requires the entity to settle? One possibility is that there is a law that says you have a liability. Another possibility is that other circumstances lead you to that conclusion. Defining those other circumstances very precisely in a concepts statement is difficult. In her view, the Board should adopt a broad conceptual approach, because it is when the Board sets standards that it will examine specific issues and identify those things that lead to a conclusion that there is a liability.

Ms. Robinson asked again who it is that has discretion? The question leads her to the entity and whether Congress is a part of it or not. If Congress is part of the entity, then Congress has discretion. If the Board views Congress as external, we still would have to deal with Presidential discretion, but that would be a little smaller. Mr. Reid said he had some concern about the discretion issue because there is nothing that Congress does not have discretion over. Ms. Robinson responded that there are courts that have held that Congress cannot do a lot of things, for example, abrogate contracts. Mr. Reid said that most of the liabilities that the government has recorded today, about \$7 trillion, can be changed by Congress. That does not stop the government from recording them. Until recently most of the liabilities were postemployment liabilities and those benefits could be changed easily by Congress. Ms. Robinson said that relates to whether the transaction is exchange or nonexchange, but Mr. Reid said it does not prevent recording the liability. Even if it is a nonexchange transaction, it does not prevent Congress from changing the program in a way that would radically affect the liability. He added that he could not look at “discretion” as a significant criterion for whether or not a liability is recognized. If in fact the program is changed, then that changes the liability. But, he thinks the definition says “has a present obligation” today and “is required” [to settle in the future]. It does not say “will be” required, it says “is” required. And he thinks those two things are key. That is why he was trying to stay with paragraph L7 [the characteristics], because he thinks these other paragraphs are subsets, once you get beyond the characteristics. For him, the discretion issue is not very significant.

Mr. Zavada asked what is wrong with the FASB definition and why the Board concluded it was not relevant? Ms. Wardlow responded that the FASB and the FASAB have similar concepts. However, if one takes the FASB’s definition as written, it is not quite consistent with the characteristics that the FASB states are essential to a liability. In the characteristics, FASB says the liability is the obligation and the consequence of the obligation is what happens in the future. But the liability definition says that the liability is the probable future sacrifice. If one is talking about what one has today, that is not a probable future sacrifice. What one has is a present obligation that may lead to a future sacrifice. In other words, FASB reversed in the definition what is the cause and what is the consequence. Mr. Zavada asked if Ms. Wardlow was saying the definition is flawed and she agreed. Mr. Zavada noted, however, that the definition has been working and has been applied for a long time. Ms. Wardlow said that the FASB has had significant problems with the word “probable” in the definition. The IASB omitted that word from their definition, as did most other standard setters. Currently, the FASB has a project on its agenda to look at the definition again. FASB Concepts Statement 6 is inconsistent on the issue. The definition includes the word “probable,” with a footnote explanation of its meaning, but then there is a discussion that says that probability is not part of the definition but is a recognition and measurement concept.

Mr. Mosso said that he thought the Board was addressing the second part of the issue—the requirement to settle, which is the second characteristic—without having addressed the first part, which is about what constitutes a present obligation. Ms. Robinson thought that the two parts were so intertwined that the fact that they are separate is an artifact of the way they are discussed. She thought it was inherent to an

obligation that one would have to follow through. Ms. Wardlow had not included “little or no discretion” in the characteristics, but she had inserted in the discussion “adverse social, political, or economic consequences,” and Ms. Robinson wondered what that meant. She thought it would be difficult to determine which entity had the adverse consequences, and it would be in conflict with what is legally required. Currently there are some things in law that are supposed to happen and which have definite adverse social, political, or economic consequences. For example, the government is scheduled to cut all Medicare physician payments at the end of this year by five percent, and there are supposed to be further cuts after that. But Congress has stepped in and made sure that will not happen for the past three or four years. So, even in current law we have something that would be in conflict with the consequences discussion. Ms. Robinson added that she therefore found it very difficult to move past what is legally required and embrace something where the Board does not acknowledge the full discretion of an operating government. In addition, there is the sovereign immunity issue, which the Board could discuss more directly.

Mr. Mosso said that a problem with “legally required” is that one never knows. So, if the Board sets that criterion, then one would have to run it through the court system before one really knows what one has. Ms. Robinson said that, in the budgetary context, it is done all the time. That is what an obligation is—a commitment on the part of the government that is legally enforceable at that point. Mr. Jacobson objected that many obligations are not legally enforceable. In the budget context one signs a contract, but if the contractor has not put the first nail in the board, one would record the entire contract as an obligation, but one would not record the whole amount as a liability. Ms. Robinson agreed, but she thought there was a part of the contract that was legally enforceable and one did not need to have recourse to the courts. Mr. Mosso thought that obligations in the budgetary context include orders, and they are not binding until somebody has accepted and delivered. Mr. Reid said he did not want to discuss the budget side, but one could easily record obligations without any contract. It is done all the time to reserve budget authority for what will be a contract up to a certain amount of money, and you do not want anybody to spend that or obligate that until you are ready with your contract. Ms. Robinson said that should not be done; a commitment should be used.

Mr. Patton asked what “is required to settle” means, because the explanation seems to be “little or no discretion.” When one is required to settle, he wonders why one is required and who is requiring it. In contrast, “little or no discretion” refers to the federal entity. When one says “is required” it invokes some outside party that does the requiring, because the entity cannot require it of itself. Ms. Wardlow said settlement is required by the action the entity has taken. It is required either by law or by the other circumstances that you look at, and it has to involve another entity. One does not have an obligation, a liability, unless another entity is involved. Mr. Patton agreed that the obligation is to another entity, but he thought the notion of “requirement” does come from another entity. Ms. Wardlow thought that it did come from another entity. The government’s action either is covered by law, which indicates a liability, or the government’s action and agreement with the other entity lead the government to say

that it has done the action or made the agreement and it must now follow through on the obligation.

Mr. Jacobson added that another way to put it is that the requirement either comes from the entity unilaterally in the form of, for example, a law or by a joint action by the entity and the outside party in the form of a contract, in which the requirement to settle is a term of the contract. Mr. Patton said the Board would have to go beyond that because there would be some noncontractual liabilities. Where would that requirement come from? Mr. Jacobson said it would come from the legal framework governing the government's actions, but it would be more complicated than looking at a line in a statement and concluding the government is required to pay it. Ms. Wardlow added that when the government has a program and indicates that if the other entity does this, then the government will do that, then she thinks the government has an obligation to follow through on that. So, in her view, it does go beyond a contract, but the notions are very similar. There is another entity involved and that entity has done its part, so the government must do its part too.

Mr. Jacobson referred to paragraph L12, lines 19 through 22, which appear to be of concern to some members. ["Instead of or in addition to legal consequences, the failure to honor a present obligation may result in such adverse social, political, or economic consequences for the entity that it may have no realistic alternative but to honor the obligation."] He explained that when he and Ms. Wardlow were working on that paragraph, the idea was to identify the different ways people feel they are required to follow through. One way is the existence of a clear and unambiguous law that forces one to take action and there is a price to pay if one does not. In reality, there are not a lot of those cases. Other ways are that there are clear financial consequences because there is legal enforceability, so that the "pain" of not complying is likely to be greater than the "pain" of compliance, and that is another form of requirement. However, the government is sovereign and does not always give the people it has an obligation to the right to sue to enforce the obligation. Therefore, the choice the Board has to make is does it want to take those obligations off the table and say they are not liabilities, because they are not legally enforceable and the law does not in effect establish the duty or requirement to fulfill them? Alternatively, does the Board wish to try to add some admittedly subjective criteria for preparers and auditors to think about? And those criteria are that when one looks at the totality of the circumstances—at the law, at what the government has done and people have done, and so forth—one comes to the conclusion that, even though the obligation is not legally enforceable and there are no direct financial consequences, the "pain" of not fulfilling that obligation is so great that the reality is that the government will follow through. That is what this phrase [in paragraph L12] about adverse social, political, or economic consequences is addressing; it is looking at everything and getting a feel for the "pain."

Mr. Patton asked whether accountants would have a comparative advantage or even some skill in assessing those consequences? Mr. Jacobson responded that he assumed they would make those judgments in consultation with the program managers. Mr. Reid said he thought there would be a lot of decisions that are made by looking at what would be a bigger picture. It would be fairly routine, certainly at the top level. One

needs to look at the whole, not just a piece of it because it may run both ways. One may decide to record a liability because of the kind of environment surrounding it, or the decision may be that one is unable to record it. In his view, accountants make those decisions. Mr. Patton agreed that many judgments are made in recording assets and liabilities. Mr. Reid said that he thought the particular language [in paragraph L12] probably should be modified to reflect a global assessment rather than use these specific words. But, somehow the Board needs to get people to view the entire spectrum. Mr. Mosso inquired which specifics Mr. Reid was referring to. He responded that he was referring to the phrase that he believes Ms. Robinson has a problem with, "adverse social, political, or economic consequences." He believes that means that one needs to take everything into consideration. Mr. Mosso thought that was included in the phrase "no realistic alternative" and asked Mr. Reid whether he was referring to the total circumstances in which an entity finds itself. Mr. Reid agreed.

Mr. Anania said that he was focusing on certain information on page 7 of the cover memo. He was referring to both the small (b) that Ms. Wardlow proposed as an alternative to the second characteristic [in paragraph L7 of the draft], which would include the words "little or no discretion," and also the paragraph at the bottom of page 7 from the Australian concepts statement. He thinks his alternative wording would be in line with the previous discussion, although it probably would not resolve Ms. Robinson's concerns. He thought "very little or no discretion" would help him, because "little" could be one percent or five percent or something else. Then he would change the second sentence of the Australian paragraph to read: "Thus, the existence of a liability depends on the present obligation being such that a current assessment of the legal, social, political, or economic consequences of failing to honor the obligation would be severe, thus leaving the entity very little, if any, discretion to avoid [settlement]." Mr. Anania said he was trying to narrow things a little, and these words would differ from those of the FASB and some others. He thought his suggestion was consistent with some of Mr. Reid's suggestions. Mr. Anania said that he thinks restricting liabilities to legal liabilities, or even quasi-legal liabilities that might include Executive Orders and other things, is narrow. He was trying to include some qualitative factors that might tighten the characteristics a little and make them a little easier to apply based on current assessments, both in alternative characteristic (b) and in the explanation of it. The current language does say "existing conditions," but Mr. Reid was proposing that one must look at all things and we could expand on that. It is not only the conditions now but Congress's current plan, what are they voting on, and what the Executive Branch is saying. In sum, his preference would be to substitute something like alternative characteristic (b) for the second characteristic in the draft.

Mr. Dacey said he had a similar concern. Particularly in a government environment, he thinks one needs to be fairly prescriptive about the circumstances in which something beyond legally enforceable would be considered a liability. He also wonders whether there is a different set of circumstances for nonexchange versus exchange transactions. He does not think the document is very clear about what the concept beyond legal enforceability should be. He shares Mr. Patton's concern about how accountants and auditors would assess consequences. He thinks the Board needs to develop the idea

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of going beyond legal enforceability, because members appear to have different beliefs about that and the idea is a concern to many members.

Ms. Robinson described a concept in budgetary presentations where one sets the government on autopilot, and no one can make a different decision from what they are doing at that point. Then you record up to the point when Congress has to do something else, but no further. She is not sure, however, that this approach would satisfy all the members, because one records everything except discretionary items. For example, if Congress passes a program that includes providing funds for five years, then you record all five years. She thought the Board could do something like that.

Mr. Mosso said that the definition is designed to rule out as much as it is to rule in. It would rule out the approach Ms. Robinson described because the government has not made a promise to specific entities who can reasonably expect the government to follow through. Ms. Robinson said there is an expectation by groups that they will receive money. She thought the Board had decided that one did not have to know exactly who is in that group, as long as one knows a group exists. Mr. Zavada said he thought there was agreement that there is something in a middle category, a responsibility or something that should be disclosed and accurately portrayed and perhaps could be better portrayed than in the financial statements. Forcing it into this liability definition causes a problem for him and maybe for others.

Mr. Mosso said that the reason we have financial statements is on the one hand to limit what is included in them and on the other hand to limit what must be included in them. It is good that there is a lot of disclosure--CBO reports and other disclosures--but that does not give people a firm picture of what has happened up to this point. It seems to him that the Board needs some concept to sort out what must be included in the financial statements from the things that must not be included. That is the discipline that accounting brings to the process.

Mr. Patton said he would like to turn to probability, in the definitional sense. The word "probable" has been taken out of the definition, but the concept remains in both the asset definition and the identification of the characteristics of a liability. The Board specifically included the word "could" in the tentative definition of an asset to solve the FASB's original problem, where if the Board said nothing, people would assume there had to be a one hundred percent probability. So the Board included "could" to keep the notion of probability alive and maintain a fairly low threshold. He believes there should be a one-to-one link between the liability characteristics and the definition of a liability, and in the liability characteristics he believes the notion of probability is present in the form of "little or no discretion" or "required to settle." Those phrases imply a fairly high level of probability of settlement or payment in the future. So, he thinks there is an illusion of having omitted probability from the characteristics but it is still there, and there is a difference in the Board's work so far between assets and liabilities. He believes the Board should decide whether it wants the probability thresholds to be the same for both assets and liabilities.

Mr. Mosso asked whether Mr. Patton was suggesting including something like “could” in the liability definition. Mr. Patton said yes, from the perspective of symmetry, although the wording might be awkward. Inserting “could” also would be consistent with Mr. Reid’s suggestion of having a definition that would cast a wide net, and then screen items out at a later stage. Mr. Mosso said he liked the word “could.” He thought some of the things Mr. Reid was thinking about for future disclosure might be treaties, many of which probably would have such a low probability of causing the government monetary damage that they would not be recognized, and yet they could cause that damage. He thought it would not be difficult to work in the notion of “could” and asked Ms. Wardlow for her views. She said that probability clearly needs to be addressed at the measurement stage and she was concerned that including it also in the definitional stage would mean that an explanation would be required of how to measure it. Then one would have two measures of probability, one at the definitional stage and the other at the measurement stage. She does not believe it is helpful in the definition. As long as there is an emphasis on having a present obligation that, as things stand now, would lead to some result in the future, she thinks the notion of some uncertainty is included.

In response to Mr. Mosso’s question about where he would insert “could,” Mr. Patton said that “little or no discretion” does not seem to work with “could.” Mr. Mosso thought it would fit into the notion of present obligation. Mr. Patton suggested “could be required to settle.” That would not be with “obligation,” but it would be consistent with the asset definition. Mr. Mosso suggested “future obligation that could require the provision of cash, goods, or services.” Ms. Wardlow said that it seemed weak to talk of “could” with “obligation,” because the Board was trying to define “obligation,” that is, when does one have an obligation? She thought that the notion of probability comes with what will happen in the future and not with deciding whether, under current conditions, you have an obligation. In response to Mr. Patton’s question, she agreed that she would prefer not to have “could” in the asset definition either. Mr. Patton thought that something ought to be articulated about uncertainty or people would assign their own percentages to it, ranging from 100 percent to one percent, to say whether an item meets the definition or not.

Ms. Comes thought that uncertainty was in one case addressing existence. For example, an event occurred and someone is suing for damages. The uncertainty is whether a liability exists or not as a result of the event. The uncertainty relates to the existence and certain events that will resolve the existence issue. The question for accountants is when is the existence certain enough to lead them to recognize a liability? Thus, probability relates in her view to a decision about recognition. In the definition of liability, it should be clear that an obligation must exist and if it does not then the definition is not met.

Mr. Mosso indicated that the session should move toward a conclusion. Just to insert a positive note, he said he thought the draft was pretty good. Other members agreed. Mr. Mosso indicated that the Board needed to give guidance on what Ms. Wardlow should do next. Noting that the Board had focused almost exclusively on the “requirement to settle,” he asked whether the characteristic relating to “present obligation” was reasonable acceptable to the Board members—that is, paragraphs L8

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through L11? He thought that Mr. Patton's point about probability would fit there. Maybe additional effort could be put into the characteristic of the "requirement to settle."

Mr. Dacey raised a question about the last sentence in paragraph L8: "Further, when an entity establishes the conditions under which other entities will qualify to receive future payments and those conditions have been met, the entity has a present obligation to settle the agreed amount in the future." He asked whether the notion that meeting conditions would lead to a present obligation was too narrow and specific for a definition. He did not think the Board had talked about that, but it might come into some of the issues to be discussed in other projects later in the day.

Ms. Wardlow said she had received a suggestion that "substantially met" might be better. Her intent in including the concept was so that the discussion would not revolve entirely around exchange transactions. So, one is considering at what point one has a present obligation. She thought that paragraph L9 was very important—the fact that, for a present obligation to exist, there need to be two entities involved and some agreement or action by both parties. So, with a nonexchange situation, one would be looking at when the conditions set forth by the entity were substantially met as the point at which a present obligation exists. However, one would need a reporting standard to establish specifically what those conditions are. So, the language questioned by Mr. Dacey in paragraph L8 was not intended to be specific, but to be a broad concept that would apply to transactions when there is no contractual arrangement.

Mr. Mosso suggested that Mr. Dacey consider a matching grant as an example. He might offer \$1 million to a charity provided that they can obtain pledges to match that amount. He does not have an existing obligation to pay, but he has set the conditions. Whether one would recognize something at that point is an open question. It is not an exchange transaction, but the transaction depends upon actions by others. So, he would agree with Ms. Wardlow that it is a broad, general concept. He would not think of it applying to anything specific but rather to a whole range of situations. Mr. Patton pointed out, however, that the Board had been reading papers on Social Insurance and Supplementary Social Insurance in the same week, so that he also had noticed the concept and thought that it was eligibility based, as opposed to being related to performance under a program. Ms. Wardlow explained that it was not intended to relate to eligibility; one could establish any conditions in a standard, but a concept would be needed such as the one proposed. Mr. Patton suggested that a wording change might be helpful.

Mr. Zavada did not have a specific change to offer, but he thought the notion of conditions being met was too broad. Ms. Comes asked whether his difficulty was with the word "condition" or "qualify." Mr. Zavada thought it was the notion. There are so many programs that have beneficiaries, and he is concerned with the notion that all one has to do is qualify and there is a present obligation. Mr. Reid said that he would think of programs such as food stamps, where a beneficiary must qualify for benefits, and the draft language would say that, as long as the beneficiary met the conditions established for receiving food stamps, the government would have an obligation to provide them. But, if next month the beneficiary fails to meet, say, an income test, he has not met the

conditions for next month. So the government would have a liability for this month but not for next month. Mr. Zavada thought it would be very difficult to apply to SSI programs because of their eligibility requirements. Mr. Reid mentioned an age qualification which many beneficiaries might not have met, but which one might wish to include in a liability computation. Mr. Patton asked whether, for social security, where one has to have a certain number of quarters completed and there is an age requirement, the notion of meeting conditions would prohibit recognizing a liability for someone who has, say, 38 quarters in. Ms. Wardlow said that the draft was presenting a broad concept. The specific conditions that would have to be met would need to be articulated in a standard. All the draft is saying is that, if the Board wishes to include nonexchange transactions, there is a "quid pro quo." A says it will do something if B meets certain conditions, so that if B meets those conditions, then A has an obligation to follow through. The concept would not preclude anything in a social program; one would need more information about the program and the nature of the promise in that program.

After a break, Mr. Mosso called for individual members to express their views on the draft and see what guidance could be given to Ms. Wardlow. However, before that he invited Mr. Jacobson to comment on two different cases that present an interesting contrast on the issue of enforceability.

Mr. Jacobson said he was focusing on the second characteristic. Assume that whatever the conditions are for social security have been met, so that there is a present obligation. As a comparison he described the real case of an agreement between the United States and individuals who were willing to spy for the United States during the Cold War, in exchange for payments. The Supreme Court has just ruled unanimously that, even though there is no dispute over their performance, those individuals are not entitled even to pursue a claim against the United States for payments they believe they should have received but did not. If one looks at the second essential characteristic of a liability, the federal government is required to settle the obligation, and you look at whether there are any adverse consequences if the entity does not settle the obligation. The Supreme Court effectively has said there are no adverse consequences. In contrast, if the government announces that it has decided to stop paying all social security benefits in 2025, there might be some social, economic, or political consequences, and one might conclude that the "requirement to settle" cannot be as easily avoided. Mr. Jacobson offered the examples to illustrate what the concept under discussion would mean.

Mr. Mosso said the examples provide a good contrast between something that would be enforceable and something that would not be, which is an issue that has the attention of some Board members.

Ms. Robinson asked Mr. Jacobson whether he was implying there was an obligation to the spies. Mr. Jacobson said no. If one applies the concepts the Board is discussing, there was no liability, because the requirement to settle the obligation could be avoided by the government without there being any consequences. Ms. Robinson said that, in that case, the staff's proposed definition did the right thing. But, rather than an issue of

adverse consequences, it is one of legal enforceability because they did not have a legally enforceable claim. Mr. Jacobson said it was both; there was no legal enforceability and there were no adverse consequences—social, political, or economic—to avoiding settlement. Ms. Robinson thought the case illustrated a problem with the definition because there would be adverse consequences; the government would not be able to hire spies.

Mr. Mosso then said he would like to go round the table and ask members to provide guidance to the staff by indicating where they are satisfied with the direction of the draft and how they would change those things with which they disagree.

Mr. Patton said first he did not see an advantage to substituting “required to settle” for “little or no discretion.” He likes Mr. Anania’s suggestion of referring to “severe” adverse consequences. There is a definition of “severe” in a FASB document or in an AICPA Statement of Position—something like “more than material, less than catastrophic.” Mr. Reid suggested “substantial” or “significant.” Second, Mr. Patton said the notion of probability is in the definition whether the word “probable” is included or not, and the FASB included a footnote definition of “probable” to avoid the interpretation that the existence of an asset or liability must be one hundred percent certain. Third, to the extent that the Board wishes to have symmetry between the asset and liability definitions, he would urge the inclusion of parallel statements of something that connotes low probability, so that the definitions would cast a wide net, and recognition would be dealt with in the next stage. He did not have a recommendation as to where the word “could” should be inserted.

Mr. Schumacher said he had no particular issue with the way either of the two characteristics—present obligation and requirement to settle—were drafted. He agreed with Mr. Reid that the definition should cast a wide net and then subsequent stages would provide a narrowing—when the Board looks at measurability, reliability and recognition. He agrees with Mr. Patton’s comments concerning symmetry between the asset and liability definitions and he would like to find similar wording for both definitions, whether it is “could” or some other wording.

At Mr. Patton’s invitation, Mr. Jacobson referred the members to line 15 on page 4 of Attachment 1. Instead of “to provide,” he suggested that characteristic (a) should read: “The federal entity has a present obligation that could result in the federal entity providing cash, goods, or services to another entity in the future.” Mr. Mosso agreed that would be parallel with the asset definition. He next called on Mr. Dacey for his views.

Mr. Dacey said that, consistent with his earlier comments, he thinks the Board should explore or develop further what would be a liability beyond legal enforceability. The government is in a unique situation and some of the “adverse consequences” mentioned in the draft would be hard to deal with. If a liability is not legally enforceable, the government may choose to do certain things, so when one would recognize a liability is a big question. Second, he thinks it would be good to aim for symmetry in the

definitions. Third, he agreed with Mr. Mosso that the Board will have to deal with the probability issue sooner or later, but he is not sure when would be the best timing.

Mr. Zavada said the definition as written was too broad. He would favor something narrower that would hone liabilities down to a specific category. Then he would have another category of items that might be what Mr. Reid described as liabilities that are not recognized. Second, the notions of probability and little or no discretion should be addressed in the definition. Third, symmetry between the asset and liability definitions is important.

Mr. Reid reiterated his view that the definition should cast a fairly wide net. He would like the Board to reach a consensus on “could.” He is not certain about symmetry; there may be some problems there. He said the Board added “could” to the asset definition to broaden it, so that people could not hide behind the definition to deny the possible existence of assets. He would prefer to do the screening with recognition criteria, which might be in the individual standards, as well as through measurement. He thinks the terms used in the definitions should be defined, as is being done, for example, in the draft.

Mr. Reid continued that, more specifically, he likes paragraph L7, lines 14 through 19—that is, the two characteristics that are there and ultimately would become the definition. He has some concern with the last sentence of paragraph L8 [referring to the entity having a liability when the conditions it has set have been met by the other party]. For example, with any of the social insurance programs, the beneficiary may have satisfied the conditions but not yet have satisfied an age criterion. In other words, the individual may not be ready to retire, but one might want to recognize a liability for the portion of benefits that has been earned as of the balance sheet date. Maybe the language in L8 would do that, but he does not know whether that language would be in the body of the statement or would be part of the basis for conclusions, which he would prefer. If this section of the draft is in the body of the document, he probably would be opposed to including an additional paragraph to clarify what the Board includes in things that go beyond legally enforceable but would meet the “present obligation” test for a liability, and he would oppose including a list. However, some guidance as to the Board’s thinking, including some examples, would help people make judgments. Mr. Mosso added that might be particularly helpful for exposure purposes. The Board would not need to say that the illustrated items that go beyond legally enforceable are liabilities, but rather they are presented to raise the question.

Ms. Robinson said her comments related mainly to the notion of “requirement to settle.” The Board has been searching for a middle ground between restricting liabilities to obligations that are legally enforceable, and including all obligations. She thinks the Board needs to decide one or the other. One embodies what the government is reporting at this point. She had thought that the distinction between exchange and nonexchange transactions might be helpful, but other members did not agree. She thinks the Board just needs to decide. Either one recognizes the power of the sovereign government to change its mind and have discretion, in which case the Board would choose the narrower definition [legal enforceability], or one opts for everything that is on

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the books and all the current operations of government; one takes a snapshot of intent and one books everything. She sees advantages to each alternative. The Statement of Position would be very interesting if one booked everything—for example, many people would like to see the long-term consequences of decisions. In summary, at this point she sees no way to draw the line between the two extremes, and the Board should just make a decision.

Ms. Cohen said she did not have a problem with the essential characteristics in the draft. She does not like the reference to “adverse social, political, or economic consequences.” She does not know how they would be measured or how widespread the consequences would need to be. She thinks there may be a better way to express the idea—something like “the consequences would be such that the government would not choose to avoid settlement of the obligation.” Ms. Cohen said she did not agree with Ms. Robinson that the Board’s choice was either a narrow definition or one that includes everything. She thinks there are ways that obligations can be identified as liabilities and ways to distinguish among things. An example is the concept of legal enforceability. State governments have sovereign immunity within their own borders and for those states that have waived their sovereign immunity and have allowed suit, there is always the wording afterwards that even if you have standing, you sue, and you win, you have no way to enforce the judgment, because you need an appropriation; you cannot seize property. She would assume that is also true at the federal level. Mr. Jacobson said that might depend on the circumstances.

Mr. Farrell said he was in broad agreement with Mr. Reid that the Board needs to cast a wide net. Generally, the draft reflects the Board’s discussions and the views expressed over the past several meetings and he thinks it brings the Board where it said it wanted to be. However, he agrees with Ms. Robinson that the Board is at a philosophical impasse on some of the concepts in the draft. Some members have differing views that will not come together with more instructions to the staff. So, the Board is at the point where they either accept the definition or they do not, and then move forward. He thinks that the staff’s next step should be to begin to address the concepts of recognition and measurement. Some of those will apply to specific standards when the Board addresses specific issues, but he thinks there are some broad guidelines on recognition and measurement that the Board would like to publish, and once the Board begins to look at those concepts, it might force the Board to return to the definitional issue. In general, he is satisfied with where the project stands. Clearly, the Board could take paragraphs L8 through L15 [the discussion of the essential characteristics of “present obligation” and “requirement to settle”] and edit them “till the cows come home.” There have been some good suggestions today and there probably will be more. On symmetry, he thought that the Board had decided not to require symmetry in the definitions, but that the Board had agreed there would be cases where there could be an asset of one entity that is not necessarily a liability of any other entity. Mr. Mosso said that he leaned toward symmetry, but the Board had previously agreed that it would complete each definition separately and then go back and see whether they could be made symmetrical. Mr. Farrell said he did not disagree with trying to make them symmetrical, but he did not recall that the Board had agreed that they must be

symmetrical. Mr. Mosso agreed that was the case and he also agreed with Mr. Farrell's views on symmetry.

Mr. Anania said he did not need to wait to see the two definitions side by side, and he did not think he had anything to add to what the Board has been considering as a definition. He thinks it will take more discussion and debate. He thought he recalled that, when a vote was taken regarding removing probability from the asset definition, he was on the side of leaving it in. He might want to think some more about that notion. He asked Mr. Mosso whether the Board had voted on the issue. Mr. Mosso did not recall taking a vote, but he thought that discussion was how the Board arrived at inserting the word "could." Mr. Anania said that when the Board has both the definitions and looks at them side by side, they may wish to look again at "could" versus "probable" in the definitions if he believes they will be useful. He agreed with the staff's proposal not to use the term "constructive obligation," but the Board could retain some of those notions. He is comfortable with the essential characteristics. With regard to "requirement to settle," and as he had mentioned earlier, he would prefer the alternative language for characteristic (b) that staff proposed on page 7 of the cover memo [that is, including the phrase "little or no discretion"], with some tightening of the language in the explanation to reflect the federal government's environment. He will send additional suggestions for language to staff.

Mr. Mosso said that he agreed with Mr. Farrell and Ms. Robinson that the Board is so far apart conceptually on some of the issues that the Board will need to take a vote on them and move on. It would be helpful for staff to "tee up" the alternatives that Ms. Robinson mentioned—of treating all obligations as liabilities versus limiting them to legal obligations. Beyond that, he was reasonably in agreement and satisfied with the draft, except for certain changes of emphasis and editorial changes. He asked Ms. Wardlow what else she needed from the Board to proceed.

Ms. Wardlow asked for clarification of Ms. Robinson's alternatives. Ms. Robinson said she was referring to the situation supported by current laws—what would happen if Congress ceased to operate. There would be some problems there with discretionary expenditures that could be discussed. One might say, if Congress went home, that we would not recognize discretionary expenditures because Congress has not appropriated the money for the next year. Those issues might be dealt with in the definition or in recognition. However, she is referring to the concept that the Congress and the President are operating in a legal framework, they have instructed the agencies and given them authority and the ability to raise and disburse money, and if the Congress and the President ceased to operate further, what would the books look like? Mr. Mosso and Ms. Robinson discussed whether her description was similar to what is known at the CBO as the baseline. Ms. Robinson outlined some differences. Under both notions, one would be booking multiple years at the same time.

Mr. Jacobson asked whether Ms. Robinson's description meant there would have to be a link between having a liability and having funding for it. If one assumed that Congress had gone home and liabilities and funding are linked, then there would be no liabilities for future years because there would be no appropriations for future years. Ms.

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Robinson said the Board would have to make that decision with regard to discretionary programs. She was focusing more on entitlements and other nondiscretionary programs that, if Congress went home, would still continue and would have access to funds.

Mr. Mosso said to Ms. Wardlow that it all came down to the issue of future events. She responded that she thought the situation presented by Ms. Robinson seemed to exclude the notions that the event must have occurred and must involve another entity, not just what the federal government says. Mr. Mosso agreed and said that maybe that was the way she should present the issue and bring it to a vote.

Mr. Zavada pointed out that Ms. Robinson's concept also deals with revenues, not just expenses or outlays. Mr. Mosso said the asset side would pick up the revenues. Ms. Robinson agreed and said the Board could deal with that at another time, but it would raise the same questions. She thought the issue of "future event" was interesting for the federal government. If the Board has decided that one does not need to know who will receive the money but just that some people will get it—for example, there will be students a year from now—what would be the condition that would cause one to think there is no obligation to those students? If the government said they were going to offer higher education for five years, we know there will be students, then why is there no obligation for the five years? Ms. Wardlow asked whether the students did not need to qualify. Ms. Robinson said the question was whether the Board wants qualification to be the paperwork, or whether the Board wants to acknowledge that there are people who have met those qualifications but we do not know it yet because they have not done the paperwork. She thinks the paperwork is more of a recognition and measurement issue and one would not want a situation where the government said they were not going to do the paperwork so there was no liability. She did not think that merely qualifying was sufficient. Ms. Wardlow said she would try to address both extremes, but unless one wants to book everything, which is one extreme, there needs to be a trigger for a liability to be incurred.

Mr. Reid said that a problem for all members is that they are not looking at the complete process. The Board is looking at one end [definition] and the other end [recognition] is completely open. There are no recognition or measurement criteria that would allow the Board to frame the issue and address the size of the liability issue. For student loans, for example, it would be easy to say that the government has to have a signed repayment agreement with the student for a specific amount of money related to what has been paid, and that probably would solve the issue. Even if one said that technically the next five years of the program had been authorized by Congress and all that money could conceivably qualify as a liability, the next step—recognition—would say that there needs to be a specific repayment agreement with the student in order to record the liability. He found trying to define a liability difficult when the recognition criteria have not been discussed.

Mr. Mosso said that he would meet with Ms. Comes and Ms. Wardlow to see how or when recognition criteria could be brought into the discussion. There is an interplay

between definition and recognition criteria, and the Board may have gone as far as it can on definition without beginning to consider recognition criteria.

Mr. Patton said Mr. Reid had indicated he would like to have a broad, inclusive definition. Mr. Patton thought that characteristic (a) as written in paragraph L7, “The Federal entity has a present obligation to provide cash, goods, or services to another entity in the future” is narrower than “The Federal entity has a present obligation that could result in the Federal entity providing cash, goods, or services to another entity in the future.” He thinks that Mr. Jacobson’s suggested change in the language broadens the scope. Mr. Reid said he didn’t necessarily object; he just did not believe the Board necessarily had to make changes to achieve symmetry with the asset definition. Mr. Patton said he was addressing the goal of broadening the definition, not making it symmetrical, and he felt the change did make the definition broader. He thought that might be one conclusion that the Board could agree on.

Conclusion: Mr. Mosso said that individual Board members had indicated a variety of different issues such as the concept of probability in element definitions that they would like to pursue further. Ms. Wardlow thought that the two broadest areas of interest appeared to be first to consider something on recognition and measurement—principally recognition because measurement involves a number of different considerations, and second to further develop the criteria for deciding when a liability has been incurred. With those criteria, the Board’s options would not be limited to (1) considering all obligations to be liabilities, including those involving future events, versus (2) limiting the definition to legally enforceable obligations. Mr. Mosso said that he, Ms. Comes, and Ms. Wardlow would need to discuss what the next step in the project should be.

- **Social Insurance**

At the prior meeting in December the staff had presented eight Social Security program characteristics that might create a “present obligation,” in conjunction with a “past obligating event,” prior to the point when benefit payments are due and payable. The staff noted that, in December, the Board had focused on two Social Security program characteristics: “eligibility” or conditions specified in current law; and performance. Other program characteristics presented by staff – e.g., *specificity* of benefits and benefit formulas; the “*permanence of funding*,” and direct communication benefit information – may be relevant to a decision about whether a liability definition was met but would not be necessary.

The staff explained that it was presenting for discussion the program characteristics modified to reflect the members’ comments along with the three obligating events that were on page 27 of the December 2004 staff memorandum: (1) full eligibility, (2) threshold eligibility, and (3) beginning work in covered employment. The paper also presented a discussion of possible approaches for calculating the liability and cost amounts that some members had requested.

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The staff presents two questions for the Board's consideration:

1. Does the Board agree with the substance of the Social Security characteristics presented below?
2. What is the Board's preference regarding the obligating events presented below?

Mr. Patton said that eligibility and performance are alternative incompatible core views regarding what the program is about. Eligibility focuses on Social Security as a social program while performance treats it as some type of pension program, virtually an exchange event. He said he views Social Security as a social program and therefore eligibility makes more sense to him. He did agree with the description of "eligibility" in the staff memorandum.

Ms. Robinson said she agrees with Mr. Patton wholeheartedly. The one and only characteristic is eligibility. Social Security is just like other government programs. For example, payroll taxes were just like any other tax. She said she understood that people see that they will qualify for Social Security if they do not die and that they do not see that there may be a time when they will qualify for food stamps; but, from the Government's point of view, at any time members of the population can become eligible.

Mr. Reid suggested defining participation and relating eligibility to it. For example, define what does it mean to be a participant. He said that the Board may want to say in the standard that eligibility means one has gotten to a certain point in one's participation, e.g., the first day you're employed or 40 quarters or retirement age. Specifying participation, performance, and other characteristics would define the universe of people that the standard applies to. He would avoid using a legal definition, which in effect the Board is not using. He would avoid saying that the Government is legally obliged to do something, but in order to be eligible one must meet all the tests, one of which is that you have to be alive. And next month the computation would be done again based on whether or not the one is still alive. That is how the liability is recorded now, and in that sense it is like food stamps and other similar programs where we redo the eligibility every month. He preferred looking at the existence of participants instead of the existence of the current law – except that we are going to use current law to calculate benefits. Current law would not be used to calculate participation.

Mr. Zavada said he agreed with Mr. Patton and Ms. Robinson that eligibility is the only relevant criteria. He said once you get into performance the notion of exchange transaction is introduced and there are differing views on that. It also gets into reliance about which there is anecdotal evidence pro and con.

Staff observed that the existence of a program would not be enough to recognize a liability – there has to be an obligating event.

The Board adjourned for lunch at 12:00 PM

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The Board discussed the three obligating events presented by staff. Mr. Zavada asked what the linkage is between the notion of present obligation and obligating event. He said the notion of obligating event appears to pertain to measurement. Staff replied that an obligating event completes present obligation.

Chairman Mosso observed that accrual accounting involves recognizing the consequences of an event in the period that the event occurs. He noted that this is the matching notion. Regarding Social Security, the participant pays taxes and works in covered employment and acquires the right to future benefits.

Ms. Robinson said she did not see the distinction between executory contracts and Social Security. Staff explained that performance constituted the necessary obligating event, and working in covered employment could be viewed as performance. Ms. Robinson said contracts require performance and when the performance occurs the contractor gets paid. She asserted that, with Social Security, the performance includes staying alive or at least becoming fully eligible.

Chairman Mosso said that the absence of recognition criteria at this stage may be causing problems, but a fundamental principle of accrual accounting is that events are booked when they occur. He said working in covered employment triggers at least two consequences. First, you pay taxes; and, second, you acquire a right to a future benefit. This usually gets translated into a matching concept, matching revenue and cost.

Mr. Patton said he did not think the Government had a present obligation for participants who did not meet the 40 QC and age conditions.

Mr. Farrell said he did not think Ms. Wardlow's preliminary liability characteristic "present obligation" required the payment to be due today.

Ms. Comes said the staff material was asking whether the Board was comfortable with the notion of "substantially met:" is the Board comfortable with the notion that there is only a remote chance that, for example, a person that has worked only five years will fail to work to 40 QC.

Mr. Reid said that the risk that a person with less than 40 QC will not reach 40 QC could be addressed as a definitional or a measurement issue.

Mr. Patton said addressing uncertainty in the measurement phases was fine, but he did not see how an obligation existed before at least 40 QC.

Mr. Dacey opined that Social Security is not an exchange program. It is not the same as a pension.

Mr. Reid noted that participants accrue benefits as they move through the year. He said a focus on matching revenues and cost is needed.

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Mr. Dacey said he agreed with the desire to match costs and revenue, but recognition raises an issue. For example, regarding the cost of the new Medicare prescription drug benefit, the present value of the program's net cost on a 75-year projection basis (including dedicated revenues) is about \$8 trillion, some subset of which presumably would be captured by the approach under discussion. Some people would view the \$8 trillion as a more representative cost. He said the SOSI is intended to show the long term cost of these programs.

Chairman Mosso said that he thought the difference between what Mr. Dacey was describing and the idea in budgeting is that the latter recognizes the complete cost of the program before it is authorized. For this purpose cost is a perfectly good term, but the objective of accounting is to show how much of the total long run cost has been incurred to date.

Mr. Dacey raised questions about the value of reporting only a subset of the total cost for Social Security for presentation as a liability.

Ms. Robinson indicated that it is difficult to think about an obligating event without a definition of a liability. There could be a narrow definition suitable for the "due and payable" obligation or an expansive one suitable for the other end of the spectrum.

Ms. Comes noted that this was not an "either/or" choice. Accrual accounting is one perspective and there is a whole array of other questions from a policy view point to be considered in conjunction it. Regarding the new prescription drug benefit, the question is not whether \$8 trillion dollars is the correct cost or whether some lesser amount is correct. You can have both financial position using the accrual model that effectively presents cost and liabilities attributable to the period. This would address one aspect to financial position. Other aspects could be required as well.

The Board discussed how the SOSI might be changed to reflect more components of the present values. Ms. Robinson said asked whether the Board had a comparative advantage in presenting this data. SSA and others present cost data and forecasts on Social Security, but accrual accounting is an interesting perspective as well. Chairman Mosso said that that involved the larger question of whether there ought to be accrual statements. If so, then all accruals should be there.

Mr. Zavada disagreed. He said it involves the notion of these things beyond what we traditionally have considered liabilities and whether that is relevant to a financial report. He said he thought it is relevant and that there is a way to present it other than as a liability.

Mr. Anania said he agreed with the staff analysis. He said Social Security is not an insurance or retirement plan, contributory or otherwise; it's a special program. He said the Board has to make a judgment: is there enough at least preliminary evidence to say there is a liability? If so, what is the obligating event? Next, how would the liability be measured?

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Mr. Mosso indicated that work is needed on the SOSI regardless of what goes on the balance sheet. He said that what goes on the balance sheet will not be sufficient.

Mr. Dacey added that he would favor including the changes in SOSI amounts during the reporting period in the current results of operations to show what the total effect was on the Government of the prior year. For example, last fiscal year the unified deficit was \$400 billion, an accrual deficit of \$615 billion, and a total if you add in the social insurance change of about \$13 trillion. These numbers are reported in the MD&A. He suggests looking at alternative presentations in order to achieve the most meaningful reporting.

Ms. Robinson noted the net Governmentwide impact of program changes. For example, the bottom line for the Government did not go up \$8 trillion. Medicare increases are partially offset by associated decreases in the cost of Medicaid directly related to having Medicare cover more prescription drugs.

The Board discussed whether to consider changes in the SOSI in conjunction with the analysis of the Social Security liability or on a separate track. Mr. Reid suggested looking at liability issues first for proper matching and then looking at sustainability values. The SOSI should be addressed after there is a determination about what goes on the balance sheet. He said one question in that regard was whether SOSI should be retained as a basic statement since it would be on a different accounting basis than on the main statements.

Mr. Dacey indicated that there is going to be a need to reconcile the balance sheet with the SOSI. He wanted to understand what the Board was trying to portray on the balance sheet versus this other number and what would be shown in terms of flows and how it would all reconcile.

The Board decided to proceed with the liability analysis first and consider changes in the SOSI subsequently.

Chairman Mosso's asked the members to provide their preliminary choice of an obligating event(s) based on the options provided in the staff memorandum.

Jim Patton said he viewed Social Security as a social program, not as a pension, and therefore he did not favor the "work in covered employment" obligating event. He favored one of the two eligibility points. He said he needed to consider further the role that the passage of time plays. The "threshold eligibility" obligating event requires only that the person live until they are 62 years old to receive payments. Full eligibility means that a person is eligible to receive payments at 62 but the payments depend on staying alive. He was trying to evaluate the "staying alive" requirement. If "staying alive" were the only thing, then the threshold obligation would be appropriate; but, if staying alive for 30 years is different than staying alive for one year, then full eligibility would be. He said he needed to think more about that but he would choose one of those two eligibilities. (Note that following the meeting, Mr. Patton requested that the minutes include clarification that his tentative selection of 'eligibility' as an obligating

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event is contingent on the Board pursuing what has been referred to as the “broader definition” of liability.”)

Mr. Schumacher said right now he preferred threshold eligibility. He said eligibility is the key. He said he agreed with Mr. Patton’s comments but viewed uncertainty with respect to staying alive as a measurement issue.

Mr. Dacey stated that staying alive was treated as a measurement issue in the options rather than one that was relevant to the question of the existence of a liability. He noted that the international community was still considering this issue. He said he was still struggling with what a liability is. He said he did not support any of the options at this point.

Mr. Zavada said he agreed with Mr. Dacey. He did not care for any of the options. He said it was very hard for him to decide this question while simultaneously considering the liability definition. He said he was still at “due and payable.”

Mr. Reid said he preferred the “threshold eligibility,” 40 QC.

Ms. Robinson said she agreed with Messrs. Dacey and Zavada. She cannot decide the question without a liability definition.

Ms. Cohen and Messrs. Farrell and Anania said they preferred 40 QC.

Chairman Mosso said he favored the staff recommendation, which is work in covered employment.

CONCLUSION: Regarding the two questions the staff presented, the Board did not take a formal vote on the first question (“Does the Board agree with the substance of the Social Security characteristics presented below?”) but there were no strong objections to the wording. More development is needed to relate the eligibility and performance characteristics.

The following table summarizes the members’ responses to the second question (“What is the Board’s preference regarding the obligating events presented below?”):

	Work In Covered Employment.	Threshold Eligibility (40 QC)	Full Eligibility	[Other]
Patton		X	X	
Schumacher		X		
Dacey				X

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	Work In Covered Employment.	Threshold Eligibility (40 QC)	Full Eligibility	[Other]
Zavada				X
Reid		X		
Robinson				X
Cohen		X		
Farrell		X		
Anania		X		
Mosso	X			

For the May Meeting

1. Discuss what the “threshold eligibility” obligating event would mean for Medicare and other social insurance programs.
2. Explain about how the eligibility and performance program characteristics are related.
3. Discuss social insurance liability recognition points, measures, and displays.

• **Research into the Application of the Liability Definition**

Ms. Ranagan responded to Board member concerns expressed in the earlier sessions regarding addressing the application of the liability definition prior to actually establishing the liability definition. Ms. Ranagan expressed her hope that the Board finds the analyses prepared by staff helpful in formulating a liability definition, even if that precludes deciding on alternative obligating events until the liability definition is more finalized.

Ms. Ranagan stated that her objective for this session was to discuss alternative obligating events for the Supplemental Security Income (SSI) program. Ms. Ranagan discussed the differences between SSI and Social Security in an attempt to compare and contrast the two. She listed the eight potential characteristics of a present obligation offered in December by staff on the social insurance project and summarized that the Board had decided that the majority of those characteristics need not be present for a liability to exist. Ms. Ranagan stated that the characteristics of a present obligation currently listed by staff on the social insurance project were eligibility and performance.

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Ms. Ranagan presented the following summary of similarities and differences between Social Security and SSI:

Similarities:

- Both programs are administered by the Social Security Administration;
- Both programs provide benefits for old age and disabled individuals;
- The benefits for both programs are paid one month at a time; and,
- The payments for both programs are stopped while an individual is incarcerated.

Ms. Ranagan emphasized that the primary similarity between the two programs are that they are both an old age and disability program.

Differences:

- SSI recipients need not have ever worked or ever paid taxes to receive benefits;
- The SSI benefits are based on need;
- SSI beneficiaries are subject to income and resource limits that serve to reduce or eliminate benefits. The more income an individual earns or has available to them, their benefits will be reduced accordingly;
- There is no permanent eligibility for SSI. SSI recipients never become permanently eligible to receive benefits even if permanently disabled or terminally ill. They are still subject to income and resource limits;
- While SSI is permanently authorized, funding is appropriated each year;
- SSI benefits are paid to the individual or married couple only. Unlike Social Security, there are no payments to dependents or survivors;
- SSI benefits are not repaid to an individual that has successfully appealed a conviction and been released from prison but an individual receiving Social Security prior to being wrongfully convicted can receive back payments for payments withheld while incarcerated; and,
- Payments for SSI start immediately upon entry into the program (the month following determination of eligibility) while there is a waiting period for receiving Social Security of at least 10 years in most cases. The estimation for Social Security is based on “what, if anything, will be paid in the future” versus the estimation for SSI which is “how much will be paid from this point forward.”

Mr. Schumacher asked for clarification of the current amount in due and payable – is it one month? Ms. Ranagan verified that the current due and payable amount consists of one month’s benefits.

Ms. Ranagan highlighted the SFFAC 1 objectives #2 and #3, with particular reference to “2A. the costs of providing specific programs and activities and the composition of, and changes in, these costs” and “3B. future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due” as key when looking at the cost of providing these benefits to SSI recipients.

Ms. Ranagan then listed the six life cycle events for SSI: authorization, appropriation, application, determination, payment, and review. Ms. Ranagan explained the difference

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between the two types of reviews that are performed: (1) redeterminations are reviews of all nonmedical factors and are formed every 1 to 6 years depending on the likelihood of change; and (2) continuing disability reviews are reviews of medical factors of eligibility and are performed for efficiency purposed most often on those whose medical conditions are considered most likely to improve.

Ms. Ranagan referenced the FASB characteristics of a liability, the draft liability characteristics discussed in the morning session on the liability definition, and the developments under the social insurance project with respect to characteristics of a present obligation.

Ms. Ranagan summarized that her analysis of the alternative obligating events for SSI was prepared based on a literal application of the liability definition and the characteristics under the social insurance project. She emphasized that she used the dictionary definition of perform which is “to adhere to the terms of: FULFILL.”

Ms. Ranagan listed the eight alternative obligating events that were discussed in her analysis of SSI: authorization, appropriation, birth/immigration, disabling event, application, determination, review, and payment/due and payable. She explained that the timeframe was accelerated for this project because staff is building on the base established by staff on the social insurance project to analyze SSI. She stated that the members could discuss each of the obligating events individually if they felt it necessary or could build on deliberations from the social insurance discussions.

Ms. Ranagan concluded by stating that, based on a literal application of the liability definition, she felt that at the point of eligibility determination, there is a present obligation (the individuals are meeting the conditions of eligibility and are performing under the terms of the program), which leaves little or no discretion on the part of SSA to avoid the future sacrifice. She recommended that the board adopt the point of eligibility determination as the obligating event for SSI.

Ms. Ranagan referenced her discussion of measurement at the back of the paper. She summarized that her \$1 trillion rough guesstimate of the lifetime benefits for SSI participants as of the balance sheet date was presented to address the scope of the program, which some board members had expressed an interest in a similar measurement while deliberating the social insurance project.

Ms. Ranagan opened the discussion to members of the Board for views and questions.

Mr. Anania said he was supportive of the recommendation made in the memo.

Ms. Robinson said, with the caveat that she does not believe she can decide on an obligating event without having the basic definition of a liability, she has a problem with going through the administrative process being an obligating event. She expressed her opinion that the liability for the government would be the whole population at least. She is uncomfortable with inserting the government determination as a required step in the

process. Ms. Robinson presented an example of the current explosion in the number of individuals that are applying for food stamps that is uncharacteristic of such an improving economy. She explained that the increase in food stamp applicants is primarily due to efforts by the program to increase awareness of the availability of benefits. She questioned whether the liability did not exist for all of these individuals prior to the point of application.

Ms. Ranagan stated that she discussed birth/immigration as a potential alternative obligating event, where it could be estimated that roughly 2% of individuals that are born or immigrate into the United States will at some point receive SSI benefits. However, she ruled out birth/immigration as an obligating event because, at that point, there are no individuals that are eligible for the program or performing under the terms of the program.

Mr. Reid responded that it is somewhat irrelevant because the Board is talking about the individuals that are actually going to collect at some point in the process and whether one rules them out in the beginning or somehow in the computational phase, one would come out with the same answer either way.

Mr. Reid said he was working under the assumption that there are no retroactive benefits. Ms. Ranagan confirmed that SSI benefits have no retroactivity. However, if a judge in an appeals case rules that an individual should not have been denied benefits, the judge can set a retroactive date for payment.

Mr. Zavada said that, while he has concerns about working on applying the concept of a liability before defining it, it seems to him that there is something different about a program where there is no "permanent" eligibility. He said he is bothered about saying that a present obligation exists for those types of programs.

Ms. Ranagan responded that it depends on the preference of the Board to cast a wide net or a much more narrow one on the definition of a liability. If the Board decides to cast a wide net, programs like SSI could fall under the definition of a liability but, as Mr. Reid suggested earlier, characteristics for recognition could rule out some of these types of programs.

Mr. Zavada said it seems to him that programs that are means tested or dependent upon other factors for continued eligibility would cast a really wide net.

Mr. Patton said there could be an obligation today that would expire by the end of the next review period. He said he is not sure he would measure it from today until the death of the individual but maybe from today until the next eligibility review period, at which time the obligation would be re-established or not.

Ms. Robinson said the Board seems to be focusing on the individual participants with an idea of adding them all up. She said sometimes she does not find that concept to be useful. Ms. Robinson said it is pretty forecastable that there will be a group of people

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who will meet all of the qualifications at any one time (e.g., consistent disability and poverty rates). The government knows that there is a group that it is targeting and who exactly is qualifying at any given point is almost irrelevant to determining its liability.

Ms. Ranagan responded that staff over the last few meetings has tried to assert that, at the time the financial statements are prepared, known participants provide the reliance that results in the government having little or no discretion to avoid the obligation.

Ms. Robinson responded that it is much more of a measurement issue; accountants are happier when they count the people coming through the door. She said the fact is that the government does not have a recourse; when these people come through the door, the government pays. From the government's perspective, it is liable already.

Mr. Mosso replied, "not from an accounting standpoint." He said the difference is accounting tries to limit itself to what has actually happened as of the reporting date and what has happened is people have been added to the payroll. The fact that there will be another 100,000 next period should be known, but accounting does not record that until after it has already happened. Accounting is not a substitute for forecasting, but rather a complement to it, a feedback for what was forecast.

Mr. Patton said Ms. Robinson's analogy is like unasserted claims. In private enterprise, if a company has committed a violation but the person has not sued yet, the company is supposed to make an estimate of the probability that the claim will be asserted and also of the probability of losing the lawsuit. Mr. Patton said he thinks Ms. Robinson is trying to establish that there are unasserted claims and they might constitute a liability.

Mr. Reid said, to take it a step further, one could easily construct a measurement requirement that said if your information shows that 33 percent of people who come in do not apply in the year they became disabled, but apply at some future point, a liability could be computed for everyone who became disabled during the year but a lesser amount for that portion which have not yet submitted a claim.

Mr. Patton stated that, in order to do that, one has to accept that the individuals who have not yet submitted a claim are a liability.

Mr. Reid responded yes, that it comes back to the beginning where he was arguing a liability exists for all those people and the question is how to measure it. If only 50 percent are going to claim, one would not calculate anything for that 50 percent. He said he would force that consideration back into recognition or measurement criteria, where one would probably get to the same answer either way. He reiterated that he feels there is a present obligation for all of the individuals who suffered a disabling event during the period and the question is how to measure what that is worth. One would have to take into consideration that a whole bunch of the individuals who suffered a disabling event during the period would not assert their claim.

Mr. Mosso asked Ms. Robinson if she is arguing that the point of authorization is the point at which the obligating event occurs. Ms. Robinson responded that it is either

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authorization or disabling event. She said she is trying to figure out what the right viewpoint is. She questioned whether the useful information to people is to reflect the actions government took or is it to reflect the changing nature of demographics in society and its impact on government programs. She explained that she felt if one was interested in the actions the government took, that would lead one towards an obligating event of authorization. If one wants to confine the information to the changing demographics of an existing authorization that would lead one to select the disabling event as the obligating event.

Mr. Mosso said that Mr. Patton's analysis is that SSI is like a guarantee or insurance program where the disabling event creates the obligation: IBNR (incurred but not reported).

Mr. Patton said one could choose authorization because at the time the program is authorized, there exists that day some already disabled people that may assert their claims at some point in the future.

Mr. Mosso said an insurance company is obligated under GAAP to estimate the claims that will be filed. Mr. Dacey said IBNR is already calculated for many programs (e.g., Medicaid).

Mr. Farrell asked if the programs have a way of knowing when a disabling event has taken place. Mr. Reid responded that he thinks the programs would, that when they processed the claims, they would document when the event took place. Then the programs could use that information to statistically estimate how many disabling events have occurred but not yet claimed.

Mr. Dacey inquired if the next logical step would be determining how much to accrue – from one month due and payable to some longer-range projection depending on how the Board felt about the program.

Mr. Mosso summarized that staff had recommended the point of determination as the obligating event and from that point one would have a choice of just the next month or over the average experience-base of how long the individual will collect benefits. Then if one were to step back to the point of the disabling event occurring, one would have to forecast how many are going to claim, when they are going to claim, and when they start payments. That would lead up to the point of determination.

Ms. Ranagan stated that she feels the exercise of estimating the date of disability earlier than the point that someone submits an application and is determined eligible would not meet a cost benefit exercise because the recognition would not occur until the point of application at the earliest. Mr. Mosso responded that may be so but is not a standard-setters' dilemma.

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Ms. Ranagan explained that it may be difficult to estimate how many disabling events have occurred and not been reported because there are so many variables that go into when an individual submits a claim based on disability.

Mr. Mosso asked if there were any additional thoughts from board members on the point of determination versus the point of the disabling event and the point of authorization.

Mr. Anania said he would embrace the IBNR idea, the front-end extension of the class in the field, but he would be very hesitant about going any farther back than the initiation of the process for approval. He does not want to go towards some model that says every day someone gets injured and out of so many million people working, x number will end up in the system and qualify.

Mr. Mosso said it is complicated further by the fact that just being disabled is not enough; one also has to meet minimum income tests. Mr. Mosso said that the cost/benefit of trying to establish a standard that attempts to come up with such a requirement might be negative. In addition, Mr. Anania said the estimation process might not be very reliable. Mr. Mosso said the IBNR notion might be valuable in other contexts and may be helpful in looking at other programs.

Ms. Ranagan summarized her thinking in applying the characteristics [of a present obligation] from the social insurance project of eligibility and performance. There was some discussion in an earlier session of whether the characteristics would apply to a pension program or a social program, but under either characteristic, the recipient/participant/individual is doing something towards accepting the benefits from the government. The requirement to be taking some step towards accepting the benefits from the government would rule out earlier obligating events where the individual had not yet taken a step towards doing something, towards accepting the benefits of the program. That consideration is how staff found the characteristics from the social insurance project to be helpful.

Ms. Ranagan asked if the Board is interested in taking the SSI program any further or looking at additional programs.

Mr. Patton said he would like staff to look at a new program.

Mr. Farrell said one of the questions he has is whether this exercise that was done is a practical exercise in seeing if some of the concepts the Board is talking about can be applied to a specific program. He said that he thinks staff has proved that it could although there are a lot of judgments involved. Mr. Farrell questioned whether the Board would get involved for all of the judgments for every program or are the concepts specific enough so that the people out in the field can make these judgments? For every program the government has, the Board does not want to go through these eight points and make the specific judgment.

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Mr. Mosso said that is a good point but he thinks the Board has to build some cases for its own comfort.

Mr. Farrell said he thinks this was a useful exercise and the Board should look at another one or two programs to determine whether our concepts can be applied by people trying to apply this in the real world.

Mr. Mosso said the Board might use some of these analyses as examples of how people should apply the concept or the standard.

Ms. Ranagan explained that is how the title came about – Research into the Application of the Liability Definition. The Board had indicated that they were interested in a standard, first focusing on social insurance and if it could be broadened, fine; if not, it would be a good start to looking at the application of the liability definition further. The purpose was not to specifically state how SSI should be reported but rather as a principles-based or framework for reporting all liabilities.

Ms. Robinson said she was interested in looking at a farm support program because it has elements of contingency in it. One would qualify under certain characteristics but the payment, which is calculated by formula, depends on prevalent economic conditions of the time.

Mr. Patton said, of those members expressing opinions, eligibility seemed more supported than the performance under the terms of the program concept. He said the Board should look for a program where performance under the terms of the program makes more sense in order to determine if the Board wants to retain that section of the present obligation characteristics.

Ms. Robinson said that there are a lot of farm programs (e.g., conservation) where individuals have to perform under the terms of the program in order to get money.

Mr. Patton said he is looking for a program that is strictly based on performance and can be separated more distinctly from eligibility.

Mr. Mosso said some additional examples would be good, but Ms. Comes will decide how fast staff proceeds with the project given other priorities. With that qualification in mind, Mr. Mosso instructed staff to work out some other programs in the same manner.

CONCLUSION: Staff will select one or two additional programs for which to present a discussion of alternative obligating events at a future Board meeting.

- **FY2004 Financial Report of the United States Government**

Mr. Robert Reid, Deputy Assistant Secretary for Accounting Operations at the US Department of Treasury and FASAB member, provided a briefing on the FY2004 Financial Report of the US Government. He noted the following regarding the report:

1. The improvements made to go from an end of March to a December 15th issuance were phenomenal. He provide some context to what the agencies must accomplish in order to make timely submissions as well as the efforts at Treasury to produce the report. In addition, he commented on international efforts towards timely government reporting.
2. A new process for consolidating the report was implemented. The system was developed for FY2004 and the Financial Management Service deserved praise for its management of the process. There remain problems with data and improvements should be made in the acceptance of data input by agency personnel.
3. The impact of expanding Medicare to include prescription drug coverage (Part D) is depicted graphically on pages 12 and 13 of the management's discussion and analysis section. This depiction and the "Overall Perspective" presented on page 11 call attention to the long-term financial responsibilities of the federal government.
4. The management's discussion and analysis section now includes a "featured balance sheet item" and a "featured agency." Board members commented how useful these additions were and noted the challenges in depicting such a complex organization through organizational charts.

- **Steering Committee Meeting**

The Steering Committee made the following decisions:

- Funding is approved at \$1,906,635 for FY2006 (\$428,993 due from CBO and Treasury and \$524,325 from OMB and GAO) with details as provided in Ms. Comes' memo dated February 23, 2005.
- A response to the AICPA's January 2004 Rule 203 review recommendations will be provided via a letter from the committee. Ms. Comes will draft a response explaining the committee's views on the desirability of continuous oversight and means to accomplish that goal without creation of an oversight or liaison panel. Views or a report of progress on the four other recommendations will be included.

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- The committee approved the contracting proposal presented in Ms. Comes' memo dated February 23, 2005.

Adjournment

The meeting adjourned at 4:30 PM