FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
February 27-28, 2013
Room 7C13
441 G Street NW
Washington, DC 20548

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Wednesday, February 27, 2013

Administrative Matters

- **Attendance**

The following members were present throughout the meeting: Chairman Allen, Messrs. Dacey, Dong, Granof, McCall, Reger, Showalter, Smith, and Steinberg. The executive director, Ms. Payne, and general counsel, Ms. Hamilton, were present throughout the meeting.

- **Approval of Minutes**

The minutes of the December meeting were approved in advance of the meeting.

Agenda Topics

- **Federal Reporting Entity**

Ms. Loughan explained the objectives are to approve the changes recommended at the December meeting and determine if the Board is ready to move to pre-ballot ED. As noted in the transmittal memo, staff considered comments received from members prior to the meeting and incorporated those into a revised ED available at the tables this morning for your review.

Ms. Loughan explained there are not a whole lot of changes, but all changes are marked on the ED document.

Ms. Loughan explained the best approach may be to first address the areas in the staff transmittal memo and then review the other changes in the new version of the ED.

Ms. Loughan noted the first item for discussion was the proposed minimum disclosures for the Central Bank. Staff explained the Board directed staff to start with the staff proposed disclosures presented at the December 2012 meeting for the Federal Reserve but also incorporate Board member suggestions from the meeting. After considering the feedback and follow-up discussion with members, staff proposed the disclosures as listed in paragraph 76 of the ED draft.

Staff noted most feedback from members was positive and suggested the floor be open for Board discussion. Ms. Loughan also pointed out there was a small change presented in this morning's version based on a member suggestion. Staff noted "may be primarily associated or" was added before "administratively assigned" to address the concern that the Central Bank may not be officially assigned. Further, "may" was added because staff was under the impression the Board did not wish to express that the central bank was definitely included and only things that would be included would be "administratively-assigned" as the ED is currently structured. Staff noted that they did not want to give the impression that staff doubt that the Central Banking System would be included, but rather is trying to toe the line of principle-based and not imply that something is firmly included. The additional edit to add "primarily associated with" would cover the case where it is not an included entity.

Mr. Showalter confirmed that even if for some reason we concluded it was not included the financial statements, all of these disclosures would still be required for the central bank. Ms. Payne agreed.

Chairman Allen explained he would like to raise a point with Question 6 to respondents. He asked if we should say these are minimum disclosures regardless of whether the Federal Reserve is a consolidation entity or a disclosure entity. He noted that we ought to clarify that this is regardless --we saying we want these disclosures and that is why they are called minimum.

Mr. Dacey noted that, as drafted, the Board would want these disclosures to apply even if the central bank is determined to be a related party, which he thought would be unlikely. Chairman Allen agreed.

Chairman Allen explained that we framed minimum disclosures for this specific entity because of the specific relationship. He also noted that we have asked if the standard provides the appropriate guidance on whether it is included and, if so, how it is included. He explained that begs the other question of, what if you have decided you don't want to include it.

Mr. Dong explained that he thought it was our discussion last time to have this information regardless of how they were classified.

Chairman Allen agreed but stated it should be clarified here. He noted that it was theoretically possible that a financial statement preparer could decide it is neither a consolidation nor a disclosed entity?

Mr. Dong asked regarding this specific entity, and he questioned what the likelihood of that was. Chairman Allen agreed that it would be close to zero

Mr. Reger also agreed and shared confusion over what it is we are trying to now clarify by suggesting this question be added.

Chairman Allen explained that we don’t say it is included, we only say there are minimum disclosures. Therefore, the question should cover that as well.

Mr. Dacey questioned whether the ED as drafted currently says that these are the minimum disclosures because of the unique relationship or does the standard imply a specific treatment of the central bank. After discussing the wording, the Board agreed to simplify it as much as possible and only refer to the minimum disclosures in the standard language.

The Board also spent time discussing Question 6 to Respondents as there were several concerns with the question. The draft presented to the Board on Wednesday read as follows:

> Q6. Central banking (through the Federal Reserve System) is a unique federal responsibility with unique characteristics. As noted above, the Board believes the attributes for consolidation entities and disclosure organizations can be applied to the components of the central banking system. Previously, SFFAC 2 specifically excluded the central banking system and certain other types of entities by stating they should not be considered part of the government-wide reporting entity. The Board is proposing principles that should be applied to the entities, including those previously excluded, to reach conclusions regarding whether the entities are to be included in GPFFRs.
>
> Nonetheless, because of the unique nature and magnitude of central banking transactions, and the fact there is only one organization of this type, the Board proposes certain minimum disclosures regarding the central banking system. These disclosures would be

required in addition to any other reporting requirements regarding the central banking system. The information should be disclosed in the government-wide GPFFR and the GPFFR of any reporting entity to which it may have been administratively assigned. Depending on the circumstances, some of the minimum disclosures may have been addressed in other requirements. The resultant disclosures should be integrated so that concise, meaningful, and transparent information is provided and information is not repetitive.

Refer to paragraph 76 of the proposed standards and paragraphs A30-A37 and A87 in Appendix A - Basis for Conclusions for a discussion and related explanation.

a. Do you agree or disagree that the principles should be applied to all organizations, including organizations previously excluded by SFFAC 2, such as the central banking system, and a conclusion reached about whether each organization is included in GPFFRs and, if so, through consolidation or disclosure? Please provide the rationale for your answer.

b. Alternatively, do you believe the Board should specify whether components of the central banking system are consolidation entities or disclosure organizations? Please provide the rationale for your answer.

c. Do you agree or disagree with the minimum disclosures for the central banking system? Please provide the rationale for your answer.

d. Do you believe there are other significant entities for which minimum disclosures should be made? Please specify which entities, if any, and provide the rationale for your answer.

The Board believed the question covered too many topics and should be split. Mr. Dacey suggested moving the issue of whether any organization should be specifically identified as included or excluded for consolidation or disclosure. He noted the Board has spent a lot time on the issue of principles-based standards and that could be addressed in a question, with specific examples of entities. The Board discussed the sequencing of Question 6 and agreed that it should focus solely on the minimum disclosures for the Federal Reserve and the narrative would need to be revised so the narrative and preamble fit the questions that remain. The Board noted question 6b was not written in a way to solicit responses, so staff would revise and determine the best location for this question. It was agreed staff would revise question 6 by splitting and/or moving portions to other questions for the Board's consideration. It was agreed the Board would review the revised questions at Thursday's session.

Ms. Loughan asked if there were any other comments on the minimum disclosures for the Central Bank.

Mr. McCall noted that he had a comment on paragraph 76b. He noted the description "risk and benefits," but he believes it should say "any significant financial risk or benefits to taxpayers and to the federal government." He explained that it in his view; it is not the relationship between the Federal Reserve and the federal government solely. It is also the relationship between the Federal Reserve and taxpayers. Mr. McCall noted that in various parts of the standard, we used taxpayer—such as in paragraph 37, which is under consolidation entity, one of the criteria is imposing or "may impose risk and rewards on the taxpayers." He also noted in paragraph 42, it says "limited risk and rewards fall to the taxpayer." He explained that both disclosure organization and consolidation entity use the word "taxpayer" in the criteria.

Chairman Allen asked if there was a catch-all phrase that we could use in all of these instances, because it appears they all apply.

Mr. Dacey wondered what is meant by the "taxpayer" and "impacts the taxpayer" and how Mr. McCall perceives it. Mr. Dacey explained that he believes we are talking about things that affect the government and that the term “to the taxpayer” may be used in many cases to equate to “to the government.” He asked if there is difference between how you perceive affecting the government, risk or rewards to the government versus risk or rewards to the taxpayer? Mr. Dacey noted he was a little concerned if we are starting to go into indirect effects, such as affecting the economy.

Mr. McCall noted that our criteria for consolidation entities and disclosure organization refers to the taxpayer. Therefore, when we get back to the disclosures for the Central Bank, we forget about the taxpayer there. We say "risk to the federal government" and that isn’t consistent in our wording.

Mr. Steinberg noted he agrees with Mr. McCall and believes it gets back to the objectives of federal financial reporting that is in our concept statement--the third objective is stewardship. He noted that it explicitly says that the country is something broader than the government . He explained it doesn't use the word "taxpayer," but it uses the word "country" and "nation." Mr. Steinberg explained the financial reports should enable people to assess whether the government contributed to the well-being of the country and whether it left the country better off or worse off. The Federal Reserve can take actions that have no impact on the government per se, but because of monetary policy, could have a tremendous influence on the country.

Mr. Reger explained that he was a little concerned that we are talking about significantly modifying the purpose of the report. The discussion of what the report's basis or intent was, and remains, is kind of significant. He explained the report does not report out on every single policy action taken by the Congress or the government might make that affects the citizens of the country.

Mr. McCall explained that he wanted to point out the criteria the Board agreed on are not consistent.

Mr. Showalter explained he was in agreement with Mr. Reger’s concern. He believes when we refer to citizen, we meant indirectly citizens have to pay through increased taxes to the federal government. He explained we can't open this up to any possible ramification of federal policy on the taxpayer or citizen that would not be auditable from that perspective and we need to be clear what we mean by impact on the taxpayer. He explained he believes we mean burden on the taxpayer through the responsibility to the federal government, not any impact.

Mr. Dacey agreed and believed he personally preferred saying "to the government" where we say "to the taxpayer."

Mr. McCall noted he was thinking along some of the comments that Mr. Steinberg made and there are probably actions that the Federal Reserve makes regarding unemployment and those types of things that could directly affect the taxpayer, maybe indirectly.

Mr. Dacey noted he understood but that might open up a Pandora's box. For example, if the sequestration causes a reduction in TSA agents at the airport, it is going to affect my economic welfare by having to stand longer and not be productive for a longer period of time to get on an airplane. So, it would have an effect on me. So, he was concerned about that indirect effect. He agreed we should be consistent.

Mr. Granof noted that we have already broadened it somewhat when we added paragraph c for discussion of actions taken by the Central Bank with respect to monetary and fiscal policy, which goes beyond relations with the government itself.

Mr. Dacey explained that he does not have a concern with what we added because it is describing the actions they are taking; whereas the other is the effect of those actions on the taxpayer and he would have concern with that.

Mr. Smith asked for an example of a risk that would be to the taxpayers that is not to the government that we would be trying to say this is what we would lose in the standard if the wording was not included. He was trying to understand exactly what we want to capture by adding taxpayer. He explained that he sees that as broadening this, that someone could go interpret it now that could be further than what we want.

Mr. Steinberg suggested the example of the Federal Reserve has adopted the policy of buying $85 billion a month of mortgage-backed securities and, also, issuing bonds of $85 billion. . If they all go bad, somebody needs to pay off. If the thought is that the Federal Reserve will just issue more money because they are the ones that issue the money in this country, if they do issue the money, and you increase the money supply, then it causes a tremendous rate of inflation, much more than you have otherwise. It wouldn't affect -- well, it would affect the interest rates. It would affect the average citizen a lot more.

Mr. Dacey noted we address this by saying "the government."

Mr. Smith agreed and thought that we get that disclosure now.

Mr. Steinberg noted that as Mr. Granof pointed out paragraph c addresses a lot of this as well.

Mr. Reger agreed there is a general discussion of monetary policy in c. He noted the questions are in 76 e (“significant financial risks or benefits to the federal government”) because it is even more variable in terms of predicting eventual effects on the economy.

He explained he doesn’t think we really have a way of telling the reader what the short- or long-term effect of that monetary policy is, especially if we are going to follow the example in terms of an event that I don't think would occur anyway. But let's say the mortgage-backed securities decreased in value to the point where you would want to increase the monetary supply. That might be the best action in the world we could take right at that second, depending on thousands of other things that would be going on. He did not see how such a requirement is possible or auditable.

Mr. Dacey noted he would like to clarify a point. If the value does go down and they sell them at a loss, then you are not creating money supply at that point; you just sell them at a loss and the Federal Reserve records a loss. It reduces the amount that gets transferred to the federal government from that payment.

Mr. McCall noted we increased the money supply when we bought the mortgage-backed securities.

Mr. Dacey explained the impact still gets back to the government. Although there is an indirect effect of all of this on the economy and on the citizens, but, again, the indirect part is the part that he was very concerned about bringing into the disclosures.

Chairman Allen wanted to recap that the Board had been discussing the issue of “federal government” versus using “taxpayer and federal government.” And the reason it is best to use the word "the federal government" is that, if possible, we would like you to describe these policies and, government is of the people, for the people, and therefore, the government is the people, so to speak. But, in this case, “the amounts of the federal government's exposure” is preferable to taxpayer or citizen’s exposure. Chairman Allen asked Mr. McCall if he was Okay with the explanation thus far.

Mr. McCall explained he was okay with it. However, he just wished in consolidation entity and disclosure organization we would use the federal government only in the criteria. He noted there is inconsistency between our criteria and how we are now using.

Mr. Dacey agreed and asked if we could make it consistent and use "federal government" throughout?

Ms. Payne suggested that in paragraph 37, what you are really looking at is how operations are financed through the process of taxation. The Congress’ appropriations from tax revenues with financing eventually paid through taxes to cover any deficit. She suggested staff would replace "supported by the taxpayer" with “financed through general taxation and other non-exchange revenues.”

Mr. Reger suggested if that is what the Board agrees then staff will have to search the entire document to ensure it is used correctly. Staff will have to search through the document for these two terms and ensure that every time they are mentioned that we have a consistency of what we are intending to say.

Ms. Loughan asked for the Board’s confirmation on making the change.

Mr. McCall noted he would be okay leaving but he wanted the other members to understand his concern. He believes there is some merit to using the word "taxpayer," but it just seems inconsistent.

Mr. Showalter explained when you use "taxpayer" in concert with "risk and benefit" there is concern. I don't think we need to scrub "taxpayer" out of the whole document, but instead ensure the context that is limited.

Ms. Payne asked if the Board was comfortable with where it is used in the context of who is financing the operation but not in the context of risks. Mr. Showalter agreed.

Chairman Allen directed staff to read through the document and use their best judgment based on the input from the Board to determine the changes necessary to make consistent.

Mr. Granof explained he was concerned that paragraph 76c (“A discussion of the actions undertaken by the central banking system to achieve monetary and fiscal policy objectives including significant actions such as adjusting the discount rate, purchasing securities (for example, Treasury securities and mortgage backed securities), or undertaking central bank liquidity swaps”) in that this discussion of the actions undertaken by the Fed will be boilerplate from year to year. He explained they engage in the same actions every year. What is significant is the difference in the magnitude of those actions.

Mr. Granof explained they are always going to buy Treasury securities, but what matters is how much Treasury securities are they going to buy each year. He added that it is critical that we include in there some mention of the dollar amounts along the lines of “discussion of the actions, including dollar amounts, when appropriate.” Mr. Granof explained these amounts are in the public domain and they are audited, in the Federal Reserve's financial statements. He noted that it seemed to him that the cost would be minimal and the benefit substantial.

Mr. Dacey explained that he believed the cost would be substantial. He noted there is an opinion on the financial statements as a whole, not on specific line items in those statements. Mr. Dacey noted he has explained his concerns at prior meetings. [Staff notes these issues have related to audit cost with respect to benefit. See prior minutes for detailed discussions.]

Mr. Granof noted he appreciates Mr. Dacey’s comments but this is a general comment on standard-setting. He believes the role of the standard-setter is to do what is best for the users of the statements and then, you bring in the cost by balancing that with the cost to the preparers and the auditors. Mr. Granof explained it is a meaningless statement without some sort of indication as to the magnitude of those amounts.

Mr. Dacey explained that even before one considers the audit cost, there is also the fact you are looking at financial statements which are 12-months old at that point. He explained there is the issue of relevance and he wasn’t sure without substantial disclosures that you could even attempt to explain to the reader how those actions had an impact on things since it is 12-months old. Mr. Dacey explained this was disregarding for a moment the potential additional cost that would be incurred because it is a very complex subject.

Mr. Granof explained he understood the argument about the 12-month old information and that it may be stale information, but that, of course, is a problem with the entire report.

Mr. Showalter asked Mr. Granof if his concern was more in regards to the change in policy. Mr. Granof agreed. Mr. Showalter suggested that the language be modified to indicate a change or the extent of the modification. He explained then, you may not have a number, but rather a percentage or something. Mr. Granof explained that is what he was going to suggest because he is not concerned with specific auditable amount. For example, he wanted to know what is going on, that this year we engaged in QE2s.

Mr. Dacey explained he didn't have a problem with that general discussion of magnitude. His concern is dollar amount.

Mr. Reger noted he agrees with Mr. Showalter. In addition, he believes the value in the discussion of item c is to know what has changed this year and to ask the Federal Reserve annually in this to provide a synopsis of the changes or alterations in policies which would have a significant effect.

Chairman Allen explained when he reads paragraph 76c, he envisioned there would be amounts. He noted it says, "What significant actions did you take," which is adjusting the discount rate. I think it doesn't mean anything to say, "I adjusted the discount rate." Purchasing/undertaking Central Bank liquidity swaps, we undertook that. Well, that doesn't say anything. You have to say something like, "We increased from $10 billion to $50 billion the amount of liquidity swaps."

Mr. Dacey noted that he doesn't necessarily agree as you could explain with narrative. He noted the purpose is to describe monetary policy or to give a description of the interaction between the federal government and the Federal Reserve. It is to give the risks and rewards that it provides back to the federal government. Mr. Dacey explained putting amounts would be a challenge in this disclosure.

Chairman Allen explained that without amounts, he would drop paragraph c. Mr. Granof explained that is why he would say "if appropriate." Mr. Dacey said that would be okay.

Mr. Reger asked does it make a difference if the Federal Reserve doubled or halved the discount rate, or do you want to know the effect of that action. Mr. Reger explained the words are more important than the numbers to the less-than-expert reader in terms of saying what that cost.

The Board briefly discussed the issue of perspective and relevance how it is important in understanding information presented. The Board also discussed the examples of discount rates and debt presented in the financial statements.

Chairman Allen explained the example of discount rates--you might report you raised the discount rate one-fourth of 1 percent. But what does the word "raise" mean? One must provide some perspective.

Mr. Dacey explained it gets back to trying to give the reader a basic understanding of the operations of the Federal Reserve during the year. There are public policy statements addressing actions they have taken and what they were intended to achieve.

Mr. Showalter noted that he believes 76c could be answered with or without numbers. Chairman Allen stated that he now agrees, but some things may result in a number.

Mr. Dacey explained he looks at this from the standpoint of the direct relationship or if the Board is trying to explain the impact on the government that is very broad. He agreed appropriate disclosure could be accomplished with what is in paragraph 76c. He noted that the Board could add the word "change" as discussed earlier to clarify.

Mr. Granof explained that since the Federal Reserve is part of the federal government, we want to know what have they did. He explained we have to stop thinking of the Federal Reserve as affecting the government, because he believes the Federal Reserve is the government.

Mr. Reger asked if that means the effects of monetary policy should be disclosed. He asked how that is different from telecommunications regulation.

Mr. Granof explained a critical difference is that what the Federal Reserve does (as opposed to telecommunications) has an impact on fiscal policy. He added it involves liabilities of the government and when they are buying and selling Treasury securities it is critical because it affects the government, and it affects the economy as well.

Mr. Dacey explained information regarding buying and selling of Treasury securities will be audited and disclosed in the financial statements. Mr. Granof explained that is what he wants assurance of.

Chairman Allen asked if there was proposed wording that needed to be considered or voted on.

Mr. Granof explained his alternative wording was "including dollar amounts when appropriate" but it was suggested to change it to "including an indication of the magnitude as appropriate."

Ms. Payne directed the members to the wording on the screen which was another option. After briefly discussing the wording, the Board unanimously agreed to the following language to paragraph 76c. "A discussion of significant financial actions, and changes in those actions, undertaken by…."

There were no other comments on the minimum disclosures for the Federal Reserve, so the Board moved on to the second topic in the staff memo.

Ms. Loughan explained this related to the Questions for Respondents. Staff explained at the December meeting, the Board also requested staff to develop Questions for Respondents to address the following Federal Reserve issues:

- Are the attributes for consolidation and disclosure entity sufficient to make a determination for a central bank (the Federal Reserve System)? Also, are there other significant entities (please identify) for which it may be difficult to determine if it is a consolidation or disclosure entity?

- Are enough disclosures about the central bank (or other significant entities) required? If not, what additional disclosures should be made?

- Whether the Board should be explicit in stating whether the Federal Reserve is a consolidation or disclosure entity?

Mr. Dong noted that based on the discussion earlier this morning, it was agreed staff would be revising Question 6 b and c? Ms. Loughan agreed.

Mr. Dacey noted that he had a comment on Question 2c. The first question says "all other significant entities," and he wasn't sure what we meant by "significant entities" as opposed to insignificant entities. He noted concern as to what the focus may be. He explained in part 2, he didn't know what the "significant" might entail, particularly for those entities that may not see themselves as significant, but are, nonetheless, currently consolidated.

Mr. McCall noted that he had suggested that question and worked on the wording, along with the one for the Central Bank. He believed the Board wanted to ask if there was anything significant we might have overlooked.

After discussing question 2c the Board agreed it should be revised. Staff will revise question 2c so that it includes example entities such as the FFRDCs and museums. Staff will also revise the way the question is written so it is clearer. Staff will present revised wording for the Board's consideration at tomorrow's meeting.

There were no other Board member comments on the questions for respondents.

Ms. Loughan explained the next item was to discuss the other changes made in the ED. Staff explained the Board also requested staff to clarify text to avoid inferences that organizations temporarily owned or controlled are "federal reporting entities." One change was the term "disclosure entity" was replaced with "disclosure organization" to further distinguish it from "consolidation entity" and "reporting entity." Staff notes this suggestion was discussed at the December meeting and several Board members expressed that it would be helpful. After implementing the change, it appears to provide for a better read.

Mr. Steinberg noted that he had a concern in this area that is rather broad. He explained he ought to start by saying he believes there should be disclosure of all financial risks and benefits associated with the entity. He explained that, for certain organizations, the risks and the benefits exist, not because the organization is part of the entity, but because of other circumstances.

Mr. Steinberg explained that staff changed “disclosure entities” to “disclosure organizations,” to address the concern he raised last meeting, but he doesn’t believe that addresses the concern or that the rewrite that the minutes said was going to take place actually was accomplished fully.

Mr. Steinberg identified the fixes for which he would not submit an alternative view—he would delete the identification of receiverships, conservatorships, and intervention entities as disclosure organizations, he clarified that he would take those four or five paragraphs out of the standard. Secondly, he explained there are two or three paragraphs that qualify control (for example, regulatory organization and significant business you rely upon). Mr. Steinberg explained he would add a third qualification in that area that says, "In certain instances, the government may acquire ownership or exercise control of an entity to avoid adverse impacts on the nation's economy, commerce, national security. However, if those entities have been established by the private sector and are not presently intended to be part of the government, and the ownership or control is other than permanent, then they, too, are not part of the entity." He explained they would not fit the ownership and control criteria.

Mr. Steinberg added he would also put language that in those instances, as in other instances where the government has intervened to avoid adverse impacts, but without an ownership or control that the entity is required “to make all disclosures required by generally accepted accounting principles to show the risks and benefits, including such things as costs incurred to date, liabilities, contingent liabilities, risks, key transactions, and other appropriate matters."

Chairman Allen noted he wanted to clarify that the primary issue is that Mr. Steinberg had proposed an Alternate View at the December meeting, and it had been discussed. As he recalls, it is hard to get a clear count on what a couple of Board members said, but, clearly, the majority of the Board members wanted to stick to the ED document versus supporting the alternative view.

Mr. Steinberg explained that his understanding of the minutes was that the members wanted clarification or were uncertain.

Chairman Allen noted that he recalled two Board members said that, but specifically, a majority of the Board members said they did not support an alternative view.

Mr. Steinberg explained that the minutes are in the materials. He explained it was clear from the minutes, the rewrite was to remove this implication that organizations that were not intended to be part of the federal government were not to be viewed as part of the reporting entity.

Chairman Allen explained that at the last meeting, it became clear that the majority of the Board did not support an alternative view, but wanted to continue with the structure of the ED and agreed to a rewrite to clarify certain things. Chairman Allen explained staff provided a rewrite as agreed.

Mr. Steinberg explained that he did not believe the rewrite provided more clarity.

Mr. Steinberg explained that while a paragraph was added to the basis of conclusion, the changes he had suggested, such as removing the paragraphs and so forth, were not made.

Chairman Allen explained that the Board did not approve those changes based on the vote at the December meeting.

Ms. Payne suggested the question be asked of members since the question has been raised by Mr. Steinberg and determines the starting point which discussion we have. She suggested the choices are pursue (1) the clarification along the path that staff began and evaluate the staff ED for proceeding forward or (2) explicitly excluding receiverships, conservatorships, and intervention entity organizations as suggested by Mr. Steinberg.

Chairman Allen explained he doesn't object to having a vote, but he thought the Board already had a vote last meeting.

Mr. Dacey explained he had a question for Mr. Steinberg. He noted that it seems he is concerned about the words "included in the GPFFR" and the fact it is attached to both disclosure organizations and consolidation entities. He asked if that is what he is concerned with-- including disclosure organizations in that phraseology included in the GPFFR.

Mr. Steinberg stated no. He explained the changes do not accomplish for him what was agreed to. Further, he believes there is an inference that these three kinds of organizations, which were never intended to be part of the federal government, and will not stay part of the federal government, would be part of the federal government.

Mr. McCall asked if he believed the current standard provides that possibility. Mr. Steinberg explained that he believed it could be misread or misinterpreted.

Mr. Dong asked, under what he is suggesting, would anything be different than what is in the ED or current practice.

Mr. Dacey asked staff where in the ED we identify the GAAP federal entities have to follow.

Ms. Loughan explained it is in paragraph 63 – 64 and it is also addressed in the scope paragraphs at the beginning. Mr. Dacey explained that he believes this is adequate.

Mr. Smith asked if Mr. Steinberg was suggesting that there be a fourth category of entities that is in between disclosure entities and related parties. He explained from what he understands, it appears Mr. Steinberg agrees these entities should be disclosed on the statements, but just he wants to call them a different category, instead of calling them disclosure entities?

Mr. Steinberg explained that wasn't his thoughts. He agrees we have consolidated entities, and we have disclosure organizations. We do disclose for other organizations, but we are disclosing not because they are part of the reporting entity.

Mr. Smith asked if they are not related parties, then are they a fourth category.

Mr. Steinberg explained he wasn't sure, he noted we have a lot of disclosures in the financial statements of things that are not a category. We have disclosures for pension liabilities.

Mr. Showalter commented that Mr. Steinberg is overlooking that these disclosures get in the reporting entity because of the control criteria.

Mr. McCall agreed.

Mr. Steinberg explained the control is temporary.

Mr. Granof noted that may not matter because paragraph 66 says that very clearly.

Mr. Showalter explained that what Mr. Steinberg is suggesting is that they are not an appropriate part of the reporting entity, which he disagrees with. He believes they are very much appropriate because our criteria bring them in and once they are in, this is how to deal with them. He added that he believes Mr. Steinberg's position is inconsistent with what we concluded. Mr. Showalter explained that he believed staff did a pretty good job clarifying things as requested. We have the criteria for users; we need to be clear about what to do with them.

Mr. Steinberg explained that is where I disagree with you. They are going to go over these financial statements and use criteria that weren't out there.

Mr. Smith asked for clarification that if it isn't the disclosures Mr. Steinberg is complaining about, it is the fact the standard puts them in.

Mr. Steinberg agreed. He stated that he fully agreed that there needs to be disclosure of the risks and benefits, the transactions, and so forth. But he doesn't believe a standard called reporting entity should single out receiverships, conservatorships, and intervention entities and put them into the same category as all the other disclosure entities.

Mr. McCall asked would he create a fourth category or how would he pull them in?

Mr. Steinberg explained that he isn't creating a fourth category because we took them out.

Chairman Allen explained they meet the control criteria. Mr. Steinberg disagreed.

Mr. Steinberg explained he would say that the standard does not apply for entities that were created or established by the private sector and the conservatorships now, even though they may have started out as government entities, laws were passed that made them private sector entities and people went out and bought stock in them. Mr. Steinberg explained if they are not intended to be in the government, when the government did take it over, they said it was for less than permanent (one of the basic principles in commercial accounting), then there should be an explicit statement that does not make them part of the reporting entity. However, Mr. Steinberg explained that doesn't mean there shouldn't be disclosure.

Mr. Showalter asked Mr. Steinberg what the difference would be in the end.

Mr. Steinberg explained he doesn't believe that we should be expanding the reach of the federal government to change and include things in the private sector.

Mr. Granof explained he was also uncertain what Mr. Steinberg was fixing and requested that he explain it again.

Mr. Steinberg reiterated his thoughts that he would delete paragraphs 48 through 52. Then he would add another exception similar to those as listed in paragraph 31 (perhaps as a paragraph 34) and it would read along the lines of: "In certain instances, the government may acquire ownership or exercise control of an entity to avoid adverse impacts on the nation's economy, commerce, national security. However, if the organization was established by the private sector, and it is not presently intended to be part of the government, and the ownership/control is for other than a permanent period, then the organization is not part of the entity."

Mr. Steinberg explained in those instances, and in other instances, because this is something that we haven't provided for, there should be language "where the government has intervened to avoid adverse impacts, but without ownership or control, such as in New York City, for example, the entity is required to make all of the disclosures required by generally accepted accounting principles in order to show the risks and benefits."

He added he would actually list some of the things that are not in here, such as costs incurred to date, liabilities, contingent liabilities, key transactions, risks, other appropriate matters.

Mr. Granof asked if the organizations would be disclosed, and if so--what the practical effect is. In other words, these intervention activities right now require disclosure. Therefore, he had difficulty seeing what the difference was in practice, other than saying that they are not part of the government?

Mr. Steinberg explained that is the effect--we do not suggest that they are part of the government.

Chairman Allen suggested that we already say that in other parts of the document. Mr. Dacey agreed.

Mr. Dacey asked Mr. Steinberg if he had concern starting at paragraph 19-- , which addresses principles under which organizations should be included in the GPFFR, and then, it defines "included" to be consolidated or disclosed. He asked if Mr. Steinberg was concerned that would bring in the interventions into that determination.

Mr. Steinberg explained there are six paragraphs that separately define each organization.

Mr. Granof noted optics aside; they are included or disclosed so what is going to really change.

Mr. Steinberg stated nothing is going to change.

Mr. Granof explained if nothing is going to change then what is the big deal?

Mr. Steinberg explained it is the perception of what the accounting standard is trying to say is part of the federal government.

Mr. Showalter commented that Mr. Steinberg expanded the scope of this standard by using the example of New York City in his earlier draft language because it is now including risk assumed information.

Mr. Steinberg noted there are a lot of other disclosures required in here.

Mr. Showalter explained he believes all the disclosures came from our definition of what is included.

Mr. Steinberg noted he has no problem taking it out. He explained the reason he put it in is because some at our earlier meetings said we have to get disclosures for the interventions. He agrees, but we do have some interventions where we don't have ownership and control. If you really think we have got to get disclosure for all the interventions, then bring that in.

Mr. Showalter explained the standard wasn't about getting all the interventions in; it was about trying to include the organizations in which issuers should report on, which some of them happen to be interventions, but some of them are not.

Chairman Allen suggested that there be a vote and the minutes will reflect that we are voting to either move forward with the reporting entity ED as revised or to make modifications as proposed by Mr. Steinberg.

Mr. Showalter explained he was fine with the ED as presented.

Mr. Smith explained he was also fine with the ED as presented. He noted he understands Mr. Steinberg's point, but he believes we ultimately get to the same place with the standard.

Mr. Dacey explained he was okay with the standard as drafted. He added that paragraph 64 (what is a federal entity) lays that out. Further, in paragraph 19, it says "included" means consolidated or disclosed. He added, we may get comments back from respondents that "included" is unclear and they may or may not like it. But Mr. Dacey explained he is happy moving ahead with the ED as it stands.

Mr. Dong explained he would go with the ED as presented. He explained he was not sure he was following the real benefit of what Mr. Steinberg was proposing.

Chairman Allen explained he also supported the ED.

Mr. Reger explained he would proceed with the ED.

Mr. Steinberg explained he would be writing an alternative view that explains his position. He also noted there should be a question to respondents.

Mr. McCall explained he respects Mr. Steinberg's position, but he likes where the Board is and supports the ED.

Mr. Granof explained that he was going to abstain. He noted Mr. Steinberg makes a valid point, but at the same time it could be corrected in other ways. He doesn't believe it is an "either/or" proposition. Therefore, based on the votes, he will abstain.

Chairman Allen noted to Mr. Granof if you would like to communicate with Mr. Steinberg on exploring those other ways, it would be better to say, "I support the alternative view," and that would allow you to have those kinds of communications.

Mr. Dacey asked Mr. Granof if he had any specific thoughts on how to make it better.

Mr. Granof explained that is what he has to work on. For example, he noted he particularly liked certain points on expanding to all interventions. He noted he liked the idea of including information about disclosure and intervention actions because they are important, and a reader would want to know about them.

Mr. Dacey explained his viewpoint that it is only when we get to the situation where we have control and we are trying to explain to the reader relevant information about why it is not consolidated.

Chairman Allen based on the Board votes, the majority supports the ED.

~Lunch Break~

Ms. Loughan directed the Board to page 8 of the staff memo. One of the last issues to discuss is the deletion of "and Funds" and inclusion of a footnote explanation. Staff explained as you may recall at the August 2012 meeting, there was a discussion of the organizational approach set up in the standard and how certain funds, such as the general fund may be impacted. As a result of that meeting and subsequent discussion, it was agreed that "or Funds" should be added to certain sections of the ED to clarify that a "fund" could be an organization.

Ms. Loughan explained there had been concern raised that this wording may cause misinterpretations. Some have taken this to mean something different than an organizational approach as intended. For example, they ask if all funds will need to be evaluated and might some confusion result in evaluating deposit funds (which typically include fiduciary funds). Further, staff has also received questions as to why a capital 'F" was used and when is this applicable (even from Board members despite the decision to capitalize – to distinguish "Fund" as part of a proper name - occurring at a Board meeting).

Ms. Loughan directed Board members to paragraph 13 and footnote 9 in the ED. She explained the word "fund," as it was presented in the ED, was causing some misinterpretations. Staff believed it could be more easily conveyed through the footnote.

Chairman Allen expressed support for the change.

Mr. Steinberg explained that he had provided some draft language and he didn't understand staff's response, because staff explained they still needed to confer with other members for feedback. However, the question he had is where it says there are funds that may be subject to certain reporting requirements or have such characteristics such as a GPFFR for the program or fund is needed. He explained that was not a good explanation because the funds don't necessarily have reporting requirements and therefore, that wouldn't capture the concern that you had that you expressed to me originally.

Mr. Steinberg explained he was trying to think of the wording that he had provided, but it didn't build upon the fact that they needed to have a reporting requirement. He explained it was along the lines of, "In addition, certain funds with certain characteristics such that an entity's financial statements would not be complete unless they included the fund." So, it wasn't built upon a requirement or need.

Mr. Reger explained that he can't think of a place where we specifically differentiate something because it is a fund. We differentiate it because it is an organizational structure.

Chairman Allen noted that the explanation for funds was only added fairly recently based on our discussion.

Mr. Dacey explained it was his recollection that, short of the General Fund, virtually all the funds are clearly administratively-assigned to some entity. He explained in practice, the General Fund has been administratively-assigned to Treasury. He explained he believes there is clear accountability for all the funds at the moment.

Mr. Reger agreed and commented that when we say that we are dealing with fund as an organizational structure, not as the typical governmental accounting class.

Ms. Hamilton noted there is a list that OMB puts out in consultation with GAO under the Inspector General Act where, for those organizations that don't have Inspectors General, they still have to do some reporting requirements. They are still called federal entities, and there are some funds listed. It is because of the organizational structure, not because of the accounting part. She explained that she doesn't think there is any fund on that list that does a standalone.

Chairman Allen asked if there is any concern with the approach staff has taken with moving the reference to a note. He explained that it seems the only question is, do we delete the whole reference because it may be misunderstood.

Mr. Showalter noted the impetus for this was actually the Treasury General Fund.

Mr. Reger explained there may be other ones but he can't think of any. He explained it is a fund class as opposed to an organizational class and staff's explanation of this as an organizational class clears it up. However, he wasn't sure if the second sentence was necessary in the footnote that points out the "General Fund" and "Highway Trust Fund".

Mr. Reger explained he would have the first sentence and not use examples, because the examples are confusing. He added the point of fund as an organizational activity like department, agency, bureau, division, commission, should make the point. The fact that we have an organizational entity out there that we have happened to call "fund" is confusing, but, as an organizational entity, it still fits.

Staff confirmed with the Board that the second sentence should be dropped.

Chairman Allen asked if there was any reason to move the word "fund" into that first sentence, "Commissions, corporations, components, funds," et cetera.

Staff cautioned against it because one of the reactions from other people was that every fund that is listed in the budget would have to be evaluated?

Mr. Steinberg asked if the General Fund is an organization.

Mr. Reger stated yes, the General Fund itself is a collection of accounts, just like anything else. He also noted there is also a fund class that is the General Fund.

Ms. Loughan confirmed with the Board the preference would be to leave in the first sentence of the footnote on funds, and after discussion it was agreed the footnote would be: "Organization" is used broadly and may include among others departments, agencies, bureaus, divisions, commissions, corporations, and components." to paragraph 13.

Ms. Loughan noted that was all of the staff issues to present. The floor was open for member issues. Other than that, we will discuss timeframes.

Mr. Dacey noted he had some editorial comments to provide and would do after the meeting. In addition, there was one broad-level issue to discuss-- in calling 'consolidation entities' and 'disclosure organizations,' one of the concerns is that throughout the document we use 'entities' and 'organizations' as standalone terms. Mr. Dacey explained that it was not clear when we make the change or if the terms are used interchangeably.

Mr. Dacey suggested the document be reviewed for consistency and to determine the best way to deal with the terms. He explained previously when we called them both 'entities,' it was easy because "entities" was used throughout the document. However, now sometimes it is "organization," so, it is sometimes hard to follow if we are calling these two things, one entity and one organization, and how do we refer to them collectively?

Chairman Allen agreed and noted every time he reads the document, that question comes up as well--What is the difference between an entity and an organization? Why do we choose two different terms? But, unless it really solved a big problem,--why didn't we just stick with "entities"?

Ms. Payne explained they have very similar meanings. The way it was structured, an organization is a candidate for inclusion, and therefore it is simply called an "organization". Once you decide it is included, previously, we started calling it "entity". And that may be where there is a little break because, after you do the classification, you call it a consolidation entity or a disclosure organization.

Chairman Allen explained maybe we need to make a point that "entity" means something that is consolidated.

Mr. Steinberg noted that he had made a suggestion to staff in paragraph 76. He explained this is the section where we talk about the disclosures regarding the Central Banking System and justify why we are requiring disclosures. Mr. Steinberg noted the first sentence says, "Central Banking is a unique federal responsibility."

He questioned if that is enough of an explanation, because we have a lot of federal organizations that have a unique federal responsibility—such as the Defense and State Department. Mr. Steinberg explained that we decided to come up with minimum disclosures regarding the Central Banking System for other reasons, such as the unusual control aspects, such as the need for the independence, and the impact on the economy. Therefore, he suggests we add additional explanation, rather than just saying it is a unique federal responsibility, which in his opinion, is pretty thin.

Chairman Allen asked how you expand on that in a few words. He added, once you go down that path of explaining why it is unique, it is paragraphs, not a short statement. He added it is a very complex organization. It is an organization that, if we go down the path of trying to justify why it is more unique than other organizations, it would be a very long description.

Mr. Dacey noted another option would be to simply state the requirement in paragraph 76 and use the basis for conclusion to support the reasons why. He explained we don't need to give the reason why in paragraph 76.

Chairman Allen explained he supported that idea and that would allow for more wording in the basis.

Mr. Dacey noted that is the other concern --if you put more in the standard, it starts giving the rationale instead of just the standard. He noted we currently have more in the basis.

Mr. McCall explained at one time we said something along the lines that the Central Bank is a unique federal "organization". What this did was remove that concern about calling it an entity, like a consolidated entity, and it made it less precise, just saying it as a unique federal responsibility. I think that was what we were trying to do there at one time.

Chairman Allen asked if there was any objection to the proposal to take it out of the standard and explain the details in the basis for conclusions.

The Board unanimously agreed.

Mr. Showalter explained he had a question and he realizes that it has been brought up before, but it relates to paragraph 29-30. Again, he noted it was debated but under the indicators for control, paragraph 29 includes the persuasive ones and those are the ones definitely get you in.

Mr. Showalter explained he wanted to ask on item 8, which is "finance deficits and provide financial support," and whether that should be up in 29? He explained he is asking because if you look at the definition of control in paragraph 24, it refers to "with potential to obligate and provide financial support and assume financial obligations."

Mr. Showalter explained when you look at the other indicators in paragraph 29; it appears to only address when an organization is dissolved. He believed based on the criteria in paragraph 29, there was a disconnect because financial commitments are not addressed in paragraph 29. He explained you could have a significant financial commitment to finance deficits, and that is falling down to paragraph 30, not paragraph 29 and he wanted to make sure everybody is comfortable with that because all the other indicators appear more organizational versus financial.

Chairman Allen noted he recalled that discussion before because it was included in the ones he had proposed moving but were not changed. He noted there was a good explanation at the time that convinced him.

Mr. Dacey noted the federal government provides financial support to many organizations which aren't related to control. He believes it would be troublesome to move that up to a persuasive category.

Ms. Loughan explained she believed it had to do with the stem and paragraph 29 has to do with “the authority to do these things” and 30 has to do with the “ability to” and you look at things collectively in making that assessment in paragraph 30. Staff explained if there is still concern, she could look back at the discussion before.

Mr. Showalter explained he was okay but it struck him as odd.

Chairman Allen asked if there were any other issues.

Mr. Granof noted he found paragraph 81 to be unclear. He explained part of the problem is just the way it is worded and it is not grammatically correct. One exerts influence, but he was not sure that influence exists per se.

After discussion, the Board agreed to revise paragraph 81 as follows "Although component reporting entities of the federal government may significantly influence each other, component reporting entities are subject to the overall control of the federal government and operate together to achieve the policies of the federal government and are not considered related parties. Therefore, component reporting entities need not be disclosed as related parties by other component reporting entities."

Chairman Allen explained if that was all of the Board member comments, he wanted to discuss timeframes.

Ms. Loughan explained that staff's goal was to come back tomorrow (Thursday) morning with the changes agreed upon at today's meeting for the Board's review.

Ms. Payne explained if the Board is amenable, there would be time to go over the changes and go back to the technical agenda in April, if we need to. If so, we would go to a pre-ballot version but it will be a short turnaround for comments. Ms. Payne explained Mr. Steinberg is planning to provide an alternative view. Once staff is provided with his alternative view, we can relate that and move to a ballot.

Mr. Steinberg requested that the version provided tomorrow combine track-changes that are here now as well as those made in response to the day's discussion.

Chairman Allen asked what was the earliest we could issue the ED.

Ms. Payne explained if we have run the entire balloting period, it is 14 business days. We have 10 days to vote and, then, a four-day grace period. If we have the AV and it is in the ballot draft that goes out, and there are no other AVs, notice to staff that you are going to have an AV, our policy is to release it once we get five votes.

Mr. Dacey asked what the purpose of the timetable was, is it to schedule the hearing. He noted it needs to follow its appropriate course and we really don't know how long that may take.

Chairman Allen explained he was trying to determine if the public hearing was feasible in June. He asked if you go out at the end of March and allow a 90-day exposure period and can have a public hearing before the end of an exposure period. He noted he didn't know whether that was desirable. He explained the August period would be a harder time to get people to participate in a public hearing. Therefore, he would propose, even if the 90-day period takes us beyond, that we still try to have the public hearing in connection with that June Board meeting. Chairman Allen explained that he didn't believe August was a good month because of vacations. He asked if any members object.

Mr. Steinberg stated he didn't have a problem with that. But he wanted to know if this would hinder staff's ability to assist with helping the Board prepare for the public hearing. He noted staff often must get the comment letters together and prepare questions for the Board.

Ms. Payne noted that was a good question. She explained the people who participate in the public hearing will be asked to provide their written comments ahead of the public hearing. She noted what we might lose is, if there are respondents who wouldn't be in the public hearing, but may raise questions that you think the public hearing participants could help you resolve. You may not have the full array of issues raised by everyone when you are speaking to the people who opt to come to the public hearing as well.

Chairman Allen explained that he expects staff would actually be working probably 30 days in advance of the public hearing contacting interested parties and organization and requesting them to participate in the public hearing.

Ms. Payne explained that staff plans to do extensive outreach to contact the agencies that we think have more of these unusual organizations.

Mr. Steinberg explained that he is sensing a lot of interest in this project.

Chairman Allen thanked staff and wanted to echo the positive comments earlier from members for their efforts on the project.

CONCLUSION: Staff will return on Thursday morning with a revised ED for the Board's review that includes changes agreed to at Wednesday's meeting. This will enable staff to prepare a pre-ballot ED after the Board meeting.

- **Reporting Model**

Overview

During the February 2013 meeting, the Board discussed the next steps for the reporting model project. Staff presented the following alternatives for next steps: integrating budget, cost, and service performance information; revisiting managerial cost accounting standards; disaggregating cost information; distinguishing transfer payments from program administrative costs; and clarifying conceptual guidance on displaying costs. The Board discussed the merits of the topics, but determined that a model of the ideal presentation is needed to serve as the end goal and help guide their direction. Consequently, the Board decided to develop a conceptual model that integrates budget, cost, and service performance information. Development of the model would not be constrained by considering existing systems and what the Board could accomplish immediately. Also, the model will take a holistic view and consider the other topics discussed and include explanations on why the resulting construct should be considered ideal. Details of the meeting discussion follows.

Discussion

Mr. Simms introduced the reporting model agenda item and noted that the objective of the discussion was to determine the next steps for the project. The Board materials included the following alternatives for next steps: integrating budget, cost, and service performance information; revisiting managerial cost accounting standards; disaggregating cost information; distinguishing transfer payments from program administrative costs; and clarifying conceptual guidance on displaying costs. Mr. Simms began today's discussion with the topic of better integrating budget, cost, and performance information. Mr. Simms noted that integrating budget, cost, and performance information would provide useful information in an understandable manner for all users and the Board could develop a conceptual model to help accomplish that goal. However, one concern is the role of the Board with respect to performance and budgetary reporting.

Mr. Steinberg noted that the Board would not be focused on what the budget should look like. Instead, the Board would be focused on determining requirements for reporting the execution of the budget. Also, developing performance information requirements is consistent with the objectives of federal financial reporting discussed in Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Federal Financial Reporting Objectives*, and the display of information set forth in SFFAC 2, *Entity and Display*. SFFAC 1 states that financial reporting should assist users in evaluating service efforts, cost, and accomplishments and SFFAC 2 discusses a statement of performance measures.

Mr. Showalter noted that the Board has received feedback from users regarding the need to improve the usability of the budgetary information (Statement of Budgetary Resources). Also, users are trying to understand how the budget data relates to the financial data. Thus, the Board should play a role in communicating financial information in relation to budgetary information. Also, Mr. Granof noted that a budget to actual comparison would be useful.

Mr. Dacey noted that, in theory, the MD&A should integrate the information. Mr. Steinberg noted that the MD&A standards simply require the reporting of performance goals, objectives, and results. As a result, there are wide variations in reporting information in the MD&A. Some agencies prepare a performance and accountability report and have a statement of performance information while others prepare an agency financial report and do not have the statement. FASAB could take an approach similar to the Governmental Accounting Standards Board's (GASB) approach and discuss the important characteristics of performance information.

Mr. Allen noted that the project of displaying budget, performance, and financial information could not make progress without engaging those responsible for preparing the information. Consequently, Mr. Allen asked Mr. Dong and Mr. Reger for their views on the project.

Mr. Dong noted that the integration project merits further consideration and study but, as the Board approaches the topic; we need: a clear theory of the case; a clear sense of what issue that we are trying to address; and a clear sense of what issue we are trying to address for which user. His concern is that there is a variety of users and a variety of issues and the Board may be trying to be all things to all people. Mr. Dong also noted that the Board materials for TAB D include the framework for an educational tool. The process of developing the educational tool could provide a more comprehensive discussion of unmet user needs.

Mr. Reger noted that we need to conceptually determine what we want a product to look like and what the product is supposed to do. By reviewing agency level MD&As, it is difficult to determine what performance issues rise to the government-wide level.

Mr. Allen noted that, given the background of the task force members and the feedback they provided, he did not believe that we should dismiss the project. However, if the Board decides to conduct the project it would be challenging. Mr. Allen also noted that the MD&A provides an option to pursue in determining how to improve user understanding.

Mr. Granof noted that in private industry the objective is profitability so they match costs with revenues. However, in government we want to match costs with services because the objective of government is to provide services. Users want this information and any steps the Board could take in this direction would be welcomed. We may not develop an auditable financial statement now, but we could provide the information in say, MD&A.

Mr. Steinberg noted that the Statement of Budgetary Resources (SBR) is included in the model because the budget component of the Office of Management and Budget (OMB) noted that they could not trust the budgetary reports presented at that time. As a result, they asked FASAB to use the SF-133, Report on Budget Execution and Budgetary Resources, as the model for a budgetary statement to include in the reporting model. The SF-133 is not a report for accountability and public reporting. Rather, it is useful to budget examiners for controlling the use of the budget. During the first few years of implementation, the SBRs had a number of errors; however, its preparation has improved. It could be said that the SBR has served its purpose for public reporting and now it is time to have a comparison of actual and budget information that has a different format – based on goals, programs, functions, etc. The new format would focus on how the money is being spent rather than informing users that the agency stayed within their budget.

Mr. Reger noted that in addition to a performance reporting issue there is a budgetary accounting issue. One of the reasons why the auditor continues to disclaim on the government-wide financial statements is that the government-wide level prepares the budgetary statement from the Department of the Treasury's (Treasury) records rather than the agencies' records. The Association of Government Accountants has recommended the collection of more budgetary data from the agencies and to reconcile that data to Treasury's information. Mr. Reger believes that the Board needs to decide what it wants the project to accomplish.

Mr. Allen noted that, with respect to budgetary reporting, GASB determined that users really wanted to know what was the initial budget versus the final budget and what modifications were made during the year. There are a lot of users who get more out of that statement than the operating statement and balance sheet.

Mr. Dacey noted a concern about the timing of the project. He expressed that there are some current initiatives that need to be completed before the Board considers changing budgetary reporting. For example, agencies are piloting a schedule of spending and there are potential changes in agency reporting of budget information to address the issue that Mr. Reger noted earlier.

Mr. Allen noted that determining what is the most informative approach to budgetary reporting is a different issue. Mr. Reger agreed and noted that how to display budget, performance, and financial information so that it is most useful to a reader is a different discussion than resolving the accounting issues that would allow them to prepare that display.

Mr. McCall noted that the task forces focused on SFFAS 4, *Managerial Accounting Standards and Concepts*, and the standard discusses how the information could be useful for budget, cost control, performance measurement, and other areas. The statement is a requirement and still relevant today, but it appears that it has not received much attention since it became effective in 1997. Mr. McCall believes that performance information is very important and users want to know what the government spent and what citizens received. However, it seems that the reporting of this information has not received much traction.

Mr. Smith noted that the Board would need to depend on different organizations to get to a standard. However, it would be good to determine what the ideal model would look like if we were not concerned about the systems needed to gather the information. Then, we could move from the ideal to what is practical at the time. Mr. Granof agreed and noted that we could start with the ideal and move toward it, knowing that we may not achieve it right away.

Mr. Reger noted that staff's other project alternatives could be considered as part of a holistic approach and say, in the future, this is what we would like to accomplish. Then, the Board could take the necessary steps to achieve it. Mr. Simms agreed that the other alternatives could be considered as part of determining the ideal model.

Mr. Dacey noted that SFFAS 4 has a lot of managerial cost accounting requirements which are not related to external financial reporting, but are for internal management purposes. He would have concerns if the Board significantly pursued the internal management aspect.

Mr. Allen noted that internal managers should be able to get the information they need and they need the information on a real-time basis which is timelier than we can generate it. External users rely on the information generated from audited financial statements. Mr. Allen also noted that he is concerned that revenues may be too highly aggregated and he liked the proposed project regarding disaggregating information.

Mr. Dacey noted that if we feel that there should be additional information on the break-down of costs, our objective should be to understand what that break-down ought to be. We need to think about what types of information would be helpful to users and how the information might be used. For example, administrative costs might be used differently depending upon the nature of the program. For some programs, administrative costs could be a significant amount of the total program costs. However, for benefit programs, administrative costs could be only a small percentage of the total program costs.

Mr. Steinberg noted that program managers complain that their programs are expanding, but their administrative costs are being reduced. However, the way we do our reporting, the change in the administrative costs is not shown. Mr. Steinberg also noted that SFFAS 4 is written at such a high level that agencies can say that their systems comply with the requirements. To get wider implementation of SFFAS 4, the standard would need to include requirements to report certain items of information.

Mr. McCall noted that he could see the benefit in identifying the administrative cost of a program versus the amount that is transferred to states and local governments. As an end user, he would want to see what the different levels (federal, state and local government, and not-for-profit) spent on administrative costs. Simply because the federal level spends less on administrative costs does not mean that the states spend less. The state may need to spend more on administrative costs because the federal level spends less. Thus, we need to know what we are trying to accomplish with the disaggregation.

Mr. Allen noted that within the project of considering the conceptual model, we could say theoretically this is the level that costs should be reported or disaggregated and explain why. Also, it would be good for the task force to consider these issues and not be constrained. The initial reporting model task force focused on issues that the Board could identify and address quickly.

Mr. Reger noted that we want a clear conceptual direction. We need the task force to get to some definitiveness about what the goals would be and what they are trying to accomplish with the model. The Board could then get a clear view of what we are trying to attain. Mr. Allen added that everything should be embedded in our four basic reporting objectives.

Members also reviewed a sitemap of an educational website to assist users in understanding financial reports of federal agencies. The site would use brief, integrated web pages and “plain language” that speaks to the types of information that citizens are seeking. In addition, members viewed a video presentation that provides an example of what and how information could be presented on the site. Also, Mr. Reger presented the website for the government-wide financial report and demonstrated the links to individual agency financial reports and other links that would be helpful to users.

Mr. Allen noted that the educational tool could be useful for showing how one could use financial statements. Mr. Granof expressed concern about how to get individuals to visit the site and Mr. Dong noted that it would be better to address gaps in what should be reported rather than educating them and getting them to understand what is currently being reported. Also, members expressed concern about the resources that might be required to develop the site and suggested pursuing the assistance of other organizations that might be interested in this type of project.

> **Conclusion:** Staff will pursue the development of a conceptual reporting model that integrates budget, cost, and service performance information. Development of the model would not be constrained by considering existing systems and what could be accomplished immediately. In addition, the model would take a holistic view and consider the other topics discussed and include discussions on why the resulting construct should be considered ideal.

- **The 2012 Financial Report of the US Government**

Scott Bell, Senior Accountant, US Department of the Treasury, briefed the Board regarding the FY 2012 Financial Report of the US Government and the Citizen's Guide. His presentation informed members regarding key amounts, changes from prior years and progress towards an audit opinion. Members asked questions and discussed the following:

1. Understandability of the term "net operating cost" (net cost less non-exchange revenues such as income taxes)
2. Options to enhance certain charts such as the comparative presentation of assets and liabilities
3. The scope of debt held by the public (inclusion or exclusion of intragovernmental balances and Federal Reserve holdings as well as how these relate to the debt ceiling)
4. Reasons for the disclaimer on the statement of social insurance
5. Funding of pension liabilities
6. Efforts to improve the presentation of long-term fiscal sustainability information including ways to present projected debt as a percent of GDP

Mr. Bell also explained that the Treasury website had been enhanced to include more links to agency information. Notably, an ePub edition of the report is being created that can be read on tablets and other devises. A free reader is available from Amazon for this type of file.

Mr. Reger recognized the significant efforts of Mr. Scott Bell, Ms. Ann Davis as well as Patricia Capello of Treasury and Regina Kearney of OMB, in preparing the management's discussion and analysis, fiscal sustainability portion of the report and the Citizen's Guide. He acknowledged the challenges of limited time, data from over 150 organizations, and a small staff. When attendees at annual OECD meetings discuss the resulting reports, Mr. Reger noted that the US is lauded as a leader in financial reporting.

- **Steering Committee Meeting**

The Steering Committee discussed efforts to fill the existing and upcoming staff vacancies. Ms. Payne noted that she is authorized by GAO to fill only one vacancy due to the existing shortfall in the executive branch reimbursement for FASAB expenses. The current reimbursement level does not cover the agreed staffing level. In addition, members discussed the uncertainty due to sequestration.

Adjournment

The Board meeting adjourned for the day at 4:30 PM.

Thursday, February 28, 2013

Agenda Topics

- **Reporting Entity**

Ms. Loughan explained the version presented included marked changes that were included in the copy yesterday as well as the changes that were made as a result of the discussion at yesterday's meeting. Ms. Loughan noted that a member had requested that both sets of changes be maintained in the copy.

Chairman Allen suggested that Ms. Loughan would walk us through the changes to the document.

Ms. Loughan explained the changes focused in three main areas, so staff believes the best way may be to review those three areas and staff can identify the areas in the document that resulted in changes.

Ms. Loughan noted the first big area was the Questions to Respondents. Staff explained the Board had requested staff to revise question 6 by narrowing the scope of question 6. Based on reviewing question 6, staff determined the best way to revise was to move a portion to question 1d. Mr. Steinberg questioned if it was appropriate to include Government Sponsored Enterprises (GSEs) in the list of examples and whether that might confuse people since we have them as an example in related parties. Staff noted that in related parties it is listed an example, but it states only if it does not meet the inclusion principles. Staff noted the inclusion principles could potentially bring in GSEs so they should be considered by respondents. The Board discussed the wording to question 1d and agreed to revise it slightly by adding “to determine whether such organizations are included in the GPFFR” to the end of the question to make it clearer.

Ms. Loughan noted another part of question of 6 was included with question 2c and there was also a request to revise question 2c. Staff believed these two areas could be put together into one question by listing out the entities including the Federal Reserve System. The Board did not object to the changes.

Ms. Loughan noted with those revisions, it leaves question 6 to address minimum disclosures for the Federal Reserve, which is what the Board had requested in yesterday’s meeting. As a result, a lot of the narrative was also deleted. The Board did not object to the changes.

Ms. Loughan noted there were no other changes to the questions.

The next area is those resulting from the change from “taxpayer” to “federal government.” Staff explained that in yesterday’s meeting the Board discussed the issue of consistency and wanting to remove the reference to ‘taxpayer supported’ and those references to how it related to risk and burdens to the taxpayer. Staff noted there are numerous changes throughout the document, but a good place to focus on the changes is paragraphs 36-38. Staff noted there were changes for consistency throughout.

Chairman Allen asked Mr. Mc Call if he had any concerns considering he had brought the consistency issue up. Mr. Mc Call noted he believes it is more consistent, and in the direction the Board had intended.

Mr. Dacey noted he had two questions on paragraph 37, one with the use of the term “entity.” Staff noted that there would be another cold read and scrub of the document to ensure the use of the word “entity” is only used in instances where it is referenced with “consolidation” and “reporting” and “organization” is used at other times. Staff noted there may have been some instances where the term “entities” was missed, but there would be another review to ensure consistency.

Mr. Dacey also noted other concern with the wording of the first sentence. After discussion, it was agreed the sentence would be revised to “The principles above should be used to assess which organizations to include in the GPFFR.”

Ms. Loughan directed the Board to paragraph A37. She explained the Board requested staff to add detail as to why the Federal Reserve was unique. It was agreed the language would be placed here and the language would be brief in the standard.

Mr. Reger noted that some language, such as the second sentence, may not be necessary. Staff explained the additional language was added based on the request at yesterday’s meeting. Based on feedback from today, the Board can decide whether the language needs to be tailored back or is in line with what was expected. Chairman Allen said he believed it wasn’t inconsistent with the requirements in the footnote. Mr. Reger explained he thought the same statements could be said about other agencies or sectors, such as telecommunications or public utilities regulation. However, he notes the Federal Reserve is important to people now.

Mr. Dong explained he thought the second sentence was important because it is what sets them apart from others, their impact on monetary policy. He doesn't believe it is equivalent to some of the others.

Mr. Steinberg asked if the word 'citizen' could be replaced with 'individual' because not everyone is a citizen. Mr. Dacey noted the conceptual framework uses citizens. The Board agreed citizen is more appropriate.

Ms. Loughan noted paragraph A76 was revised slightly at the request of Mr. Steinberg to explain paragraph 69 of the standard. Although this was included in the previous day changes, staff wanted to point it out because it was additional language. The Board believed there was some duplicative language in the paragraph. After a brief discussion of the new language, the Board agreed the paragraph should be revised to "The Board recognizes that although the Statement provides flexibility in meeting the disclosure objectives, there is a wide variety of information listed as examples that may be disclosed to meet the intended objectives and there are not requirements for how information must be aggregated. Qualitative and quantitative factors are considered in determining whether information regarding a disclosure organization is presented separately due to its significance or aggregated with the information regarding other disclosure organizations. If information is aggregated, aggregation may be based on disclosure organization type, class, investment type, or a particular event deemed significant to the reporting entity. For example, one reporting entity may determine it appropriate to aggregate by investment types, such as equity or loan, another by disclosure organization type, such as receiverships, and yet another by class, such as museum."

Chairman Allen asked for an update of the timetable. Staff explained that a pre-ballot could be provided on Wednesday, March 6, 2013. This would accommodate receipt and incorporation of the Alternative View. We would request comments by March 14.

The Ballot period is set in the rules of procedure at 10 business days with a four day grace period, therefore, ballots would be due approximately April 4-5. Ms. Payne noted the rules allow it to be released with 5 ballots.

However, staff did check the schedule for the June meeting and it doesn't seem possible to have a June public hearing as the June Board meeting is early. Instead, the ED would announce an August public hearing.

Mr. Dacey explained he would like to see the AV and its alignment with the basis for conclusion before the final ballot draft because he has concern if it is released with 5 ballots and there are members concerned about the clarity of the AV regarding how it differs from the proposal. Chairman Allen suggested if we are having the public hearing in August then there really is no rush and we can wait the full voting period.

CONCLUSION: Staff will incorporate the agreed upon changes discussed during the Board meeting to the ED. Staff will prepare a pre-ballot for distribution by March 6, 2013 and plan a public hearing for the August 2013 Board meeting.

- **Deferral of Transition to Basic for Long-Term Fiscal Sustainability**

Members considered comments on the exposure draft and a pre-ballot draft statement of standards. Members agreed to finalize the deferral of the transition to basic information for one year.

CONCLUSION: A ballot draft will be circulated following the meeting.

- **Technical Agenda**

Ms. Payne began the discussion of the technical agenda by reviewing the outreach conducted and the input received. She noted that new projects are not being added at this time and, due to vacancies on staff, she asked for concurrence that the leases and investments in on-federal securities projects should be deferred. Members agreed.

Regarding the risk assumed project, Ms. Payne noted that the scope was broad and she recommended a phased approach. The lessons learned from addressing insurance and other explicit indemnification arrangements could facilitate progress in later phases. Members discussed the following regarding risk assumed:

- It is not necessary that three standards result from the three phases. Instead, the Board might opt to develop a proposed standard for phase I and seek comment through a preliminary view document to aid in developing the proposal for phases II and III. Alternatively, the Board might issue a phase I standard and subsequently expand its scope to cover phase II and III topics.
- The phased approach is a practical approach but the possibility of inconsistencies among the phases is a concern. While arrangements differ, principles should be the same. A member noted that some programs such as insurance will have large numbers of participants while others have a single participant; making estimation of cash flows more challenging. Another member offered that measurement approaches for insurance are more concrete while others areas are more abstract. A great deal could be learned from addressing insurance first.

Members did not object to a phased approach to the risk assumed project. Ms Payne then asked if any members wished to adjust existing priorities.

Mr. Allen noted the responses to the three-year plan and the decision to develop an “ideal model” in the reporting model project. He thought that effort should be anchored in the concepts and address linkage of cost and performance. He noted that the AGA response requested a status report on the earlier task force recommendations for reporting model. He thought some could be addressed in the ideal model. He proposed considering them in the reporting model project. This could answer the questions of what to report and how to report it.

Mr. Allen reminded members that citizens had been clear that they want to know the cost of activities such as the war or specific programs. Addressing the right level of disaggregation may be helpful while being mindful of the audit concerns raised when highly disaggregated information is presented.

Mr. Dacey explained there are significant efforts underway at Treasury and governmentwide to address data standardization, accessibility, and usability. He thought it would be helpful to have an educational session.

Mr. Allen agreed that would be helpful and added that having people from the central agencies on the task force was particularly important. The challenge becomes identifying the Board's role in such operational efforts.

Mr. Reger agreed there are a number of initiatives that the Board would be interested in learning about. He offered to arrange a briefing. Mr. Dong noted the ongoing efforts are tactical and address the integrity of data on USASpending.gov so that assurances can be offered about the data. He questioned whether those efforts would directly address the cost of specific programs or activities. He agreed that agencies should have systems and controls in place to answer questions regarding cost.

Mr. Reger agreed and noted that systems and process are generally not in place to produce quality data on spending. Some audit rigor is needed. He further noted that use of terminology differs among communities such as the procurement community and the accounting community. However, these administrative matters do not influence what FASAB does in standards-setting. He did agree that it would be helpful for the Board to learn more about the activity.

Mr. Steinberg noted that people are interested in the cost of programs. Agencies should report the cost of "things." Perhaps each agency should select the things of interest to their constituency and disaggregate along those lines of interest.

Mr. Reger recalled that the CFO Council discussed whether to accumulate the costs related to Katrina. The conversation took place the day of the hurricane and the thinking was this is a single hurricane and we have not been asked for data on the cost of prior hurricanes. In hindsight, people realized soon that there was great interest in the cost arising from this major event. The dilemma is that you must decide ahead of time what cost questions will arise and track cost in that manner.

Mr. Allen agreed. Ideally, reporting on performance should include related budget and cost information. You must define the ideal years ahead and work towards the ideal over time.

Mr. Reger noted the current efforts to maintain so many divergent systems. He indicated there are 47 versions of a single off-the-shelf system being maintained. (Mr. Steinberg interjected that this was down from thousands in the early 1990s.) Moving towards shared services may reduce the burden but doesn't answer the question of "what data do we want." However, it does help us know what we can do and what it costs to run the systems.

Mr. Allen suggested that if the reporting model task force is not focused directly on a standard, they may think more freely about the ideal model and look broadly at the feedback already received.

Mr. Steinberg agreed it is an iterative process. There were thousands of systems and no information when the CFO Act was passed. The CFO Act gave us information.

Mr. Allen asked if there was other feedback on projects. Ms. Payne noted that resources did not permit taking on new work but invited comments on projects not yet addressed such as tax expenditures and implementation challenges with internal-use software.

Mr. Granof suggested that the time might be right to take up electronic reporting. He mentioned that the Governmental Accounting Standards Advisory Committee (GASAC) recently ranked this as a top priority. He noted that e-reporting can have a major impact. For example, if one report could link to other reports it would solve concerns about the size and scope of reporting. He noted there would be a need to also address audit concerns.

Mr. Allen asked what had changed in this arena because it was not highly rated in earlier reviews. Mr. Dacey noted it was difficult to determine the standards-setter's role. He asked how it integrates with GAAP.

Mr. Granof noted that people are beginning to prefer other than paper reports. Mr. Steinberg offered that half the submissions to the AGA's certificate of excellence in accountability reporting are now PDF files.

Mr. Showalter suggested that systems are better able to use unstructured data. The technology has caught up with the universe of data now available and it makes it easier to access data electronically.

Mr. Showalter noted concern with the Board's funding and whether cuts to funding are affecting the Board's effectiveness. He suggested a discussion about what cannot be done due to funding limitations. While the conversation did not have to be immediate, he suggested it occur before the next Board performance evaluation.

Mr. Allen agreed and asked about the timing of such a discussion. Ms. Payne suggested the April meeting. Members would be asked to prioritize projects and discuss how the needed projects related to the available resources. This would be a more robust priority setting effort.

Mr. Reger noted that all federal organizations are affected by the current budget environment. Other members explained that other standards-setters are insulated to some extent from economic downturns because they have an established funding mechanism designed with that purpose in mind.

Mr. Allen noted that the responses to the three-year plan included other recommendations and he would like some discussion of those. One was to establish an advisory council—an idea raised previously that led to some changes in the role of the Steering Committee and the Appointments Panel. He also noted that a continuing dialogue with Congressional staff members seemed desirable. He asked if the federal members could offer any suggestions in that area.

One member asked how FASB and GASB handle Congressional relations. Mr. Granof explained that the Financial Accounting Foundation has a Washington, DC, office and a lobbying firm to assist.

Mr. Steinberg noted that we differ from FASB and GASB in that we view the Hill as a user of financial reports. In addition to the need to consult with a key user group, he noted that one of the secrets to success in Washington is an ongoing liaison with Congress. Having that ongoing relationship and dialogue is very helpful even if you are not asking for something.

Mr. Allen noted that the Hill is often represented on task forces and responds when issues are of keen interest to them.

Mr. Dacey added that GAO, OMB and Treasury have well established contacts with Hill staff that are working with financial reporting issues. Certain staff are very interested in the annual reports and ask questions about the details. There is also an annual hearing on the reports. So, there is an ongoing dialogue regarding reporting.

Mr. Allen thought it would be helpful to have a liaison mechanism in place. Mr. Granof noted the problem for standards-setters is that preparers and auditors dominate the conversation. It is hard to get feedback from citizens and other users of information. Thus, we must make a special effort.

Mr. Allen explained that GASB advisory groups are able to contact users and citizen advocacy groups for input. He asked Mr. McCall whether the city of Tallahassee receives much feedback from citizens on its citizen centric report (CCR).

Mr. McCall said elected officials like the CCR but care more about it when they hear from citizens or it is reported in the news. If more citizens read the Treasury's Citizen's Guide, then elected officials would care more about it. Another member asked if the local CCR was resonating with citizens.

Mr. McCall said the city is working hard to expand its reach. They distribute it to libraries, middle schools, and newspapers. The city commissioners find more people are asking for it so they have started asking for copies to distribute themselves.

Mr. Showalter asked if it is possible to use FASAB's sponsors to arrange meetings on the Hill such as a breakfast meeting. He thought such meetings would allow us to hear Hill concerns.

Mr. Reger noted the administration believes the sharing of financial information is a critical component of any democracy. He explained that there is an effort to instill in the Arab Spring countries the principle that citizens need to know what money comes in, how it is spent, and how taxes are administered. He also noted there is a CPA Caucus on the Hill for elected CPAs. He thought FASAB – as an organization – would be better served through its own outreach efforts.

Mr. Dong asked if FASAB had access to a legislative affairs office within GAO so that protocols would be followed. Ms. Payne indicated that staff confers with the GAO office and they are very helpful.

Mr. Allen noted that we should be mindful of the time constraints on elected officials and their staff members. So, we ought to have clear meeting objectives and be able to offer something of value during the meetings.

Adjournment

The meeting adjourned at 11:00 AM.