# FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
# June 19, 2013
# Room 7C13
# 441 G Street NW
# Washington, DC 20548


*Wednesday, June 19, 2013* ........ *1*

**Administrative Matters** ........ **1**
- Attendance ........ 1
- Approval of Minutes ........ 1

**Agenda Topics** ........ **2**
- Risk Assumed ........ 2
- Public-Private Partnerships ........ 8
- Technical Agenda ........ 33
- Steering Committee Meeting ........ 44

**Adjournment** ........ **44**


## *Wednesday, June 19, 2013*

## Administrative Matters

- **Attendance**

The following members were present throughout the meeting: Chairman Allen, Messrs. Dong (represented by Ms. Kearney during brief absences), Granof, McCall, Reger, Showalter, Smith, and Steinberg. Mr. Dacey did not attend the meeting. Stephen Sebastian, Managing Director of the Financial Management and Assurance team, represented GAO on behalf of Mr. Dacey. The executive director, Ms. Payne, and general counsel, Ms. Hamilton, were present throughout the meeting.

- **Approval of Minutes**

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

- **Annual Performance Survey**

Ms. Payne indicated that the annual survey and confirmation forms would be provided to members the following day. Members would be asked to respond within a week. The draft annual report – which includes a summary of the survey results – will be discussed at the August meeting.

- **Reporting Entity Update**

Ms. Loughan, FASAB Assistant Director, updated the Board regarding outreach and comment letters on the Reporting Entity proposal. Letters were requested by July 3rd and four letters have been received as of the start of the meeting. Letters are posted on the website as they are received. Members are welcome to begin their review of the letters at any time. The briefing materials for the August meeting will include the staff summary of letters as well as a copy of each letter.

A public hearing is scheduled for the August meeting. In response to questions about the process, staff noted the following:

1. Each respondent will be contacted and thanked for their input and asked whether he or she wishes to speak at the public hearing.

2. Typically, for each individual speaking at the public hearing, members receive:

    a. The speaker's bio

    b. A summary of remarks

    c. The full comment letter

    d. Some suggested questions prepared by staff but members are encouraged to ask other questions as well

3. Each speaker is assigned a set amount of time and encouraged to limit opening remarks and provide more time for dialogue with the members. The specific amount of time will be determined once we know how many individuals will participate but 20 minutes is a usual amount of time.

4. The room location and set up is the same for public hearings. A transcript will be provided.

## Agenda Topics

- **Risk Assumed**

Ms. Payne began the discussion by introducing Ms. Valentine as the Risk Assumed project director and Ms. Marcia Carlsen, GAO Assistant Director. Ms. Payne noted that Ms. Carlsen was asked by staff to join the discussion to answer any specific questions on credit reform.

Ms. Valentine proceeded by giving the Board an overview of the project's status. She informed them that the day's discussion will be focused on Phase I of the Risk Assumed project – insurance and non-loan guarantees. She noted that the objectives for the discussion are to review the current measurement methodology in accounting for direct loans and loan guarantees to consider a similar approach for the accounting for insurance and non-loan guarantees and to review the scope of the insurance and non-loan guarantee phase of the overall risk assumed project.

Ms. Valentine first directed the Board to staff question 4 – "Should staff assess the conceptual similarities and differences between federal loan guarantee programs and federal insurance and non-loan guarantee programs to consider if they are similar enough to be accounted for similarly?" She then gave the members an overview of the essential requirements of SFFAS 2 (as amended) -- *Accounting for Direct Loans and Loan Guarantees.* Ms. Payne asked the members if they had any specific questions on credit reform for Ms. Carlsen.

Ms. Payne asked Ms. Carlsen, in general how entities are estimating loan guarantees; are they using what FASB is expected to propose in their insurance contracts standards -- an expected cash flow technique with weighted probabilities. Ms. Carlsen responded by stating that the entities are not necessarily using weighted probabilities, however some are using econometric modeling (like FHA) for default payment curves which is similar to FASB's model, while others are using a straight average default rate. Ms. Payne mentioned a study that noted how much agency projections change over time and how they are closer to the actual. Ms. Carlsen noted that agencies have gotten better with their cash flow models. There are some instances of over-estimating defaults because they are using historical data and a "blip" in the economy could cause large variances. However, FHA has had more underestimating of their defaults and have had reestimates as high as $26 billion. It is hard for an agency to actually predict a financial crisis. Also, many base some of their assumptions on the President's economic indicators.

Chairman Allen asked what gaps are there now in insurance entities' estimations of their losses; how would the loss estimations be different if they were using credit reform accounting; and what is the magnitude of the impact. Ms. Valentine noted that SFFAS 5 currently requires incurred insurance losses to be recognized as a liability and then the present value of unpaid expected losses net of associated premiums should be reported as risk assumed in RSI. However, most entities were only using a "contingency approach" (probable, reasonably possible and remote) to report any unpaid expected losses. Whereas, under credit reform accounting expected losses would be recognized as a liability.

Mr. Showalter asked if staff was aware of instances where any federal entities were not properly reporting insurance losses because the standards are not clear as to what entities should be reporting. Ms. Payne noted that varying practices within insurance programs is primarily because of different methodologies being used. She also noted that in the area of risk assumed most entities are not complying with the expectations of the standards.

Mr. Sebastian asked why staff believes federal entities are not complying with the risk assumed standards. Ms. Payne noted that the standards are not written as clearly as they could be and there are challenges with calculating expected cash flow models. Ms. Valentine added that there is also confusion as to what the standards are asking for in risk assumed – is it the "contingency approach" or is it something in between reasonably possible and remote or is it insurance-in-force.

Chairman Allen asked if there are some insurance programs that are using credit reform accounting or something similar. Ms. Valentine noted that the Export-Import Bank accounts for its direct loans, loan guarantees, and insurance programs using credit reform accounting.

Mr. Reger stated that credit reform accounting establishes the probable loss by focusing on expected cash flows, but does it address the question of risk – the Board will have to address this issue and ask are expected cash flows enough. Ms. Carlsen clarified to the Board that the credit reform model is actually recognizing losses over the life of the instrument and recognizes those losses immediately. Annual reestimates are done to reflect any changes in the expected losses.

Mr. Smith asked if the reestimates are based on a two-fold concept – one being the current change in circumstances and the other being a change in the original estimate. Ms. Carlsen confirmed Mr. Smith's understanding of the reestimates.

Chairman Allen asked staff if there were any federal programs which were not reporting anything on their future losses. Ms. Payne noted that all were reporting some amount – it is just that the measurement methodologies and time horizons vary. There is a difference in assessing losses based on a "probability approach" using current circumstances and an approach where you are looking at the expected losses over the life of the insurance or non-loan guarantee. The valuations would result in very different outcomes. The questions is – are the federal insurance and non-loan guarantee programs similar enough in substance to the credit reform programs to justify like accounting. Ms. Payne further noted that there are actually two different aspects to this phase of the project – one is what is wrong with the current risk assumed reporting and why are entities not complying with the standards; and the second aspect deals with the most appropriate recognition and measurement for these programs.

Mr. Steinberg asked staff if recognition in anyway relates to the definition of an insurance and non-loan guarantee program. Ms. Payne responded yes, for example Export-Import Bank recognizing both the credit programs and the insurance programs the same. It is important to have a clear definition, especially since FASB is proposing to move away from insurance industry recognition to insurance contract recognition. This demonstrates just how important it is to clearly define the scope of the project. Mr. Steinberg made the point that credit reform accounting followed behind the budget changes with credit programs and actually mirrors the budget recognition. Whereas, not the same progression has occurred with insurance and non-loan guarantee programs. He also pointed out that there was a push some years ago to change to present value budgeting for insurance programs, but it never passed. The question for the Board is do we prefer present value accounting for insurance and non-loan guarantee programs over the contingency accounting. Mr. Granof stated that the question is do you recognize the loss at the time insurance is initially in force or when there is an indication that there will be a loss.

Mr. Dong directed the discussion back to staff's question 4 – "Should staff assess the conceptual similarities and differences between federal loan guarantee programs and federal insurance and non-loan guarantee programs to consider if they are similar enough to be accounted for similarly?" He stated that there is more value in getting more information before making an assessment on credit reform accounting. Chairman Allen stated that he also wanted to explore the question of why would we want to pursue the credit reform approach for insurance and non-loan guarantee programs. The Board agreed with staff's recommendation on question 4.

Ms. Payne directed the Board to staff's questions 1a.- 1c. – How should "insurance and guarantee" be defined in the federal environment? Should we use the proposed FASB/IASB definition of insurance contracts as a basis for identifying "insurance"? Is the differentiation between "program" and "contract" a concern in the federal environment? Ms. Valentine briefly gave an overview of staff's recommendations as it relates to "contract" vs. "program."

Mr. Dong asked staff if the programs they were referring to were those outlined in the President's budget (listed as a supplement to the Board memo). Ms. Valentine agreed with Mr. Dong, but also noted that there were about four insurance programs that were listed with the credit programs because the federal entity had both types of programs. Chairman Allen noted that although we are focusing on phase I of the project (insurance and non-loan guarantees) there is the possibility that the other phases could follow similar accounting. So the concepts should be able to be applied to those other phases.

Mr. Showalter asked staff if the plan is to define "program" in a way that programs outside of the list would apply the accounting if they meet the definition. Ms. Valentine noted that staff's recommendation is to define "insurance and non-loan guarantee programs" closely so that federal programs that may have similar characteristics but were not intended to be an insurance or non-loan guarantee program would not be inadvertently captured, because this could lead to confusion in applying the standards.

Chairman Allen suggested using the FASB proposed definition of "insurance contracts" and simply change "contracts" to "programs." Mr. Reger stated that if there are "insurance contracts" embedded in non-insurance programs they should also be included in the scope of this phase. Ms. Payne reiterated staff's recommendation that the scope should not inadvertently include any generic federal government coverage that is not specifically meant to be a defined insurance or non-loan guarantee program, such as the reimbursement of losses incurred in the act of war that is embedded in a treaty. She described staff's recommendation as a non-principle based approach that creates boundaries so that staff can manage the scope of the first phase. Chairman

Allen noted his preference to a principle based approach.  Mr. Smith noted that the question becomes does the Board plan to apply the phase I approach to the remaining phases.  Ms. Payne noted that it is still a matter of how to distinctly define the phases.

Mr. Sebastian commented that he viewed staff's approach as trying to keep the scope defined right now to insurance and non-loan guarantees and as you move into the other phase you may apply the same principles, but that will not be known until more research is done and it is possible that there may be clear differences in loss recognition and disclosure requirements.  It appears that this phase could expand to try to anticipate the accounting for all types of risk.

Mr. Reger gave a brief overview of how treaties are generally structured and how the Department of Treasury views them.

Ms. Payne directed the Board to staff's question 2 – "Should non-loan guarantee programs be addressed in conjunction with insurance programs?" The members did not disagree with staff's recommendation to further research the underlying characteristics of non-loan guarantee programs to identify the similarities and differences between federal insurance programs and non-loan guarantee programs. The analysis would allow staff to assess the development of the overall scope of this phase and ultimately determine whether different accounting should be proposed for non-loan guarantee programs.

Ms. Payne moved onto staff's question 3 – "Do members wish to know what, if any, comments federal insurance entities currently following FASB GAAP have on the FASB proposed standards for insurance contracts and/or what, if any, changes in their financial reporting may result from the FASB standards?" Ms. Valentine briefly gave an overview of staff's recommendations as it relates to federal insurance entities currently following FASB GAAP.

Mr. Smith asked staff why FDIC follows commercial GAAP instead of federal GAAP. Ms. Hamilton noted that FDIC follows commercial GAAP for statutory reasons. Chairman Allen reminded the Board about the discussion of non-FASAB federal entities and the Board's agreement that those federal entities currently following FASB may continue.  Mr. Steinberg stated that maybe this issue should be looked at again given that some of the projected changes in commercial GAAP will cause those entities to have to change their reporting, which negates the argument that adopting FASAB GAAP would require changes.

Mr. Dong asked staff if the other three federal entities (Pension Benefit Guaranty Corporation, Farm Credit System Insurance Corporation, and Overseas Private Investment Corporation) followed FASB for statutory reasons as well.  Ms. Payne noted that those entities are subject to the Government Control Act that requires "GAAP" based financial statements.  Those references have been interpreted as requiring FASB standards since they were the only "GAAP" body at the time (there was no GASB or FASAB at the time the law was passed).  Mr. Smith asked if there was a reason why the

Board cannot require those federal entities not bound by specific statues to change to federal GAAP.

Ms. Payne reiterated that staff needs to query the federal FASB insurance entities to determine their intent as it relates to the new FASB guidance before conclusions are drawn. She noted that they may feel that the expected cash flow methodologies being proposed by FASB may not apply to the structure of a federal insurance program as opposed to commercial insurance contracts. Mr. Steinberg stated that if FASAB GAAP provides the basis for the best disclosures for a national government, i.e., the U.S. Government, perhaps GAO should work to have any existing legislation requiring FASB GAAP, which was written prior to the establishment of FASAB, changed to require FASAB GAAP.

The members did not disagree with staff's recommendation to request that the four federal insurance entities currently following FASB GAAP respond to specific questions (the specific questions to pose would be provided to the Board for consideration after the FASB exposure draft is published) on FASB's insurance contracts proposal. Staff would use those responses to identify application concerns that would be unique to a federal entity.

Mr. Smith asked staff if self-insurance would be within the scope of the project. Ms. Valentine noted that staff had not considered that topic, but would look into federal self-insurance.

The Board briefly discussed possible characteristics of insurance and non-loan guarantee programs. Mr. Sebastian asked staff if the approach was to ensure that the characteristics were not so broad that any program that collects fees would be inadvertently included in the scope of the first phase. Mr. Reger made the point that there are federal insurance programs where premiums are paid by the policyholder, but not to the federal government.

Ms. Valentine identified the next steps for Phase I of the project:

- Propose a definition for federal insurance and non-loan guarantee programs.
- Develop unique characteristics of federal insurance and non-loan guarantee programs.
- Research and identify federal non-loan guarantee programs and their unique characteristics.
- Follow up with those federal insurance entities currently following FASB GAAP once the FASB insurance contract exposure draft is released.
- Prepare an analysis that assesses the conceptual similarities and differences between federal loan guarantee programs and federal insurance and non-loan guarantee programs to evaluate if the insurance and guarantee standards should mirror those of credit reform accounting for loan guarantees.

- Research federal reinsurance to determine if the topic should be included within the project's scope.

- **Public-Private Partnerships**

Mr. Allen asked Mr. Savini to introduce the next agenda topic on Public-Private Partnerships and because the Board was ahead of schedule, to feel free and take an appropriate amount of time to discuss the material.

Mr. Savini thanked the Chairman and stated that he had received input from Messrs Steinberg and Showalter prior to the meeting concerning staff's questions. Staff then provided an overview of the TAB B materials that included the following key points:

- Of the academic literature that exists, it is mostly European with very little American research done in this area,
- Staff has met with numerous agencies and representatives in order to best address and identify the relevant issues at-hand, and
- British accountants have said that this area of public-private partnerships is more of an ideal, a concept, and an aspiration as opposed to a description of an actual working relationship between the parties.

Staff then provided the following overview:

**Matters for Technical Bulletin**

Because P3s take all different kinds of shapes, forms and sizes so-to-speak, staff took the 19 P3 arrangements (many of them being leases) that GAO and CBO identified and separated them in the first template-set on pages 12-22 of TAB B. Staff suggested that these 19 P3 arrangements can be handled through technical bulletins because many of them are discrete leases. Staff suggested that we wait for substantial progress being made on the leases project before tackling them through a technical bulletin. Regarding the other types of arrangements that are not specifically leases, based upon staff research and fact-finding, we are seeing agencies adopt aspects of leasing in these more traditional types of design-build and operations & maintenance procurements. Therefore, in the area of technical bulletins, the Board would be looking at issuing something specifically regarding leases, and possibly a technical bulletin regarding some of these other types of transactions identified by GAO and CBO.

**Analysis of Major P3 Accounting Practice Issues**

Staff then moved to the next template-set on pages 29-47 which describes 17 different major P3 accounting practice issues. These were compiled over months of research and numerous meetings with industry experts and fact-finding meetings held to-date.

Staff noted these issues are a culmination of a fairly extensive analysis of what accountants around the world are grappling with as issues and what we see as being relevant within the federal space. These issues would best fit a traditional standard that we would approach using as Mr. Smith suggested at the December Board meeting, an overarching principle that is consistently applied.

After meeting with numerous persons and in particular, an InspectorGeneral regarding how agencies can use current lease guidance to figure out how to create an operating lease rather than reflect what would otherwise be a capital lease, one realizes that agencies can be technically compliant with the accounting literature but fail in reporting the actual substance of a transaction. Therefore, in response to Mr. Smith's suggestion, staff asks the Board to consider the overarching principle of *substance over form*. Staff suggested that the 17 accounting practice issues be treated separately in a standard as a different body of P3 guidance.

Staff further noted that the IASB, in its most recent Leases Exposure Draft, has exempted service concession arrangements (a sub-set of public-private partnerships) from their leases guidance partly because the underlying economics in a lease gets changed in a public-private partnership arrangement.

Staff concluded the overview of TAB B by referring to the 4 questions being asked beginning on page 50.

MR. DONG: Can you take us through page 23 and walk us through the substance of the gap analysis and what you are seeing in terms of what we are missing; that is, how current standards may not apply to P3 arrangements?

MR. SAVINI: Sure. Beginning on page 23, the *substance over form* argument that I present is that traditional accounting tends to look at rights & obligations and ownership & control as models for asset and/or liability recognition. However, the fundamental difference with P3s is that these are arrangements that although I won't say ignore rights & obligations or ownership & control, they tend to emphasize more a risk & reward model. So, the gaps that one sees arise from using traditional accounting models that do not reflect the business models being used in these P3 arrangements.

In trying to get to your answer, we need to understand that risk underlies the P3 arrangements. In my opinion, before we even dare to address whether we have an asset or a liability, we need to first understand the risk elements that reflect the actual business model in use.

Because risk is a very broad concept, I suggest we limit risk to, or more precisely define it, as an entity's fiscal exposure. As a result, an agency's P3 fiscal exposure might be where the potential for liability exists. After we address the fiscal exposure/risk question, we can then look at what asset, if any, may or may not be involved. Another fine point to note is that not all P3s involve the construction or conveyance of an asset. For example, look at a military depot where they enter into work-share or teaming arrangements where government (military and/or civilian) personnel are being "loaned", if you will, to private contractors. In turn, the private contractors then bill the government back for that work. No asset necessarily is being created or modified. This is an example of why I think we have to really look at developing fiscal exposure/risk guidance.

I'm seeing, for example, whether I talk to the FASB folks on their EITF project or consider the relevant GASB guidance, that they share our opinion that many of these P3s, if they're structurally comprised through a special purpose vehicle, would fall under the rubric of a reporting entity standard. However, when you look through that rubric, you realize that the reporting entity standards deal mostly with ownership & control. Then you fall to your related party definition, and see that it too doesn't capture the potential universe of P3s. In the end, you're left with P3s that are going to be "out there" because we're following traditional GAAP (models that use rights & obligations and ownership & control) and not looking at the risk & reward model that underlies P3s.

Please note that I find no fault with our standards, the way they're written, or with the proposed related party definition. My point is that we have gaps because P3s are using different business models to conduct their business.

Consider a long-term lease in a P3 and related accounting guidance. Now, when they designed SFAS 13 back in the '70s,[1] I don't know if leases typically ran 99 years as some do now. What we're finding is that agencies will look at the lease guidance, follow that guidance, and recognize a capital lease if there's been a substantial transfer of ownership interest or risk. However, in another agreement in the P3 we see that the agency assumes part of that risk back and in essence changes the underlying economics of the lease. This is why I believe the IASB has taken the position that if you're using a service concession arrangement the leasing standard doesn't apply and that one will have to look at separate guidance. I think that's the right way for us to proceed as well.

I think that pretty much covers what I've tried to say on pages 23 to 25. I hope that helps.

MR. SHOWALTER: I don't disagree with your risk reward analysis, but because the large majority of these P3 arrangements are also just alternative financing mechanisms, wherein the federal government is trying to continue financing an existing service or procure a new service, I didn't know if you thought about it in this way as I do. Again I don't disagree with the risk reward concept you are putting forward, I would like to note that most of these P3s are driven by the federal government trying to provide a service under an alternative funding mechanism that currently isn't being provided in another way. In some cases it's a way to get the building fixed up because they couldn't get the money another way. So, is there another way to think about these P3s?

MR. GRANOF: In agreement with Mr. Showalter, Mr. Granof noted that experience with State and local government confirms that P3s are borrowing arrangements. In his opinion, there's no question that P3s are in fact alternative financing mechanisms.

[1] Financial Accounting Standards Board (FASB). Statement of Financial Accounting Standards No. 13, *Accounting for Leases*. November 1976

MR. SAVINI: Agreeing with Messrs Granof and Showalter, staff also noted another aspect to financing issues in P3s. What we've learned is that because of the European push to adopt what's called a value-for-money (VfM) analysis, a great deal of subjectivity is introduced into the decision making process. Contrary to what one might think, from a private partner perspective one would think that the private partner would want Uncle Sam in the deal as a substantial player with a lot of bucks on the table. However, the P3 private-community says that is not necessarily so. In fact, they may not want Uncle Sam as a primary, creditor or investor in an arrangement. Their point of view is that they want the federal agency to have just enough skin-in-the-game because of the expected returns that a P3 has to earn for its private partners and/or investors. So, to make the arrangements financially lucrative, the financing is designed to keep the government's capital contribution as extremely low as possible to maximize the returns to the private partners/investors. However, the nominal capital contribution is not necessarily reflective of the government's risk exposure. This is another reason why you've got to look at risk in these P3 arrangements.

MR. SHOWALTER: This raises the question we just had. How does this relate to the risk?

MR. SAVINI: In response to Mr. Showalter's question, staff referred Members to the chart on page 26. The last time we met Mr. Dong asked the question about the P3 project's boundaries in relation to our other active projects. Please note that although there are no bright lines, what I've tried to depict in the green shaded box is what you could consider being the risk assumed project's scope where you currently seem to have insufficient guidance to measure the significant risk to the federal government. Now, I'm suggesting that P3 risk is a subset of this risk assumed. Furthermore, I'm suggesting that we now define P3 risk as fiscal exposure. Please note that GAO continues to come out with reports asking OMB to provide a yearly report on fiscal exposure and I think we can help accommodate that request by focusing on fiscal exposure in the P3 project because it's something we accountants can deal with. In the blue shaded box, we are reminded that there's no common definition for P3s and that the risks vary among arrangements. Additionally, P3s do not always include asset construction or conveyance. Finally, in the tan shaded box I'm suggesting that we have touch points with long-term leasing of the Leases project as well as the federal entity reporting project.

Mr. Reger: Referring to pages 10 and 11, staff has mentioned service oriented activities a couple of times and this is where I'm confused because staff also talks about long-term leases. So, it seems that staff has capital assets or physical things still as a focus. My experience with P3 arrangements is that they are largely service oriented. For example, performance-based organizations as we know, are buying Oracle software directly from Oracle while never taking ownership or possession of the computers but having personnel who work on providing computer assistance to everybody who is running Oracle.

MR. DONG: But is that a P3 or is it just service oriented model?

Mr. Reger: That leads to my question.

MR. SAVINI: Now, this discussion that you two gentlemen are having is brilliant as it refers to the material on page 49 in TAB B that we will get to shortly, that deals with the criteria or characteristics of P3s. One of the criteria makes the point that if an arrangement doesn't follow the Federal Acquisition Regulations (FAR),[2] the task force is saying you are at greater risk. Because we can't sweep in the types of purchases Mr. Reger refers to such as purchases of Oracle software, we need criteria to help identify those P3s that should be considered for reporting. Therefore, if such service oriented procurements are covered by the FAR, they're not a part of a P3 risk sharing or risk transfer system. As a result, they would be considered out of scope.

I'm trying to avoid asking the task force to develop a P3 definition because I don't think we're going to get anywhere close to where we need to be. This is where I ask that we look at characteristics which are more important. They're more eternal and representative of the P3 arrangement. So, I think we can broadly define what a P3 is and focus on the reporting characteristics that an agency should filter through as opposed to trying to define what a P3 is. Because there are so many different types of P3s, agencies are going to need our help -- or we need to help them guide through what P3s in their portfolio should rise to the level of financial reporting.

Mr. Reger: Well, that's a materiality question really, but the difference between risk assumed P3 disclosure requirements, whatever they may be and lease disclosure requirements is confusing. I can imagine myself sitting in a CFO's office trying to figure out under which standard to look at regarding the risks I'm exposed to.

MR. ALLEN: Although I may have misunderstood staff's intent concerning the chart on the touch points, I viewed this in the sense of having these kinds of arrangements that may be helpful to an entity in identifying some of its risk. I think there are many P3 arrangements that don't rise to the level of exposing risk to the federal government and as such, I would say don't worry about them. I mean I may worry about them for some other reason, but not from an accounting risk point of view.

I thought of this in terms of Phase 2 and Phase 3 of the Risk Assumed project and note that within these phases, we could provide some additional guidance or we could provide the guidance here in the P3 project. For example, we can say to practitioners, "Remember, if you have these kinds of P3 arrangements, go back and look at the P3 standard." So, I'm not sure where we'd do this. We could also provide similar guidance in both places and make the point that it doesn't really matter whether a practitioner gets their guidance through a P3 standard or through risk analysis as long as the results are the same.

---

[2] The FAR is the primary regulation for use by all Federal Executive agencies in their acquisition of supplies and services with appropriated funds. It became effective on April 1, 1984, and is issued within applicable laws under the joint authorities of the Administrator of General Services, the Secretary of Defense, and the Administrator for the National Aeronautics and Space Administration, under the broad policy guidelines of the Administrator, Office of Federal Procurement Policy, Office of Management and Budget.

Mr. Reger: But if the results are not the same, then we have real problems.

MR. ALLEN: Well, in our earlier conversation on the Risk Assumed project we discussed Phase 1, the first phase that will allow us to develop a framework for use in later phases, and looked at it conceptually so that in all likelihood we will get to the same place.

MR. SAVINI: I think from what the fact-finding meetings show and in speaking with the people we have on the task force, because agencies like DOD can take a $3 billion appropriation and lever it up tenfold, we're going to have a need for guidance. Concerning the confusion, it may be because I'm too close to the project and I don't see a problem here, so I apologize to Mr. Reger for not being clearer.

Mr. Reger: No, staff may have a better understanding than we do at this point.

MR. SAVINI: What is not confusing to me is that agencies that go into these P3 arrangements know and understand the risk because they know the business model and as a result, they know how much risk the private partner is picking up and how much risk the agency is retaining. So, I don't think they're as confused as we are regarding risk transference. I think where the confusion can come into play for an agency is what of that risk that they know exists should be reported, if any.

Mr. Reger: So that's exactly the point I got to, which is, what's my obligation to the readers of the financial statements? Although I don't disagree with you that an agency entering into a P3 knows what they got themselves into, I'm just not sure they're recording everything they need to record. I don't know the answer to that and I don't know what the sum total is so that a reader of our statements has some understanding of that exposure or whether it's relevant.

MR. ALLEN: My thought process made me think more along the line of your task force. That is, staff said an agency that takes an appropriation can leverage it up. I thought that was probably the driving force, not risk analysis. How can an agency leverage its appropriation? Accordingly, for our purpose we would acknowledge this leverage and their use and say, okay, we know you're going to enter into these P3 arrangements, but if it results in this kind of a risk, then here's the P3 accounting standard that makes you analyze that leverage and report it accordingly. I didn't think they cared about the risk because they're part of the federal government, the biggest entity in the world. The attitude being, “Who cares about risk? I care about leveraging my appropriation up.”

MR. SAVINI: Yes, but agencies also recognize that there is fiscal exposure. Specifically, a task force representative who is an agency attorney dealing with P3s takes the legal position that his agency’s risk is limited to the 4-corners of the legal instrument/agreement signed between the parties. However, the very same representative stated that other risks such as moral hazard, political influences, and economic events could happen that supersede the legal agreement and actually result in fiscal exposure to the government. The question before us is why wouldn’t we want to address risk/fiscal exposure or at least attempt to? I think that's where I want to go with the draft criteria on page 49.

MR. SHOWALTER: My question is related to Mr. Reger's point. Are you saying that the accounting issues raised here are more disclosure oriented than they are accounting related?

MR. SAVINI: On the fiscal exposure side, yes. But, again, from an asset and liability recognition perspective, we do have some bona-fide accounting issues to address.

MR. SHOWALTER: Right. So, when we talk about risk or fiscal exposure though, we're mainly usually getting on the disclosure side.

MR. SAVINI: That is correct and the task force is tentatively thinking that the disclosures might be best in MD&A with a related reference to a Note such as PP&E.

MR. SHOWALTER: Getting back to the point on risk, we see this on the state and local government side as well with the sale and lease of assets and other related transactions. I don't think anybody is thinking about what happens at the end of the term. At a particular point in time the government had an asset that they sold and did something with it, and then at some point in the future, say 99 years-out, at that point I don't think anybody really thinks about what happens then.

MR. ALLEN: One can say some governments don't even think about the next year. For example, the sale of the state interstate highway system by a state had nothing to do with risk or return but rather it had to do with the fact that a government needs cash now, period.

MR. SHOWALTER: Exactly. That's my point. But in such cases you're kicking a big can down the road on these deals, and I'm not sure that's totally disclosed here.

MR. SAVINI: That's exactly right as you have intergenerational implications on many of these P3 deals. I think disclosure is most certainly warranted, but again, to ask an agency to go through an inventory of all its P3s is problematic and I think we need to help them sort through their inventory through the use of some criteria such as we see on page 49 to help them get to the right answer.

MR. SHOWALTER: Right.

MR. SAVINI: Please note that these are draft and that the task force is going to make changes to them.

MR. ALLEN: Somebody had raised a question with you of why these matter to us? It seems to me that when I got to number four, I said that's the only one that seems to matter to an accounting standard setter. But why do all of them matter?

MR. SAVINI: Well, again, we're looking at a business model that's predicated on risk sharing or transfer so I'm taking you out of our comfort zone by first looking at a P3s's general lifecycle which is my attempt at trying to put context around the criteria. In essence, what you would do here is ask an agency to go through each of these criteria, in this case via a general lifecycle approach to ascertain whether or not a P3 arrangement has a potential for being reported. So, for example, the first column under project feasibility, Item 1, it asks whether a value for money or similar cost benefit analysis is performed. Our thinking is that if an agency is performing such an analysis, that's a trigger that there's a risk transfer system in-place in an arrangement with some type of risk transfer. As a result, that would put you into a “Report” category, if you will.

Mr. Reger: So, you're not predefining what the result is in the statements when you say a report or are you?

MR. SAVINI: Yes, we're not defining what “Report” means at this time. We haven't defined reporting.

Mr. Reger: Okay, but you're saying one would trigger inclusion on the list for that purpose later.

MR. SAVINI: Yes, it could, but note that we haven't weighted these as we're just in the initial stages of looking and seeing how should we proceed. Our goal is in identifying those criteria that could be used to elevate a P3 into a reportable P3 category.

MR. SHOWALTER: Similar to Mr. Reger’s point, that was my question. I was having issues about weighting each criterion because there are many transactions where we do a value for money analysis having nothing to do with a P3 arrangement.

Mr. Reger: Right. We wouldn't care about that.

MR. SHOWALTER: Right. I was kind of wondering if I'm a practitioner or auditor how I would use the criteria.

MR. SAVINI: We haven't gotten to the weighting answer yet.

MR. ALLEN: Do you want to continue? Is there a natural progression here?

MR. SAVINI: No, there's not a natural progression. It's just really ascertaining to what degree is the government assuming risk. The greater risk that the government assumes, and again I'm talking about fiscal exposure, the more inclined we'll be to ask them to report this in a yet-to-be-defined manner. For now, the task force is looking at narrative reporting because naturally, if an asset or liability is involved, they're going to follow Standard 6 and/or Standard 5, as they report the asset and related liability.

MR. ALLEN: Staff talked earlier about technical bulletins and I may struggle a little bit here because it seems like we have existing standards out there. That being said, I can see some value in having a standard that did nothing more than say here's the criteria and if you meet certain ones, then look here for reporting assets, or look here for something else. This can bring matters together in a central place. Now, one can make the point that a technical bulletin is the best way to do that, but in many of these, a lot of the value I see from this project isn't going to be in writing a standard but rather in helping people understand and focus on these relationships that create an asset or results in a liability or fiscal exposure/risk. Therefore, we would be asking the practitioner to be aware that if a certain event happens, they have got to report or disclose the event a certain way. Now, I can see that as a value either as a standard or at least some type of bulletin even if we don't write anything new and even if it's only to guide preparers.

MR. SHOWALTER: Getting back to the draft characteristics/criteria. If you applied the page 49 chart to your list of known P3s on pages 10 and 11 would you conclude that those were P3s based on what's in this chart? That is, staff told us pages 10 and 11 are known P3s so if you run those P3s through this chart what would be the result? I think the answer would at least help me validate whether these are the right criteria and also help tell me whether staff may be missing something.

MR. SAVINI: I would not conclude that the P3 types (some of which are leases) shown on pages 10 and 11 would be reported if they were not part of a P3 arrangement.

Mr. Reger: So, if they were part of a P3 arrangement they should be applied?

MR. SAVINI: Yes, then they should be applied.

Mr. Reger: If you can apply it, they are. And if you can't apply it, they're not.

MR. SAVINI: Right. Now, maybe the Board can help me better understand this because I don't want to violate the boundary of other projects such as *Leases.* If these page 10 and 11 items are executed in isolation and not part of a P3 arrangement, I simply want to say that a practitioner would not come to my P3 guidance because they'll have to seek the leasing guidance. As a result, that's where I come to the conclusion that I need to address these in a technical bulletin if they're not part of the P3 arrangement.

Mr. Reger: To get them off (of the P3 project scope).

MR. SAVINI: Yes. I was recently surprised to see a similar matter addressed in the FASB/IASB Exposure Draft on Leases[3] wherein both Boards decided to exempt service concession arrangements from any forthcoming Leases guidance. They are recognizing the difference in economics and that's what I'm trying to say here too. Maybe not adequately, but trying.

Mr. Reger: Referencing the chart on page 49, how about just briefly telling us what each of these represent to you.

---

[3] On May 16, 2013 the IASB clarified that service concessions are not within the scope of their Exposure Draft on Leases primarily because (1) service concession arrangements do not meet their definition of a lease and (2) leases may be but one element in a broader set of agreements with private partners to construct, own, operate and/or transfer assets.

MR. SAVINI: Under the first column entitled Project Feasibility, let's move to Item #2 and then work down. If the principal arrangement is not managed by the administrative contracting officer or a procurement contracting officer, there's greater risk.

Mr. Reger: Greater risk because at that point there are other rules that will define how to handle it?

MR. SAVINI: Yes. What the task force is saying is that in a traditional procurement for services or assets, an agency typically will use the Federal Acquisition Regulations (FAR)[4] and will delegate to a Contracting Officer administration responsibilities for the contract. However, if FAR doesn't apply or no delegation is made, you have the agency's Program Office providing contract oversight as opposed to the traditional system. So, there's greater risk when the Program Office who entered into the P3 arrangement doesn't have an independent person managing or administrating the regulations.

MR. ALLEN: This chart would be helpful if it said exactly what you just said, which is, that you're more likely to have a P3 arrangement if you don't have this principal arrangement in place. Also, does this mean I've got to have one of these criteria in order to be a P3 or if I have one I'm not a P3? I just struggled a little bit when I read this chart.

MR. SAVINI: I'm sorry about that. That's a fair criticism.[5] Moving to Item #3 in that column, the third one down,

> Does the government rely on either the private partner or a third party determination of a P3's performance or return on investment/equity without performing its own verification?

This has come from a task force member that was involved with a P3 arrangement where their agency relied on work done by a third party without verifying the results. After the arrangement was executed, it was found out that the amount of risk that supposedly was transferred to the private partner in fact wasn't, and they were sort of surprised at that outcome. In essence, they've suggested that when we obtain a consultant's report on a P3, the agency needs to perform an independent/agency verification and not just rely on what's been presented and absent this verification, we have greater risk.

MR. ALLEN: To help them better understand the magnitude of the risk they're assuming?

---

[5] In answer to Mr. Allen's observation/question, the criteria are not intended to define for an agency what a P3 is, but rather, whether an existing P3 that the agency has presumably already defined and identified, when subjected to the criteria should be reported (subject to materiality considerations). This subtle difference is important because there is no common P3 definition and staff believes it would be impractical to try and develop one that would apply to all agencies. Instead, the focus should be on those characteristics that raise a P3s reporting profile based on risk/fiscal exposure.

MR. SAVINI: Yes.

MR. ALLEN: Again, it would be nice to bring it down to that conclusion.

MR. SAVINI: Yes.

MR. STEINBERG: I read this the other way. What is the intent?

MR. ALLEN: Well, if it's the other way then if I have an independent third party analysis of risk, I could rely on that. You could read it either way.

MR. SAVINI: No. The intent is if you are relying on a third party report <u>without performing your own verification</u>, you're at greater risk.

MR. STEINBERG: Then it's a P3?

MR. SAVINI: No, more precisely it would be a <u>reportable</u> P3.

Mr. Sebastian: What I can see, it's those last couple of words that point to increased risk. I think that's maybe how to phrase each and every one of these. Consider tying them to the increase in risk.

MR. SAVINI: Agree.

MR. ALLEN: Yes. Show us how this helps us know whether the P3 is in or whether it's not or whether it helps me assess the magnitude. When I get over to that third column, Project Finance, Item #3, that's where I started to have interest in this chart. The other part of it I didn't really see its relevance.

MR. STEINBERG: Actually, going back to Item #3 under the Project Feasibility column, I look at this as even transcending. That is, if I was going to be in an arrangement where I'm not relying on the private sector as much, I feel that I have more responsibility and authority to determine performance and the return on investment. However, if I'm doing this in conjunction with the private sector, then I'm willing to allow the private sector organization to say, okay, this is what your return is going to be. This is what you're getting. I don't know whether that's a valid assumption but that's the way I look at Item #3 under Project Feasibility.

MR. ALLEN: Well, I think as staff works with the task force we need, as Mr. Sebastian said, to come back to the focus of whether you are or whether you aren't, and what and how you determine magnitude of risk or something like that.

MR. SAVINI: Understood. Now, moving to Item #4 under the Project Feasibility column, we ask about the creation of an asset or incurrence of a liability and Item #5 we ask if the arrangement is long-term; defining long-term as being greater than five years.

MR. ALLEN: I don't understand the rationale in Item #5. That is, in accounting terms I understand that if we have a security that is less than one year then we don't take that security and mark it to fair value because it's considered short-term, however, anything longer than one year I've always thought of as long-term. I don't know where five years comes from.

MR. SAVINI: I can tell you where it comes from. We're fortunate enough to have the Executive Director for the National Contract Management Association, who sits on the task force and brought this to our attention. Also, please note that all the draft criteria you see have been vetted by the task force. The task force is telling us that typical procurements run on average five years. Therefore, anything over five years we will consider long-term.

MR. ALLEN: But why do I even care about the terms? I could have quite a bit of risk in a three-year contract or I can have no risk in a 20-year contract. I don't understand how this helps me know whether I've got more risk or not depending on how long it is.

MR. SAVINI: In isolation I think you make a good point but these criteria are supposed to be looked at together and we haven't gotten to that point yet.

MR. STEINBERG: I would say that one year we think is short-term and beyond one year long-term when we're talking about classifying assets and liabilities. Our own Board says recognition of a fixed asset is two years. My point is that it would seem to me that the government and a private party are not going to take the time and effort to go into a P3 unless there's some substantial time to it, thus that's why five years.

MR. ALLEN: I think if that's an indicator of whether a P3 exists or not, that's a good point, but I don't want to have it as a criteria of whether I need to assess risk or not because I'm going to assess risk on everything, particularly if it's longer than a year. How these criteria are framed and where they're supposed to be leading me to is where I need guidance.

MR. DONG: Is this meant to be a risk assessment or diagnostic? As we look at this chart, is it meant to be a risk assessment tool or is this meant to be more of a P3 diagnostic in terms of whether it falls into that category or not?

MR. SAVINI: It's meant to be a filter for agencies to go through their P3 portfolio and determine what could be a reportable P3 based on materiality.

MR. DONG: So it's helping me put P3 arrangements in the appropriate P3 pocket. Now, if that's the case, then I'll look at question five in this first column and say all right, this helps me put it in the P3 pocket if it's going into that long-term.

MR. ALLEN: So the answer to Mr. Dong’s question is yes.

MR. SAVINI: Now, if you can leverage it for risk assessment or anything else that's fine but please note that was not the intent.

MR. SHOWALTER: I know this isn't fine tuned, but I don't think you want to provide an alternative definition for long-term here. What staff said was this is a longer than your average procurement period; i.e., five years. So that may be a better way to go with this answer so you don't get accountants arguing long-term or short-term. This is just a thought.

MR. MCCALL: An example of a P3 that I'm working on for the University involves a direct support organization, our boosters. The boosters are trying to build retail and student housing through a private partnership. Specifically, the private partnership paid the boosters $7 million for land and required that the boosters establish a separate LLC that took possession of the land which it will then lease back to the boosters for 99 years at one dollar per year. In the meantime the boosters have given the private partnership back the $7 million. They want to give them new market tax credits, and they're going to give them $2 million in community redevelopment monies they'll get from the city. And they've loaned this $14 million, which they'll get paid one percent for the first seven years, and then -- they won't be paid anything for the first seven years, but then they'll start collecting one percent. In 30 years they'll collect an additional 1.29 percent on their loan of $14 million, but that only happens in lump sum at the end of 30 years. I've been asked is there risk involved? So, do I look at the 7 years or the 99 years? All in light that they'll get back all of this end of 99 years. The part of the money to build the facility is 10 of the boosters are given a million dollars apiece, which they'll get their money back in the first seven years is what their deal is. But the actual DSO won't get his money back 'till after seven years and at some point just at 30 years.

MR. ALLEN: It seems like there's no economic substance driving any of this and it's political. It’s interesting to note that tax deductions are given for such complex arrangements.

MR. MCCALL: They are very complicated.

MR. STEINBERG: Staff said something that got me thinking about arrangements in a P3 portfolio to identify which become the reportable P3s. That's what I think I heard staff say, which seems similar to when we worked on the Asset Impairment standard where staff said we know we have impaired assets but there's only certain impaired assets we're going to be reporting. If that's the case here, then do agencies have systems in place to identify their P3s? That is, what is a P3 portfolio? It seems to me it's almost a one-step process as you go through all of the transactions you have and ask do they meet these kinds of criteria? If that's the case, you may have a P3.

Mr. Reger: That was exactly my question. By use of this assessment at the time we enter a P3 deal, I don't see how it determines whether I have reportability or not. It tells me whether I've just entered into what we would call a P3 deal but reportability is a second question. That is, we haven't gotten to what the reporting requirements around a P3 deal are.

MR. SAVINI: Staff disagrees and notes that I do not think this tells you or helps you identify a P3 deal. It might if the basis for your entering into a P3 includes these criteria.

However, many of the P3s we're seeing at least at the state and local level, and, as Mr. McCall might be able to tell us from his experience, are top-down driven. What we're seeing in the federal government is that some agencies are developing P3 project offices where they'll house an inventory of their P3 arrangements. However, I think P3 data collection is all over the place, and this is one of the reasons why I want to stay away from the definition because each agency is going to have its own definition or ground rules for P3 arrangements.

Mr. Reger: And as a result, you're not going to be able to classify them.

MR. SAVINI: That's correct. I'll give you an example of when I went through the federal budget by doing a word search at every single agency, looking for "public-private partnership." One of my hits was the Smithsonian and because I know the people there very well, I made an inquiry and what was described to me was not a public-private partnership. When I challenged them noting that the budget entry was clearly labeled "public-private partnership", they provided additional information that the deal was coordinated with a congressional committee who suggested the use of a public-private partnership. As a result, they were able to approach a donor to give money, and they labeled the gift as a P3. So, these are some of the strange things you're seeing being called P3s. People are slapping the P3 label on things that really don't meet any P3 criteria. That's why I focus on what an agency could consider or should consider for P3 reporting, based on materiality as opposed to defining what a P3 is.

MR. STEINBERG: So it's going to be a two-step process as compared to what we do with impaired assets?

MR. SAVINI: I'm seeing it now as a one step and not just done at project initiation. Due to the long-term nature of P3s we need to revisit our risk because it can always change under that 99 year period. You might have a P3 for the first five years that falls under the radar but if there's a subsequent amendment or change, the risk or fiscal exposure could also change. So, this has to be evolutionary, if you will.

MR. STEINBERG: Somehow or another, an agency is going to have to have that identification process where arrangements can be tied to the agreements. Complicating this is that there are agencies that have agreements that nobody knows about.

MR. SAVINI: That's right. Now, unless any member feels that we need to continue going through the criteria on page 49, I would propose that we take a look at another portion of the transmittal document that really talks to the discrete accounting issues that we've identified in P3 arrangements and how they have touch points to some related FASAB projects. So if I hear no objection, I'd like us to turn to page 27.

Staff identified as we said earlier 17 discrete accounting issues that I put into a template not to make any suggestion that these issues should migrate to any of these other projects, but rather, show that if these issues were going to be looked at in a stand-alone basis, these are the projects that would typically handle them. As we discussed, P3 arrangements are not so much the description of an actual accounting practice as it is a description of an entity's business model. So naturally, you're going to see bleed-over and carryover of accounting issues across our projects. I think the point here is as we proceed with the project, assuming the project continues, staff will have to continue to collaborate and work with one another because there are going to be some related issues.

Concerning leases, we can take a similar approach to the IASB and say that once an entity through a P3 arrangement uses a lease vehicle, all bets are off and you don't follow the lease standard. Similarly, it would help if we would say that any leasing arrangements under a P3 arrangement have to follow separate P3 accounting guidance. In this way we don't have to burden the leases project with these items and we can continue making progress as we move ahead.

MR. ALLEN: Isn't that risky? You're saying that if you are a P3 and employ a lease, we're going to tell you how to do your lease accounting and if we do that while we're still waiting for the lease guidance in the project, how do you know you're not going to come up with a different answer?

MR. SAVINI: Through really close collaboration. Please note that what we have said is that we want to see the leases project gain more ground before we proceed with leases. We have to see what's happening there.

MR. ALLEN: Okay.

Mr. Reger: I'm sort of surprised you just didn't go the opposite direction, which is to say, if I'm in a P3 arrangement, but it's clearly classically a lease and therefore follow the lease standard as opposed to follow my P3 standard.

MR. DONG: Or are you saying it's not a true lease so, therefore, follow my P3 standard.

MR. SAVINI: Yes, my rationale and approach is as Mr. Dong states.

Ms. Payne: I think you have to recognize the diversity among these arrangements. In service concession arrangements, which is what the FASB/IASB excluded, a government transfers roads such as toll roads to a private entity under a lease agreement. They do not transfer the right for that private organization to take the road and do whatever they want with it. They do not really get full ownership rights. So that's one case, and I can see exempting that from the lease standards. I don't in my mind know that I would always say, for example, if a private entity builds and operates a facility for us, maybe the government is leasing that from the private partner -- going the other direction. I don't know that I would say the service concession arrangements exemption means all P3s.

Mr. Sebastian: You would almost have to create a decision-tree type approach that may lead you back to the lease standard.

Ms. Payne:  Right.

MR. ALLEN:  It seems like if it is going to be addressed in the leases project, and it is close enough to a conventional lease or whatever you're going to call it, then that seems like the place we would want to send people, and deal here only with those that wouldn't be dealt with in that conventional lease.

MR. GRANOF:  That depends on how you define a lease.  Ms. Payne hit the nail on the head when you said a lease gives you the right to use the property as you wish.

MR. ALLEN:  So was this a decision point for us?  By the way, where do you talk about leasing in this memo?  Now, I recall, that's in our next Phase 3 where we're going to talk about possibly a joint working with GASB on leases.

MR. SAVINI:  I think the only point I'm trying to make here is that until we know what we're doing with leases, we can't really address P3 guidance in total because a lot of the P3s use leases.  The only thing I'm trying to suggest is that if we made a decision that leases in the P3 can fall under a different set of guidelines then we don't have an issue.  Then we can move the project ahead, not interfere with the leases project because we buy into the argument I make that we're looking at substance over form, and not just technical compliance with the lease arrangement.

MR. DONG:  So again it comes back to not being a traditional lease?

MR. SAVINI:  Yes, sir.  The moment you take this lease arrangement and throw it into a P3, I would say all bets are off.  You're changing the economics.  You're changing how this thing's got to be looked at.  That's what I would propose.

MR. ALLEN:  I don't think that would hurt to go down that path with an eye always towards what's happening with the leases.

MR. GRANOF:  I think we can assume that the Leases project will define leasing in a fairly narrow way, a conventional way.

MR. SHOWALTER:  Mr. Savini said that he did not want to define a P3.  However, to do what staff is proposing means you're going to have to have a conclusion about what a P3 is.

Ms. Payne:  We come back to that as a Catch 22.

MR. SAVINI:  I think I can still rely on an agency telling me what a P3 is.  I think they know what they're getting into.  I don't think I have to tell them how to define it.  I think I need to show them again what should be reported.  I don't know how we can ever come up with a definition that really can fit all of government.

MR. SHOWALTER:  Where staff has gone forces us to go down some route of defining what a P3 is because otherwise it will be in the leasing arena.

MR. SAVINI: Let me give that some thought. Now, from here, if you'd like, we can spend time talking about anything you'd like or we can drill down to any of these accounting issues that have been presented on pages 27 and 28 and detailed on pages 29 through 47. I would like to make best use of your time, so if you feel you should talk about something else, that's fine too.

Ms. Payne: I think at this stage, it would be important to know if members have questions about the issues, but not seeking a preference on issues.

MR. ALLEN: I would support that suggestion simply because in the column called Task Force Review, it almost always says in-progress, and so I don't think we ought to be talking about it until we hear back from our task force.

MR. SMITH: Walk me through the next steps of where staff sees us going with this project.

Mr. Reger: Include timeframes as well.

MR. STEINBERG: Mr. Smith, before he answers that, can I bring up an issue or objective that I think would influence that answer? It's one I wrote to staff about before. I can see risk or fiscal exposure being one of the things that we want to be able to determine from the financial statements for the P3. But the other thing I think I'd like to know is what is the operating cost of going into this venture in comparison to the operating cost of doing it in a more traditional manner. That is, because one of the things you keep hearing from management and the politicians is that we need to engage in P3s because it's a more efficient, effective and, in essence, a cheaper way of accomplishing the mission. I suspect that agencies may not be looking at all the costs or so forth when making such decisions. So, are we going to be able to get out of this project cost identification? Specifically, what are we going to provide in the form of guidance for determining what the costs are of doing a P3 versus doing it other than a P3?

MR. SAVINI: Well, if I can get OMB support I'm confident we can address Mr. Steinberg's point. I see this as a management function and typically OMB Circular A-94[6] helps practitioners and agencies move through their capital decision making processes. Mr. Steinberg raises a valid point and it is a valid criticism by some because there are bona fide federal P3 arrangements, one being the VA Cleveland Medical Center, that for failure in properly doing a comprehensive cost benefit analysis has drawn negative attention to the VA. Management didn't account for suburban area land they gave to a private developer in exchange for the developer building a new medical

[6] OMB Circular A-94, - Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs, provides the requirements under which a lease purchase or other capital lease has to be justified and the analytical methods that need to be followed. The Circular applies to projects which would result in a series of measurable benefits or costs extending for three or more years, specific applications include: (1) Benefit-cost or cost-effectiveness analysis of Federal programs or policies, (2) Regulatory impact analysis, (3) Analysis of decisions whether to lease or purchase, and (4) Asset valuation and sale analysis.

facility co-located with the local university health center in downtown Cleveland. Because they never accounted for the fair market value of the land they gave up as consideration, they understated the government's contribution and related costs making the deal look like it was great. Once news got out via an Inspector Generals' report, Congress actually rescinded a portion of VA's EUL authority. Furthermore, there might be criminal indictments following. Therefore, I can only speak from the experience I have with this Board in dealing with deferred maintenance and repairs, that when it fell to areas where management is concerned, some felt that OMB would be best at handling these things as opposed to us handling them here. We are technically competent to do it, but I would not want to waste time and find out that later somebody would object to FASAB issuing such cost guidance.

MR. STEINBERG: You just indicated a very, very good example of why if we come up with a standard we should be saying okay here's how you measure the costs of these things. OMB has a role, but OMB's role is saying how you budget for different things. They define budget costs, but it's our role to define how you come up with the financial costs.

Ms. Payne: I think staff was questioning not that side of the equation, but you said how much these P3s cost versus if you had done it in a more conventional way. So, it's the presentation of which is the right way to accomplish the mission; all the choices that go into that decision seems to be what staff is questioning by suggesting that some may see this as being more managerial than financial.

MR. STEINBERG: Okay. So drop the comparison. I just want to know the costs of doing it the P3 way. Are we going to see that?

MR. GRANOF: Wouldn't we have to? Wouldn't that be picked up in the normal course of events, such as when you show the related expenses?

MR. STEINBERG: I don't know. I mean he just gave an example of a P3 that the VA went into where for various reasons they didn't pick up the cost of the donated land.

MR. GRANOF: But I don't understand how that could be. If they gave up land, there has to be a credit to land somewhere in there.

Ms. Payne: Not necessarily.

MR. SAVINI: We're conflating two issues. Mr. Steinberg's question surrounds a decision making analysis whereas Mr. Granof's is an accounting/bookkeeping activity. As Ms. Payne previously noted to staff, P3 reporting is happening at the detailed-granular level within our chart of accounts. So, as Mr. Granof notes, the debits and credits are happening but that doesn't necessarily translate to Mr. Steinberg's concern over capital decision-making processes. The point here is does the Board believe that this is a significant enough issue for users such as OMB or Congress, that we elevate the detailed-granular P3 accounting, to P3 centric reporting; possibly through disclosures? In this way we take it from the granular level further up to a macro level.

MR. SMITH:  But even on Mr. Granof's piece, if that land had been properly considered you'd want to know the fair value of that land because its historical cost would have been undervalued.  If we would try to address this in some standard, it gives up a point that we should remember, that in some type of way we would want to go back and elevate that cost to the fair market value from its historical cost to truly say what we did pay for that transaction.

MR. GRANOF:  That's an accounting issue which is clearly within our purview.

MR. SMITH:  Yes, but accounting would typically have said we want to just record it at the historical book value, which wouldn't really recognize what we really paid for it if we gave that asset away.

MR. STEINBERG:  You're further emphasizing the need to address this.

MR. SAVINI:  I think Mr. Steinberg is right-on because through all the fact-finding meetings I've had, whether they were federal agencies or private equity people, everyone seems to support this for different reasons.  People want to see a level playing field when it comes to this value for money or cost benefit analysis because as it stands right now, there's no framework in-place so people are basically manipulating numbers to make deals look like there's value.  So, whether you speak to a federal practitioner or a private equity person, they would love to see guidance about what costs should be included and addressed.

MR. DONG:  You're saying there's a void that needs to be filled.

MR. SAVINI:  Absolutely.

MR. DONG:  There's too much flexibility and discretion in terms of how folks are approaching it now.

MR. SAVINI:  Absolutely.

Mr. Reger:  So back to Mr. Smith's original question, what are the steps in the process, one of them is obviously determining what reporting requirements are missing in these transactions.  What else?  Including my whole question of time.

MR. SAVINI:  Ms. Payne has addressed this project's time-line and I believe we have it scheduled for completion in Fiscal Year 2015.

Mr. Reger:  What do you do next though?

MR. SAVINI:  I would like to finalize these P3-centric reporting characteristics and from there, I'd like the task force to move into the discrete accounting issues and take them one-by-one.  Even though they might have touch points with other projects, I would like to ascertain if the economic substance of these accounting issues and the P3 arrangement should be dealt with differently than as we would under a traditional model.  That's the short term of how I would like to proceed.  I want to defer the reporting piece because I don't want to define what reporting should look like right now because I don't want to influence or bias the task force by saying this is ultimately where we're going and then have them advise me in that direction. I want to keep this sort of in the nebulous where we first look at qualitative disclosures where we can address risk in the MD&A and then later, the quantitative in the area of fiscal exposure. Getting any more specific with them at this point is premature. So I would hold that to the long term.

MR. STEINBERG: There's is another issue you actually identified before cost, and that is you said something about military depots where you have both government employees and private sector employees. I don't know whether contributed services or whatever you want to call it, is a cost too.

MR. SAVINI: Absolutely. The AFSCME labor union representative I met with said that they're very concerned about these P3 arrangements. They want to see it reported for different reasons, but that's absolutely right. For example, you might as a program manager not properly account for employee personnel costs or legacy costs in some of these privatization arrangements. As a result, the labor union people are saying that such cost comparisons or value for money analyses are not fair because the government’s true costs are being understated.[7]

MR. STEINBERG: I read somewhere recently that the A76 which attempts to account for benefits way understates the true benefit cost.

MR. SAVINI: Well, this goes back to why cost accounting in my humble opinion is so sorely needed.

MR. MCCALL: When you say you're going to address risk in MD&A, what are you talking about there?

MR. SAVINI: Well, we currently do have agencies reporting public-private partnerships in MD&A; the National Science Foundation, and I believe Archives. The MD&A concept statement and standard talk about entity risks and trends. So what I'm thinking is, similar to a corporate MD&A that you'll see in SEC filings, where you look at a publicly held company’s list of risks. The risks are identified as to what influences their industry and their company. I'm thinking that would be a perfect place for an agency to address its overall view of its risk profile or fiscal exposure and then if they can quantify a number, they could disclose the number in the notes somewhere.

Ms. Payne: I wanted to come back to Mr. Reger’s timeline question. In the technical agenda session, I have given you an update of our three-year plan. The piece that we would envision finishing in 2015 is these additional disclosures around risk. Then in 2016 we would be developing P3 standards. To the extent Leases isn’t a good fit, we’d finalize those matters in 2017 or later. This is a very long horizon project and is not a

---

[7] Value for money analyses could skew results that reflect greater value from a P3 as compared to other traditional methods when employee legacy and personnel costs are not considered in the calculation(s).

quick project to manage. The rationale for pushing out the nondisclosure pieces is really to allow them to be coordinated with Leases and Entity Reporting.

MR. ALLEN: Does that apply to the terms listed in Practice Issue #4 on page 32, the second column? It seems like all of these terms have a home somewhere else.

MR. SAVINI: Yes.

MR. ALLEN: I'm not really sure. I mean I think different standards obviously in the leases will define minimum lease payment and inception of lease. Those two will be defined there. So what do you see us doing in this project? I mean this really is under the lease project. Are you saying they'll define them all there, and that there's not a need for us to define any of those here?

MR. SAVINI: If they were to be defined in the leases project with the understanding that the leases project would consider P3s in its scope, yes. We would live with that definition.

MR. ALLEN: But since we understand they're probably not going to include all P3s in the leasing project scope, we'd need to consider them here.

MR. SAVINI: Yes, then I believe we would consider them here as part of our P3 work.

MR. ALLEN: All right. It is interesting when you talk about the long term and talk about leases and possibly doing a project with GASB. As the FASB still needs to complete their work, the timetable does get a little longer and longer as you consider all of these other issues. Is that why you said initially we ought to have a technical bulletin, and then come back later and have a standard afterwards? I might not have understood completely all of the nuances of your earlier statement that you made at the beginning of the meeting.

MR. SAVINI: Yes, I think so. I think what I'd like to do is where we might need to issue additional guidance we could do it through a technical bulletin to free us up on the standard and focus more on the P3 specific matters. In this way, the technical bulletin can address those leases that are part of a P3 arrangement.

MR. ALLEN: That's something probably I need to think about more. We could develop or delineate not only the timetable, but if you're talking about two different documents, such as a technical bulletin which can be issued quickly and also a standard that would take longer, that might be a fruitful discussion to have at a later meeting. I know you mentioned earlier in your statement both of those documents, but maybe I just need to go back and read it more clearly as I'm a still unclear about that approach right now.

MR. SAVINI: It's not an easy project. There are so many touch points and there are a lot of moving pieces. The thing that you all know you have with all of us here on staff is our commitment to work well together as a group, to coordinate and move these issues ahead. And you know you can trust each and everyone on staff to give you 150 percent. And if there's anywhere we can make progress, we will. I mean we're not here to do anything to the contrary.

MR. ALLEN: Much of that has to rest with Ms. Payne and her staff in coordinating and working these issues together. It would be nice to have a flow chart to lay out for us at the next meeting the key points and key decisions, along with where we can issue a technical issue bulletin versus a standard, if needed.

Mr. Reger: It's hard to picture which of those things the various questions are going to fall into until staff can figure this out. Staff has got a lot of it here and I think we may need to wait until the group stops meeting so that staff can sort this out. I don't disagree that you may have fiscal exposure and other kinds of advice that you want to issue, including a standard, but grouping them into buckets before you've sort of flushed out the rest, like the reporting entity seems a little premature. Acknowledgement that there's a likelihood that you may have to issue all that at various points makes sense, but I don't know that I think a timeline, for instance works. A timeline could cause confusion because it still has to answer where we need to address each issue. I was just more interested in a list of steps about how you bring this to some conclusion and in timeframes. So, I'm suggesting to staff that it may be almost impossible at this point to know when you would do which piece of advice because we're not to that point where we know what those pieces are. Although I do admit that I generally like the flow chart idea.

MR. ALLEN: Okay, a flow chart may be premature to show what needs to be done. Staff has some specific questions to run through. I have noted to myself that in some cases, I don't know the answer to your questions until I get additional feedback but to the extent that members have feedback, let's proceed with your questions.

MR. SAVINI: Thank you. If we can turn to page 50 we can see the four questions I'm asking today. The first question reads,

> Does the Board agree with the general project direction and staff's recommendation to pursue fiscal exposure identification and subsequent disclosure? If not, what changes would the Board advise be made?

MR. ALLEN: What do you mean by subsequent disclosure? In other words, I wanted to pursue this based on the fiscal exposure much of which may need to be recognized some way as an asset or liability. I saw more accounting than just subsequent disclosure. So, does subsequent disclosure cover any accounting issues, regardless of whether it's a disclosure or whether it's booking an asset or liability? That is, if I can quantify it better why not recognize the asset, liability or obligation.

MR. SAVINI: I think this reflects my admitted bias that I believe when it comes to fiscal exposure, it probably lends itself more to a qualitative explanation.

MR. DONG: But you're not ruling out that there may be some accounting treatment required as well? I think that's Mr. Allen's question.

MR. SAVINI: Correct. I think Mr. Allen makes a good point.

Ms. Payne: Mr. Allen, does your desire to know what ends up recognized affect your ability to consider the required disclosures?

MR. ALLEN: Yes. In other words, it seems to me I need to know - it's almost back to this very old FAS 5 liability definition - where we've got three different categories. This category based on certainty we book, the next category based on possibility we disclose, and the last category based on remoteness we don't have to disclose. I have to understand the whole picture before I can decide.

Ms. Payne: Yes, that's why this question is here. Because from the timeline of the project that we saw on the screen a little bit ago, we envisioned standards for a risk based -- risk disclosures coming first in the timeline, which is the reverse of our normal course. So that's why we've asked this question. Are you comfortable with the P3 approach because they're so unusual? As staff has pointed out, at their core they are a risk transfer system and although all contracts have risk transfer arrangements in them, P3s are about sharing risk. So, there was a feeling that we could do the disclosures on risk first and the recognition and measurements second. Particularly so that we could pair those especially considering that the risk exploration gives you a better understanding of the nature of the transactions you're looking at. But if the members are not comfortable with that, this is our chance to find that out.

MR. ALLEN: Okay, thank you for that clarification. The question seemed incomplete and yet it was on purpose because these types of arrangements result or can result in risk, and there ought to be some disclosures about that. However, as you also indicated, this is absolutely just the reverse of how we typically handle reporting issues where we always start out at what's displayed in the financial statements, and if it doesn't meet that criteria for display, then the next we come down to is disclosure, and if we didn't think it met a disclosure requirement, but we still wanted information about the matter, we would turn to the required supplemental information. We sort of have three buckets that follow a waterfall or cascading affect but here you're saying I'm going to start at that middle bucket or the third bucket.

Mr. Sebastian: Is this what you're getting at - you sort of build from that middle or third bucket and go forward? So, after you have identified some of the characteristics and risks, you then come up with the disclosures and then determine the magnitude at what point should there actually be an impact on the financial statements.

MR. ALLEN: -- Yes, on the financial statements themselves.

MR. SHOWALTER: I'm comfortable with that. I think you alluded that you think that's where the high risk is. So, do you think disclosure is where the biggest risk is?

MR. ALLEN: No. I just needed to straighten the process out in my mind to orient myself to staff's question. As I just said, I was thinking in more traditional terms.

MR. GRANOF: Mr. Allen, I think I have a narrow approach like you do and I'm just wondering how this is going to play out. I don't object to it, but it just seems to me that like it or not, it's integrated and you can't separate one from another. I think you're going to find this out as we go along.

MR. SHOWALTER: We may find it out as we get to disclosure, that there is more quantitative substance than you realize.

MR. GRANOF: There are just a lot of accounting issues and staff has identified many of them. I think they're just going to come up at all stages of the project.

MR. ALLEN: Thank you for clarifying that. That helps me at least start reorienting my mind.

MR. STEINBERG: If this is a timeline, where would the cost be?

Ms. Payne: It could come in the recognition piece or it could be a component of the risk disclosures. There are some costs for which recognition would be difficult. For example, there are some tax consequences such as tax revenues that usually aren't in the entity from entering into a P3. This would be part of a disclosure package so that a reader would get a comprehensive picture of the cost. With that being said, I have to admit that I still have one foot in the "let's do recognition and measurement before disclosure" camp. However, every time I talk with staff about it, I am convinced of the wisdom of doing the risk disclosure first. I think we could consider cost disclosures and some of them would be costs that aren't recognized within the component reporting entity itself and they could come earlier rather than later.

MR. STEINBERG: Somewhere within one or at the end of one. I just don't want it forgotten.

Ms. Payne: It could be somewhere in one, probably near the end.

MR. SAVINI: Mr. Steinberg, I don't want to get too technical, but I think your concern is covered by Practice Issues 1 and 9 on pages 29 and 39, respectively. Issue 1 deals with balance sheet valuation and Issue 9 deals with a similar concept of asset capitalization. So, the issue of cost has been identified at least in two different accounting policy issues.

MR. STEINBERG: There is no mention of services or tax-exemptions in either of those.

MR. SAVINI: It might be true with tax-exemptions, however if you think about the value for money concept we spoke about earlier, if the Board agrees that we can proceed with giving some type of guidance regarding what costs should be included in that analysis, I think that's another very good way to address costs.

Now, moving right along to Question 2, staff advises the Board to consider issuing separate guidance mostly in the form of amendments regarding the potential accounting gaps identified on pages 29 through 47. Does the Board agree with staff's recommendation? If not, what changes would the Board advise being made?

Mr. Reger: Do you know yet what those gaps are or are you just saying you believe there are gaps?

MR. SAVINI: I believe these 17 accounting practice issues are the gaps. Please note that after identifying these gaps, I went through our FASAB guidance twice to see if coverage existed. Now, if you don't think these are issues we should be concerned with, that's fine, just let me know. However, these are being vetted through our task force and if anyone on the task force, especially from a federal agency says that they've got guidance on a particular issue I’ve identified, then I’ll know that we might not have a problem.

Mr. Reger: Okay, but what about going the other way, can we say that you don’t think that you’ll find more gaps as you go through this process?

MR. SAVINI: No, but by and large these accounting issues I’ve identified have been assembled again from a lot of the European experience plus my fact-finding meetings. I think it's a great basis to start from.

Mr. Reger: My issue was do you really want to be issuing guidance until you end that phase of the project? Because you've got this many, it seems like if there's an opportunity to solve problems it would be good to solve the problems.

MR. ALLEN: Are you saying you would actually complete one before we go to two? Because when we start talking of modifying accounting gaps, then we are into recognition of the financial statements.

MR. SAVINI: Yes, I think that's fair, but what I'm suggesting is since we do have a robust set of guidance, should any of these 17 accounting policy issues require us to make changes, we can just amend those existing standards or we can issue a separate and distinct P3 accounting standard. That’s my question.

MR. ALLEN: That I think is best answered later as we make more progress.

MR. SAVINI: Okay, so we can defer this question. Therefore, it also looks like we can defer Question 3, which is basically issuing technical bulletins on some of those elements described on pages 10 and 11. Would you want to defer that as well?

MR. GRANOF: I don't see how we can answer it now.

MR. SAVINI: Okay. Mr. Steinberg, did you have anything you wanted to say about technical bulletins?

MR. STEINBERG: No. I think the conversation is going in the correct direction.

MR. SAVINI: We can also skip our last question, Question 4 that deals with the P3 centric characteristics/criteria identified on page 49 because the Board has already provided staff input on these I know how to proceed.

MR. ALLEN: The answer is probably yes once we can flow through your charts better.

MR. SAVINI: Yes. This concludes my session. At any time please let staff know if you have any comments, advice, thoughts, or objections to where we're headed.

MR. ALLEN: Well, I want you to thank your task force- their input is really helpful and will be more so once we move from the theory stage.

MR. SAVINI: Yes. I want to thank 2 people who are on the task force that are here today actually. Ann Davis, thank you for all your help and Larry Checco; one of our citizen advocates, thank you.

MR. ALLEN: All right, thank you all.

- **Technical Agenda**

Ms. Payne began the discussion by noting that her memo gives some background on the prior discussion of a congressional liaison function. The discussion was in response to a suggestion in response to our three-year plan that FASAB ought to have a standing liaison relationship. At the last meeting, two objectives stood out from the draft list—their short names are “Agenda Setting” and “User Needs.” She also referred to the cautions regarding conforming to the requirements of the Federal Advisory Committee Act provided by Ms. Hamilton. She asked members if they are comfortable with pursuing these two objectives for our congressional liaison effort.

Mr. Reger asked counsel if we can obtain the views of the Legislative Branch as long as we don't single them out as an individual representative entity. She responded yes. He then asked how you do that since we don't meet with every individual group. Rather, we rely on groups to come to us.

Mr. Sebastian agreed.

Ms. Hamilton indicated that as long as you are meeting with various groups to find out their user needs, there should not be a problem. She then asked if there was already outreach and this recommendation to have a liaison role was to fill a gap.

Ms. Payne noted that presently we treat the Legislative Branch, Congress, the same way we treat everyone. That is - we invite people to be on task forces and we attempt to go to all groups. Where we have identified a specific congressional interest we engage their staff on a task force. Establishing an ongoing liaison is a little bit different than our present outreach which is on specific projects at specific times and this would be the only standing liaison.

Ms. Hamilton asked when we communicate to the other groups we do that through our website where we post what our agenda items are, and we wait for people to come to us. Is that the standard?

Ms. Payne said yes. If people have participated with us in the past, we may make an extra effort to be sure they receive exposure drafts.

Mr. Allen thought the recommendation was based on the notion that this is a key group for which you've developed standards, that you probably have very little interaction with and for whom a more formal or consistent liaison would be helpful.

Mr. Showalter expressed that the objective for outreach is the same, but you may have to go out to some groups differently.

On the question of undue influence, Ms. Hamilton thought as long as we have open communications consistently among user groups it is not a problem to take a different vehicle in order to get that communication. The key is you're not tying it to say in the CFO community to just do the Department of Defense CFO and not sharing it among all the CFO community, same thing with Congress. If you're only going to two committees, even though they might be the ones that use our information the most, I don't see a problem with a vehicle, a different way to get there to get the communication.

Ms. Hamilton further clarified the issue with FACA is when the Board -- compared to staff - is representing itself to various user communities, it must be done in the open in the public so that the community at large knows and can understand why you're doing what you're doing and your actions.

Mr. Allen asked about outreach to the CPA caucus - a caucus now of people who are CPAs, both political parties. They would be sort of a natural liaison for us. He asked if that is a problem.

Ms. Hamilton suggested it could be handled at a higher level. So when you go to the CFO community, you go to the CFO community broadly. Everybody is invited. And then the CFO community might have a CFO council, and they may just select a few handful of people. Same thing that you could send the broad request to the House and Senate leaders or the officers, and then liaison with the caucus.

Mr. Allen noted the value of having financial statements is they are useful. You know, they're useful to you from a management tool. They're useful to you from a communications tool. While getting feedback, we could also gain recognition of the value of GAAP and the financial reports. Ultimately, the increased awareness could lead to greater engagement, including potential testimony on proposals.

Mr. Sebastian offered, that while not a standing member of the Board, he did have a conversation with Mr. Dacey about the concerns he raised during the April meeting. He cautioned that some may want to unduly influence the direction of this organization and where it's going with respect to the reporting entity. So you have to make it very clear, you know, the autonomy that you have, and that at the end of the day you are the standard setter.

Mr. Reger expressed the view that any time any constituent asks us about something, we have some degree of obligation to respond. So if a congressman, any congressman, would come to us and say I understand FASB is dealing with entity, and I'd like to know more about that, there's nothing wrong at all then with us responding to that inquiry, right? Ms. Hamilton agreed that we presently do that.

Mr. Dong asked if this goes back to the issue of user needs in terms of what we're doing now and why it may not be resonating as much as we would expect and having the conversation in terms of what information at the end of the day is most helpful to them.

Mr. Allen noted that the AGA recommendation seemed to be based on the notion that Congress is a key user and FASAB ought to have a liaison relationship.

Mr. Dong acknowledged the value in that and thought the mechanics of doing so needed to be identified. He asked what we've done in the past and how well it worked.

Ms. Payne noted that, in contrast to the AGA letter, she did not recall that staff has ever been unable to arrange a meeting with a specific staffer to discuss their needs. She also noted the active participation of Hill staff on the reporting model task forces. She noted we could do more user needs outreach as a natural part of the process. Out of this conversation, she was sensing a desire for a more rigorous and formal outreach on matters other than project specific questions. I think staff has a handle on project specific, to be quite candid. So I would be looking to get out of this meeting what's the goal of the more formalized and routine outreach and how do you differentiate that from project specific outreach.

Mr. Granof expressed that he's always a little bit skeptical of asking people what information do you want or what information do you need. If Thomas Edison asked what people wanted, we would have had bigger candles today. So he thought you've got to structure the question and give them ideas. That's not to say that this type of outreach is not important. It's very important, but you have to structure the interviews very carefully.

Mr. Allen said we should consider formal liaison because we were asked by an important constituent group to consider it. It wouldn't be a poor outcome at all if we left this saying we do have an outreach as Ms. Payne just said, and we can improve, and we will focus more on trying to ensure that we have at least some congressional staffers on our task forces. The creation of the CPA caucus does give us a more natural liaison contact. If it's legal to use it, and if we choose to use it, we may find a group that does care about what we do and provide feedback.

Mr. Showalter thought we probably should because financial statements get issued and they're making comments like they don't know the statements exist. The outcome may be they make demands but also that they get more informed about what we do to help them. On objective two, he asked why we're restricting user needs to their constituents. Because they make a lot of decisions on a day-to-day basis, which the information -- should help inform them. So I didn't know why on objective two, we restricted it to their communicating with constituents. In terms on helping them, Mr. Allen noted that was the purpose of his white paper idea.

Mr. Reger said, focusing on both things you said, which is let's do it in a careful way that informs them what this Board is and how this Board works and maybe what this Board's objectives are. Not necessarily asking them what our objectives are to be, but telling them how we annually go through that cycle, and suggesting to them that if they want to have input, this is the way to do it. Not going up and sitting in front of them and saying what would you like me to do. 'Cause I think we may get that answer. And pointing out to them the documents that are generated by Treasury as a result of your work and, you know, why that's a value to them. But it's just the tone, the nature of the communication is pretty important it would seem to me.

Mr. Dong asked is it at the Board level or is it at the staff level.

Mr. Reger noted that Ms. Hamilton said it should be limited to one Board member but we're all pretty adamant about if any of us go speak somewhere, we don't speak for the Board. So, he thought staff should do any outreach. If there's a call or need then, he'd turn to the legislative branch member – Mr. Dacey – since GAO is the arm of Congress.

Mr. Allen agreed.

Some noted that Congress receives copies of the annual report. Mr. Allen noted that a one page product would be helpful for our purposes. He also thought you could write a very short six or eight-page white paper that would say there are important messages in the CFR (financial statements) and here are some of the key measures to help you in your legislative and oversight role and to more clearly communicate the financial condition of the federal government to our constituents. It could also emphasize our annual agenda setting process and our outreach for participants on our focus groups and task forces.

Mr. Granof expressed that the CFR should be provided to many more people than it is now. Mr. Reger responded that it is sent to many people now, but he agreed more outreach could be done at the right time.

After a brief discussion of the MD&A, sustainability information and length of the report, Mr. Reger raised the point that there is an ever growing number of economists both inside and outside the administration that have said in the past two years that the report paints a very one-sided view. They are missing the obligation to paint both views, and -- may need to try to do a little more of that in the future.

Ms. Payne summarized that there was consensus that outreach is at the staff level. The two objectives are good with the addition of congressional user needs being addressed. The methods preferred seem to be approaching to the CPA caucus and also considering holding an annual or semi-annual briefing for Hill staff. Also, a white paper would be developed for the briefings.

Mr. Allen noted the white paper might substitute for the briefing if Hill staff are too busy.

In response to a member question about the briefings, Ms. Payne noted that the best way to gain attendance was to make the topic something they can use in their day-to-day work.  She would do some outreach to find out what they most need to learn about in the financial reporting arena – that is, the fundamentals of where they can get information about the agencies they oversee. She would begin by consulting with folks who have worked on the Hill. She would also contact organizations that routinely provide education on the Hill.

Mr. Dong asked if this would be a general approach to everyone or targeted. Ms. Hamilton noted that this distinction – for FACA purposes would not matter because staff would be doing the outreach rather than Board members.

Ms. Payne noted that the materials include a table showing expected completion dates for current projects as well as information about the projects ranked highly by the Board at its April meeting. She explained that some projects had been combined to allow an integrated approach. She asked whether members were comfortable with the combinations and if there were any questions about the purpose and objectives of each of the four projects being considered for ranking.

In response to questions, Ms. Payne explained that the projects receiving five votes remained on the list from April and were presented in order of the number of votes they received in the April ranking.

Mr. Sebastian asked about the rationale for combining the linking cost and performance with managerial cost accounting.  Ms. Payne noted that some of the members have commented about managerial cost accounting since it is an internal user focused – what is a GAAP standards-setting body to do. That is, what's our stake in managerial cost accounting?  We have, because of the CFO Act emphasis on internal information, always considered that we have a stake in internal information.  Further, you can't necessarily get the desired linking of cost to performance necessary to meet the reporting objectives without having that good internal managerial cost system.  She noted the topics seemed joined and then you have the natural question of which goes first.  Do we have external reporting requirements to drive better managerial cost accounting?  Or do we let managerial cost accounting evolve on its own and eventually we get better external reporting as a result?  She indicated that she thought we had to look at them at least conceptually together but that doesn't necessarily mean we end up producing an accounting standard, for example requiring certain internal reports.

Mr. Reger noted that defining how you determine cost and the standards around cost would allow someone to generate their internal reports in a consistent manner.

Ms. Payne agreed.

Mr. Allen asked if we would look at the criticism heard that current standards are really not definitive enough to ensure that you'll ever get consistent information. It's a broad standard that needs to be more narrowly focused or more consistently applied. And so he asked wouldn't we be looking at the current standard four that we have on cost accounting through this project.

Ms. Payne agreed that could be an outcome of it. The first stage in every project is basic research to figure out what the gap is that you're trying to fill.

In response to a question about prior research, Ms. Payne noted a 2010 survey of agencies. Staff's recommendation based on the results of the survey was to provide better tools for agencies and that FASAB could provide some guides or best practice guides. There's a huge knowledge base out there that hasn't necessarily been translated well for government.

Ms. Payne explained the first phase of the combined project would help define where you go with it. It would be would be a study of the as is state, asking how internal needs are being met. Questions such as: To what degree are needs met? Is good information available internally? What are the skill sets that are lacking perhaps on both sides, the non-accounting and the accounting side of the equation? And then some recommendations for how to improve on that. And all of that drives also to linking cost to performance, and dovetails with the reporting model. Because the big void in the reporting model is really integrating cost information with performance and budget.

Mr. Reger opined that this is a pretty huge project, and one which he strongly supports. It's the missing link in what we are doing from an accounting standpoint, and we've had multiple starts and fits with it, but we need to figure out something that we can accomplish that's going to have value in how it links.

Moving to other projects, Mr. Showalter asked about the budget reconciliation, he thought the discussion wasn't as much about the reconciliation; but rather about what the budget presentation should be.

Ms. Payne said the question of "what should the budget presentation be" is in the reporting model project. The new one would respond to the AGA study recommendations that we'd better support the basic financial statement in the CFR, which reconciles the outlays, by changing the agency level disclosure requirement from one that reconciles to obligations to one that reconciles with outlays.

Mr. Reger explained that Treasury does three of the statements that it does from the agencies' information; just as the agencies do their statements and have them audited. They submit information around those three statements, and we collect those and rely on the agencies’ opinions.  The other two we do from transactions we know, cash-in, cash-out.  The ability to then reconcile our cash-in and cash-out with agencies budgetary records just doesn't exist despite our best efforts.  AGA did a study and suggested a way of doing it, which was to require the agencies to include in the closing package their budget reconciliations and try compiling from that, and then reconciling that to our actual cash-in, cash-out. But that means our cash-in and cash-out we'd have to reconcile all year with the agencies.  There technically is a mechanism in place that ought to be accomplishing this, but because  Treasury Account Symbols, which  is being accounted for on the budget side and not included in the budget statement side. So a group of people at Treasury a couple of years ago came up with GTAS project. One of the  goals of GTAS project was to reconcile TAS’s and make sure that budgetary and financial reporting coming out of an agency are  equal.   For the past couple of years they've been moving towards a trial balance filing system from the agencies that requires an agency to reconcile their accrual and their budgetary accounts.  Currently the problem really is that the information coming out  is significantly different than the same filings from those same agencies under their regular monthly reporting requirements.  So, again, they're not following the same information.?  So reconciliations from  this area are a plague at this point.  And while we've got these two possible ways of doing this going forward, we really don't know which one comes closer and which one is going to let us get closer.  But clearly when we are  done, we're going to need this Board to do something to fix an accounting standard related to how we're reporting that.  We just are not close enough yet.  It isn't quite clear yet why budgetary reporting isn't matching what should in fact be the same budgetary reporting to Treasury.  There's many of us, and I'm amongst them , who believe it's this TAS issues; that agencies are taking in receipts and disbursements, but they don't believe they need to report for a certain group of accounts, and so they aren't.

Mr. Sebastian asked if this is something that we need to continue to pursue; i.e., Treasury, OMB, GAO, as part of the consolidated audit effort and defer this until we can come up with some answers?

Mr. Reger had two views—one is I think we're all doing a lot to try to figure out what's broke and fix it, and it's in all of our best interests to fix it.  I don't know what we'd advise you guys.  The AGA offered to do that study, and they pulled in the five partners from the largest accounting firms, and in their own mind did the study to help reconcile this, and made some recommendations.  So that's a pretty powerful group of people to do a research project for -- against the topic.  We have a lot going on.  I wouldn't know what to even suggest FASB look at except to look over all the stuff that exists and one more time do the same thing.  That seems kind of duplicative until we know the answers.  I don't know about defer, but I just think it's a little premature to say we need to do something on that right now.  But I would say that in the next, certainly next two years that we're going to know something, and then need to ask for some help.  Or tell you we fixed the problem.

Mr. Reger followed up on tax  revenues as well. One of our huge reconciliation issues remains the IRS collection of taxes and the distribution of those taxes, and the determination whether material amounts of receipts that come in around year end are revenue, refunds, or how do you translate them into where they should be recorded? Currently there is a rather extensive forecasting system that predicts what that number should be, and they're recorded based on those predictions as opposed to having ever been able to collect sufficient accurate data to allocate those funds. There are also two projects underway to try to resolve that issue. I guess three, but I'll try to do this concisely. One is the IRS is now collecting a lot more data because they're getting a lot more electronically. That helps tremendously. Two, staff took an experimental project this past year and made great progress towards reconciling some things. It may work but needs to be on a larger scale. And our current goals of creating the general fund accounting model seem to impact this project as well. So there are three things going on there, which may affect that one that would have some effect. Because there's a lot of data being gathered currently that would inform the Board, you may wish to defer a standards solution.

Mr. Granof noted that he thought that the tax expenditures dealt with issues of taxes that were not collected due to special credits that were given.

Mr. Reger said they encompass a lot of things including refunds.

Mr. Allen acknowledged that as described, that project is not just tax expenditures; it's also revenue reporting.

Mr. Steinberg explained that the reason we have tax expenditures is the government wants to encourage something like housing or education, and can't get the votes from Congress for a cash benefit so they do it through the Tax Code. And tax expenditures are much more on the expenditure side of the spectrum than on the revenue side of the spectrum. You may say they're foregone revenue, but in determining the parameters of tax expenditures you would look at them as expenditures. He would therefore not combine the project with revenues.

Members commented on the difficulty of defining tax expenditures. Some noted they are presently reported in Analytical Perspectives (a volume of the President's Budget).

Some asked whether they were expenditures or contra-revenues.

Mr. Allen noted that the decision of whether you gross it out of revenues and then you reduce it down, it just seems like there's a lot of discussion that has to do with the value of presentation and understandability that tells us we at least ought to tentatively start with both of those. While Mr. Steinberg had a point, one ought to at least consider beginning with the broader picture than that. Several members agreed.

Mr. Allen said there may still be questions but Mr. Dong has another meeting. He suggested that before he leaves he share his prioritization of projects.

Mr. Dong referred back to the table on page 8, managerial cost accounting was priority for many and he would put it at the top of the list. With regard to combining it with linking cost to performance, he worried that we may create a complexity around the initiative so that it potentially collapses under its own weight. He suggested approaching managerial cost accounting in its simpler form and perhaps the linking portion is a later phase – so he ranked that second. His third was reconciling budget to accrual information.

Other members were then asked for their priorities from the combined list Ms. Payne provided (that is, managerial cost and linking cost to performance, tax expenditures and revenue, reconciling budget to accrual, and economic condition).

Mr. Granof said he looked for projects that have a major impact on reporting. His first is linking cost and performance. Second is tax expenditures. Third is electronic reporting. He noted the only way we will make progress is to take it on as a project.

Mr. McCall's first priority is linking cost performance and managerial cost accounting, second is financial/economic condition reporting, third is tax expenditures, and fourth is reconciling budget and accrual.

Mr. Steinberg's first priority is tax expenditures without the revenue portion, second is linking cost to performance and managerial accounting, third is economic condition. He thought reconciling budget and accrual would be part of the reporting model. Really, except for tax expenditures, all could be part of the reporting model.

Mr. Allen agreed with Mr. Steinberg's view that they are part of the reporting model. But he noted we are at phase of looking at what would an ideal model be, and clearly it would include both of those. But it will be years before you take on all the pieces of the reporting model project. So if those aren't addressed as separate projects, he felt certain they would not be addressed for 10 -15 years.

Mr. Steinberg disagreed that it would take that many years.

Mr. Reger noted that from this list Mr. Steinberg's priority would only be tax expenditures and Mr. Steinberg agreed.

Mr. Reger's first priority is reconciling the budget and accrual but, as noted earlier, he wasn't sure what to do on it. So linking cost to performance and managerial cost accounting and tax expenditures were his priorities.

Mr. Allen's priorities are tax expenditures, linking cost to performance and managerial cost accounting, and reconciling budget and accrual, and economic condition – in that order.

Mr. Sebastian's first priority is linking cost and performance and managerial cost accounting. Second is internal use software. Third is reconciling budget and accrual.

Mr. Smith's priorities are linking cost to performance and managerial cost accounting, tax expenditures, and reconciling budget and accrual – in that order.

Mr. Showalter agreed with Mr. Granof that the focus should be on the biggest impact to reporting for the broader audience of users. His priorities are linking cost to performance and managerial cost accounting (in a phased approach), tax expenditures (focusing on the expenditure side), economic condition, and reconciling budget and accrual – in that order.

Mr. Allen noted that linking cost to performance and managerial cost was clearly first.

Ms. Payne noted that a contract for a study was in the works. She hoped the study would be available by the end of the calendar year. On tax expenditures, if one focused primarily on reporting expenditures as RSI, it might be done quickly with the aid of experts.

Mr. Steinberg noted that in considering a revenue project that, for reasons expressed previously, do not encompass tax expenditures, 90% of revenue is income taxes and the systems do not support more detailed reporting – for example, the break down between income taxes and payroll taxes is not known when deposits are made. The Paperwork Reduction Act (which eliminated the requirement that employers file a form 941) prevents the government from collecting information needed to identify deposits between the two types of taxes.

In response to a question about other types of taxes, Mr. Sebastian explained that some taxes are deposited as "excise taxes" but you would not know within excise taxes which were for highways and which for airlines. However, this is not part of the paperwork reduction problem. On excise taxes when those receipts are initially coming in, all you know is it's an excise tax. Months later, when the companies file a quarterly 720 tax return, you do know which type of excise tax it was.

Mr. Steinberg pointed out in the Social Security statements there's a footnote that says there is -- a billion dollars of Social Security collection they have that they have no idea who they're attributing to.

Mr. Reger further noted the timing problems. Treasury records all the receipts as of September 30th. The end of the calendar year is December 31st and companies send out the W-2s with all the information early the next year. But Treasury has had the receipts since September, issued statements in the interim. So Treasury has to do it currently - so they do an economic analysis based on, okay, if I got this amount, history would suggest the following amount.

Members noted the impossibility of improved reporting given these circumstances and systems.

Mr. Allen said he would almost take the opposite tact - set the standard and let there be a qualified opinion until it is fixed. Mr. Steinberg noted that was the approach in the '90's.

Mr. Reger said DoD was an example of that approach and it has not worked.

In response to Mr. Allen's questions about next steps, Ms. Payne noted that rankings would be reflected in the annual report and that work on the first new project may begin early next year. She explained that a group of volunteers would be working on a proposal regarding internal use software in the interim.

Mr. McCall expressed concern that when he looks at the financial statements for the federal government, the balance sheet shows $206 billion of cash, total assets $2.7 trillion in property, $11 trillion of federal debt securities due to the public, $6 trillion federal employee, veteran benefits payable, and we've got $4.9 trillion still on the balance sheet. The use of dedicated collections for current operations or and the use of current operating collections to fund dedicated obligations was not highlighted. As we're using cash we're collecting to fund things that we don't have the money to fund.

Mr. Allen: pointed out that you can also go to the statements that show our earmarked funds. That's an attempt to break that out on an annual basis. And I think last year's financial statement shows that you show the collections from, you know, dedicated collections, and those that aren't, and then you show internal borrowing. And last year that was about a half -- about 500 billion dollars or half a trillion dollars. He thought a clearer note would help.

Mr. McCall said they make it simple at the state or local government level--if you have a pension fund you have money set aside to pay for those pensions when it comes due. Here we've got $6 trillion as a liability and a couple hundred billion dollars in cash. Where is that, where is that money that's collected from the federal employees?

Mr. Allen responded that the statements show what has been spent. It shows there's about four and a half trillion dollars of money collected for one purpose and then used for another. And so it's been internal borrowing.

Mr. Reger added it also depends on where we are in the debt cycle. We're into extraordinary measures now too, and so when you go into extraordinary measures the law provides for us to borrow from those employee funds until the debt ceiling is raised. And so it just depends on where we were at the close, specifically what you would see. Everything is tracked, and we know exactly how much we -- for instance the federal employees pensions are invested in Treasury securities. It's actually a letter they reissue from Treasury that says here's your investment. But under times of debt crisis, the law provides for us to borrow those funds for cash operations. So it just depends on where you are, a little bit about where you are in the cycle how it shows up on the statements.

Mr. Allen noted that, for the debt ceiling, internal borrowings actually count. So, when you look at Social Security and their financial statements, they actually show a receivable for that number and assume that they're going to collect that back. Now I'm not sure they are, but they -- that's the assumption in Social Security's financial statements.

Mr. Reger explained that certificates the Treasury issues to Social Security and OPM are full faith and credit of the federal government. They're both recorded on there as obligations of the federal government payments to those organizations, and as debt.

Mr. McCall asked how many people know that the money the State paid into Social Security or the retirement systems has been borrowed and spent?

Mr. Reger said that tends to be more of an issue from the local employees groups. And unlike your state and local government that they contributed put away here somewhere, because that's borrowed too. So far every time Congress has fixed a debt crisis so far they have refunded it plus the interest. So as long as they continue to do that, people are not concerned.

Members briefly discussed the concept of unified budget deficit and the activity at the state/local level.

Mr. Allen thanked members for their input and the Board meeting adjourned at 3:00.

- **Steering Committee Meeting**

The Steering Committee discussed the budget and options for returning staff to its FY2011 number of staff. Tentative approval for an additional staff position was provided and Ms. Payne will explore options.

**Adjournment**

The Board meeting adjourned at 4:00 PM.