

**FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD**  
**March 5-6, 2014**  
**Room 7C13**  
**441 G Street NW**  
**Washington, DC 20548**

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***Wednesday, March 5, 2014***

**Administrative Matters**

- **Attendance**

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

- **Approval of Minutes**

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

- **Joint Meeting w/ GASB - Lease Accounting**

Mr. Allen thanked and welcomed the GASB members and staff for joining FASAB to discuss their tentative decisions on revisions to the lease accounting standards. GASB and FASAB members and staff introduced themselves.

### **Lessor Model**

GASB staff member Ms. Beams led the discussion on the lessor model. Ms. Beams stated that GASB has been discussing the recognition and measurement of the lessee model over the last several months and is now ready to begin discussions on the lessor model. Today's discussion is to identify some of the lessor accounting issues governmental entities may have to address.

The two questions GASB staff posed to the Boards were:

#### **Lessor Question 1: Should a new model for lessor accounting be considered?**

The GASB project staff recommends that the Board consider a new model for lessor accounting.

#### **Lessor Question 2: Should the notion of having symmetry between lessee and lessor accounting be a key factor in development of a lessor accounting model?**

The GASB project staff recommends that symmetry between lessee and lessor accounting should be a key factor in development of a lessor accounting model.

Mr. Allen asked the GASB if their lease task force brought up the issue of intragovernmental leasing. Ms. Beams noted that the issue was discussed, but not identified as a significant issue. Ms. Sylvis stated that some lessor issues relate to symmetry, but not a lot associated with intragovernmental. Mr. Bean added that the amount of intragovernmental leasing activities varies state-by-state. Mr. Reger stated that intragovernmental eliminations are a large issue in the federal governmentwide reporting; therefore this issue must be addressed by FASAB.

Mr. Brown added that GASB has a unique component unit concept and presentation that distinguishes between discreet component units and blended component units. So we have an issue there that is going to have to be resolved. Because of this component unit reporting, intragovernmental leases will need to be addressed by GASB. Another lessor issue relates to who is financing the leased asset – is it the lessor or is it a third-party.

Mr. Steinberg added that in order to have transparency, both sides of an intragovernmental lease transaction must be shown. Mr. Allen stressed that the issue of lessee/lessor symmetry will be very important in the federal environment.

Mr. Granof noted that symmetry will be difficult to achieve, but we should begin with the goal of attaining symmetry. Several members agreed with Mr. Granof's statement.

Mr. Dacey noted that FASAB will need to consider whether intragovernmental leases should be treated differently than non-intragovernmental leases – possibly as a different model. Several members gave examples of leasing activities between the federal government and state & local governments.

Mr. Bean noted that one of the GASB lease task force members suggested the possible use of capitalization thresholds for leased assets. Mr. Dacey added that materiality will be an issue for intragovernmental leases because both the lessee and the lessor would need to recognize the activities.

Mr. Granof stated that another challenge to symmetry is the concept of residual value to be recognized by the lessor which may be difficult to explain and apply. Mr. Bean noted the concept of a mixed attribute model where the lessor would reduce the tangible leased asset for the value transferred to the lessee and recognize a receivable for the payments expected. In most cases the receivable will be greater, so the question is what is the appropriate credit. Mr. Granof asked the question, what value should be given to the portion of the leased asset that is leased to the lessee. Also, what happens at the end of the lease term when the asset is returned – how does the lessor recognize the returned value.

Mr. Vaudt called for a vote by the GASB members on the two lessor questions. All GASB members agreed with the staff recommendations.

### **Lessee Model**

Ms. Valentine began the lessee discussion by noting that prior to the meeting, staff surveyed the FASAB members on their general thoughts on the GASB tentative decisions on the lessee model. Staff used the results of the survey to identify those topics where the members had more questions or there was not general agreement. Staff identified seven questions for the Boards to discuss. Ms. Valentine asked the GASB members and staff to interject to provide FASAB context to the GASB tentative decisions.

### **Lessee Question 1: Should the presence of fiscal funding clauses, termination for cause clauses, and other cancellation clauses specific to the federal environment cause a lease to be considered cancellable?**

Mr. Showalter asked the GASB, other than the fiscal funding clauses, how did they view the other cancellation clauses (e.g., termination for cause clauses). Ms. Beams stated that the probability of the clause being exercised would be assessed.

Ms. Payne asked the FASAB members if the fact that GSA occupancy agreements may not include renewal options was an issue for consideration. Mr. Allen asked if the lack of

renewal options had anything to do with budget implications. Mr. Dacey noted that the FASAB will have to address the question of whether the accounting for leases should stay consistent with the budget scoring rules, especially for intragovernmental leases.

Ms. Payne shared that staff has met with Congressional staffers to talk about the lease project. There is a lot of interest in the budget scoring rules for leases. She reiterated that the accounting standards do not drive the budget scoring rules. Mr. Reger added that marrying the lease accounting rules and the budget scoring rules would be helpful as it relates to the reconciliation problems. At a minimum, there should be an explanation of the differences between the budget and accounting.

Mr. Bean asked about the issue of the front-loaded expense recognition associated with straight-line amortization. Mr. Granof noted that the alternative would be to use an increasing charge amortization method.

Mr. Allen stated that although both are important, accounting and budget are different, have different messages and different users. Ms. Hamilton noted that if synchronizing the budget and accounting lease rules is a goal, keep in mind that the budget rules are subject to the principles of appropriation law. Mr. McCall added that there are cases where the budget scoring rules force leases to be more costly.

**Lessee Question 2: Is the FASAB definition of “probable” adequate in the context of assessing the likelihood of a renewal option being exercised?**

Ms. Valentine added that the threshold of likelihood is higher with the GASB definition of probable than the FASAB definition. Ms. Beams noted that the FASB/IASB proposal uses “significant economic incentive” to assess the likelihood of a renewal option being exercised. Mr. Bean added that the GASB definition of probable is closer to the FASB/IASB proposal of “significant economic incentive.”

None of the FASAB members advocated changing the definition of probable to be a higher threshold as it relates to assessing the likelihood of a renewal option being exercised.

**Lessee Question 3: What additional factors would trigger a reassessment of the lease term?**

Mr. Dacey asked what would the lessee be expected to do to evaluate the relevant factors affecting the lease term. Mr. Allen added that, like the asset impairment standard, there would need to be some language to emphasize that the reevaluation would be done more as a routine process and not a process of searching for factors affecting the lease term.

Mr. Dacey noted that the requirement to reevaluate the factors could cause some auditor issues as it relates to determining if the proper procedures have been applied.

Mr. Showalter suggested the intragovernmental leases not be subject to the reevaluation, primarily because the reevaluations will probably not be material.

**Lessee Question 4a: What is the objective of having a short-term exception? Is it to provide cost relief to entities by allowing more simplified accounting (i.e., not required to recognize assets and liabilities) for those leases that meet the definition of short-term?**

Mr. Bean noted that GASB's objective for proposing the short-term exception was for cost benefit purposes. Ms. Payne asked GASB if there was any feedback from their constituents on the cost factors associated with moving from the current dual-model approach to a single-model approach. Ms. Beams noted that they have said it will be easier because you do not have to go through the process of determining capital vs. operating leases.

Mr. Brown noted that GASB may have to discuss related-party leasing issues because of the incentives associated with those transactions. Mr. Allen directed staff to be sure FASAB addresses the concerns associated with capturing the economic substance of intragovernmental leases.

**Lessee Question 4b: Should the short-term exception be based on a certain period of time (e.g., 12 months or 24 months, etc.)?**

Ms. Taylor noted that GASB has separated the capitalization of a tangible PP&E asset from a right-to-use intangible asset not being capitalized in order to discuss them as two very different assets. Mr. Granof stated that there are benefits to marrying the leased asset to the PP&E asset, such as applying the impairment standards.

Mr. Bean noted that some task force members advocated a 2-5 year short-term exception for leases. Mr. Allen stated that the FASAB will first have to be able to view the leased asset as a right-to-use asset and not another PP&E asset. Ms. Payne noted that the reason PP&E was defined as a tangible asset with an estimated useful life of 2 years or more was for cost benefit purposes. Mr. Smith added that FASAB has to look at the short-term exception period in conjunction with the lower threshold associated with the probability of a renewal option.

**Lessee Question 5: Which discount rate should be used to calculate the liability?**

Ms. Valentine noted that the current guidance related to calculating the lease liability is outlined in SFFAS 5 par. 45: "The discount rate to be used in determining the present value of the minimum lease payments ordinarily would be the lessee's incremental borrowing rate unless (1) it is practicable for the lessee to learn the implicit rate computed by the lessor and (2) the implicit rate computed by the lessor is less than the lessee's incremental borrowing rate. If both these conditions are met, the lessee shall use the implicit rate. The lessee's incremental borrowing rate shall be the Treasury borrowing rate for securities of similar maturity to the term of the lease." In response to a question about how this approach was selected, Ms. Payne responded that this

language is consistent with the FASB lease standards in effect when FASAB developed its standards.

Mr. Allen stated that it seems impossible that the federal government's incremental borrowing rate would ever be greater than the lessor's implicit rate. Mr. Dacey suggested determining the cost differential between the cost of borrowing at the government's incremental rate vs. a vendor's implicit rate to lease. This cost differential would highlight the cost of leasing when purchasing is an option.

#### **Lessee Question 6: When should the discount rate be reassessed?**

Mr. Allen expressed caution as it relates to reassessing the discount rate, because rates change frequently and the goal is not to burden the preparer. Ms. Beams explained that unless one of the factors changes, the discount rate would not change from the rate at the commencement of the lease term even if there is a change in the rate. Mr. Bean emphasized the point that the results of a change in certain factors may be significant to the present value calculation. Ms. Taylor asked why would the federal government use its incremental rate to calculate the present value calculation when the lessor implicit rate would most always be higher and not recognize the economic reality of the transaction.

Mr. Dacey pointed out that with credit reform the discount rate differential is recognized at the time the loan is made. Mr. Reger noted that it is a conscious recognition that the federal government is accepting a higher interest rate to lease. The question is, should the loss be recognized upfront or over the life of the lease.

#### **Lessee Question 7: Is there a need to clarify or simplify the process of allocating multiple components of the lease?**

Ms. Beams described a flowchart that GASB staff prepared to help explain the proposed steps to identifying/allocating components of a lease contract (i.e., a service with the right to use the asset or a right to use more than one asset). Mr. Allen asked at what level would an entity be required to breakdown the components of a lease contract – what about ancillary costs.

Mr. Showalter added that "reasonable price" seems subjective because prices are almost always lower when services or products are bundled – it is an incentive to be cost effective to purchase.

Mr. Vaudt stated that this allocation consideration has to do with being sure the components were reasonably priced and not disproportionately applied. Ms. Beams added that the FASB/IASB proposal is slightly different. Mr. Brown noted that FASB's revenue recognition standard is also driving the componentization requirements in the lease standard.

Ms. Valentine asked the members if there were any other questions or comments on any of the other GASB tentative decisions. Mr. Steinberg asked GASB why they chose to use “contract” vs. “agreement” in the definition of lease. Ms. Beams noted that one reason was to stay consistent with the FASB/IASB proposal; the other reason was that a contract is more legally enforceable.

Ms. Hamilton stated that the four elements of a contract are – intent to be legally binding, offer, acceptance, and consideration. She also noted that staff believes “contract” will be appropriate in the federal environment as well. Mr. Steinberg asked about occupancy agreements. Ms. Hamilton noted that the title of the document should not affect its recognition, substance over form should prevail.

Mr. Steinberg added that there may be some confusion that we may have to take the extra steps to clarify. Ms. Hamilton noted that GSA occupancy agreements should have all of the elements of a contract. There may also be some consideration in those no-cost agreements. Mr. Dacey stressed that the point should not be complicated by defining the contract elements which could lead to more confusion. The FASB/IASB proposed definition of contract seemed to get at the substance. Mr. Steinberg added that GSA believes that because occupancy agreements have cancellation clauses they are not legally binding between GSA and federal entities.

Mr. Bean informed the FASAB that because of the delays in the issuance of the final FASB/IASB lease standard, GASB may issue a preliminary views document prior to an exposure draft because GASB does not want to get ahead of the FASB project. Mr. Allen noted that FASAB could learn a lot from the feedback GASB would get from a preliminary views document on leases.

Mr. Allen thanked the GASB members and staff for joining FASAB in a great discussion on lease accounting.

## **Agenda Topics**

- **Reporting Entity**

Staff member Ms. Loughan began the agenda session by explaining the objectives were to resolve selected issues raised by respondents. Members are asked to consider revisions to the proposed standards and provide final approval of revisions made in response to input on issues at the December meeting.

Ms. Loughan explained the first issue for discussion would be the “in the budget” inclusion principle. At the December meeting staff had presented an analysis of “outlier organizations” in the Budget of the United States Government: Analytical Perspectives—Supplemental Materials schedule entitled “Federal Programs by Agency and Account.” The review did not identify a large population of “outlier” organizations

such that new characteristics were warranted. However, staff determined there was a need for clarification within the proposed standards to address state/local governments and non-profits and the federal financial assistance footnote. Another issue was raised by the Financial Accounting Foundation related to FASB receiving a “support fee,” which is not considered federal financial assistance.

Staff explained while drafting proposed language to address the concerns, staff noted discomfort with expanding the descriptions and exceptions for items deemed “other assistance” because there could be unintended consequences and also by adding such cases there is the perception that we move away from a principles based standard to a rules based standard. Also, our expansion of “other assistance” to include federally authorized support fees may not be consistent with the Single Audit Act terminology. Therefore, staff decided to offer an alternative to modifying the language. This would also address a concern about whether we have considered all the possible outlier cases and if there are other possible exceptions that should be assessed.

Therefore, staff presented two alternatives for the Board’s consideration—presented on pages 4-6 of the staff memo. Alternative One is what the Board discussed last meeting, so staff simply built upon that from the last meeting. The second alternative for consideration seems to be more principle based and actually a quicker review for agencies that they could actually just move right to the other principles. Ms. Loughan explained at this point she would like to open the floor for questions or comments from members.

Mr. Reger thanked staff for the explanation but explained he still wondered what the difference is. Ms. Loughan explained that ultimately the end result should be the same, but it is just two different ways of approaching it and saying it.

Mr. Dong asked if it is purely stylistic. Ms. Payne confirmed it was stylistic in the sense that we were trying to accomplish the same end result. However, in curing some of the issues in Alternative One, there seemed to be problems with building on the Single Audit Act definition. For example, when expanding “other assistance” to include the authority to collect fees that is not consistent with how the Single Audit Act defines other assistance. This may create confusion.

Ms. Hamilton confirmed there were two issues. One had to do with defining other assistance differently than how federal financial assistance is defined under the Single Audit Act, so there was the possibility of causing confusion for somebody using those terms differently. Ms. Hamilton explained the other issue had to do with taking out the reference to a non-federal entity. And by doing that, there was the consequence of then it would relate to federal entities. And because one of the federal financial assistance terms is direct appropriations, you would have then excluded all of the federal government. So it got a little complicated trying to take care of one person's comments about the fees that they collect, and it seemed like an easier, simpler approach was the other alternative than to trying to change other assistance in the existing definition of the Single Audit.

Mr. Allen explained that he liked the language presented in the basis of Conclusion in paragraph A19. That really helped and it framed the issue and gives you the answer.

Mr. Dacey noted that looking at page 5, footnote 4 struck out the reference to Single Audit Act but we retained the definition. He asked if we were trying to decouple that from the Single Audit Act definition. Ms. Hamilton explained it would be the same definition that was under the Single Audit Act but also include those entities who were not subject to the Single Audit Act because of the dollar threshold.

Mr. Dacey explained Alternative One was better because it laid out the structure. He also thought Alternative One may allow for the fact that you may have other – unexpected - entities that could be excluded under the budget.

Mr. Steinberg explained he liked Alternative One because things written as negatives are harder to comprehend.

Mr. Allen requested that the Board members vote on their preference between Alternative One and Two. The Board unanimously voted for Alternative One (maintaining the federal financial assistance footnote with modifications) to modify the “In the Budget” inclusion principle to address concerns with the proposed standards.

Ms. Loughan explained the second issue from the December meeting that the Board needed to finalize was the issue of temporary. Staff explained that the Board had agreed there needs to be a discussion of the temporary notion and how it relates to the disclosure entities earlier in the document.

The Board generally agreed with the staff recommendations but provided feedback on the proposed language and requested staff to provide revised wording for approval at the March meeting. Further, the Board opposed a member’s proposal to address temporary in nature in paragraphs 22 and 25 (so that temporary in nature would not be included in the entity or financial report). Based on feedback, staff also presented two alternatives for the Board's consideration in this area-- one with adding a 5th characteristic, and one with adding the additional language to the last paragraph of the consolidation entity section. All other proposed language would be the same for both alternatives. Ms. Loughan opened the discussion for questions or comments from Board members.

Mr. Dacey recalled that in the December discussion we were using the word ‘temporary’ rather than now we are using ‘not permanent’ and that was part of the issue. Ms. Loughan explained that certain commenters suggested adding a fifth characteristic for consolidation entities that stated the relationships are permanent. However there was some concern with that at the last meeting.

Mr. Dacey explained that he was less troubled with the ‘not permanent’ than temporary. When we said temporary, he was concerned that there could be temporary federal entities; that is, entities with planned sunsets. However, it does appear that paragraph

38E includes characteristics that would clarify that. The additional wording regarding permanence and defining that helps to clarify it.

Mr. Dacey noted that it is challenging to envision receiverships and conservatorships as consolidated entities because they are separate legal entities. He notes this one uses the term 'generally' in the second example, and it is implied in the first example and introduction.

Mr. Allen explained that the reason he liked paragraph 38E more than 41 was because he read paragraph 41 as saying by definition these types of entities would not be consolidation entities. He explained that paragraph 38E number two says other than an insignificant amount of time which means if these things go on, you ought to look at this and make a decision about the nature of the relationship. He believes that 38E at least leaves it open that if you do have a receivership that has been under the control of the government for the last 20 years or some extended period of time, that you should reconsider your classification. Paragraph 41 would tell you that by its nature it should generally not be consolidated regardless of the length of time the entity may meet criteria A through D. If so, there is some presumption that if it meets A through D it ought to be consolidated as opposed to 41 would tell you by its nature it generally should not be--so you could consolidate it under either case, but the sense of, generally is not going to be, so you have got to really prove a case. And what 38 says if this has been an extended period of time and it meets A through D, you need to make a conscious decision about that. Mr. Allen offered support for paragraph 38E based on these reasons. Mr. Dong explained that he believed paragraph 38 E, item 2 for other than an insignificant amount of time was a little nebulous in terms of what exactly that meant. Mr. Granof agreed with him--and relative to what?

Mr. Allen explained that he was opposed to the word "generally" because he thought it moved the board away from a principle based standard. For example, when considering an example such as Fannie and Freddie -- right now there seems to be a huge financial incentive just to leave things alone the way they are and let it go forward. But what if 20 years from now they were still under the control of the Federal government? If that were the case shouldn't the preparer and auditor reconsider the "temporary" nature if this relationship? He believes that would more likely happen under paragraph 38 than it would under paragraph 41.

Mr. Dong asked if he believed 41 was not adhering to the principles based approach? Mr. Allen confirmed that and stated that paragraph 41 just says if you are one of these three generally. He added it does not say you are not, but it says generally you are not, and that is almost the same as saying you are not and we have answered the question. Mr. Dong explained that it was the tradeoff is it is much more concrete.

Mr. Dacey explained that he preferred paragraph 41 for a couple of reasons. He believes it is more concrete and the permanence of the relationship is another consideration. He noted A through D above are factors you consider in weighing whether it is a consolidation or disclosure entity and those can be somewhere on a scale. The preparer has to make a judgment where on that scale they are. By saying it

is not expected to be permanent, the concept is an annual decision. He viewed it as something you would have to decide going forward whether it is still intended to be or expected to be permanent and it would have to be revisited annually to determine if that is still the fact of the case.

Mr. Granof explained that what he likes about paragraph 41 is it tells you what the Board was thinking. However, paragraph 38 does not provide the same and somebody who is looking at this as an independent observer would have no idea why that provision was in there, whereas 41 tells you what we are thinking. Mr. Granof also asked what was meant by “less likely in aggregate.”

Ms. Loughan explained that one has to consider paragraph 38 and weigh criteria A through D. Mr. Granof explained it was not clear the way it was written because it refers to the organizations.

Ms. Payne suggested that if we move the “in aggregate” to say it would be less likely to meet these characteristics in aggregate or as a whole, as used in the phrase in the previous paragraph. Mr. Granof agreed.

Mr. Dacey agreed the wording may need to be reviewed. He explained in thinking about paragraph 41, it is more tied to this is not permanent than the other factors. Mr. Dacey explained that he liked the directness of it, but perhaps we could involve some of the language in those other sections about the temporary nature.

Mr. Granof noted that he did not like the term “generally.” Mr. Dacey explained he could live with “generally.” Mr. Granof said he could live with it too, but he did not like it.

The Board briefly discussed what the term “generally” meant to them. Mr. Allen explained that he was thinking from an auditor’s perspective, where there may be options but there is a preferred method of accounting. He explained he would be happy with paragraph 41 if we drop that last sentence and just said that “generally owned or controlled by the federal government for interventions would be less likely in the aggregate to meet these characteristics.” He explained when it says “hence they would not be classified as consolidated” then we have moved from a principle to a rule and giving them the answer. Mr. Allen explained he does agree with the flow in 41 and it is a little easier to read.

Mr. Dacey noted some concern with dropping the last sentence because it would not be clear that we are connecting this “not permanent” to the characteristics.

Mr. Allen explained the heading of the whole section is consolidation entities and paragraph 41 would be the last paragraph before we get to the next heading, which is Disclosure Entity.

Mr. Granof noted that in paragraph 38, the word “generally” is also used. He asked if there are exceptions to that. Could you leave out the word “generally” and how would the meaning change? Mr. Allen stated he did not think so. That it could be left out in

paragraph 38 too. Mr. Showalter suggested that by including the word “generally” you are implying there may be other criteria or other characteristics. He did not believe that is what the Board wanted. Mr. Granof noted he did not like the word “generally.” Mr. Steinberg stated he did not like it either.

Mr. Showalter explained that he liked Paragraph 41. He noted the first sentence is “Classification of entities for which the relationship with the federal government is not expected to be permanent, such as receiverships, conservatorships and other intervention actions, should be based on the characteristics identified in paragraph 38.” He stated it basically follows the criteria in 38, but then it makes a statement. However, it does not bridge to the next statement, which is “Generally, entities owned or controlled by the federal government for intervention or liquidation purposes would be less likely, in aggregate, to meet these characteristics. Hence, such entities generally would not be classified as consolidation entities.” He explained he did not believe the first and second sentence bridge appropriately.

Mr. Dacey explained he had the same concern with the connection. He noted that in all these three cases they are private sector entities in which the federal government has intervened. Whatever form - intervention, receivership, conservatorship – used, the government has plans to either exit as quickly as possible for an intervention, to bring it back to sound condition for a conservatorship, or to liquidate it for a receivership. Basically it does not meet many of the paragraph 38 characteristics because the government is intervening in a private sector entity. So, these things generally would not meet paragraph 38, A through D, because the entity remains a private sector entity. Mr. Dacey wondered if there is another reason why we are saying temporary or not permanent.

Mr. Showalter asked why you need that lead-in sentence. Staff explained the lead-in sentence was there to distinguish it from Alternative One. Alternative One establishes a fifth characteristic, and to make it very clear in paragraph 41, it does not establish a fifth characteristic. You must make the classification based on paragraph 38 and we generally think receiverships, conservatorships and other intervention activities would not meet those four characteristics. Mr. Showalter explained those are two separate thoughts and the bridge is missing in the paragraph.

Ms. Payne explained she understood his point. Paragraph 41 was drafted to be clear to members that this is not a fifth characteristic. In the long-run, that clarity may not be needed.

The Board worked on proposed edits to the language during the meeting.

Ms. Loughan reminded the Board that it was important to maintain “not expected to be permanent” in some form in a paragraph as that was the reason we were working in this area. Ms. Loughan also suggested the Board review the language that is in the first paragraph under disclosure entities, that also addresses the topic in a similar way.

Mr. Allen explained that we are reinforcing it under both sections-- consolidated entities and then next under disclosure entities.

Mr. Dacey asked do you delete 41 and use 42 as the basis. Mr. Dacey explained that in looking at 42, he liked the sentence to clarify that it is not expected to be permanent. It might be clearer to say receiverships, conservatorships and intervention activities in that prior sentence though. He explained that would give enough guidance to move forward rather than try to rewrite and produce material we have not exposed for comment.

The Board agreed it was not necessary to repeat it in multiple places because sometimes you can say it different ways, then you confuse the reader. Another option considered was to reference the paragraph in other places.

Ms. Payne explained to the Board that in paragraph 20 the Board clarified how temporary and permanent factor in and we do that by saying that the three inclusion principles are to be applied without considering temporary or permanent. Instead, they are to be considered in making the classification between consolidation and disclosure entity. Ms. Payne explained that if we do not make a change to paragraph 38 or do not add paragraph 41, and we just rely on 42, we probably need to take out and modify paragraph 20. Ms. Payne explained that we have said it is a factor, but then if we do not talk about it in both consolidation and disclosure in a balanced way, is it really a factor.

Mr. Dong said he still believes it is. Ms. Payne asked if members are comfortable with this approach. Mr. Showalter explained he thought Ms. Payne was going to raise another question-- is it really a true statement? Ms. Payne stated she believed it is more true if you add 38E and becomes less true if you do something else. Mr. Showalter agreed because in paragraph 42 we are going to explicitly say it is a disclosure entity.

Mr. Allen explained based on that, we could add one sentence in 41 and leave 42 the way it is, and although it is a little bit duplicative, but it is something under both headings. Mr. Allen explained paragraph 41 could have the sentence that "Entities not expected to be permanent would be less likely to meet these characteristics," but he would like to end it right there. Paragraph 42, could say exactly that, that these are disclosure entities.

Mr. Smith asked if that was something the Board wanted to say. He asked if they want to lead people that these would be disclosure entities, because he did not think we were trying to do that. He thought the goal was to establish principles while not closing the door if someone thought that they shouldn't be.

Mr. Allen explained that Ms. Payne's point was we ought to have at least something in 41 if we are not going to close the door. Mr. Smith stated he thought "generally" does since it leaves the door open. Mr. Allen explained he viewed "generally" as that is the minimum and what closed the door. Mr. Smith explained he interpreted it "generally" says most of the time but not all the time.

Mr. Dacey explained he is borderline but closer with where Mr. Smith is. Mr. Allen asked if he would leave the term in. Mr. Dacey explained he does not dislike the use of the word “generally”, but if we need to put something in 41, his concern is saying it is less likely does not seem to read the same way as 42 does.

Mr. Allen asked if members preferred to keep language in “would be less likely, in aggregate, to meet these characteristics.” He suggested the Board discuss the location and wording of what they would prefer. There is language for consideration under consolidation entities; there is also language under disclosure entities. But he acknowledged there appears to be agreement, nothing would be added to paragraph 38 or there would not be a 38e. Also, there appears to be agreement on the addition to paragraph 20. So it is deciding about the language to paragraph 40 and 41—that is, what should be said in these two places.

The Board discussed the pros and cons of including language in each place and offering a balanced discussion. Deliberation continued to focus on the term “generally” and whether that implies that there might be an exception or if it should even allow for that. Staff suggested that it allow for an exception in that manner because over time we gradually see with these intervention activities more and more action from Congress and the President regarding these activities, more and more risks, occasionally financing, even if it is just borrowing authority.

Mr. Granof reiterated that he believed that by putting in “generally” we are implying that there is some exception there. Ms. Payne explained that she believes there is an exception there, but it is a very slippery slope if one must start saying here are the kinds of actions that you have to find on behalf of the President and Congress to overcome “generally.”

Mr. Allen suggested the example of Fannie and Freddie and explained they are clearly under the control, but this is an intervention. At some point in time if some action is not taken would not one say they are part of the government? Mr. Dacey explained that would be arguing if it is really expected to be permanent.

Mr. Smith said while making these rules, if we do not do that, a person is going to go look at this and say, well, the intent was permanent, and the intent maybe still was permanent even though it has been 30 years or 40 years, and a person is going to say this standard closed the door. Mr. Smith explained the standard should not close the door.

Mr. Allen agreed with Mr. Smith. He said he believes one gets to that if you just have one sentence in 41. Mr. Smith explained he understood how Mr. Allen read it but, he did not get to that until after discussing it several times today. Mr. Smith explained he needed the second sentence to make it clear to him that it provided the out. Mr. Allen explained he appreciated the explanation; he thought the second sentence was building a higher hurdle. But it may just be a different reading.

Mr. Granof explained again that he was concerned with the term “generally” and that people will say there are exceptions. Mr. Reger explained that the exceptions would have to meet the criteria anyway. Mr. Allen noted that they do not have to meet all four, but in the aggregate. In other words, you are saying the predominance of weight of these. Maybe they only meet two of the four, but you consider that the predominant weight.

Mr. Dong explained that he did not find that was clear. Ms. Payne asked if he thought it meant they had to meet every single one. Mr. Dong said he thought so. Staff noted it says based on the assessment as a whole. Mr. Allen stated he also read it to the predominant evidence of those four. Mr. Dacey commented that paragraph 37 also sets it up and provides more language. He added there is a judgment on the extent to which they meet those four characteristics. He added the last sentence says not all characteristics are required to be met to the same degree and based on assessment as a whole, paragraph 37 sets up the framework.

Mr. Allen suggested the Board vote on the issue. He explained the Board is considering language under consolidation entities; there is also language under disclosure entities and both clarify the temporary issue. {But he acknowledged there appears to be agreement, nothing would be added to paragraph 38 or there would not be a 38e. Also, there appears to be agreement on the addition to paragraph 20.} So it is deciding about the language to paragraph 41 and 42—the extent to what should be said in these two places. The language the members agreed to was:

(Under Consolidation Entities)

41. Entities for which the relationship with the federal government is not expected to be permanent, such as receiverships, conservatorships and other intervention actions, would be less likely to meet these characteristics as a whole. Such entities generally would not be classified as consolidation entities.

(Under Disclosure Entities- adding additional words)

42. inserting “conservatorship or other intervention activities” after receivership

All but one member agreed with the proposed language to address the issue of temporary by adding an additional paragraph to the consolidation entities section and also tweaking some of the language in the disclosure entity section. The language will be in both places. Mr. Steinberg did not vote and he explained this was because he had issue with the Board’s overall approach to temporary. Mr. Granof also noted while he agreed, he would prefer to exclude the term “generally.”

Ms. Loughan directed the Board to Issue Number 2, Component Reporting Issues. The Board proposed each component reporting entity report in its GPFFR organizations for which it is accountable; that includes consolidation entities and disclosure entities administratively assigned to it. The proposal provides that administrative assignments can be identified by evaluating: the scope of the budget process, whether accountability is established within a component reporting entity, or rare instances of other significant

relationships such that it may be misleading to exclude an organization not administratively assigned based on the previous two principles. Staff explained based on the responses in this area, most respondents agreed with the overall principle that each component reporting entity should report in its GPFFR organizations for which it is accountable, which includes consolidation entities and disclosure entities administratively assigned to it and that administrative assignments can be identified as provided in the guidance.

Based on the responses, a majority supported the proposal and very few identified concerns. The main issue brought up related to the Misleading to Include provision. Staff provided the Board a handout related to this area—staff held a conference call with PBGC, and they had a few wording changes to propose, and some such changes are on the handout. Staff opened the floor for member questions and comments.

Mr. Allen noted in referring to their suggested change—the suggestion to change to “many” and as he recalled there are not many of these situations. Ms. Loughan explained that it was in reference to the budget approval or oversight of the organization.

Ms. Payne suggested that alternatives might be “in most such cases” so limiting it to the cases universe. After discussing the size of the universe of cases, there appeared to be support for adding “certain cases.”

Mr. Dacey explained his concern that the second sentence is basically setting up one of the examples of why it might be misleading. It seems to draw a closer connection between the first and second sentences. Mr. Allen agreed and wondered if one could link those two sentences together. Mr. Dacey explained that we say for example it may be misleading if there is little to no budget approval or oversight. There are two examples of what might be misleading.

Mr. Allen asked if the members object to adding the additional example. And if they do not object to that, he would like to turn it back to staff to work that in. Mr. Showalter stated he was not sure if he objected, but he thinks we need to ask the question about providing examples because when we list them, we imply we know some and they become criteria.

Ms. Payne explained that respondents indicate that “misleading to include” can be confusing and there should be some sort of criteria. Staff noted there is one example we are aware of and we have included an example “there will be little to no budget approval or oversight of the organization by the component reporting entity head and indicators that accountability has been established in the component reporting entity will be minimal.” Staff explained those are the overarching themes in the administrative assignment, so it is linking it back to that and you may find factors that lead you to think it has been administratively assigned but in practice it is just form and not substance.

Staff noted that PBGC contacted us because they believed that one of the things that was deleted was an example that should remain—legally established within a larger

organization while authorized to operate independently. Staff did not object to putting it back in.

Mr. Allen asked if there was any objection to including both examples.

Ms. Hamilton raised concern because she did not know how “organization” is defined. She explained that she was concerned because if “organization” means an office, this would affect the Offices of Inspectors General because they are legally established within a larger organization. They operate independently, and they submit their budget directly to Congress.

Mr. Allen acknowledged that was an issue that should be considered and a challenge of finessing a document that has already gone through due process.

Mr. Steinberg explained he thought the Inspector General Act explicitly states that the IGs report to the head of the organization. Ms. Hamilton explained it is “generally supervised” by them for purposes of their reports. They report to the head of the Congress, but they do not report to them in the sense of the general reporting of another office within that because of their independence and the safeguards there in the IG Act.

Mr. Steinberg suggested that it would be unconstitutional to have somebody in the Executive Branch report directly to the Congress. Ms. Hamilton explained the IG Act is using reporting for purposes of their reports, not for purposes of civil service laws reporting. There are other parts in the Act that take care of the appointments. Mr. Reger acknowledged this was because a number of agencies started trimming the IG's budgets, so they changed statutory language to say their budgets have to go in directly.

Mr. Steinberg explained he was referring to the IG reports to Congress that goes to the head of the agency, and then the head of the agency transmits it to Congress. Mr. Reger suggested it was similar to performance reports that go to the head of the agency.

Mr. Dacey stated his personal thought is we do not want to exclude the IGs from any of the agencies reports because they relate to the agency in terms of financial reporting.

Mr. Allen explained he agreed and the standard can get there by providing only one example as suggested in the staff proposed language as an example so that it is not the only example, but somehow that they know that this is not an example of something that could arise to the misleading to exclude. He did not want to provide the second example as suggested by PBGC because of the potential for unintended consequences (such as IGs established within a larger organization) although the Board recognized a similar sentence was included in the exposure draft and PBGC reintroduced that. Mr. Allen believed that counsel had made a very valid point.

It was agreed that staff would revise paragraph 61-63 based on the discussion for misleading to include to reflect the Board's input, ensure it addresses the known PBGC example and also addresses the issue regarding the IGs.

Mr. Dacey asked if the Board ever in the basis for conclusions identify specific commenters and how we addressed their concerns. Ms. Payne explained that we have in the past.

Ms. Loughan explained there was one other item related to component reporting issues. Staff explained it was a recommendation to add language to paragraph A60 to page 17. Staff explained the recommendation related to incorporating the FFRDC master list as an aid in determining administrative assignments. While staff does not believe the proposed standard should go to that level of detail, staff does believe it could be added into a paragraph in the basis for conclusion and conveyed to the team responsible for coordinated guidance between central agencies to ensure government-wide consistency on processes for identifying and assessing organizations for which federal agencies are accountable.

Mr. Allen asked if that was something we could do, meaning are we giving an assignment to other agencies. Ms. Loughan explained it was a suggestion or statement that the guidance is forthcoming and this may be an area to go into more detail. The listing provides FFRDCs and sponsoring agencies. Members discussed the proposed wording and most expressed concern about identifying a specific source of information for consideration.

Members all agreed that the additional language regarding FFRDCs and the master list produced by NSF should not be added to the basis for conclusions paragraph about the guidance coming out from central agencies.

Ms. Loughan explained the next issue in on page 19 relates to Disclosure Entity issues. Staff explained the Board had asked respondents if they agreed with the factors, objectives and examples provided for the disclosure entity. Based on the responses, a majority supported the proposal and very few identified concerns. The only concerns, which staff views as limited, were that:

- Two respondents suggested removing the factors in their entirety and three respondents believed par. 69c "how a disclosure entity views its relationship with the federal government" should be removed.
- Two respondents noted concern with the objective in paragraph 72c Future exposure: A description of financial and non-financial risks and potential benefits and, if possible, the amount of the federal government's exposure to gains and losses from the past or future operations of the disclosure entity.
- Three respondents noted concern with the example provided in paragraph 73e "A discussion of the disclosure entity's key financial indicators and changes in key financial indicators."

Staff notes the Board's approach for the disclosure entities was to provide flexibility in meeting the stated objectives. This flexibility was viewed as most appropriate due to the different types of disclosure entities that may exist and therefore require broad and different information to meet the reporting objectives. The factors assist the preparer in determining the nature and extent of information to disclose. The factors are considered in the aggregate. While staff believes there is merit in maintaining paragraph 69c and due to appearance, could see improvement simply by moving it to the last factor. Staff believes the way an entity perceives itself does affect the disclosures, for example—although no decision has been made regarding the Federal Reserve, if one reviews the current or previous note disclosure—some of the information that is presented is a direct relation to how they view themselves. For example, the note reads “The Board is an independent organization.....” Therefore, staff's recommendation would be to move that particular factor to last as staff does understand some of the points made by respondents, and adding the phrase “because they have less direct involvement in governance” to clarify.

Although two respondents noted concern with 72c, staff recalls that ‘Future exposures’ was considered a prominent objective by several Board members and when drafting the factors, objectives and examples—one of the primary focuses was to ensure there was ample language to assist in this area. In fact, the Board recognizes that the first two objectives would be the most straight forward to address but the important information was objective c. Therefore, unless the Board directs staff that there has been a change in their position, staff would not recommend a specific change in this area. While staff recognizes there were a few comments on the examples, it is still important to point out these are examples of information that meet the objectives for the disclosure entities when considering the factors. Staff opened the floor for Board member questions and comments.

Mr. Reger asked if moving factor 69c down was to deemphasize. Ms. Loughan suggested yes, although they are not in any sort of order of preference. It is a compromise from deleting while it might be considered by some to take away the emphasis.

Mr. Dacey explained that with 69c, it may not be entirely clear what you are supposed to do depending upon the determination made in 69c. He explained with many of the others, it is evident or it states when more disclosures might be appropriate. Mr. Dacey explained that with 69c, it has not been expressly stated how this affects disclosures. He added, what would you do with your disclosures differently based upon this factor? It may be that it is difficult to make operational and clear.

Mr. Allen explained he recalled from a couple of meetings ago, it seemed like one or two other Board members suggested taking the whole thing out. Ms. Loughan agreed the Board has discussed this before and various issues were discussed. Examples of organizations like the Federal Reserve and also the ability to get information from the organization and those types of factors we had talked about. Mr. Reger agreed and saw how it could be a factor whether it be the Federal Reserve system or even an FFRDC.

In essence this would be their way of making sure whatever we disclosed says what they believe their relationship to the federal government is.

Mr. Dacey suggested we consider when the federal government acquired control of General Motors. How would we discern what they thought their relationship was to the federal government? We define what the federal government thinks the relationship is. He noted he was struggling with that a little bit. Mr. Dacey explained that since the Board previously contemplated whether to keep it or not, and now we have commenters questioning whether it is an appropriate factor—maybe it is not an important factor that should be included.

Mr. Steinberg stated he agreed with Mr. Dacey. Not only do you have the problem of finding out how they view themselves, but once we know, what do we do with it—does it lead to more or less disclosure. He believed the factor should come out. Mr. Granof agreed and he stated that it is not important; bottom line is I want to know what their relationship is.

Members recognized that how the entity views its relationship may be important to know in drafting the disclosure. Nonetheless, it does not seem to be a factor in the same way the others listed are factors for the reasons Mr. Dacey gave.

Mr. Allen suggested the Board vote on whether to take the factor out. All members with the exception of one voted to remove the “Disclosure entity views/perspective” factor from paragraph 69 of the proposal.

Members agreed that the factor removed would be addressed in the basis for conclusions. This would address members’ concerns that the discussion be provided somewhere.

Ms. Loughan asked the Board if there were any comments on the edits to paragraph 73. Ms. Loughan explained that the issue had some confusion regarding whether or not paragraph 73's requirements were examples.

Members noted:

- Paragraph 73 is making clear that these are just examples of how you could implement 72, but also making a statement that these are only ways to help you implement 72.
- Such lists may become de facto punch lists and this is hard to guard against. The text very clearly points out these are examples.
- Regarding the option of placing such lists in the basis for conclusions, members thought that would make it challenging for readers to use.
- Some felt the text could be more succinct and would offer edits to staff.

Mr. Allen asked if any Board members objected with staff's proposed changes. The Board agreed with the proposed edits to clarify paragraph 73 was for examples (versus requirements) and members would offer any other suggestions directly to staff.

Ms. Loughan directed the Board to Issue 4 Organizations partially in the budget, museums on page 26. Staff explained this issue relates to entities such as museums that are partially on budget--meaning a substantial portion of their funding is from federal appropriations included in the budget and the entity receives private support (such as donations) not included in the budget. Currently, these entities present the budgeted portion as 'federal' or 'appropriated funds' and present the other funding as 'non-appropriated,' or 'trust funds' in their stand-alone reports. However, only the budgeted portion is included in the US Government-wide financial statement. Staff explained generally the component reporting entity statements are presented using the FASB's non-profit formats. The statements present federal funds, donor funds, and total funds (consolidated) in columns. Amounts are identified for restricted and unrestricted funds consistent with the non-profit standards.

Ms. Loughan explained the Board asked respondents whether the reporting entity should consolidate financial information for all consolidation entities for which it is accountable without regard to funding source (for example, appropriations or donations). For certain organizations, such as museums and performing art organizations, this may lead to consolidating funds from sources such as donations that are presently not consolidated in the government-wide GPFFR. Five respondents disagreed with the proposal. The summary of those responses is included in the staff analysis. Staff also met with a representative from the US Holocaust Museum to discuss concerns.

Staff believes the biggest concern -- that it would be misleading to present funds not available for other purposes as consolidated -- may be resolved by considering how the funds might be displayed in consolidated statements. GAAP applicable to non-governmental entities, state and local governments, and federal governments provide for distinguishing between net assets and revenues whose use is restricted and those available for general use. Such distinctions may clarify the nature of donor amounts while recognizing that the reporting entity is accountable for the funds. The federal standards provide for such presentation as well.

Ms. Loughan explained that staff did not find strong persuasion to change the current proposal and recalled that the Board had been adamant regarding the position of not splitting an entity. The Board had considered whether addressing the requirement would be appropriate, but instead opted to describe in the basis and elaborate with the footnote to paragraph 64 describing consolidation and that amounts and balances from different funding sources should be included. However, staff believes certain language could be added to the basis for conclusion (as presented in the binders) to explain how GAAP standards must still be applied and add clarity for some of the points identified. Staff requested the Board's feedback.

Mr. Reger asked if staff had talked to Smithsonian, because this would affect them. Ms. Loughan explained no, but staff did reach out to them during the exposure draft process. Staff met with staff at the Holocaust. Mr. Reger stated that we have to spend some time with the Smithsonian because they maintain they are two separate organizations and are not part of the federal government.

Mr. Steinberg suggested that perhaps they did not respond because it is not in the standards, it is in the basis of conclusion. He explained that right now the Smithsonian and the Holocaust put out standalone statements that are complete. They put them out with the total financial operations, appropriated funds and donated funds using FASB standards, and they separate the donated funds from the appropriated funds. And then in the back as additional information they put in the four statements required for appropriated funds. He explained that they submit to Treasury only the appropriated funds and Treasury does not include the donor restricted funds. Mr. Steinberg asked do we want that to change that practice and if so, at the component level or government-wide? He explained that he did not think we would see any change at the component level. Mr. Steinberg explained at the government-wide, he expected the museums to be reported as disclosure entities because they have separate Boards. He added that they have tremendous separation between the President and Congress and the organizations themselves. If they are disclosure entities, we would disclose the fact that part of their monies is appropriated, and part of the monies is donations. Mr. Steinberg explained he believed it should be in the standard; not in the basis of conclusion. He believes there should be something in the standard that these donor organizations should submit donor funds as well as appropriated funds, and that the consolidated statement would indicate the nature of the donor funds as dedicated collections.

Mr. Granof questioned why Mr. Steinberg believed they would be disclosure entities versus consolidated entities. He also questioned why we would be stating what information to provide. Mr. Steinberg explained that you need to disclose the fact that the federal government runs museums, expending more than a billion dollars a year, but also that not all of this is appropriated funds. Mr. Granof did not understand what we would be indicating, what special information do we need or would one be breaking out. Mr. Allen agreed and stated that the Board discussed this issue before that it is part of the organization.

Mr. Reger commented that the Smithsonian has in essence systematically created two separate and distinct organizations who work together to be the Smithsonian. They pay for their appropriated expenditures through Treasury and through another agency that does disbursements for Treasury. Mr. Granof questioned how could they possibly distinguish between which money goes to which? All money is green. Mr. Reger noted he was only bringing this up in case there was an issue getting the necessary information from the Smithsonian.

Mr. Dacey explained that the reported Smithsonian dollars are just over a billion dollars in total. He thought when the Board first talked there was some thought these would be consolidated entities. He explained he is not making a determination either way, but if

they are disclosure entities, he is not sure they would rise to the level of materiality to even be disclosed in a consolidated GPFFR. Mr. Reger agreed.

Mr. Dacey explained that right now the federal government portion is directly consolidated into the government-wide financial statements. He did not believe they were naturally affiliated with another federal component entity. Mr. Dacey acknowledged that not all Board members might come to the same conclusion they are disclosure entities or consolidation entities. Mr. Dacey explained it was the Board's job to make sure the criteria are clear, and clarify whether the entire organization should be included.

Mr. Showalter asked Mr. Steinberg if these turn out to be disclosure entities, and we have already defined what we want for disclosure entities—what in that standard (objectives for disclosures entity disclosures) up front is lacking in this situation.

Mr. Steinberg explained there needs to be a paragraph that says donor organizations should be reporting all of their monies and that a government-wide statement should have consolidation or disclosure of the entire organization. Ms. Payne explained that she does not know what the other museums think, but staff contacted the museums repeatedly. We got a response from one museum, Holocaust, and they understood crystal clear that all of their funds-- donated and appropriated-- would have to be presented for inclusion in the CFR. They were concerned about the potential that the readers would think the funds were suddenly free for use for other federal activities. But we have a lot of dedicated collections, and staff consulted with counsel and believe the museum donations meet the criteria for a dedicated collection so that we can resolve that concern about the misleading presentation. And after we met with the Holocaust Museum's CFO, she was satisfied. We have explained that in a draft basis for conclusions.

Mr. McCall noted that the Holocaust was also concerned that if they showed their donations with appropriations in the government wide, people would think they do not need the donations because they are getting the appropriations.

Ms. Payne suggested that an organization like the Smithsonian may assert that they have the two completely separate governing structures, one controlled by the federal government and one not. However, would a preparer and an auditor be able to apply these standards to the two separate pieces and reach conclusions? Mr. Allen asked if the opinion go separately to those financial statements funded by donors and appropriation. Mr. Steinberg noted he thought it was the same opinion and it was a FASB basis statement.

Mr. Allen explained that was Ms. Payne's point, she doubts that the auditors could ever get to the point of giving two separate opinions on this organization saying it is not one organization, it is in fact two separate legal organizations having nothing to do with each other. Mr. Showalter added that the criteria they are using to determine reporting is not FASAB criteria.

Mr. Allen noted that Mr. Steinberg had a valid point and we could extend another invitation, and ask Smithsonian if they have any thoughts or concerns based on this, but the standard is moving forward. Mr. Steinberg offered to provide the staff wording to avoid uncertainty about the organizations partially in the budget. Ms. Payne agreed that staff would make another inquiry of the Smithsonian.

**Conclusions: The following decisions were made at the March 2014 meeting:**

- **The Board unanimously voted for Alternative One (maintaining the federal financial assistance footnote with modifications) to modify the “In the Budget” inclusion principle to address concerns with the proposed standard.**
- **All but one member agreed with the language proposed to address the issue of temporary by adding an additional paragraph to the consolidation entities section and also tweaking some of the language in the disclosure entity section.**
- **The Board agreed staff would revise paragraphs 61-63 based on the discussion for “misleading to include” to reflect the Board’s input, ensure it addresses the known PBGC example and also addresses the issue regarding the IGs.**
- **The Board members agreed, the additional language regarding FFRDCs and the master list produced by NSF should not be added to the basis for conclusions paragraph regarding guidance.**
- **All members with the exception of one voted to remove the “Disclosure entity views/perspective” factor from paragraph 69 of the proposal. It was agreed that it would be addressed in the basis for conclusions.**
- **The Board agreed with the proposed edits to clarify paragraph 73 with examples (versus requirements) and members would offer any other suggestions directly to staff.**
- **While the Board did not have an official vote on the staff proposed language to the basis for conclusion to address Organizations Partially in the Budget, it was agreed that staff would extend another invitation to the Smithsonian to determine if they have any thoughts or concerns on the issue and that Mr. Steinberg should provide his proposed wording. However, absent further issues the plan is to move forward with the proposal.**
- **The Board agreed to update the basis for conclusions to reflect various discussions held at the March meeting.**

- **Internal Use Software**

Mr. Allen welcomed Curt Nusbaum, Transportation and Security Administration (TSA); Rebecca Shiller, National Security Agency (NSA); and James Plews, NSA. Ms. Payne acknowledged their leadership of the internal use software working group. The working group comprised many volunteers who produced an excellent analysis of issues and alternatives. She asked Messrs. Nusbaum and Plews and Ms. Shiller to brief the Board and take questions.

Mr. Nusbaum noted that TSA responded to the Board's 2013-2015 three-year plan by asking the Board to consider internal use software as part of the plan. TSA made the request because it was becoming increasingly difficult to trace software development costs including tracing the software development cost to the discrete IUS applications. The standards fit well to software development cycles or methodologies such as the Waterfall Method but not that well to cyclical development methodologies such as agile development. Since these methodologies are being used more often, it is really becoming more difficult or more resource intensive to comply with the standard. He hoped that the result of the effort is to ease some of the difficulties that we are running into.

Ms. Shiller explained that she would provide a background of what the group has done to date and the key challenges that we have seen, and then some of the issues that we have looked at. Then Mr. Nusbaum will go through some of the proposed solutions.

Ms. Shiller explained there are now very rapid releases of products with new capabilities always being added. With such releases you may be getting a new capability as well as maintenance and bug fixes. With this rapid or agile development it is very hard and costly to differentiate capitalizable cost from expenses. Distinguishing development costs from other costs is the biggest issue. This entails:

- working with developers to have them break out their time
- knowing when to commence capitalizing, stop capitalizing and commence depreciation (SFFAS 10 provides that final user acceptance testing is the transition point to begin depreciating but some releases are so rapid that there is not acceptance testing)
- determining the useful life is difficult since the asset keeps growing and growing

To address these challenges, the working group broke into three groups. The first group, the Mapping Group, looked at primary users of the financial statements and the first deliverable in your packages is from this group. The group focused mainly on OMB Exhibit 300 and Exhibit 53 and determined what the requirements were from the OMB's perspective and how that would relate to the FASAB requirements.

The second group, the Benchmarking Group, researched private industry methods to try and understand what experience and issues that they were having as well. The group noted the same type of issues in private industry but often it is more difficult because the software becomes for sale rather than being held for internal use.

The third group was the Standards Group, and they focused on key accounting concepts to determine if there is a way to change the standard and still conform to the concepts. In addition, that group also looked at different development techniques such as agile and other challenges such as cloud computing.

Mr. Nusbaum explained that the three deliverables allowed the larger working group to brainstorm fixes for the shared issues. The first question was whether we could just expense everything because that would be easiest for the reporting community. But, ultimately, the group concluded that these IUS applications do meet the definition of an asset as stated in Concept 5 so expensing could not be supported.

Other potential solutions that would likely require a change to the standard just presented new obstacles. While they may replace old ones, they are presenting new ones, and that would not help the reporting community in any way either.

The working group then considered an implementation guide and what could be included in an implementation guide that would provide some relief and some assistance. Due to different versions being concurrently developed, use of an estimate would be helpful so guidance in that area is suggested.

Mr. Nusbaum used the example of a firm fixed price contract being the procurement vehicle. When you have the same amount paid month after month, it is challenging to distinguish what was the development cost for that month. An implementation guide might address estimates and the proper use of estimates, similar to the way that in Technical Release 13 did for general PP&E.

He also suggested expanding on some of the examples from SFFAS 10. For example, for enhancements, it discusses significant additional capabilities would be capitalized versus minor enhancements. The one example is ad hoc query capability. More examples of what would likely comprise a significant additional capability could be helpful. Alternatively, providing some criteria or characteristics of what would be a significant enhancement and thus be capitalized may be useful.

Regarding the cutoff for capitalization being final user acceptance testing, even when acceptance testing occurs it is not necessarily when a project goes into production. That is a key component many times, but usually there is some sort of documentation package that that is one component of going into production. That could create a timing gap and addressing the gap through implementation guidance could be helpful.

The final area for implementation guidance would be a reference to one of the paragraphs in the FASB standard for internal use software as it relates to bundled products and services. FASB provides a little bit more guidance in one of their

paragraphs for bundled services--where the cost of maintenance and enhancements and upgrades are combined. If it is for specified upgrades and enhancements, then the FASB standard reads very much like the one paragraph in the FASAB standard. However, if it is for unspecified upgrades and enhancements then the FASB provides for expensing it over the contract period.

The group tentatively believes it would be helpful to model Technical Release 13 which provides in table format examples of PP&E cost allocation or Technical Release 15 which provides a scenario and then how several agencies are treating that scenario or issue.

The working group believes such implementation guidance would benefit the community by making compliance with the standard less resource intensive.

Mr. Reger asked how the working group is socializing this with the broader community – that is, beyond TSA and the intelligence community.

Ms. Shiller and Mr. Nusbaum noted that DHS and the intelligence community have been represented on the working group. The working group was open to all agencies to join. Nonetheless, the working group's active participation has been by a few agencies. Going forward, attracting broader participation would be helpful.

Mr. Granof asked how you know whether internally developed software has an infinite or a finite use. He wonders if it is continually maintained and preserved would it last forever. In such a case, it might be similar to state and local infrastructure and GASB allows a different model for infrastructure that is preserved. Then all maintenance costs and all preservation costs, which would be perhaps similar maybe to enhancements, are expensed as incurred.

Mr. Allen asked what expands capacity and opined it would be a challenge to make such distinctions. He noted that there is nothing magic about capitalizing and depreciating anything—it is often more challenging in government where assets are not sold. The capitalize and depreciate approach is simply the best way we have of allocating cost to a period. But the various working group papers talked about the problems of doing that – there is always an ongoing upgrade issue. What we are really trying to do with financial reporting is to highlight the importance of the operating statement rather than the balance sheet. What we are really trying to do is get a pretty accurate cost of service but we want it to be practical.

Mr. Allen related that large infrequent purchases of police cars by small towns would distort cost of service if not capitalized and depreciated. In contrast, where a government buys thousands of police cars each and every year, expensing the purchases does not really affect the cost of service. If we cannot really tell what phase of acquisition we are in, it becomes hard to say if just expensing the work distorts the cost of service.

Mr. Steinberg noted that his students often ask what the value of SFFAS 10 is. He noted we have never really concluded on that question of value. In reading the working group's report, he thought the important question was how do you think a standard on internal use software would provide managers with better information with which to manage development of internal use software. He recalled staff's first study on deferred maintenance and how he was very impressed that Mr. Savini had a task force of people in the maintenance business. That task force seemed to be talking not so much about how this is just good numbers to put on a financial statement, but how it could be useful in fulfilling their responsibility doing their job better. There is a community out there of people that do work with the software all the time, and maybe that is the question that we should be asking. If we can get a very good answer on that, then I think it may be worth doing something with.

Mr. Allen noted that OMB, which is part of management, has some specific requirements but the requirements are for expenditure information. And expenditure information is for the most part expense.

Ms. Payne noted that the OMB guidance for Exhibits 53 and 300 looks at the whole life of the project and distinguished between phases similar to SFFAS 10. While they are looking at the flow year-by-year, they are accumulating it to see the full cost of a project. Further, they are asking for the allocating the cost of salaries to the project as well as the contract cost. So while it is expenditure based, it has some commonality with the way we view the totality of the investment. Further, the House recently passed a bill that would require a website that would present the investment in IT, an asset based concept. So, she opined it was not as simple as just wanting expenditure information.

Mr. Allen noted in the long run there is no difference between cash expenditures and accrual based expenses as it is just timing. You might have timing differences of capitalizing something when you buy it and have to pay for it over five years as opposed to accumulating those expenditures over five years. So there could be timing difference. But he thought you could get much of what you are saying if you track the expenditure, which could be reflected in the financial statements as expensing it, but then tracking the accumulation of that.

Mr. Granof noted that he senses this is an ongoing process; it is not like you construct an asset and then do nothing with it. In that case it would not matter whether you depreciate it or expense it. The expense will be about the same on an ongoing basis. So maybe capitalizing is not worth worrying about.

Mr. Showalter asked the working group members how much the regulatory side influenced their conclusions. In other words, were they driven and influenced a lot by the rules and the laws they had to maneuver with, in coming up with these answers. This was a way that made one only do it once as opposed to multiple times since we talked about budget and otherwise today. He wondered how much that influenced how they came out versus it would be just lots easier to expense it.

Mr. Nusbaum said he tried to view it in two ways. One through his role in management working at an agency and what we have to do to report. He thought of all the reasons why he thought it would be better just to expense it. Then he looked through the working group's role working for FASAB. In his management role, he would always come back to we should expense it because it makes more sense and is more practical. Because of some of the continued high levels of maintenance, especially for the large projects that are very mission oriented, you do probably come up with similar period costs. From the FASAB perspective, he wondered if you can do something very different than what other boards have done and he considered the definition of an asset. The regulatory factors did not influence the decision.

Mr. Showalter asked if going down the expense path would create regulatory issues. Ms. Shiller and Mr. Plews responded no, they did not see that.

Ms. Payne add that in speaking with agency staff, she was consistently told that there are many reporting requirements regarding IT, particularly the cost of IT, but that the data provided to OMB and possibly the Hill comes from program offices. In that sense, it is disconnected from the financial system. Her thinking was that we should align the requirements so that these regulatory requirements are met out of the core financial system with respect to any actual costs reported. If that alignment cannot be attained, then she would agree that expensing IT investments is viable. She noted that she is not willing to say that the alignment cannot be attained yet. She believes investment data and balance sheet data should be derived from the same core financial system information.

Mr. Allen noted that if IT investments are expensed that does not mean it is not an asset and are not reasons that we should not accumulate cost. From a GAAP standpoint, the Board wants to make sure we have an accurate cost of service.

Mr. Steinberg added that the alignment goes the other way too--the financial system should be capturing the information that is important to the managers.

Mr. Allen indicated that the Board would like to help. If that is by raising the level of the awareness of the cost of development, and that is helpful in your management, then we want to work with you. On the other hand, we do not want to be spending a lot of money and effort for something that you do not find useful unless it is one of those core requirements. And in state and local governments we were forced to require governments to capitalize their infrastructure not because Board members wanted to do that but because they asked how do you treat borrowing for infrastructure different than borrowing to balance your budget. The only way that we could show financial position of the government is if you borrow for infrastructure, you need to capitalize that asset there. GASB also gave an option. You can depreciate it if that works better for you. But, as long as you maintain it and you are willing to prove that you are maintaining it then you do not have to depreciate it.

Mr. Steinberg noted the working group wants to help the Board and the first step is if they can point out to us how IUS information can help managers do their job better rather than just populate financial statements.

Ms. Payne cautioned that even with the deferred maintenance task force it took considerable time for the those in management positions to fully engage. For example, the Federal Real Property Council was somewhat dormant during the development of the deferred maintenance and repairs (DM&R) work. Recently there was a GAO report on DM&R, indicating that the FRPC was now considering adopting the FASAB definition. While it makes sense that there is a single book of record, a standard set of definitions, and guidance for costing it does not translate very well in the federal space where program managers are often the direct source of financial information. She agrees it is the right way to go but that it is a longer-term effort.

Mr. Smith said he agrees from a practical standpoint of expensing it. He asked if we have a group of people looking at that do they typically think of an asset and think it is easy to get information about exactly what that asset has cost. Another way of looking at it is we are incurring a group of costs to maintain technology that has some value over that period of time and could be spread over some period. He asked that the group consider if there is another method for putting the asset on the books and amortizing the cost; particularly when you are incurring lots of cost of technology. For example, if we believe that the technology that we are producing has got a three-year life, and then say certain cost is excluded, but the majority of the cost could then be spread over three years because that cost is what we are incurring to make sure that for the next three years we have technology. It could be rolling-you are taking a layer off and you are putting a layer on. He preferred to consider alternatives before simply expensing the cost.

Mr. Dacey noted a couple of issues. Some entities may be regularly incurring some constant level of software development cost, and others may not be so constant – they may go up and down. You also have other entities who are getting reimbursed and therefore allocating the cost is more relevant. He asked if the working group considered such differences and the need for cost allocation (through depreciation) for shared service operations.

Mr. Nusbaum thought that if shared service providers own the system then it is your cost. For customers, costs of new financial systems are expensed those costs as the customer pays its interagency agreement. When our shared service provider incurs costs they would likely capitalize development costs on their books. He acknowledged the working group did not discuss shared service centers in depth.

Mr. Dacey suggested that considering whether everyone should treat costs the same is important. There may conditions that lead to different treatment.

Mr. Nusbaum agreed perspectives are very different. He noted that about 10% of the TSA PP&E balance is IUS while NSA likely has a much larger amount devoted to IT.

Mr. Granof returned to Mr. Smith's three-year example and asked if it would eventually have an indefinite life because of all the enhancements.

Mr. Smith noted it seems like at some period of time that cost that you have incurred before has lost its usefulness. He is looking for some type of method of capturing that investment and knowing what it is as opposed to a period cost. He agrees with Mr. Dacey. That there would be different circumstances at different organizations depending upon the level of technology. He wanted to avoid doing a blanket expense approach simply because it is easy. By doing that you have no recognition for what is that asset in technology. If you get an organization that has a huge investment in technology, it would be nice to be able to go and look at that and say even if it is an intangible to recognize that and to compare it to another organization that almost has no investment in technology.

Mr. Granof noted it is like a road though. A road starts off as a trail and then it widens, and then you pave it and they make a six-lane highway and eventually an eight-lane highway. What you did originally never goes away.

Ms. Shiller related that to a spreadsheet program. We have had that basic functionality for years and the code has been added and added. Nonetheless, you still have the functionality that you had 20 years ago. It never really went away.

Mr. Showalter asked how often agencies just junk a system and start all over again.

There was a brief exchange of views and the general thinking was never. The base remains just as a road base remains.

Mr. Steinberg returned to the earlier conversation about management information needs. He asked Ms. Payne what she had in mind when she said the effort would be longer than a few months.

Ms. Payne indicated that cultural change would be needed to transition to a single source of data and definitions. For this effort, she suggested the first step would be more conversations with OMB regarding their data needs, are they having data quality issues, do they have comparability issues between the agencies, and do they see the CFO offices as having a role in resolving those concerns. The second step would be conversations between the CFO office and the program managers. This would involve asking how intensive is it for a program official to keep cost records, what challenges are you having in accumulating the information that you need to manage your program and to communicate with the Hill. The third step would be the Hill. She would ask if they are able to get answers, are the answers of the right quality, and as comparable as you want them to be.

Mr. Steinberg acknowledged that would be a step even if it took a long time.

Ms. Payne agreed. She noted that the standards do slice the cost of the project in an odd way. We are only capitalizing the development phase whereas decision makers are

really interested in the lifecycle cost of a particular project. There may be types of investments – such as those with greater uncertainty and continuous development of new tools for security - where you do not really know where the project is going and is it going meet a useful life criteria (two-years). She thought there would be places where a capitalize and depreciate approach does not apply.

Mr. Steinberg asked if the working group could continue along the lines Ms. Payne laid out.

Mr. Allen asked also if the working group could explore whether there is value in showing this as the investment made in technology. He noted that he suggested expensing it but recognizes there is value in other perspectives. He asked that he working group look for decision useful information rather than just in terms of meeting the accounting requirements.

Mr. McCall noted he sees the benefit in accumulating the cost for internal use software for management purposes so we know what we have spent on it to date. When we talked about expensing it, he did not hear anyone say there is a cost to the customer as opposed to the money being appropriated and then spent. He agreed that a shared service center could not bill its customers for the entire investment the first year. Expensing it would not support the billing needed in shared service centers.

Mr. Allen noted that someone had mentioned earlier the need to differentiate for those agencies who are going to be providing service to others. He acknowledged the excellent work of the volunteers. He asked that they consider the value of the information in the next stage and the sorts of information that decision makers seek.

Mr. Plews noted they are usually asked what did that program cost rather than what did that IT cost. So they want to know the complete program cost. If the program is building software, they want to know how much was spent in the planning, the development, the lifecycle. They want to include all the training costs associated with delivering for the entire program.

Mr. Allen noted that current accounting standards cuts that in half, and part of it you capitalize and part of it you would expend.

Mr. Allen thanked Messrs. Nusbaum and Plews, and Ms. Shiller. He expressed the Board's appreciation for their excellent work and willingness to continue.

**CONCLUSIONS:** The working group will continue its efforts considering the members' input.

- **Administrative Matters**

Mr. Allen invited Mr. Reger to update members regarding the FY2013 Financial Report of the US Government.

Mr. Reger indicated that members have copies of his presentation and the full report. The Citizens' Guide is inside the cover of the full report and is the source for most of the slides in the presentation. The documents are on the web in PDF format and the interaction version will be there by April 15th. There is also an e-book version expected.

Mr. Reger referred to page two of the presentation and noted that both the budget deficit and the net operating cost decreased rather considerably in FY2013 from FY2012. For the deficit, it decreased because the revenue from taxes increased while there was a decrease in spending mostly associated with defense. For the statement of net costs, both of the foregoing items also reduced net cost. There were also net costs savings due to the actuarial number from the VA and the other healthcare and pension programs. Despite earlier Board efforts to allow averaging of assumptions used in making actuarial estimates to reduce such bounces, there are still large bounces in actuarial estimates.

Mr. Reger noted a lot of money was saved this year through the contraction of government services in general. The largest portion of that was from DOD and the largest portion of that was the result of change in the actuarial estimate. While it is a sign of things getting better on a government-wide basis, it is mostly related to a number that we still cannot control – actuarial changes in estimates.

Turning to page three, Mr. Reger observed that all types of revenues increased in FY2013. The American Taxpayer Relief Act and the expiration of the payroll tax relief contributed to the increases. Also, there are signs of economic recovery.

The next page reports what we own and what we owe. Loans receivable grew by 18.9% due to the decision to provide direct loans for education (rather than offering loan guarantees). Other changes included the decline in TARP investments as these are being liquidated. The GSEs also contributed to the revenue growth through larger dividends.

Mr. McCall asked whether civilian retirement programs are defined benefit or defined contribution plans.

Mr. Reger noted there are both types of plans. The older system – CSRS – is a defined benefit plan that was closed in 1984. Its replacement – FERS – has both a defined benefit and a defined contribution component. He noted that most of the existing employees are FERS.

Mr. Reger noted the chart on page five of the handout is from the management's discussion and analysis addressing social insurance. There is a \$39.7 trillion present value shortfall over 75 years reported in 2013, which is \$1.1 trillion greater than the \$38.5 trillion in 2011. He mentioned that earlier today someone asked what is really the value of the financial statements. He noted that this chart has appeared in many places and such charts are influencing actions about the debt. That demonstrates the value of the financial statements.

Mr. Reger turned to page six for the discussion of fiscal sustainability. He recalled that this information was supposed to be fully audited in 2013 but the Board provided a one-year deferral. He indicated that questions remain about the sufficiency of the evidence supporting the projections. There may be a request for another extension.

Mr. Reger highlighted several additional sections as follows:

- page seven shows:
  - programs which continue to be the largest drivers of growth in spending.
  - A brief period of surpluses followed by a return to deficits around 2037 that will cause the debt to climb rather rapidly.
- Page eight shows a dual-scale chart intended to show the debt climbing (using the right scale) as well as receipts and expenditures (using the left scale). Feedback on this new format is welcome.
- Page nine discusses the fiscal gap and notes that to close the fiscal gap, actions taken sooner are easier than actions taken later.
- Page ten shows the “Nation by the Numbers” chart.
- Page eleven reports the audit result – a disclaimer. He explained some changes in agency results – with HUD receiving a qualification, DOD and the Railroad Retirement Board receiving disclaimers.

Regarding the audit opinion, Ms. Kearney added that DHS received a clean opinion for the first time. Mr. Reger also noted positive signs within the DOD components. He also noted that Treasury has done an enormous amount of work on intergovernmental and on creating the general fund.

Mr. Granof commented that the report is a fantastic report compared to that of other governments and other corporations. He is honored and proud to be on the Board and associated with the report.

Mr. Reger agreed and pointed out that other governments study our reporting and follow our leads. He noted the progress of the 23 agencies who have received clean opinions in the past and that the next step is recognize that the systems and processes are now robust enough that we need to be using those same processes to generate the management information and all the other information. Not everybody is seeing the value of spending so much money to keep all these records for just the purpose of generating financial statements. The next big challenge is using the information.

Mr. Granof noted the budget is still the most important document in government. But the fact is that if it were not for these statements you would not have discipline in the accounting and control system.

Mr. Allen agreed that credibility of information is a huge issue and getting to an unmodified opinion on the government-wide statements would greatly enhance the credibility and use of the information. Members discussed the audit process, timing, and the issuance process briefly.

Mr. Reger indicated that members could request copies of the reports from Scott Bell at Treasury.

- **Steering Committee Meeting**

The Board discussed resources issues and options. No conclusions were reached.

### **Adjournment**

The Board meeting adjourned for the day at 5 PM.

***Thursday, March 6, 2014***

### **Agenda Topics**

- **Risk Assumed – Insurance and Guarantees**

Ms. Gilliam started the meeting with a good morning to everybody. She reviewed the next steps from the December meeting where the Board asked for a definition, characteristics and exclusions for federal insurance and guarantee programs. She informed the Board that she assembled a task force beginning with the members who served in the earlier phases. She also wanted to thank the task force for enduring two very long meetings, in order to develop the information to be presented today. She mapped out that, based on the experience working with the task force, we would review the characteristics, then the definition and then the exclusions. She then referred the members to Tab E, page 3 of 40 and opened up the meeting for discussion and to see if they wanted to walk through each characteristic or if there are any specific characteristics they wanted to discuss.

She also added that two characteristics were updated with track changes due to discussions with Mr. Showalter and that members would find an extra piece of paper with pages 6 and 7 with the track changes to add to Tab E.

Mr. Showalter said his question was that he was not sure if everybody understands why it is written around the law– and not an the administrative ruling or something like that. He suggested that Ms. Gilliam share that because that was enlightening to him.

Ms. Gilliam explained that actually all programs in the government, unless general counsel corrects her, are authorized by law. A law has to be passed to put a program

into place. And when the task force talked about this, first we had a program authorized by law, and then we realized that for each program their authorization had to be specific. There is a mission that they have to provide insurance or guarantees for a particular type of adverse event. So we wanted to be very clear that an Insurance and Guarantee Program is authorized by law to provide insurance and guarantees. It specifically identifies that, which helps us in our exclusions and in capturing the full population of these types of program. Because right now in our disclosures and financial statements it is not that clear and we might not be capturing all of these programs because they do not realize that they are insurance or guarantee programs. So we wanted to be very clear that it is authorized by law. The law does provide for a program being established.

She also stated that the task force discovered that this discussion supports our hierarchy characteristic, which is #11 because there is a hierarchy of authority. With the law being the most general, then regulations, and then agency policies. And then there is an explicit arrangement or agreement which gets to the very specifics about either the insurance contracts or anything specific. We put all four of those in the hierarchy characteristic to make sure we captured how they would manage their programs. She asked if that answered the question.

Mr. Dong asked that Ms. Gilliam take a step back since he wanted her to do a bit more scene setting for the Board in terms of the process that she went through and how these characteristics ended up on the list and why others did not end up on the list to give us more context.

Ms Gilliam described how she pulled together a task force. And that the list of the task force members is towards the back. She apologized for inadvertently leaving off Mr. Tom Finnell the contact from the Treasury Insurance Program. She stated that he would be included on the list for future documents. Before the task force met, staff drafted a definition and pulled out pieces of the definition to include as characteristics which we also defined.

These were presented to the task force at two meetings to discuss and edit. As the task force worked through the definition, we also reviewed the characteristics that supported it. Most characteristics were further defined to support the definition and we actually ended up with probably more characteristics than what were in the definition because we took risk and broke it down quite a few ways.

Mr. Dong asked how we use the definition, which we'll talk about on page 8 relative to the characteristics which preceded that discussion.

Ms. Gilliam stated that if you want to start with the definition, we can start with the definition. When we worked with the task force we started with the definition, but they thought it would be easier if they went through the characteristics first. But we can start with the definition and then go through the characteristics.

Mr. Dong said that he just wanted to know how one relates to the other in terms of what we are focusing on.

Ms. Payne said that the norm in an accounting standard is that we begin with the definition, and if any parts of the definition need to be explained by expanding them as with these characteristics. We would start with the definition and then there would be explanatory paragraphs under the definition. And we do that usually if something is more complex. She noted that while we have 11 characteristics, some of them do not really make a difference – that is, they do not exclude anything. For example the funding, any source of funding is fine. Sometimes people do not need to hear that so we probably would not have an explanatory paragraph about funding. But the ones that are tougher, there probably would be an explanatory paragraph.

Mr. Allen said that one of his questions is how are we going to see this in the standard, and that Ms. Payne kind of just answered that. That it would be within the standard section as clarity. In other words the definition of a program needs to be this.

Mr. Reger continued with two issues:

1. “program” is problematic mostly because we have not really settled on a fixed definition of “program” in the federal government.
2. In the staff draft it seems a program is pretty well defined because in order to have a separate distinct functional area then somebody had to have done that. They had to say here's a guarantee, here's a particular set of laws, here's something that we are going to call a certain program or activity because we are trying to judge whether it, in its very nature establishes risk.

He asked if Ms. Gilliam could relate that to Item #5 which is adverse event, which is the one that struck him because in this regard risk might be established regardless of whether we have an adverse event. For example, back to the days of the water quality programs where the federal government passed a law and backed all the states' water quality activities, and assumed the risk of the bonds the states were going to issue to create the water quality program.

While there may have not been any deliberate risk by the program until there was a loss of one of those bonds, but I would think an accounting event occurred every time a state and local government issued debt that was really a guarantee by the federal government, which as far as he can tell nobody every accounted for in those days.

He asked what are the relationships between the characteristics, and, if Ms. Gilliam could talk about each of these just a little bit to provide clarity.

Mr. Allen wanted to clarify what is covered since his assumption has been that this project is broken down in specific segments, and this segment is looking at this particular issue, which is the insurance. However, there may be some risk or something that does not quite meet the definition or the characteristics that we have got here. He

continued by stating that the assumption is that we are also going to look broader at all of the risks that a government may have. So just because it may not meet one of those specific characteristics does not mean that there still is not some risk that would be picked up in this project as we look at that project later. Now that may be a wrong assumption, but that helped him from getting too hung up on whether the characteristic might include everything or not.

Ms. Gilliam answered that this is the first phase of this program, and these characteristics were specifically developed to clarify the definition for an Insurance and Guarantee Program. These would be the types of characteristics that they would have to match in order to be recognized as an Insurance and Guarantee Program.

She answered that no, these are not all risks of the risk assumed project. We will have to go into the next phases and do the same kind of process where we develop definitions and characteristics to capture additional types of events or programs where there are additional types of risks. In summary, this is just the risk for the Insurance and Guarantee Programs.

Mr. Allen wanted to go back to Mr. Reger's example stating that we do not have something that sets up all of these characteristics, but in essence a law was passed where virtually every state had to issue debt to try and catch up on providing quality water. He asked if that would meet all of these characteristics; the designated population characteristic?

Ms. Gilliam stated that Mr. Reger is using an example we did not use.

Mr. Allen continued saying that his thought for that example is, if it meets this definition, fine. If it does not, it would be caught in a broader net of broader risk characteristics.

Ms. Gilliam clarified by saying that the task force did discuss that in our exclusions. The task force was specific about whether the compensation first of all is financial, and if it is discretionary. Mr. Reger's example is safe water, so that sets up a program to provide safe water. Now if the water is not safe and something happens then is there an insurance or guarantee that somebody is compensated for? That piece of it might fit into an Insurance or Guarantee Program. But the program where they are providing safe water would not if we went through the characteristics and did a check on each one, because their mission is not to provide insurance or guarantees. Their mission is to provide safe water.

Mr. Allen explained that when the law was passed it was a state's responsibility. But in reality there was this assurance that the federal government would back those bonds.

Mr. Reger explained that it is the word 'program' and it may just be because program has a budgetary meaning. And he does not want to quibble over it since activity makes as much sense as program. To clarify, he asked Ms. Gilliam if she is using program as an organizational or as a word to create a unit of organization.

Ms. Gilliam stated that that was correct. Program could be its own agency or it could be administered within a larger agency. For example, FDIC is its own agency. And then you have the vaccine program which is administered within one of the HHS organizations. So that is why the task force was more specific as we got into that characteristic. Mr. Reger said okay.

Mr. Steinberg said that from the conversation, he understands that the question is what is the purpose of the characteristics? Why are they listed here?

Ms. Gilliam suggested that since she has received the characteristic question more than once to move into discussing the definition.

Mr. Dong asked for clarification as to whether the characteristics define terms in the definition or expand upon the definition. Ms. Payne asked Mr. Dong if he meant expanding literally is inconsistent with the short definition and might sweep more things in or expands in the sense of clarifying? Mr. Dong answered the latter, in the sense of clarifying.

Ms. Payne explained through an example that the definition talks about “authorized by law” but it does not explicitly describe what the program does in the law. By including characteristic #11, Hierarch of Authority, that explains that the program begins with the law because federal agencies do not do anything unless it fits under the umbrella of an existing law, and then more clarity is provided by expanding into the use of regulations, then agency policy and finally to the most specific with explicit arrangements and agreements. In the sense of clarifying, that is the role of the characteristics.

In working with the task force, Ms. Gilliam mentioned we presented it the other way with the definition first. And, for example, we had a task force member who talked about not being considered an insurance program since they do not accept the entire risk. By moving to discussing the risk characteristic, the task force understood that an insurance/guarantee program can accept all or part of the risk.

Ms. Gilliam explained that she thinks that a characteristic expands and clarifies the definition, similar to SFFAS 17 for social insurance which she used as a model.

Mr. Reger encouraged staff to think about a word other than ‘program’ because ‘program’ has definitive meaning in our space, and it is incredibly badly defined.

Ms. Hamilton stated that while she understands the problems where agencies can't define programs and activities for other statutes, it does not seem to be the same concern here due to the limitation of insurance and guarantees. She pointed out the examples in the back and asked if the Board looked at those and did they still have the same concern? Mr. Allen said yes.

Mr. Dong said that if you look at the label, he actually thought that the text underneath that made sense. Mr. Reger agreed.

Ms. Gilliam clarified that staff is not defining program for the entire federal government. Staff is just defining it for what is an Insurance and Guarantee Program in relation to these standards and if a program fit into these characteristics then it will need to measure and recognize those accounting activities. Mr. Showalter agreed.

Mr. Reger is concerned about the confusion we are going to create by the word.

Mr. Showalter suggests to Mr. Reger that we never let the word “program” appear by itself. And it has to be always preceded with the adjective insurance.

Ms. Gilliam asked if she should scrub the definition and use “activities” in place of “program.”

Ms. Payne cautioned against that, addressing Mr. Reger, because one of the concerns if we go down to activities, then an insurance feature in a contract may become something that meets this definition. If you go up to organization, then you have to have an organization whose sole mission is insurance activity. Therefore, we are being careful not to go too big or too small in using the word program.

Ms. Gilliam suggested that we include a footnote that says this is to define insurance and guarantee programs and does not fully define a federal program. Mr. Reger agreed that is a good idea.

Mr. Reger discussed adverse event to understand whether an adverse event created risk or if the creation of the program itself created risk.

Ms. Gilliam replied that no. From reviewing the history these programs were created in reaction to adverse events. For example, when banks failed around the time of the depression the FDIC was created in order protect people's money. These programs are always to protect the environment and/or the economy. And it seems like it comes after the government recognizes that there is an adverse event and then the program is established. Task force discussion disclosed that the event must create a negative consequence and loss to citizens and decided to call it an adverse event. Mr. Reger agreed.

Mr. Dacey asked to clarify a different point. In looking at recognition criteria for insurance contracts do we also include guarantees for which we already have at least some accounting. So his question is does this definition intend to focus more on the risk disclosures or drive us to what meets this definition being in one category of recognition. Ms. Payne said that we have not yet gotten to the recognition portion. But you are correct in that recognition is the next step. In the exclusions, we sweep out loan guarantees. So we are not trying to address that at this point. Mr. Dacey agreed.

Ms. Payne explained that we are not trying to harmonize the risk disclosures at this point, but will eventually. We did not include the non-loan guarantee portion in the actual definition, but we do think that there are some “guarantees” out there that analysts have

identified as insurance. We expect that in substance some “guarantees” are actually insurance. We will ensure that it is clear that any activities meeting the definition would be considered “insurance” even if labeled “guarantee.”

Ms. Gilliam suggested that we consider putting the “non-loan” back into the title to clarify and to reduce any confusion.

Mr. Dacey said that he sees where the guarantees fit in. He just wanted to make sure he understood in what context we are looking at this definition if it is to drive both disclosure and recognition for this group of programs, activities, then that is what we should be looking at this definition for as both recognition and disclosure. Ms. Payne agreed.

Mr. Dacey stated that we started off on the risk assumed and that helps. In answer to Mr. Reger’s question, the idea is that we accept the risk, and one of the questions he had with the definition is that it is clear that once the program accepts the insurance risk that then they are on the hook for making payments in effect for adverse events when they occur. Then we will figure out how to disclose.

Mr. Reger agreed and said that as Ms. Gilliam talked he understood that programs are created from adverse events. He acknowledged that the list of programs provided was helpful. But we have not gotten to whether there is recognition or even qualification of what those are, and it may be that we have exposure, using yet another word, around a program that we have not experienced a particular risk. For example, Credit Union Insurance Fund was created after a credit union problem. But they have now had losses, but we are not talking about waiting until there is a loss to recognize some things. There’s a risk assumed in the creation of the fund.

Ms. Gilliam said that after 9/11 a lot of different insurance programs were created. Like Mr. Reger said there are more insurance type programs and there are some guarantees. I think that is why we want to put them together. I’m not sure if we really pulled out too many of the guarantee programs from the list, but I think just to make sure we are capturing the non-loan guarantees with this definition, we want to keep them there because we do have the loan guarantees, and we are going to be looking at the similarities to those next. But that is why we wanted to keep insurance and non-loan guarantees together, because often the term insurance and guarantees are interchangeable.

Mr. Reger asked if staff is going to look at those loan guarantee programs for what you should have here. Ms. Gilliam said that yes that is our next step. Mr. Reger agreed.

Mr. Allen asked that when staff moves into Phases two and three of the project then that is when you are looking to be very broad. Therefore, he asked if there are potential effects on future outflows. That and you can’t get any broader than that? Mr. Reger agreed.

Mr. Allen said that, his concerns about do we capture everything in this definition went away because he realized that will be covered in another phase.

Mr. Granof said that if you were going to provide a definition of insurance it would look very different than a definition of guarantee. The nature of insurance, characteristic is different than a guarantee. Are we going to run into trouble by linking the two so closely? Insurance is usually characterized by the payment of premiums, and it is characterized by actuarial computations and as a guarantee is usually a non-exchange transaction.

Ms. Gilliam clarified that the task force did a lot of work on the funding characteristic and discovered that not all programs take in premiums. The ones that do take in premiums act more like the type of insurance program that you would purchase for your automobile. There are some that collect fees. There are some, that have appropriations, but some of them do not. It is really a mixed bag.

Mr. Granof said that what you are really saying is that often we do not distinguish between insurance and guarantees, that the terms are used interchangeably.

Ms. Gilliam agreed.

Mr. Granof explained that his concern is when we get into issues of recognition there may be problems to deal with. He asked that in most insurance programs that are characterized as insurance, are they characterized by reserves that the agency maintains.

Ms. Gilliam stated that some of them do maintain reserves, and some of them do not.

Ms. Gilliam referred the Board to page 6 number 8.3 and stated that we did include in the financial risk character if and how much to place in reserve. So for financial risk reserves are one of the things that they can manage and by law are told what percentage to keep in their reserves, for example: FDIC, OPIC and FCSIC.

Mr. Dacey asked Mr. Granof if he was referring to capital or liability for losses.

Mr. Granof answered liability for losses. And that he was not talking about capital.

Mr. Dacey said that sometimes that is used as capital. Mr. Granof agreed.

Mr. Dacey explained that some of these insurance programs like FDIC are under FASB and then the other programs are under FASAB. Mr. Granof clarified that FDIC is under FASB. Mr. Dacey said that FASAB Statement 5 would draw in liability for losses. Mr. Granof agreed.

Mr. Dacey said that although he is not familiar with all of them, he did know that crop and flood insurance have a liability for incurred losses at the end of any period that is reported, accrued and dealt with from an accrual basis. Their budget does not, but accrual picks up at least on those. He can't say categorically for every one of them, but

in principle they should be under FASAB Statement 5 accruing some liability for losses that have occurred, for events that have happened.

Mr. Granof said that he assumed that some of the programs are expected to be self-sustaining. Is that correct or not? Mr. Dacey said that is a good question. There has been some recent legislative activity this week on flood insurance premiums. There was an explicit discussion on that particular point whether they should be designed to have premiums to cover the losses. Ms. Gilliam said there often are not enough premiums to cover their losses. Mr. Granof explained that we are talking about a huge range of different types of activities.

Ms. Gilliam clarified that each one covers a different adverse event. Mr. Granof acknowledged that he knew that and pointed out that they are characterized very differently. Some are much more like traditional commercial insurance programs and some are simply non-exchange guarantee programs. Ms. Gilliam explained that is why the characteristics help programs to look and see if they were broad and flexible enough to capture all the differences. Mr. Granof said that he was concerned that we are too broad.

Ms. Gilliam explained that the task force tried to keep it as narrow as possible, but that our concern is to also capture new programs that pop up like the ones after 9/11. So we want to make sure we are not just capturing what is out there now but that new programs can also fit into the characteristics and the definition.

Mr. Steinberg asked why FHA is not included in here. Ms. Gilliam clarified that the Housing Authority provides loan guarantees. She went through the budget and pulled out everything that said guarantee and insurance, and most of those were loan guarantees. Mr. Steinberg said that was interesting because he remembered reading the financial statement where they talk about insuring the mortgages.

Ms. Gilliam explained that it is confusing because they use the word insuring for loan guaranteeing. Non-federal banks agree to provide these mortgages, but the FHA is going to insure the loans. So the government has the risk to do that, which is captured under the Credit Reform Act and SFFAS 2. The task force is going to see if there are any similarities or differences that we can use from SFFAS 2.

Ms. Gilliam asked if there was any more discussion about the characteristics. It was decided to review the definition.

Ms. Gilliam read the following:

The definition is Federal Insurance Guarantee Program, which we'll call Program, and is a program authorized by law to provide financial compensation...

She noted that the footnotes that you see just reference you back to a characteristic, but without any page numbers because that could change with changes to the document.

...authorized by law to provide financial compensation due to a negative impact resulting from an adverse event. The Program manages the related risk and compensation to a designated population according to the following:

- A. law or otherwise enforceable by law;
- B. related regulations;
- C. agency policies; or
- D. explicit arrangements or agreements.

One of the Members said that really is good. Ms. Gilliam restated to the task force members on the phone that in case they did not hear that, the Board said it is very good.

Mr. Allen stated that the reason the definition is important is that even though we are going to go on and look at many other things, in the end we may actually come up with different criteria for ways to recognize or disclose events. So he thinks that we have to be comfortable since he thinks in this case it is going to be a recognition and a disclosure. And the reason we care about the definition is this will be a very specific group of risks that we will have both accounting and disclosures for. But are we comfortable with this definition of Insurance and Guarantee Programs?

Mr. Reger said that he would also remind everybody, including himself, that this is the first chapter of this book we are opening on risk and that as we open each chapter while we want to stay true to some guidelines he thinks we are going to find out more. That he is beginning to understand characteristics that he would have called attributes. And so, as he looks at individual lists, these are the attributes of that risk he wants to look at and see whether it fits. And he suspects that as you start to do that you may find in your definition you may want to say something more or less in order to make sure they are all covered or to ensure that something remarkably large is included. While he does think it is a really good start, but that it would not surprise him if they have to come back in the middle of this process and revisit it for things that they discover. Mr. Allen agreed.

Mr. Dacey stated that he liked the definition overall, but we put the risk in the second sentence, and he thought that insurance or guarantee risk is an inherent part of what an insurance program is. And he did not think that by putting it in the second sentence, which talks about managing the risks that it is clear. In the second sentence it may be read that that is not a critical part of what a contract is; that it is just ancillary. Therefore, he recommends moving the risk discussion into the first sentence to make it clear that it is an insurance risk we are talking about versus any kind of other adverse event. Because he knows that we have got a list of exceptions, but when you get into those, there are all kinds of adverse events for which the federal government may provide compensation, but they are not really insurance or guarantee risk-related types of programs.

Ms. Gilliam agreed that staff would rework the definition to include risk in the first sentence and work with Mr. Dacey for approval.

Mr. Showalter started a conversation on whether these programs are actually managing the risk. That these programs may only be compensating. Ms. Gilliam clarified that some of the programs do manage the risk. Mr. Steinberg said that FDIC regulates the banks so they do not have to pay out. Mr. Granof explained that is an insurance program. That is what is a characteristic of managing insurance risk is.

Mr. Showalter said that it just seems like some of these are not really managing anything. They're just picking up the tab when something goes bad. That a guarantee usually just picks up the tab when it goes bad. Mr. Granof explained that is an essential difference in your traditional conventional insurance and guarantees.

Ms. Gilliam referred the members to page 6, footnote 6, for financial risk explaining that many of the programs limit their exposure to insurance risk. For example, FEMA calls it probable maximum loss, and OPIC calls it maximum contingent liability. They all have a different name but they do manage their risk and their exposure

Mr. Dong stated but they are not managing the activities that create the risk in the first place. Mr. Granof asked how they limit their exposure.

Ms. Gilliam explained that an adverse event is really outside the control of the program. For example we can't control if a hurricane happens or if there is political violence that happens because that is outside of our control. But once an adverse event happens and a claim is put in, the programs have all sorts of caveats in their contract, for example OPIC limits exactly how much they are going to pay out for an event. So they are managing the financial compensation - the actual risk of an adverse event, that is why we broke up risk between the program risk and the financial risk because they are two separate types of risk.

Mr. Granof stated that he agreed with Mr. Showalter that he did not think that is considered managing risk just because they agree to only pay a certain amount.

Mr. Dacey said that he did not know if managing is the right word for underwriting thresholds that go into what accepting risk in the first place. Maybe we do not need "manages" in the definition particularly if we move risk into the first sentence.

Mr. Showalter agreed. Ms. Gilliam agreed.

Mr. Steinberg recommended that we not be so quick to take "manages" out of the definition because some programs may manage. For example, flood insurance has some regulations about where you can build, whether you can build on a flood plain or how high off the ground you have to be? To him that would be managing.

Mr. Dong asked if that is part of the insurance program or is that a different part of FEMA -- actually working mitigation issues? Mr. Showalter explained that as a

purchaser of flood insurance, the premium varies based on that, but no one told him that he couldn't buy insurance. In other words, if he built in a low lying plain on a block slab federal insurance would still insure the home. Mr. Steinberg said but by charging you a higher premium.

Ms. Gilliam asked if they are then managing the risk. Mr. Showalter stated that, no, they are not managing that risk. They're limiting the exposure. Ms. Gilliam said that if you are below the water level then your premium is going to be higher. So they are managing how much compensation they'll eventually pay out.

Mr. Darcy explained that it might be better to say they operate the program within the law as opposed to managing the risk, right?

Mr. Showalter explained that for managing the risk, they build levies and they do other things to keep the area from flooding. That's not what they are doing. Mr. Reger said that it is the Corps of Engineers who says what a flood area is, and then it is up to state and local zoning to actually allow for construction of building in the zone, which of course is next to water, so everybody wants to build there and causes higher property values, so everybody wants to pay more to build there. It's when you build there and wind up with insurance premiums, which is why the insurance premiums were fixed so low for so long, inappropriately. Mr. Showalter said that he totally agrees.

Mr. Steinberg suggested then that the solution is not to say managed risk. Say operating the program. Mr. Showalter said that it is just not managed. Mr. Dong agreed. Mr. Reger stated that will then not always be a characteristic. It would be that there is risk. Mr. Showalter said that he was supporting Mr. Dacey's comment in that we need to address risk early. Mr. Dacey explained that it basically includes an inherent arrangement and includes the concept of insurance or guarantee risk in it.

Regarding guarantee, it was noted the definition may sweep in loan guarantees but they are then excluded. Some also indicated there are non-loan guarantee to consider.

Ms. Gilliam asked what the decision was about redoing the definition.

Mr. Allen asked if anyone objects to just letting staff work with the wording? No one objected and staff was directed to reword the definition. Mr. Allen directed the Board back to the characteristics.

Ms. Gilliam asked if the Board wanted to continue calling them characteristics. Or do you want to call them attributes?

Mr. Dacey asked that if we are going to basically meld those into the defined terms used in the definition and will we even have characteristics when we are done or will they just be integrated into the papers? He wanted to know if it matters at this point. Mr. Allen clarified that for the standard they would probably be integrated in. Mr. Dacey said that there was no need to debate over what we call them at the moment. Ms. Gilliam agreed.

Mr. Allen asked the Board if they captured the right scope. Mr. Reger explained that staff needs them to do what you are about to do.

Mr. Dacey said that he thought they were pretty good and that they align reasonably well with the FASB definition too in terms of the concepts. He was sure staff considered the FASB definitions. Ms. Gilliam stated that yes; the task force did consider the FASB definition.

Mr. Dacey confirmed that he did not think staff consciously left out or altered anything from the FASB definitions?

Ms Gilliam explained that because FASB focused at that time on insurance contracts, we left out a lot, and now they have changed their scope. They're not really going in the whole direction of insurance contracts. They're sticking with what they were doing. But in relation to their definition we basically took out risk, pulling out the word uncertainty which is what we gave to the task force to start looking at. We came up with something that was geared toward the federal government versus insurance contracts because they were trying to define a contract, and the Board had decided that we were going to be working on programs versus contracts. So going through the characteristics are members comfortable with Program?

Mr. Allen said we did not need to go through each characteristic. He asked the Board to raise questions if they have any questions on any of the characteristics. He suggests that members could just provide that directly to the staff.

Ms. Gilliam asked if there was an approval.

Ms. Payne said that is general agreement with the characteristics. And as we convert it into standard language you may hear some adjusting of wording. Mr. Allen agreed.

Regarding the exclusions, Mr. Dacey was concerned with: #1) the word "uncertain" used in some of the exclusions and to whether it is an insurance contract if there is 100 percent certainty that you are going to have a loss, and #2) we used a "not uncertain" adverse event as a reason for excluding social insurance. If there is no risk and it is 100 percent certain, it is not much insurance anymore. Mr. Reger asked if Mr. Dacey was arguing that unemployment should be in (not excluded). Mr. Dacey clarified, that, no, he was not.

Ms. Gilliam directed the Board to page 9 of 40 to discuss the exclusions. She asked if the members agreed with excluding loan guarantee programs.

Mr. Dacey asked to discuss the second exclusion and to give a reason that it is not uncertain, since that is typically a characteristic of insurance and guarantees. He expressed concern that uncertain was not in the characteristics. Ms. Gilliam stated that the task force changed it from uncertain occurrence to an adverse event after careful analysis of the FASB definition.

Mr. Dacey said that we might think about that a little bit. He would like to talk about it further, just not necessarily here since we are not prepared. But for the next meeting we should think about discussing uncertainty.

Mr. Reger asked as if it is really an uncertain adverse event. Mr. Dacey explained that he thinks there is some argument that if it is 100 percent certain the federal government is going to compensate an individual, it is not much insurance. And maybe that is a different category.

Members briefly discussed whole life insurance and FHA's treatment of Ginnie Mae.

Mr. Reger asked Mr. Dacey what his position was for unemployment under exclusion number two. Mr. Dacey explained his concern was for using "uncertainty" throughout the characteristics.

Ms. Gilliam explained that uncertainty is used within the characteristics for example in #7, Insurance Guarantee Program Risk on page 5, that the program risk is the uncertainty of an adverse event occurring. Mr. Dacey agreed saying that in that respect it may be fine and he could continue the discussion offline.

Ms. Gilliam asked if there were any other comments or concerns about any of the other exclusions.

Mr. Reger expressed concern about where this is going and requested that Ms. Gilliam keeps a list of programs that are not covered as they come up to facilitate future discussions on why a program is excluded. Ms. Gilliam agreed stating that one of the tabs on an analysis has programs that are excluded from Insurance/Guarantee programs.

Mr. Allen agreed explaining that the advantage of what Mr. Reger just said is we are excluding things from this phase. Eventually everything that is excluded is going to have to be titled and sorted and organized in a way that for these types you'll have a disclosure and for those types you'll have display and disclosure.

Mr. Allen asked if there are any other questions or suggestions in regard to exclusions.

Mr. Dacey asked whether certain programs would meet the basic definition, for example SEC and CFPB which collects monies and distributes them to harmed individual as part of their mission. Therefore, does it meet the definition and is an exclusion? He did not want to decide this at the table today, but staff should look at those to see if they would meet the definition or if they would be excluded.

Ms. Gilliam explained that she became aware of another SEC program entitled SIPC which is authorized by law, but is not a government agency. It is a non-profit. If we use the characteristics as a checklist it did not fit in there because it is not a federal agency, and it is non-profit. With our definition saying it is a federal agency or managed within judgment might have to be used. Ms. Payne said that we can address that.

Mr. Dacey explained that in some respects he would argue that there is not an insurance risk because we would not pay people unless we collect the monies. The government does not commit to fully compensate all harmed individuals. It seeks to collect monies and distribute them. So it may not meet the definition but just that there may be other things out there, which is his concern about looking at the rather broad nature of the exclusions that we make sure that we capture everything out there.

Mr. Reger said that when we conclude our entity discussion it will not say just federal agencies, it will say federal reporting entity because we want to include everything in all our standards, right? Ms. Gilliam agreed. Mr. Dacey asked Mr. Reger to clarify his point.

Mr. Reger explained that as we conclude the efforts towards defining the federal reporting entity then all our rules are going to apply to those federal reporting entities in one way or another. So if we are looking at risk it should be to apply to any federal reporting entity, not just a federal agency.

Mr. Dacey clarified that if we are speaking of disclosure entities, he is not sure they would translate to that unless it is a risk to the government. Because entity disclosures could have risks that are more indirect. Mr. Reger agreed.

Ms. Payne acknowledged that Ms. Gilliam did a terrific job getting the task force, and in addition to accountants and auditors we have got program people and attorneys to help us. It really has been a tremendous effort.

Mr. Steinberg added that he thought this was very well put together, very crisp. Decisions were easy to understand and Ms. Gilliam did a great job.

Ms. Gilliam thanked everyone.

Mr. Allen and Mr. Reger again thanked the task force for their participation.

Ms. Gilliam asked if the Board wanted to discuss the next steps.

Mr. Allen said that they were laid out and that this is clearly a pyramid which we are at the top of. He thanked the Board and closed this session with a 10 minute break.

**CONCLUSIONS:** Ms. Gilliam will make revisions to the definition and characteristics and continue to work with the task force.

- **Public-Private Partnerships**

Mr. Savini began this portion of the meeting by handing out a revised draft Exposure Draft document (ED) and noted that recent changes were made to the document contained in Tab F pursuant to member input subsequent to mailing Tab F. Specifically, staff obtained suggestions from Messrs Allen, Steinberg, Showalter, and Granof which are reflected in the revised ED.

To begin the discussion staff then reviewed the Next Steps on page 2 of the transmittal memo. Staff reviewed each of the major milestones within the project stating that the draft ED (addressing disclosures) is scheduled to become a pre-ballot draft ED shortly after the meeting where members will be invited to offer final changes. Staff also noted that the measurement and recognition phase of the project is tentatively scheduled to begin in January 2015.

Mr. Savini then asked members to turn to page 5 of the transmittal memo where he proceeded to review the 5 questions he was seeking Board input and advice. The review follows:

**Question 1 – addresses the proposed public-private partnership (P3) definition.**

Some members thought the definition was too broad while some too narrow. As such, staff proposes that an introduction precede the definition to assist preparers and users to best understand how this definition is supposed to apply in the federal space. Therefore, Question 1 deals with paragraphs 1 through 11 of the draft ED and how well they explain the definition.

**Question 2 – addresses the risk-based characteristics.** These characteristics have been developed to assist entities in identifying those P3s that possess risk (i.e., a filtering process). The Task Force identified 4 Conclusive characteristics where if an agency meets any one of them they must disclose that P3 arrangement. If the answer to all 4 is negative or no, the entity then moves to the Suggestive characteristics. The Suggestive characteristics are not taken individually, but in connection with one another. Therefore, Question 2 deals with the efficacy of the proposed characteristics in helping entities filter-away arrangements/transactions that have little or no risk.

**Question 3 – addresses the required disclosures an entity would need to provide.**

At the most recent Task Force meeting the group's discussion and analysis led to 7 disclosure requirements. Therefore, Question 3 deals with how relevant each of the 7 are for financial reporting around P3s.

**Question 4 – addresses the effective date.** Staff is proposing an FY16 effective date (e.g., for fiscal year 1 October 2015 through 30 September 2016).

**Question 5 - addresses the sufficiency of the draft ED questions.** Staff would like to ask certain questions of the respondents concerning the draft ED and seeks Board advice.

Staff proceeded to note the comments and edits made to the draft ED that resulted in the revised hand-out:

- Page 13, Paragraph 5 – Mr. Granof noted that this proposal most certainly does not alter measurement and reporting, but it does alter reporting.
- Page 13, Paragraph 6 - guidance staff had received at the December meeting.

- Page 14, Paragraph 11 – reflects a discussion that Messrs. Allen and Dacey had regarding language dealing with legal liability and those that could arise from political pressures being exerted on an agency. Mr. Dacey suggested that we adopt SFFAS 5 language that deals with government acknowledged events.

Mr. Steinberg suggested that staff spend some time giving thought to the Introduction's flow. Staff asked members for ideas or help in addressing flow.

Mr. Granof stated that "political pressure" is something we all know in one sense, but it is not a word which we would normally see in a standard. He is troubled by that because political pressure has no legal standing.

Staff noted that "political pressure" is an external pressure that is real and we all know exists.

Mr. Granof disagreed slightly and stated that "political pressure" affects risk only indirectly noting that the political pressure is brought by congressional action.

At this point Mr. Allen suggested that we could be generic.

Mr. Dacey thought that certain conditions exist prior to a broad range of Legislative actions being taken.

Mr. Granof agreed with Mr. Dacey's thought noting that conditions affect everything to include putting pressure on an agency to assume responsibility.

Staff concurred noting that the suggested edit could be "...conditions may lead... to a government acknowledged event...." Staff noted that this is cleaner language that will work well in the revision.

Mr. Reger sought clarification specific to Paragraph 9 in the introduction. Specifically, he asked if staff was suggesting that agencies separately identify P3 items on the balance sheet or, if a note disclosure, will we have a separate P3 note.

Staff stated that we would expect to see these in notes related to PP&E or the assets that they (P3s) relate to. Staff noted that nothing precludes an agency now from classifying their PP&E and segregating P3 assets as well as P3 liabilities. Staff stated the he did not know if members want to direct them to do that, but to staff's knowledge, nothing stops them from doing that if they so desire. Mr. Savini went on to say that risks could also be covered in MD&A as per that standards' requirements.

Mr. Reger acknowledged staff's reply and summarized his understanding as allowing the agency to select the manner of note disclosure as long as the disclosure complied with our requirements.

Staff replied in the affirmative noting that we are addressing agency narratives per se via the notes and not balance sheet displays.

Mr. Steinberg stated that he would not suggest MD&A because agencies rarely present or identify risks in the MD&A.

Mr. Reger then added that he liked the thought of having the disclosure follow the asset as opposed to pulling something that may be a P3 out of its normal context and going through a discussion. However, we are clearly aimed at the disclosure.

Mr. Savini concurred.

Staff then turned to Mr. Dacey concerning the Introduction paragraphs explaining that because Mr. Dacey expressed concern about the definition being too broad, staff suggested adopting an Introduction to help address some of his concerns.

In reply Mr. Dacey said that he still had concerns and would address them at Question 2 where the concerns can be better framed.

Concerning Question 2, staff then asked the members to look at the characteristics beginning on pages 5 and 6 of the Tab F transmittal memorandum and to advise if they thought the characteristics were properly categorized and if questions persisted concerning any of the characteristics.

Mr. Dacey began by stating that he continued to have some significant concerns. Specifically, as he looked at the conclusive characteristics, an entity upon meeting any one of these will automatically have to go to disclosure. His concern is the interrelationship of this with the existing framework in SFFAS 5 or the risk disclosure framework discussed in December because we are not seemingly taking probability into this consideration. This is his first concern. In SFFAS 5 we use the terms: probable, reasonably possible, and remote but here we have language in the disclosure about reasonably expected to incur which in his opinion causes confusion. In essence, what Mr. Dacey did not see being addressed was the concept of probability. For example, if the risk is remote do we want to have these disclosures regardless for things that are remote. SFFAS 5 does not subject losses that are remote to disclosure. He suggested that we start with this concern noting that he had a couple of other ones but that this one concern of probability weighs into this decision process.

Mr. Savini believed that the draft ED inherently does address probability because if preparers are following SFFAS 5 and going through those requirements and identify a risk that they can actually determine is estimable and probable, it will be booked. Therefore, staff went on to say that if that assumption is true, what we are seeing here are those risks that you might not have booked as a liability because they might not be estimable and probable but we know they exist.

Mr. Dacey concurred.

Concerning probability, staff noted that we could consult with DoT's Federal Highway Administration who are experts in this regard because the task force did not specifically

address probability from that view point. The task force opined that P3 risks need to be identified.

Mr. Dacey asked staff to consider a risk if it is deemed to be remote. For example, just assume for a moment that we have a P3 where the risk of loss is clearly remote. Would we expect then to have disclosures in the financial statements about that even though it was remote? It seems that if we say yes, we are going to be putting a lot of information in the financial statements which may not be relevant. Moreover, the risk disclosure framework set parameters around what relevant disclosure and it was probability-based. There is an interrelationship with materiality as well. That is a whole separate issue; to make it clear what is the materiality we are measuring in a P3. Is it the magnitude of the risk or something else?

Mr. Savini replied by confirming his understanding that if staff were to consider language in SFFAS 5 that deals with probability, that would address the concern.

Mr. Dacey responded by saying that it would address that concern if we were limiting risks to -- if we decided this -- those which are reasonably possible. This seems to be the threshold at which we want to have some disclosure about the risk and in essence would basically exclude remote.

Mr. Savini then asked Mr. Dacey a conceptual question that if we already have a liability standard (i.e., SFFAS 5) in place, would not then the guidance be redundant here?

To which Mr. Dacey responded that it could be in some respects. If we decide that we like the model in SFFAS 5, we may want to (1) elaborate on the terms such as possible or remote in this draft ED, (2) elaborate on how one would apply this to SFFAS 5, or (3) some expanded version of SFFAS 5 if we want to go to the disclosure framework and add more. This would show the relationship between SFFAS 5 and this draft ED.

Mr. Savini noted that the only unintended consequence that could arise from this linkage is that we could wind up understating the risks.

However, Mr. Dacey emphasized that it would seem under SFFAS 5 that you'd have some disclosure if there is a reasonably possible loss. For example, you have entered into the contract and the probability of a loss changes over time. Maybe it is remote to begin with and in 5 years the nonperformance risk goes up and all of a sudden you have a reasonably possible loss that needs to be disclosed. However, he does not mean to suggest that we would not disclose relevant risk. He asks though are remote risks relevant. We have traditionally shied away from disclosing things that are remote in financial statements.

Mr. Allen then stated that it seems like one of the challenges of addressing this issue the way we have addressed it is that traditionally we address the issue for display first and then address the disclosure. This probability linkage that Mr. Dacey is talking about normally comes out of that process. That is, when one displays those risks they are probable and when not, they may be disclosed. We are looking at this a little bit

differently, but we are now calling out disclosure on a lot of things that later we may decide we want displayed and then you would almost have to decide do I need both display and disclosure and do I need to modify what I've already issued as guidance here? We are approaching things a little differently than we normally do.

Although staff agreed with Mr. Allen's observation, Mr. Savini noted that in a P3 arrangement the risks are analyzed, so inherently, those risks are deemed reasonably possible otherwise they would not be a consideration in the allocation of the risk and the resultant profit and cost reimbursement or whatever risk sharing agreement might ensue. Therefore, the conceptual problem we have in dealing with this is that we are talking about risks that both parties have identified as bona fide and real deserving of their attention. This risk-sharing serves as the very basis for why we are getting into this arrangement because the private contractors have a better way of managing this risk than the government has. The risk is there and it is real and by possibly linking this draft ED to SFFAS 5, the unintended consequences are that we put a lid on risks that an entity knows exists and we wind up not discussing them and the electorate and the citizens are unaware of these risks which are in essence taken on their behalf.

In response, Mr. Dacey noted that there are a wide variety risks and SFFAS 5 accommodates them with the probability association. So, if the probability is such that it results in at least a reasonably possible loss, then disclosure comes into the picture. Admittedly, there are risks present all the time but there is a nexus between this project and SFFAS 5 because we have laid out there at least what our concerns are and what type of information we want to see when we have those risks. Specifically, do those risks represent a probable or reasonably possible loss?

Turning to Mr. Dacey, Mr. Allen asked if we do not also have the filter of materiality at play. In other words, the standard only applies in the remoteness of the risk and that an agency relates this to materiality and their decision could be yes, it may be remote, but if it is material we would disclose. Both probability (i.e., remoteness of the risk) and materiality work together.

In response to Mr. Allen's observation, Mr. Showalter stated that this was similar to what he was thinking however, he had two comments that are going to be totally opposite, one of which is an audit concern. To the Chairman's point, if you look at this issue from a risk management perspective there would be likelihood/probability and magnitude at play together, which is Mr. Allen's point. However, if we only have probability as Mr. Dacey notes, he would be concerned about some really big things not getting disclosed that need to be disclosed. We need to tease this out.

Mr. Dacey replied by saying that he was not concerned about teasing the issue out but rather, his concern is the way things are currently stated - it is an absolute. That is, if it meets a certain characteristic, an agency must disclose the matter even if it is not relevant.

In reply, Mr. Showalter acknowledged the absolute nature of the current language and suggested further discussion to handle Mr. Dacey's concern. Mr. Showalter went on to

say that he would not want not to disclose something that management would say is not likely but represents a significant or big exposure. We should make sure that gets disclosed.

Mr. Dacey agreed.

However, Mr. Showalter noted that having said all that, he wants to make sure we can get our arms around this so we do not leave the auditor and the issuer trying to figure out what is the population. That could be a problem as we cannot define it, then we have got an issue with the auditor and the issuer saying they can't find the arrangements or transactions.

Mr. Dacey again agreed.

Mr. Savini noted that prior to the latest financial crisis Mr. Alan Greenspan told Congress that the sub-prime crisis was contained and that everything was fine. So, this issue of risk, balancing probability and magnitude is tough. Staff noted its desire to include Mr. Dacey's comments in a way that best reflects his concerns, however Mr. Savini emphasized that the P3 risks we are discussing only address those risks that both parties have identified as being reasonably possible. Therefore, they have already gone through this probability assessment and identified significant risks accordingly.

Mr. Dacey replied that he did not know that to be the case. There is a risk that something could occur before you even consider probability. Then there is a probability of that risk happening. So he did not disagree that there are risks. He does not want to under report or over report. We should have a clear discussion of which risks do not go forward because of their low probability and/or low materiality. This needs to be reasonably well defined so the preparer and auditor can come to some conclusion about what should be disclosed.

Mr. Showalter stated that if this did not occur we would get disclosure over-load because everybody is going to be afraid not to talk about all of their risks.

Mr. Savini observed that when discussing risk, Mr. Dacey refers to SFFAS 5 whereas Mr. Showalter refers to an entity's enterprise risk mismanagement practices and that we have two different frameworks being discussed. Staff asked if the Board would prefer one over the other? We would naturally default to our SFFAS 5 but some entities have established enterprise risk management practices in place to manage risk, and they may not even consider SFFAS 5 criteria.

Mr. Dacey said that he did not think they were inconsistent. In SFFAS 5 we look at likelihood and magnitude. An adjustment may be that if certain risks are remote perhaps there should be a reasonably high threshold for materiality that needs to be crossed to disclose it.

Although Mr. Showalter also agreed that they are not inconsistent, he noted that enterprise risk mismanagement frameworks focus on the remote by not dismissing such

risks merely because they are remote. They are worried about the magnitude. As such, maybe a little more clarity in this area is warranted.

Mr. Dacey agreed with Mr. Showalter's point but maintained that there is some type of filter that needs to be considered.

At this point Mr. Granof asked Mr. Dacey what wording exactly in the draft ED was he concerned with? In other words, regarding disclosure, for example, we require identification of significant risk. Admittedly, we can attempt to define what we mean by significant risk.

Mr. Dacey acknowledged Mr. Granof's point but noted Question 2 where it says if an entity's P3 meets any one of these conclusive criteria it will be included for disclosure. It's an absolute and so my point is that it may meet those characteristics but be low probability or low magnitude.

In reply, Mr. Granof said that most of the conclusive criteria are not expressed in terms of risk. For example, conclusive criteria #2, says that "The federal government participates and helps sponsor or is party to..." and does not explicitly talk about risk.

Mr. Dacey again made the point that under the structure in the draft ED, if you meet any one of the conclusive criteria you have to meet the disclosure requirements.

Mr. Dong made the observation that this was in fact Mr. Dacey's point. That is, by not talking about risk as Mr. Granof says, entities might capture too much of it.

Mr. Dacey went on to say that we could capture a lot of information that may not be significant.

Mr. Granof noted that this could occur even though there is no risk. What you are saying is if they meet these criteria they go in even though there may be minimal risk.

Mr. Dacey concurred and stated that this was his point and then added that this would drive you to have these disclosures merely because you met the criteria, notwithstanding materiality and, probability. That's my concern.

Although Mr. Granof understood Mr. Dacey's point, he did not know how to best address it further noting that materiality is yet another issue in this discussion.

Ms. Payne stated that while the characteristics (also referred to as criteria by some members) do not address risk directly, at one time they were referred to as risk-based characteristics, and the goal of the task force was to identify characteristics that from the universe of P3s, swept up just the ones that were more risky. For example, a grass mowing contract would be excluded. The sense is that these characteristics are serving as filters. Now, you may want tighter filters, but these filters were intended to get the remotes out and leave the not-remotes in. Maybe that could be explained more crisply and maybe the bar is too low for Board Members.

Staff explained that he attempted to show the risk rationale along-side each characteristic because this is what the task force is saying are the predominant risk characteristics in P3s that they would be concerned with. If the P3 partners have identified risks, risks that they can tie remuneration amounts to, profit to, cost reimbursable sharing agreements with, etc., then it seems like the risks are reasonably possible otherwise they would not have dealt with it. Therefore, if the Board really thinks we are going to get a lot more mileage by linking this draft ED to SFFAS 5 or to an enterprise risk management system, he suggested that whatever framework the agency uses in dealing with its P3 risk then that ought to be the process they use for meeting this standard.

Mr. Dacey replied by saying that he did know that risk identified by an agency implies reasonably possible risk. You go into a contract and you may do risk sharing with the other party, but the probability of that event happening that you are talking about may be so low or immaterial that it is not worth reporting. He did not associate that an identified risk is automatically a reasonably possible risk of loss.

Mr. Allen probed Mr. Dacey's last point by asking him why one would not associate the fact that an identified risk is in fact a reasonably possible risk. Mr. Allen's basis for this inquiry was that Mr. Dacey said because of the potential frequency or size of the risk an agency can decide that an identified risk is not material. Therefore, because our standards provide the way out, specifically noting that this does not apply to anything that you do not think is material, we should not have to say anything more about it as there are filters in place. How an agency merges the concept of materiality and frequency together to come up with something that passes that threshold is already answered and addressed by materiality.

Although Mr. Dacey said that Mr. Allen's assessment was correct and agreed that materiality is addressed in all our standards, he was not sure that materiality covers the probability element.

In reply Mr. Allen said that yes, as Mr. Showalter has indicated you marry probability with materiality. Therefore, say a risk is remote or SFFAS 5 does not require you to disclose it, however, materiality considerations may require you to disclose the risk even if it is remote. For example, we may think there is a remote chance of a risk materializing but if it in fact does, and proverbially takes the whole ship down with it then I would probably disclose that risk. This is because the risk rises to a level of materiality even if it has not the frequency. Conversely, one may have a higher frequency that is reasonably possible that one may believe is going to happen but the individual events will happen in such a way that one can say they are immaterial to my agency. So in that case, one would not disclose it. Therefore, materiality is a merger of both of those concepts together.

Mr. Showalter stated that while he did not disagree with the Chairman, he wondered if people are going to go through that process or are they just going to check the box in a perfunctory manner? We may want to handle this through a basis for conclusion explanation. His concern is the unintended consequence of people saying if I meet one

of these characteristics the P3 must be disclosed. Otherwise, he agreed exactly with what the Chairman has said.

Mr. Reger agreed and suggested that we could say this even in the introduction but the point is that it must be said.

Mr. Dacey stated that SFFAS 5 is probability based. If there is an inherent assumption that something is immaterial, you do not even go down the road. He did not know that simply looking at materiality, unless we redefine materiality, necessarily incorporates the probability.

Mr. Dong stated that he was thrown when the Chairman used materiality to cover expectations or to imply expected cost, which is both probability and your cost.

Answering Mr. Dong, Mr. Allen provided some historical context noting that FASB, the authors who wrote what is included in our SFFAS 5, says that cash flows represent the superior measure that ought to be used; that is, probability and cost. The risk model we are discussing also merges those two together. Moreover, that is how you audit. I mean you use that risk model when you perform an audit. He did not object at all to putting this notion in the draft ED but is just thinking that in the normal course, those things are considered even if we do not specifically state them.

Mr. Showalter noted that this concept is actually in the auditing literature.

At this point staff advised Mr. Dacey that he would be willing to look at any language or suggestions to address his concern. Mr. Dacey agreed to work with staff in the near term. Mr. Savini went on to say that he believed that Messrs. Dacey and Reger were correct that by putting something in the Introduction or Basis for Conclusions would likely help.

Moving on, Mr. Dacey stated that although he does not think it is a bad thing, he still had concerns that we are sweeping in a whole host of contracts beyond what traditionally has been called public-private partnerships. For example, take SPVs. That's one area that we actually do have SPVs out there today, and they are accounted for. FDIC has several under FASB accounting -- under the variable interest entity literature-- and TARP has them as well, which were recognized under credit reform accounting. The interesting question though gets into if we have these covered here as P3s we also have accompanying disclosures. I'm not sure that in some of these cases we do not already have disclosure such as credit reform that already covers some of those things. Another example is conclusive characteristic #1, where it would seem to me if you read it literally, any long-lived asset we purchased would automatically fall under this. I realize that was not the intent, but it says if you meet this characteristic, you need to provide the listed disclosures. Our definition is very broad. Now, when we come down to the criteria that should act as a filter, I'm not sure if our intent is for everything falling into these criteria to be disclosed. If so, I think it would bring in a huge number of contracts that are not -- and maybe it is back to the risk discussion -- but a huge number of contracts that are not really presenting the types of risk we are trying to capture here.

Particularly if you look at Paragraph 11, which by the way I agree with Paragraph 11 and all the risks you have identified as examples.

Mr. Dong asked Mr. Dacey to clarify his statement.

Mr. Dacey replied noting that an arrangement resulting in conveyance or creation of a long-lived asset would require disclosure. Therefore, any large, major asset purchase would be included by virtue of the broad definition. That's my concern that people when they read this will say I have all these contracts for my buildings, boats, ships, planes, etc., that are now captured by the conclusive criteria. Again, my concern is that our broad definition would probably bring in those kinds of things at that first pass or level.

Mr. Savini then offered to sort through the intended P3 process. If you read the P3 definition, we are focusing on features of P3 arrangements that we know exist in the federal space. So before you would apply the conclusive or suggestive criteria you'd have to make sure that your arrangement includes these features contained in the definition. That's number one or the first point. The second point is that writing an introduction that better couches the risk-based nature of the definition was another attempt by staff to allay Mr. Dacey's concern. However, I might have failed there, but moreover to Mr. Dacey's point about having a broad definition my response is simply that you must be broad in defining these P3s. You have to have a broad definition because agencies are using P3 vehicles to cover what used to be done through traditional contracting methods. For example, would the Board at first blush say we should exempt all leases? What about all enhanced use leases (EULs)? Should they be exempt? I'm confident that I would get a fair number of raised hands that would favor exemption, however please note that we are not discussing traditional leases or traditional EULs, but those that possess features contained in our definition.

Staff noted to members that we have application of new procurement rubrics on things that we customarily never saw prior to P3s. Staff emphasized that he was not being argumentative but needed to illustrate the principle that if we are not careful, we will have the unintended consequence of limiting the pool resulting in under-reporting. For example, I would think that we want to make sure that an agency looks over its entire array of arrangements when applying the characteristics. Staff doubts that we could truly hone in on a very succinct definition and even if we did, we run the risk of excluding things that are P3s. So we have to be careful. I would prefer that we spend time on the introduction or maybe the scope paragraph where we can identify those arrangements that clearly we do not wish to capture.

Mr. Dacey said that he would like to do that and that he does not disagree with where we are going by any means because there are certain arrangements that need to be disclosed. His concern is about avoiding over-inclusiveness of items, and whether there is any way that we can make it clear; similar to the 8 or 9 exceptions for the insurance contract in our last session. In this way we have a definition, but we really did not mean to include "X." I am not saying that is the way you do it here, but I wonder if there is a way to make it clear, without excluding the wrong thing, that we have exceptions. Again, if I read this literally and look down the requirements it seems I've got a very

broad pool and would by necessity capture a lot of contracts that do not necessarily present these unique risks that need to be disclosed.

Mr. Allen asked if we couldn't handle this matter simply by amending the question about the definition by adding a sentence asking the respondents if they believe that many arrangements not possessing P3 features will be picked up for disclosure. Then you could have a short sentence back in the basis of conclusion that the issue has been raised. If we could get feedback from people then we would know whether we need to rewrite the standard differently or not.

Mr. Dacey replied if that is what we are going to do, we can go there. I just have concerns that this literally means what it says. It's hard to point to something in here which says these are the arrangements that should be disclosed and these others do not need to be captured.

Mr. Savini thanked Mr. Dacey noting that he had a bona fide concern. I think your approach is a good one. I would like to urge the Board to engage the federal financial community by pushing ahead with this draft ED. We've got some very smart people out there that were not on the task force, so as the Chairman suggests, let's ask them the question. We could tell them where we are trying to go and they can comment and help us better focus.

Mr. Allen then addressed another question Mr. Dacey raised concerning disclosures and whether some may have already been captured by other standards. Paragraph 23 states, "As a minimum" and the Chairman suggested eliminating that language and just saying that the following information should be disclosed if not otherwise disclosed.

Mr. Dacey mentioned that we may have disclosures for those SPVs where there are no large significant risks. In other words, there is some risk obviously, but there may not be significant risk in some others. For example, guaranteed debt of an SPV where the likelihood of loss, based upon the way it was structured, is extremely low. Moreover, the maximum loss is whatever we have guaranteed, which, by the way relates to a separate question related to whether we have any conflicting issues that would drive something here as a disclosure that would necessarily cause disclosure somewhere else. In any event, if we fix the probability and magnitude issue maybe some of that will be addressed.

Mr. Allen noted again that that issue may be already covered and may be a good discussion back in the basis for conclusions. This document may become full employment in some of these agencies just to apply it but there may not be very many of the P3 arrangements or transactions that are material to the reporting entity; that is the saving grace.

Mr. Dacey replied that his concern over the definition remains. The document does not take you from a very expansive definition -- reiterating that he does not mean to say that this is wrong -- to funnel down to the ones that we really care about.

Mr. Allen suggested that we get some other wording in place but in the meantime move forward with the belief that maybe that is a good respondent question that we could attach that to the bottom of the definition question.

Mr. Dacey agreed noting that if other members agreed, maybe we should put something in the standard itself.

Mr. Reger said that he would support that too. If the intent was always to identify material, relevant, large things that had a significant impact, and not the copy machines then he is concerned that because a copy contract for more than five years will require disclosure.

However, Mr. Dong noted that the copy machine contract would have been screened out by a definition.

Mr. Reger replied that yes, that is the question; does the definition screen the copy contract out.

Mr. Dong said he thought it meets the definition but should not.

Staff noted that contracts would be screened out unless the contract meets the features identified in the P3 definition. For example, financing arranged by the private partner would be one feature. So, if you have got a vendor supplying an entire agency with copy machines and they are using appropriated money, not a problem. However, if that vendor offers financing that can very well be a P3.

Mr. Reger noted that it might not even matter to us because of the relevant size of that contract. Materiality should screen that out because it should not be an issue for a decent sized entity but asking the financial community when you issue the draft ED is a good idea. The document should frame what your intent is in getting there so that the respondents understand and we then avoid a negative reaction. We do need some more filters to cut down on the number of items that we are actually dealing with.

Mr. Dong asked if an entity would need to meet all of the 4 features contained in the P3 definition to be considered a P3 to which Mr. Reger correctly replied any single one of them would suffice.

Mr. Dacey then read the first sentence in the definition, "... contractual arrangements or transactions between public and private sector entities to provide a service or an asset for either government or general public use where in addition to sharing resources, each party shares risks and rewards." Who has the maintenance risk? Maintenance risk could be shared. As it is written it could be easily read to include virtually all contracts.

Mr. Allen asked what the risks and rewards are if you use appropriated money?

Mr. Reger in reply to Mr. Dacey's observation said that he would keep going down the conclusive characteristic list and see that an entity could easily meet any of these.

Mr. Savini concurred and added that meeting any one of the conclusive characteristics is telling us we could very well have a P3 with risk on our hands.

Mr. Dacey agreed with using the word "could" and that was his concern. He wants to disclose risks that are significant. He is concerned that we would be spending lots of resources analyzing lots of things that maybe we should not be expending the time on.

Mr. Savini replied that staff's initial recommendation was to not define P3s but rather allow agencies to tell us what P3s they had in their portfolio. However, staff received pushback from both the Task Force and Board both of whom desired establishing a P3 definition.

At this point Mr. Dacey raised his third issue; that some arrangements/transactions that are not P3s share similar risk characteristics with what we have identified here as pertaining to P3s and as such, should we be disclosing them as well? Does this raise the question whether we are reaching more for a broader concept of risk here than simply P3s? If so, maybe we shouldn't be titling this draft ED as pertaining just to P3s.

Mr. Reger followed that reasoning by stating that one would think that the Risk Assumed project and this P3 project would have an incredible amount of similarities. As both staff members think about risk -- different areas but still risk -- what are the things that we should be worried about and which of those things are worth dealing with here in the P3 project?

Turning to Mr. Savini, Mr. Dong asked if staff's reading was like his in terms of this screening out the copier contract, but then these folks are saying, well, no, you are not screening out the copier contract, what do you see in here that would screen out the copier contract.

Mr. Savini replied that the intent was that the introduction paragraphs would somehow help us best couch this definition, but to answer your question it would be the characteristics themselves that would need to screen out the copier contract, followed by materiality.

Mr. Allen added that the characteristics may be what we need to hear more about. Something we discussed yesterday about the predominance of the evidence seems germane. Some of you interpret that a P3 exists if it just met one of the features but he did not read it that way. A P3 is about sharing of risk and rewards -- evidenced by conditions such as the 4 features identified. It seems like if that is the case maybe that is where we need to build it up. The evidence is on the risk side and that it is shared by both parties. However, we might not want to call out every feature in a federal P3. My reading of the P3 definition was not that if one just happens to meet any one of them, then one is automatically a P3. So, somewhere in between those two extremes of - any or all - is the predominance of evidence that helps decide.

Mr. Dacey observed that the first feature sounds like a capital lease.

Mr. Allen concurred.

Mr. Granof asked if the first test is whether they satisfy the definition of the P3 and if so, how would the copy lease fall into that category?

Mr. Savini replied that the copy lease arrangement/transaction would have to involve the sharing of resources to be considered a P3.

Mr. Dacey noted that we say that the sharing of risk is evidenced by agreements covering a significant portion of the economic life of the project or the asset. Take for example a capital lease on a copy machine.

Mr. Granof stated that he did not think there is any sharing of risk in a capital lease on a copy machine.

At this point staff noted that there could be sharing of risk in a capital lease on a copy machine. For example, copiers have maintenance needs and if you have a photocopier with a separate maintenance agreement and you negotiate with the company more toner than they ordinarily would provide under an agreement, are not there risks involved? To answer Mr. Granof's question we need to go back to the efficacy of the definition and our introduction to that definition. If staff has not done a good enough job in trying to carve out "regular" contracts, staff will go back and fix that. However, for the most part we do provide a sufficiently detailed definition. Furthermore, if you look at paragraph 8 on page 13, this was actually part of the original definition where we explain that P3s may involve the use of third-party financing, etc.

Mr. Granof said that paragraph 8 on page 13 is clear. In other words it seems to me that the issue is as staff has stated that we first have to meet the definition of a P3. So if that copy contract falls into the definition of the P3 then we have to consider revising the definition of the P3. That's what we have in mind. So that is relevant.

Staff agreed and asked members to once again look at paragraph 8 and go through the rest of the language where we say what P3s typically are long-term in nature, often exclude contractual protections, and could require the government to provide or absorb resources.

Mr. Granof observed that once it meets that definition then, if they meet any one of these they can be a P3.

Staff concurred in part and noted that the photocopier would probably be a simplified acquisition accompanied by the appropriate FAR protections so by virtue of that it should be scoped out.

Mr. Granof made the point that the issue that we should be debating is whether the definition of the P3 is adequate.

Mr Allen noted Mr. Dacey's point that you cannot always count on people reading an introduction to help you with the definition.

Mr. Dacey illustrated this point by drawing the member's attention to paragraph 11 on page 14 where he said that some interesting questions are raised here. These are the kind of risks we are trying to get at. It is not a complete list, but it is a start anyway.

Mr. Granof observed that if the P3 definition captures more arrangements than we want we should revise it.

Mr. Dacey commented that his belief was that we do capture more and that revising the definition is not necessarily bad. However, he also noted that maybe we should have more of a filter below the definition. He was not suggesting the definition has to change but just that if you go from there to the characteristics there may need to be a filter in between them.

Ms. Payne then asked about the filter noting that establishing such a filter is hard to do during the meeting. However, she noted the first sentence of paragraph 17 is a general definition of P3s. Instead of having the next sentence lead-off with evidence of the conditions, maybe we should create some sort of exclusion. So any P3s that do not cover a significant portion of the economic life and more than five years would be excluded also where there is not third-party financing and conveyance or transfer of real or personal property, multi-sector skills and expertise would also be excluded. So anything that did not have all three of those things would be excluded from coverage before you get to the conclusive characteristics. This is an approach where there is a stronger filter there from the general P3 definition before you get to the conclusive.

Mr. Granof then remarked that what we would be saying is that we need all of the criteria in order to be a P3.

Mr. Dacey expressed concern by saying that he was not sure that would be true.

Ms. Payne suggested that we did not necessarily need to meet these precise features, but if we put a collection together of things like this, that could help narrow down the scope and we can also say something about risk and materiality.

Mr. Dacey said that in reading the material if an arrangement/transaction is covered by the FAR we would not have an issue. However, it could still meet one of the other conclusive criteria so it is in again. Maybe that filter should be if it is covered by the FAR, it is not necessary to disclose.

Mr. Allen offered that staff should continue working the issue. The point is well made, and several people have done that, but we may want a short sentence in the first question just asking respondents if they think we sculpted this appropriately.

Staff acknowledged the Chairman's direction and then proceeded to Question 2 which discusses the conclusive and suggestive characteristics. I think we are at a point where we should embrace the community at large and see what they have to offer in this regard as advice.

Mr. Granof asked if the conclusive and suggestive characteristics would go out in this format. What's eventually in the final standard is not going to be like this I take it. It should not be multicolored.

Staff noted that the chairman had asked staff to retain the table format and that the table might be multicolored.

Turning to Mr. Granof, Mr. Reger noted that it seemed like he was trying to make a point and did not like the table.

To which Mr. Granof replied, no but just that he found it curious and unique never seeing a standard that looks like this.

Staff noted that we can move the risk rationale to the basis for conclusions if that would help.

Mr. Granof agreed and noted that he was not objecting. He has just never seen a standard anywhere that looks like this.

Staff then proceeded to Question 3 which gets to the heart of what we are discussing in Paragraph 23 of the draft ED; disclosure requirements.

Mr. Allen questioned the why we say "At a minimum" noting that we could put that in language in every standard where we have a disclosure requirement. We never tell people they can't disclose more. Any standard we ever have on disclosure says this is the required disclosure, and if they want to disclose more, they always can.

However, Mr. Dong pointed out that deleting "At a minimum" it becomes clear that this is the checklist. It will be viewed as a checklist.

In reply the Chairman noted that if you leave that language in, it implies that I've got to go through this checklist and something else. At least that is what it says to me.

Mr. Dong then asked but is not that what we want?

Mr. Allen replied in the negative saying that we do not want to make an auditor second guess the preparer by asking what else did you consider? Nor does the auditor ever criticize the preparer for disclosing more than what we call out in the standard.

Mr. Dong then asked about a similar type of issue that was covered the prior day where we had things that you could do, but you did not necessarily have to do all of them. Here we are saying the way you construct it is you have got to do everything on the list.

Mr. Allen replied in the affirmative.

Mr. Steinberg noted that the prior day's discussion surrounded Examples.

Ms. Payne noted that there are two different issues. The Chairman's issue is do we need to precede with "at a minimum" which we do not normally do. We did it here because we did not want to argue that if you have a lease embodied in a P3 you also need to do the lease disclosure. Mr. Dong's point is a somewhat different point because in the reporting entity we have objective based disclosures where we have three objectives to meet, and we talk about factors they should consider that influence the extent and nature of those disclosures. Then we have the examples that look like a checklist. So it is a very different structure, and, in part because this P3 list is shorter, we did not go to objective based disclosures. However, stating why you want the disclosure can be helpful. If members want to consider that as an option you could, but those are two different issues.

Mr. Dong asked why would you not take an objective based approach here?

Ms. Payne replied that this is a more specific case. In the reporting entity, we are dealing with varieties of entities, including P3s. We do not know for sure that P3s are that diverse, and we did not have quite as long a list of disclosures, and they are more clear, and they may not have needed that objective approach.

Mr. Allen agreed and added that in P3's we want very specific things.

Mr. Steinberg noted that this is the approach we normally take.

Ms. Payne agreed but noted that some standard-setters are transitioning to objective based as a general rule to try to get rid of that checklist. So it is a judgment call of when you want to do it.

Turning to Mr. Granof, Mr. Showalter stated that to keep from getting "negative disclosures" he asked why you struck "material" from paragraph 23g. We may say that materiality applies to everything. Anyhow, if we look at paragraphs 23e and 23g those are applicable only to the extent they are applied. So we have got to be clearer here so we do not get government sponsors saying I do not have violations. If you are requiring the disclosure, then the preparers are going to want to say something about them. You only say something about them when they are applicable, not in their absence. I would just try to make that clearer by noting that we only need to talk about them if they are applicable.

Mr. Allen suggested as "appropriate."

Mr. Showalter disagreed, noting that we get negative disclosures where people make comments about things they do not have and they do that because there is a list that says you have got to disclose them. He suggested as "applicable."

Ms. Payne noted that the Chairman did not object to Mr. Showalter's suggestion and posted Mr. Showalter's change in paragraph 23 into the draft ED.

Mr. Reger then inquired about paragraph 24 noting that if we move down to the criteria for the consolidated, we only see 3 things there, but it struck me that it does not in any way reference that we have to get these from the agencies. Do we generally put in where we have a separation between the disclosures and the consolidated, that the government-wide financial statement should disclose the following information as provided by the agencies ?

Ms. Payne & Mr. Dacey replied that we do not normally say that.

Mr. Allen said that a lot of times we do not specify anything at all. I remember a discussion that says is it ever possible that any of these are going to rise to the materiality of the government and the answer is probably no, they are not. So paragraph 24 calls this out to say you must still give us this information.

Assisting the Chairman with his remarks, Ms. Payne stated that materiality provisions at the government-wide level still apply however, if the P3s are material we do not expect the government-wide to be as detailed as the components. So, for the government-wide we have 3 rather than 7 disclosure items.

Mr. Reger concurred and noted that he was not objecting to them but just wondering about the lead-in wording.

Turning to Mr. Reger, Mr. Allen said that it was safe to assume that you do not have any disclosure requirements because none of these are going to rise to the point of being material at the entity-wide level.

Mr. Showalter noted that Mr. Allen raised a point that individually they won't be material but in aggregate they could be material across the federal government and then disclosure is appropriate.

Mr. Reger said that he would have to add them up and coordinate with the agencies noting that Treasury has to read all of the component-entity statements in any event.

Mr. Dacey had a question on a couple of the disclosures. On 23d we had indicated the amounts the government can be reasonably expected to incur or pay over the life of the arrangement. I'm trying to envision what we would actually expect to see there, and I'm having trouble trying to see what we would be trying to convey with that information as opposed to our normal kind of disclosures where we may disclose reasonably possible losses beyond what we have already recognized. This seems to be taking payments over the life almost like the operating lease and I am not sure if that is necessarily meaningful.

Mr. Savini noted that the task force wanted to specify what an agency is actually going to expect over the life of the P3 to incur or actually pay out as a cash outflow.

Mr. Dacey then asked if we had a 99 year arrangement would we put a number out over what we would expect to pay? I'm just wondering what that is going to tell people or

what our issues are in terms of what we are recognizing in the statements today and the risks that there could be additional losses, which is where I think about risk.

Mr. Steinberg asked Mr. Dacey to identify where this is done in leases and the reason why we do it in leases?

Mr. Dacey replied where we have non-cancellable fixed point and that we are going to probably change that anyway.

Mr. Steinberg asked Mr. Dacey to clarify what he meant by “probably change.”

Mr. Dacey answered Mr. Steinberg by stating that this depends on the nature of the risk. Is this disclosure informing the user about risk? Should we have outlays for all the contracts?

Mr. Steinberg responded by saying that he can see risk in this disclosure because it identifies the amount of cash you have got to come up with over the life of the contract to be able to pay out.

Mr. Dacey agreed and went on to say that you have got receipts as well probably coming in on some of these, but I'm trying to understand what this number is going to inform the reader about. Mr. Dacey went on to say that he was okay with the first part or understanding the nature of the P3 and even the rights and responsibilities.

Mr. Steinberg stated again he thought these are two different things and that risk is pretty important to know. Governments end up being cash short, and this disclosure helps show that by reporting how much cash we are going to have to pay out over the life of this P3.

Mr. Allen joined the discussion by saying that unlike a lease where we have a scheduled payment, P3s may have limited planned or structured payments. In some of the P3s the government ends up getting some type of asset at the end of a certain term. I mean they end up paying for a service as opposed to having a structured lease payment, and that service may depend on the number of people housed or is it that we do not really know what the cash flows are enough to disclose?

Mr. Reger added to the discourse saying that if an agency has entered into this P3, this is an analysis you'd have to pretty much do. However, I too am questioning why you would put it in a disclosure in the agency's financial statements. The only thing you really care about with these is what risk are you subjecting the federal government to as you create them.

Mr. Savini stated that cash flow is important information to know in addition to risk. I mean when I was at Department of the Navy with the Maritime Prepositioning Ship Program, those are 25-year bare-boat charter contracts and operating contracts, I could tell you for sure we knew what the cash flow was all the way through the 25th year and it is important information to know. If citizens knew how much it cost us to preposition

ships around the globe and what they were expected to pay, they might pay a little bit more attention to what DOD is doing. Maybe it is an overly simplistic explanation that I give but agencies do know what the cash outflows are, and I think it does make a difference to the user to know what that cash flow is over the life of the agreement or the arrangement.

Mr. Dacey asked to know how that is different than the cash flows over something other than a P3 that is long-term.

Staff replied by saying that there is greater risk to the agency and taxpayer.

Mr. Reger said that the Board acknowledges that there is risk.

Responding to Mr. Dacey's point about how this differs from other long-term arrangements, Mr. Smith then said that he sees these as you'd be disclosing where you have got a fixed commitment because in a lot of these P3s you will get into the standpoint that you have got a certain amount of usage that you are going to pay for whether you take the service or not. I do not see that any different than a lease or anything else. Where in a service going forward if you do not need the service you do not pay anything. However, in these P3s we are going to have amounts that we are going to pay whether we use the services or not. I think that is a commitment that should be disclosed in the statements.

Mr. Steinberg also noted that Congress wants to know so they can authorize payment and that the Treasury Department would want to know so they have the cash on hand.

Mr. Dacey then drew a parallel to commitments that we have today such as undelivered orders, which is basically orders that have not been received. In such cases we do not say what we are going to need in the future, and we do not disclose now our commitments for long-term payments. There are a variety of things other than what we have actually committed to in the way of orders that are disclosed.

Mr. Smith acknowledged Mr. Dacey's point but noted that these P3s would be the ones that would be fixed where the agency is locked into paying. Therefore, these P3s are the ones that as of the balance sheet date we have locked in that we know that we have an obligation to pay. It's not a liability that we book on the balance sheet, but it is a liability that people need to know about because we know we are going to pay it in the future.

Mr. Dacey replied by saying he did do not know the right answer and that this is an interesting question.

Due to the variabilities that exist, Mr. Allen asked if we could just require disclosing some amount depending on for example, actual usage.

Mr. Smith said he was thinking of payments tied to minimum requirements as opposed to minimum payments. I mean if you get into an agreement and you say well it is the

number of people you house, I'm not concerned with disclosing that number. However, if it said you have got a minimum that you have got to house, let's say 100,000 people a year, and if you do not house that number of people you pay for it anyway, that is what I think should be disclosed.

Mr. Allen asked if that meant including the variabilities an agency expects to pay over the P3s' life.

Mr. Smith replied in the affirmative.

Mr. Dacey then asked why do we need that information for P3s to understand the risk if we are trying to understand what's our loss. For example, looking at an entity's financial statement we can see amounts for undelivered orders at the end of the year so we do have some of that already captured. I understand Mr. Smith's point but I do not know if it is part of this P3 project or if it is part of a bigger issue. We need to think about whether our disclosure of undelivered orders is sufficient.

Mr. Savini noted that in Mr. Dacey's example he was able to point to undelivered orders because those orders are part of the budgetary obligation system we have in place and as a result, become part of the financial report; meaning that the amounts are on budget. However, many of these P3s are off budget so you would not be able to do what he just did unless these P3 amounts are disclosed.

Mr. Dacey replied that he does not know that this cash flow information provides sufficient contextual information to understanding risk.

Staff then provided his own example of how such information does provide contextual information in understanding risk that an entity is taking on. For example, as a resident of a town that engaged in a very large serial bond (15 year) issuance, because I was privy to the future cash outflows I was able to tell that the town had borrowed sufficient monies to pay the first three years worth of interest before they would need to increase property taxes to cover year 4 and beyond. This allowed me to move prior to any tax hikes. So, this simple example shows that there is sufficient basis in staff's opinion to disclose to the citizens what the total expected payments of a P3 deal are. Moreover, as Mr. Smith says, the payments are fixed and in many cases because they lack the contractual protections, the agency is significantly handcuffed to these payments.

Mr. Smith then added that in many cases the reason that they entered into the P3 is in order to try to get around the debt. So, if it was not a P3 this amount we are discussing would be on the books and it would be a liability on the balance sheet.

Echoing Mr. Smith's comments Mr. Savini also noted that part of the purpose of even disclosing the amounts in question is to close a loop-hole so an agency can't get away from not disclosing that P3 liability. This is why staff thinks it is very significant to include this disclosure.

Mr. McCall noted to the Chairman that this reminds him of disclosures related to capital appreciation bonds. With these bonds you do not pay either the principal or the interest until the very last day of issue. I think the public should know what's coming down the road because they do not see it on the front end.

At this point Ms. Payne advised the Chairman concerning the remaining time on the agenda and wondered whether the members could identify any other disclosure items they have concerns with and then we could follow-up at a later date.

Following Ms. Payne's advice, Mr. Allen asked members if there were other items that cause concern such that they couldn't support the document and to let us know if they had specific comments on the disclosures.

Staff advised that at this point staff does not recommend reconvening the task force to deal with these matters any longer and asked the members to press ahead and begin pre-balloting to move this forward to the community at large thus allowing them to help us shape what the final standard should look like.

Mr. Smith stated that the only item he sees open are the exit liabilities that P3s have in the event of an early exit. These happen to be huge payments and I think that they should be disclosed so that a person would understand what those liabilities are. I think that you could get to it by saying well that is the risk or exposure, but I'm not sure that people would necessarily pick that up unless we specifically identify it.

Mr. Allen asked if such exit payments would not come into play by requiring disclosure of the expected cash flows. That is, we would pick up any payment, which includes exit payments because they are encompassed within the concept we are discussing.

Mr. Smith replied by saying that is what he would expect, but he's not sure if it is clear enough in the draft ED. It is a leap of faith when I read that to say well, you know, I would expect that you would disclose that because I think it is important. However, people would not necessarily think that such exit payments are something that had to be disclosed.

Staff agreed with Mr. Smith's point noting that in most cases you would not reasonably expect termination for default or convenience per se, unless something happened in the year. Mr. Smith's point is well taken and probably should be a separately highlighted disclosure figure. The only concern I'd have from a preparer's point of view is how I would estimate such an amount given that from what I've read, there is not always a specific formula like you would have under the FAR to calculate what the termination cost would be.

Mr. Smith replied that most of the P3s he's familiar with do facilitate that calculation and they can be the full amount of the remaining P3 value.

Mr. Allen reiterated that by including the expected cash flows running its course that we already have the early exit costs covered.

Mr. Smith maintained his position and at this time Ms. Payne suggested that we not deliberate this matter any longer until staff conducts further research.

Mr. Allen agreed with Ms. Payne's suggestion and reminded members to provide additional comments or concerns off-line. The Chairman then concluded this portion of the meeting thanking both staff and members.

**CONCLUSIONS:** Staff will revise the draft per member suggestions and work with Mr. Dacey regarding his concerns.

- **Reporting Entity**

Ms. Loughan explained today's reporting entity session would be on the Central Bank. The objectives were to review the outstanding issues related to the Central Bank (Federal Reserve) based on staff's analysis of the comment letters and public hearing participants' testimony on the Reporting Entity exposure draft as well as Board member input at the December meeting. Staff also reminded the Board that yesterday they received a handout that noted clarifications.

Staff explained that at the December meeting, the Board explored high-level questions related to:

- Whether the criteria and principles can be applied to the Central Bank.
- Whether the Central Bank minimum disclosures are necessary, necessary in both the government-wide and the component reporting entity GPFFR? And if necessary, whether there any adjustments needed regarding the wording of the disclosure requirements?

Ms. Loughan explained that while the Board discussed these issues at length no specific decisions were made. Instead, members requested staff meet with Treasury and their auditor to follow-up on their comment letters and gain additional feedback on the comments related to the Central Bank. For example, there was concern because both organizations commented that when applying the inclusion principles to the Central Bank one may conclude it is not included in the reporting entity. Staff met with Treasury and their auditor.

Mr. Showalter asked if there were more observations from the auditor if they were present. Ms. Payne explained that KPMG was in the meeting and staff had no reservations about whether both Treasury and KPMG each initially read the inclusion principles as being applied from the perspective of the department and not from the perspective government as a whole. KPMG left the meeting with the understanding that the principles were intended to be applied from a government-wide perspective.

Mr. Steinberg explained that he believes the inclusion principles can be applied and should include the Federal Reserve, but there may be issue with including it within the Treasury Department. Ms. Loughan explained it was up to the Board the order in which

they talked about it, staff just wanted to ensure there were no overarching issues noted with the inclusion principles and applying those. Mr. Steinberg explained his answer to the question would be the inclusion principles can be objectively applied to the Central Bank as far as inclusion in the government is concerned, but not applied as far as Treasury Department's concerned.

Staff clarified that the inclusion principles are not asked to be met at a departmental level. The departments will be in a coordinated effort to apply the inclusion principles from the government-wide perspective. And then it is the administrative assignments that they look to from the departmental perspective. Mr. Steinberg explained that is assuming the administrative assignment would be consistent with the principles. Ms. Payne stated the administrative assignment principles are different than the inclusion principles—they are budgetary relationships and oversight relationships.

Mr. Showalter explained he was fine with the inclusion principles being applied. Mr. Smith agreed they could be applied. Mr. Dacey explained they could be objectively applied to the Central Bank and to the other entities, which is also relevant. Mr. Dong agreed as well.

The remaining members also agreed. The Board unanimously agreed the inclusion principles and attributes can be objectively applied to the Central Bank.

Ms. Loughan explained the next topic is the minimum disclosures. The Board proposed minimum disclosures regarding the Central Bank that would be integrated with any other relevant disclosures. As discussed at the last meeting, the majority of respondents agreed with the minimum disclosures--15 respondents agreed with the minimum disclosures proposed for the Central Banking system (22 respondents did not answer the specific question). While additional comments were provided, there was a mixture of comments. Some respondents suggested additional disclosure or consolidation; and some respondents suggested the other end of the spectrum. Several respondents noted there may be a need for additional disclosures. For example, they agreed with the minimum disclosures for the Central Banking system but noted additional disclosures may be necessary due to the unique nature of reporting requirements for the Central Banking system.

Staff asked if the Board wanted to maintain the minimum disclosures as at the last meeting certain members noted the disclosures were redundant of the disclosure entity disclosures. Staff recalls the history of the minimum disclosures—the Board had previously considered having them in but removed them because they were considered redundant. The disclosures were introduced again before the ED was released as a compromise when several members presented an alternative view related to the Federal Reserve. Most recently, discussions for maintaining the minimum disclosures have been centered on a safety net to ensure the disclosures are provided if the preparer does not assess the Federal Reserve to be at a minimum a disclosure entity. Staff does not believe the responses – viewed in their entirety – substantially impact the original rationale for the minimum disclosures.

Mr. Showalter suggested that you can look at it two ways--it is a separate set of disclosures or you could also interpret that the Central Bank subject to the other minimum disclosures.

Mr. Allen asked if the Board consciously intended more disclosures than would normally be there because almost all of the minimum disclosures can be traced to the disclosure entity disclosures. He noted there is one that seeks more information. He questioned do we need minimum disclosures or is the standard sufficient. Mr. Allen acknowledged that we had people at the public hearing that said they may not be captured, and that is why he supported the need for minimum disclosure.

Mr. Showalter agreed and stated he was able to trace all the Central Bank disclosures back to paragraph 73 as well. Ms. Loughan explained that the proposal provides for this and it is not meant to be repetitive or duplicative. Mr. Showalter asked if the point is the Board wants minimum disclosure of the Central Bank or is the point we always want disclosure from the Central Bank, whether it is in or not--so what we are really more interested in is to make sure we always have disclosures about the Central Bank.

Staff agreed that is the crux of the question and if members believe they need to affirmatively say here are the minimum disclosures about the Central Bank without regard to how it is classified -- consolidation or disclosure, and this is the way to have minimum disclosures for the Central Bank.

Mr. Allen acknowledged there may be two questions—if members want minimum disclosures and then if these are the right disclosures. Staff agreed and explained the chance to change them comes next. Mr. Allen agreed and stated first we need to decide that there is agreement there should be minimum disclosures.

Mr. Showalter and Mr. Granof agreed there should be minimum disclosures.

Mr. McCall explained that he believes the Central Bank meets more of the consolidation criteria than disclosure. However, he believes the most important thing about disclosure that overshadows all of those other things is having a separate legal identity. He explained that he has concern with disclosure because there appears to be an emphasis on the disclosure organizations being temporary, which makes him not think of the Central Bank. Therefore, he would like to see either in the disclosure entity section or in the quasi-governmental section clarification to say that you can have independent entities that are long term in nature. Mr. McCall explained that he looked on the Federal Reserve's website, and they say the Federal Reserve can be more accurately described as independent within the government rather than independent of the government. He explained if he could see something say some of these independent entities are long term in nature (versus the focus being on that they are short term) or even something in the quasi-governmental section that says they can be long term, and he would be okay with not having any disclosures on the Central Bank. He summarized that he believed the preparer and the auditor are going to put in there what they should put in anyway, we should give them the discretion of what to disclose and have faith that they are going to do the right thing.

Mr. Allen asked if his answer was a no and Mr. McCall confirmed it was. Mr. McCall explained that the main concern was he wanted a statement somewhere that disclosure entities are independent entities and some can be long term in nature. Staff recognized that could fit in the discussion of the quasi independent entities which include other types of long term organizations.

Mr. McCall explained that he is looking for something that says the Federal Reserve is independent, but it still needs to be disclosed. Otherwise, if you look at the consolidation criteria in paragraph 40 (about leaders in the organization are appointed by the President) that leads you more toward consolidation. He explained one of the biggest barriers from consolidation is their independence within the federal government but there needs to be something that recognizes disclosure entities can be long term.

Mr. Steinberg understood Mr. McCall's point but he explained a lot of people have come to the conclusion there should be minimum disclosure requirements for the Federal Reserve that are above and beyond the minimum disclosure requirements for everybody else.

Mr. McCall explained he believed that the preparer and auditor would make sure those things that are significant or material to the financial statements are included, and they would pick up the Federal Reserve and most of the things we have talked about; otherwise the financial statements would be misleading.

Mr. Steinberg stated he believes that considering the nature of the Central Banking system, its unique role and so forth, there needs to be identification of the disclosure requirements. Mr. Reger explained he did not believe there was a need for separate disclosures for the Central Bank. He believed the disclosure entity objectives would capture the information.

Mr. Allen asked if he had any safety net concerns. Mr. Reger acknowledged paragraph 77c, which he presumed they would talk about. With the exception of that, he has not heard any reservations about information from the Central Bank or that is problematic. Therefore, Mr. Reger explained he voted no for the specific minimum disclosures identified for the Central Bank.

Mr. Allen explained he votes yes, to maintain the minimum disclosures for the Central Bank, more as a safety net than anything else.

Mr. Dong explained he was okay with keeping the minimum disclosures. However, his preference would be to not have it in there because he does not see any way that information is not going to be disclosed.

Mr. Dacey acknowledged he cannot speak for his successors, but he believes they would believe it is necessary disclosure to have a full, complete picture. Therefore he voted no to the minimum disclosures.

Mr. Smith explained that originally, he did not think it was needed because he thought we would get the disclosure. However, after hearing this discussion, he believed if we pull them out after the exposure draft, he was afraid that it will give the message that maybe it is not something we want disclosed or that we have backed away from it. Therefore, he believes the minimum disclosures should be maintained.

With a vote of 6-3, the Board agreed to maintain the minimum disclosures for the Central Bank.

The Board briefly discussed if it was possible to fold the requirements into paragraph 73 to avoid the redundancy, but staff noted the difficulty with that because paragraph 73 is for disclosure entities, whereas paragraph 77 is without regard to whether it is a disclosure or consolidation entity.

Mr. Showalter asked why they are written differently in 77 than in 73. He noted he matched them up and wondered about the different wording. Ms. Loughan explained that much of the different wording was due to the fact that staff incorporated an alternative view with the existing disclosure entity requirements and then worked with Board members at a meeting to develop the minimum disclosures. The agreed-upon disclosures as presented in the proposal were a compromise—it was basically meshing together the alternative view.

Mr. Showalter stated he understood how we got here, but he mapped them and viewed A is 73B. B is 73A. D is 73B. E is 73i, and F is 73f. He believed there might be a way to link the two since the wording should be the same.

Mr. Allen explained he understood the point but he believed the Board did it in that manner because we were not specifying that the Federal Reserve was a particular type of entity. We are providing the minimum disclosure in the requirements of the standard (but does not result in duplication of disclosure in the footnotes).

Mr. Reger suggested that worked until you require minimum disclosure requirements for the Central Bank in paragraph 77. He believes that is making an answer of some sort that it is a disclosure entity. Mr. Allen did not agree. We did not want to make that decision as whether there it was a disclosure or consolidation entity. Therefore, there was concern that it may not be anywhere so we have the minimum requirements and that is regardless of that decision. Even if it is duplicative, it is dealt with uniquely to them and without regard to where. And that is why I do not mind the duplication.

Mr. Showalter suggested that the standard use referencing so there are not different words that mean the same thing. Mr. Allen stated he did not have a problem with doing something like that if you basically say those that are listed in 73 should be provided.

Mr. Granof explained that it is important to keep the specific reference to the Central Bank. Mr. Showalter was in agreement and stated the Board had just voted on that, he was trying to have the standard ask for similar things. It appeared two different paragraphs seem to be talking about the same information but using different words.

Mr. Smith suggested that paragraph 77 be revised or just wordsmith so it more closely follows 73. He believed it was important to have them listed as opposed to the reference. That is one way to address the different wording, but he likes having a separate location for the Central Bank and listing each of the disclosures.

Mr. Allen asked if there was support for the suggestion to keep the separate paragraph of minimum disclosures but revise the wording to mirror paragraph 73. Mr. McCall asked if there could be discussion of this issue in the basis for conclusion. For example, the Board considered whether the Central Bank disclosures could be included or covered in paragraph 73 or should be addressed in a separate paragraph and the Board determined it would be best addressed in a separate paragraph.

Mr. Allen explained one has to be very careful in the wording of how this was discussed so it is not confused with decisions regarding whether it should be included or where it should be included. However, if staff wants to provide some language to capture the purpose of the providing the separate paragraph and why the Board felt that they needed minimum disclosures that may duplicate paragraph 73 for review. (Staff note- the Chairman called on Board members and they visually nodded or said yes in agreement to the question to keep the separate paragraph of minimum disclosures while making the language consistent with paragraph 73.)

Mr. Allen explained the next issue, but one of the biggest may be deciding on the level of detail in paragraph 77c. Staff explained paragraph 77c of the minimum disclosure requirements— and specifically the phrase “changes in those actions” – has been identified as problematic by some respondents and in Board discussions. The full text is:

c. A discussion of the significant financial actions, and changes in those actions, undertaken by the Central Banking system to achieve monetary and fiscal policy objectives, such as adjusting the discount rate, purchasing securities (for example, Treasury securities and mortgage backed securities), or undertaking Central Bank liquidity swaps.

Staff explained that there has been concern with disclosing specific details about how monetary policy is executed or even changes in these actions or tools used to effect monetary policy. In addition there has been issue raised regarding the audit assurance of this information could be difficult and costly to obtain. Staff notes that in Board meetings, concern has been raised that the information required by paragraph 77c may be outside the purview of existing information that is furnished in any way other than directly from the Federal Reserve websites. There was also concern over the level of detail and the intrinsic information required in paragraph 77c and how the auditor would get comfortable with that. Staff requested Board members feedback to better understand the Board’s intent of the requirement for “changes in those actions” as that would assist in revising the requirement.

Mr. Allen explained he would be happy keeping the first sentence and ending it after “policy objectives.” He believes it would keep at the same high level as the other disclosures.

Mr. Granof explained that he has articulated his view that the Central Bank is the significant agency in establishing monetary policy. It is critical to the economy and to prepare a report and not to provide specific information about the Fed is a clear omission.

Mr. Allen explained that it would require a discussion of the significant actions and changes in those actions undertaken by the Central Banking System. Mr. Granof explained he did not understand why we do not list what we have in mind. Mr. Allen explained that he does not know if this is an all inclusive list. Mr. Granof explained he thought the wording covered for that. Mr. Allen explained that part of the objection is people did not feel we should be calling out specific things at that level.

Mr. Dacey explained that at the last meeting we had talked about changing “undertaken” to “reported”, but there are other concerns besides auditability. Mr. Granof explained that it was discussed that all of this is addressed in the report of the Federal Reserve. Mr. Dacey agreed but suggested that is a concern because it is fluid information and questioned if it would be relevant.

Mr. Dacey explained that we do not report the impact of other policy actions taken by the government as a whole on the economy and nation.

The Board continued revising paragraph 77c based on suggestions from Board members at the meeting. The Board was in agreement to delete the examples at the end and change ‘undertaken’ to ‘reported’, which resolves some audit concern. The Board discussed the changes as the executive director put the changes on the screen. The Board unanimously agreed to the changes.

Ms. Payne asked for the members’ feedback or reasoning on the language “changes in those actions” which staff had asked what members envision would be different as compared to comparative reporting. Mr. Steinberg explained his concern in reading footnotes, is the boilerplate language about the kinds of things agencies do, and no matter what's happening in the economy and what they are doing that boilerplate will stay the same from year to year. He believed by putting in the phrase “changes in those actions,” it triggers them to indicate if they are doing more of this, more of that.

Mr. Showalter stated that he agreed with Mr. Steinberg and the discussion of the significant actions should include significant actions taken during the year. He suggested perhaps there could be some wording changes. Mr. Steinberg explained if you say during the year it gets a little closer. He just wants them thinking that if they have done something different this year than they did last year then they should identify it. Mr. Showalter asked what happens if they keep doing the same thing, because change implies you are doing something different.

Mr. Dacey explained he was confused because he thinks “actions they have taken during the year” puts a boundary on it and is clear that they should describe whatever has happened during the year.

Mr. Granof explained he shared Mr. Steinberg’s concern. He believed we were watering down what we had talked about originally. His concern is that the footnote will say we have engaged in adjusting the discount rate, purchasing securities, and engaging in liquidity swaps. They will say the same thing year after year without giving any sense of the impact of what those changes actually involved. He believes the annual report of the federal government should give a sense of the fiscal and monetary actions taken by the government during the year. It should be the historical record of what was undertaken by key elements of the federal government. He fears that by taking out those phrases, it will be the same boilerplate from year to year.

Mr. Allen noted that Mr. Granof used a key word – impact that might be worth exploring. This could be added to the discussion. Mr. Dacey explained that is something that is a result you cannot measure. Mr. Steinberg agreed it was a difficult term. Mr. Showalter suggested “the significance and magnitude” of the financial actions taken during the year. Mr. Granof agreed that is what he is concerned about and magnitude brings us much closer. It implies that you should be indicating change.

Mr. Allen asked if the Board wanted to vote on that language to be incorporated. Mr. Granof explained the Board should do everything possible to emphasize the types of information wanted or encourage they can add other things.

The Board voted unanimously to add the word to paragraph 77c. With that, the final wording agreed to for paragraph 77c at the meeting was:

“A discussion of the significance and magnitude of financial actions reported during the year by the Central Banking system to achieve monetary and fiscal policy objectives”

Mr. Reger explained he had a question on paragraph 73d (A description and summary of the assets and liabilities revenues....) He said the question was on behalf of Carole Banks and she asked whether this was intended to be subject to audit. Ms. Loughan explained these were transactions recognized in the financial statements of the reporting entity, so they already would be. They are the ones recognized in the reporting entity’s financial statement.

Mr. Steinberg noted he had a question on paragraph 77. He explained the beginning reads “The following information regarding the Central Banking System should be disclosed in the government-wide GPFRR and the GPFRR of any reporting entity to which it may be primarily associated or administratively assigned.” He explained that the Board added the phrase ‘primarily associated with or administratively assigned’ because at one time, some believed in order to get things into the government-wide statement it had to come up through an agency. Mr. Steinberg explained that when he looks at paragraph 30-31 related to control, there is no doubt that the Federal Reserve would be controlled by the federal government. However, he does not believe they

would fall under the control of the Treasury Department. Mr. Steinberg said primarily associated or administratively assigned was added so that you could get them in as part of the Treasury Department report. However, there are lots of things in the government-wide statement that do not flow from agency reports. Mr. Steinberg explained that with that sentence, he believes we are really moving away from the principles-based approach. Further, he does not believe from a Treasury perspective, they meet the principles of paragraphs 30 and 31 and should be a disclosure in the Treasury Department's financial statements.

Ms. Loughan explained that is somewhat related to the last issue for discussion. However, Ms. Loughan clarified for Mr. Steinberg that Treasury would actually look at paragraphs 57 through 60 administrative assignments in determining if it would include the Federal Reserve in its component entity reports. They do not look at paragraphs 30 and 31; those are the inclusion principles for the government-wide report.

Mr. Steinberg stated the administrative assignment seems to be a standard-based notion. He asked what the benefit of putting it in the Treasury statement as well is, since it is going to be in the government-wide statement. Mr. Allen stated that he also believes that it would make no sense in Treasury; it is a unique function of the federal government but not necessarily to the Treasury. Mr. Allen did not believe it was germane to Treasury, but it is germane to the government as a whole.

Ms. Kearney asked why the Board is contemplating the question of what information should be in a specific agency statement's. She explained that is something that Treasury and their auditors should consider the standards and then make the determination whether or not it should go in their statements; it is not the Board's job to be telling them that.

Ms. Payne explained that the standards do not really require or say it has to be in Treasury's statements, it states "any reporting entity to which it may be primarily associated or administratively assigned." The real question is whether the minimum disclosure requirements are only required at the government-wide level.

Mr. Allen asked would it be meaningful to that component unit's financial statements and their relationship. In this case, he would argue no, but he does believe it is meaningful in considering the government as a whole.

Mr. Dacey explained he believes the principles are there and adequate for the preparer and auditor to make a determination as to where it goes. He explained the decision has to be made which entity it is assigned or associated with, and there could be arguments for or against Treasury, but he does not believe the Board should be debating that. The criteria are sufficient to make that determination.

Ms. Payne explained in making the determination in the context of the disclosure entity piece, it is a separate minimum disclosure. She explained she would liken it to the fiscal sustainability requirements that only apply at the government-wide level because they did not apply at an agency.

Mr. Dacey noted the language states “any reporting entity to which it may be primarily associated or administratively assigned.” Therefore, it does not mean and does not say there has to be one. He explained the determination could be made that it does not relate to any other entity besides the consolidated government-wide directly. It does not preclude that from happening the way it is worded.

Mr. Allen suggested that it be taken out and deal with it generically. Mr. Dacey explained that then it would only say in the government-wide; and he did not believe that is appropriate either. Mr. Allen suggested being even more generic and ending with “the following information should be disclosed.”

Mr. Reger explained that we have singled out the Central Bank and he finds it hard to defend having the reporting provision about the Central Bank but do not say where they report. Mr. Reger explained the Treasury Department has one fiscal agent, and it is the Federal Reserve Bank. And that is the unique relationship with the Treasury Department. They are the only entity in the world that can act as the fiscal agent of the U.S. Treasury Department. The Federal Reserve does not have this contractual relationship with any other organization. Mr. Dacey agreed and noted that all the required transactions with the Federal Reserve Bank are in Treasury's statement. Mr. Reger confirmed and stated that if it comes through an agency, the only logical place is the Treasury Department. He does not think the Board ought to come up with a conclusion. He likes adding a sentence and let us work with them to figure it out.

Mr. Showalter explained because the Board believed there should be Central Bank minimum disclosures, it needs to state in government-wide. He does not feel comfortable just saying they need to be disclosed. However, he is okay with taking off the back part, because in reality if it gets picked up as a disclosure entity you are going to go into 73 and you are going to pick up everything but paragraph 77c anyway.

Mr. Reger asked if you end the sentence after “in the government-wide” does it prevent us from maintaining the relationship where they are already disclosed in Treasury. Mr. Showalter stated he did not think so because it would be a disclosure entity. Mr. Reger agreed and stated that Treasury's auditors would have a problem if he did not have a disclosure in Treasury's report. Mr. Showalter explained the only thing we are getting is 77C and that would be different. Mr. Dacey explained that it raises the point if they are assigned or associated with a specific entity, they should be included in those statements as well.

Ms. Payne explained that paragraph 60 provides that if a disclosure entity has not been administratively assigned to a consolidation entity by the standards, it provides two ways to do the assignment. Therefore, the proposed standard has the premise that every disclosure entity is assigned somewhere below the government-wide. Mr. Reger agreed and believed that was the original intent when we started this process. Mr. Showalter wondered if there needs to be a third option for those organizations that would go directly in the government-wide. Mr. Allen explained another option could be that you begin the sentence by stating that if assignment of the disclosure entity is necessary.

Mr. Reger explained that he did not want to wind up with a whole bunch of additional disclosure entities that only come to the consolidated because they would not have the ability to handle that. If they have a relationship with an agency, they should be assigned to that agency. Mr. Allen explained he did not want the standard to drive saying it has to be included in Treasury if they decide administratively that that makes no sense. Mr. Showalter agreed. Mr. Reger explained that Treasury's statements would be misleading if they did not include something about the Federal Reserve in it.

Mr. Steinberg explained he understood that, but would it be the same information the Board is suggesting should be in the government-wide minimum disclosures. Mr. Steinberg explained that the Federal Reserve has a far greater role at the government-wide level than it does at the Treasury level.

Mr. Steinberg suggested it may be a reasonable middle ground to end the sentence after the first GPFFR, and then it is left open to decide whether it should be included in Treasury. This way it does not sound like it has got to be the same as in the government-wide. Mr. Reger stated he was okay with that, he just did not want that statement to say he could not include the information.

Mr. Allen asked if any Board members objected to

“The following information regarding the Central Banking system should be disclosed in the government-wide GPFFR”

Mr. Dacey explained he would not object because presumably a component reporting entity will do everything other than paragraph 77c as noted earlier. Mr. Reger asked how they would get the information for 77c. Mr. Dacey explained the audit coverage issue was lessened by the changes agreed upon at the meeting.

Mr. Allen asked if he had a concern because that may indicate a need to look at paragraph 60. He indicated that entities going directly to the government-wide have always been a problem with Treasury. Mr. Reger agreed and stated that is an incredible slippery slope that he was very nervous about creating because their assurance is built coming up from agencies.

Mr. Allen suggested that the best thing for the Board so that they are not preclusive is just to put a period after the government-wide, and that does not preclude Treasury from also including it if it is determined the Central Bank is administratively assigned to it. He asked if members objected to the following language at the beginning of paragraph 77:

“The following information regarding the Central Banking system should be disclosed in the government-wide GPFFR”

No members indicated objection.

Mr. Reger did request that he have the opportunity to talk with Carole Banks (component Treasury Department) and KPMG (their auditor) to get an impression of

their understanding. Mr. Reger explained he was concerned if KPMG says they are not going to audit anything in 77c because we determine it made most sense to come through Treasury. Mr. Allen explained if that is the case; it may require a short paragraph in the basis for conclusion explaining that the Board talked about this issue and the reasons for the language that was selected.

## **CONCLUSIONS:**

- The Board unanimously agreed the inclusion principles and attributes can be objectively applied to the Central Bank.
- The Board agreed (with a vote of 6-3) to maintain the minimum disclosures for the Central Bank.
- The Board agreed the language for 77c should be as follows:

“A discussion of the significance and magnitude of financial actions reported during the year by the central banking system to achieve monetary and fiscal policy objectives”

- The Board agreed the other disclosures should be worded to be consistent with paragraph 73.
- The Board agreed the beginning of paragraph 77 should be as follows:  
“The following information regarding the Central Banking system should be disclosed in the government-wide GPFRR”

- **Reporting Model**

During the Board’s April 2014 meeting, each member plans to present their view of an ideal reporting model. Accordingly, today’s discussion focused on planning for those presentations.

### Reporting Objectives

It was noted that the reporting objectives were broad and that the Board developed them prior to its designation as the source of generally accepted accounting principles (GAAP) for federal entities. To help focus the April presentations, members discussed the reporting objectives that GAAP might address. Members agreed that the ideal reporting model presentations should focus on how GAAP might address:

- Objective 1 - Budgetary Integrity, in general, rather than ensuring to address each of its sub-objectives. The Budgetary Integrity objectives states

Federal financial reporting should assist in fulfilling the government's duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with the appropriations laws that establish the government's budget for a particular fiscal year and related laws and regulations. Federal financial reporting should provide information that helps the reader to determine:

- 1A. How budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization
- 1B. The status of budgetary resources.
- 1C. How information on the use of budgetary resources relates to information on the costs of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities.

- **Objective 2 – Operating Performance sub-objectives 2A, 2B, and 2C. The Operating Performance Objective states**

Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities. Federal financial reporting should provide information that helps the reader to determine:

- 2A. The costs of providing specific programs and activities and the composition of, and changes in, these costs.
- 2B. The efforts and accomplishments associated with federal programs and the changes over time and in relation to costs.
- 2C. The efficiency and effectiveness of the government's management of its assets and liabilities.

- **Objective 3 – Stewardship sub-objectives 3A and 3B. Sub-objective 3C is optional. Objective 3 – Stewardship states**

Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial condition has changed and may change in the future. Federal financial reporting should provide information that helps the reader to determine:

- 3A. Whether the government's financial position improved or deteriorated over the period.
- 3B. Whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.
- 3C. Whether government operations have contributed to the nation's current and future well-being.

For members that choose to address sub-objective 3C, consider the memo from Ms. Justine Kilpatrick, discussing the Stewardship objective.

## The Entity

The Stewardship objective concerns information about the federal government and the U.S. economy. It states that “Federal financial reporting should assist report users in assessing the impact on the country of the government’s operations and investments for the period and how, as a result, the government’s and the nation’s financial condition has changed and may change in the future.” For the purposes of the ideal reporting model presentations, members decided to focus on the U.S. government and its components rather than the nation’s economy.

### Issues to Consider

Members should ensure to consider users’ needs discussed in the Statements of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, and SFFAC 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*. Also, consider the following:

- Whether to start with the government-wide or component entity model.
- Whether to accept the fact that the financial statements will provide only some of the information called for by the reporting objectives.
- How to encompass the cost, budget comparison, and performance information needs espoused by the research.
- The role of electronic reporting.
- The need for data standardization.
- Who are primary users?
- Value in linking agencies to government-wide.
- How to disaggregate to a meaningful level?
- To what extent should we focus on programs?
- How do we communicate in a way that is understandable to a lay person?
- RSI related to the federal deficit, sustainability, and performance.
- What information about the entity should be presented?
- Provide guidance on the type of information to include in government-wide vs. agency reports.
- Determine financial statements required for government-wide vs. components.

- Align the objectives with the applicable financial statements and other disclosures.
- Determine whether financial statements should articulate.

### Other

The presentations should focus on: the display of information and how the information could be presented in an understandable manner; and what FASAB can do to address the reporting objectives. Also, the presentations will take place on April 23 and 24 and can be presented orally or in Microsoft PowerPoint or Word.

**Conclusion:** Members will present their view of an ideal reporting model during the April 23 and 24 Board meetings.

- **GASB and IPSASB Update**

Messrs. Dacey and Granof provide a brief review of active GASB and IPSASB projects.

- **Three-Year Plan**

The Board deferred discussion of the three-year plan until April.

### **Adjournment**

The meeting adjourned at 4:00 PM.