FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
October 27-28, 2010
Room 7C13
441 G Street NW
Washington, DC 20548

Wednesday, October 27, 2010

Administrative Matters

- **Attendance**

The following members were present throughout the meeting: Chairman Allen, Messrs. Dacey, Granof, Jackson, Reger, Showalter, Schumacher, Steinberg and Ms. Bond. The executive director, Ms. Payne, and general counsel, Mr. Dymond, were also present throughout the meeting.

- **Approval of Minutes**

The minutes of the August meeting were approved electronically before the meeting.

- **Rules of Procedure and Statement of Members Responsibility**

The Rules of Procedure were presented for approval. Mr. Dacey requested insertion of a reference to an “affirmative” majority vote on interpretations on page 27. There were no objections and the rules were approved.

Discussion of the Statement of Members Responsibility was deferred until after discussion of the survey and confirmation.

Agenda Topics

- **Survey and Confirmation**

Greg Anton, AICPA’s Rule 203 Review Panel Chair, and Mary Foelster, director of governmental auditing and accounting, joined the board for the discussion.

Ms. Payne explained that the survey was changed to focus on rating performance against the prior year instead of against a scale and place greater emphasis on soliciting recommendations. Mr. Showalter suggested a mechanism should be provided to allow members to mark a yes or no answer as appropriate rather than being required to provide a narrative,.

Regarding the confirmation form, the members discussed issues relating to individual’s perceptions and the appearance of independence. The Board agreed to change the second sentence of the independence confirmation from “I will re-evaluate my independence periodically and whenever my circumstances change and will promptly notify the Chairperson if my independence is, may be, or I believe may be reasonably perceived by others to be, affected” to “I will promptly notify the chairperson if my independence is or may be impaired.”

There were no other changes to the survey or confirmation. Mr. Dacey requested that the Board consider including the definition of undue influence presented on the confirmation form (Undue influence is defined as external influences or pressures that impact a member's ability to objectively reach and/or communicate independent conclusions) in the Statement of Members Responsibilities. He also indicated that there would be other changes to conform to that definition. Ms. Payne suggested that members consider another draft at the next meeting since there is no urgency.

Mr. Allen explained that he considered “external” to be from the perspective of the member. He noted that a member who comes from a Federal agency carries the position of that agency—while that member should be independent from trading votes and other such influences, he or she is not independent from his or her agency. Mr. Reger agreed and asked that the minutes document that interpretation. No members objected to that interpretation.

Ms. Foelster requested an opportunity for the full AICPA review panel to comment on the survey and confirmation. She expected that the review would be completed quickly. Ms. Payne committed to providing the revised survey and confirmation and deferring its completion by members until December.

Mr. Allen thanked Mr. Anton and Ms. Foelster for their participation.

- **Earmarked Funds**

Ms. Payne explained that Eileen Parlow, FASAB staff director for the earmarked funds project, was unable to attend due to health concerns. She emphasized Ms. Parlow’s commitment to resolving the issues associated with earmarked funds reporting as soon as possible. She then asked members if they have any concerns regarding the proposed language clarifying that at least one external source of financing is required before a fund is classified as earmarked.

Mr. Jackson asked for clarification regarding the criterion that there be a requirement to “report” on the fund (paragraph 11, subparagraph 3). He wondered whether the requirement needed to be in legislation. Ms. Payne recalled that such a question had come up before and believed it was addressed elsewhere in Statement of Federal Financial Accounting Standards 27. She committed to researching it and bringing the results back at the next meeting.

Mr. Schumacher suggested a change to paragraph 11, criterion 1-adding that revenues are “originally” provided by a non-federal source.

Mr. Dacey asked FASAB Counsel, Abe Dymond, whether, for earmarked funds, the statute requires that the fund be used for designated purposes or only the receipts from non-federal parties be used for specified purposes. He explained that his concern is whether the fund itself is designated for specific purposes. The revised language addresses only the external funds being designated for a specific purpose, and he was unsure whether the requirement is always limited to just the funds from external sources or, from a broad perspective, the whole fund is designated for specified purposes. He indicated a concern that this could change the treatment of some funds that are currently classified as earmarked.

Mr. Dymond explained that restrictions vary. Some of these funds can have multiple sources of receipts, such as fees, donations, interest earned on investments, and general revenues. As he sees it, the question for the board is: do you want to focus on that particular receipt, focus on the accountability for that particular receipt from the non-Federal source, or do you want to focus on the fund that it's deposited into?

Mr. Dacey asked whether the government can take back internal sources of financing such as general fund appropriations. He also acknowledged that it would be cost prohibitive to begin splitting the funds based on external versus internal financing sources.

Chairman Allen noted that he agrees with the theory behind the concern. He noted, however, from a practical standpoint the federal government is not often contributing significant resources in advance of when the funds would be needed for a payment. So, it's a good theoretical discussion, but from a practical standpoint, it may not have any effect.

Ms. Bond noted that OMB Circular A-136 says "if the predominant source of a mixed fund is earmarked, the entire fund may be reported in the financial statements as earmarked." In practice, that is how these situations are handled. If the predominant funding coming in is earmarked, then the fund is earmarked. She supported continuing that treatment.

Mr. Steinberg asked about paragraph 14e. He noted that as soon as earmarked funds come in, they are transferred over to the general fund, and IOUs are taken back. He realizes this has not been a problem for the preparers. He expressed concern about the people that read the financial statements, the public. He expects that they look to FASAB standards to get an understanding of what is being reported in the financial statements. He would like to make sure that people don't come to the conclusion that we don't have any earmarked funds because all of these monies just get transferred over to the general fund immediately, or lent to the general fund immediately. He suggested that we have another sentence at the end of paragraph 14, and maybe a paragraph that would be 14-A, that would say something along the lines of "the classification of a fund as an earmarked fund is not changed by the fact that earmarked funds may be lent to the general fund until the funds are needed to support the earmark purposes." And that would be a clarification.

Chairman Allen noted that while he thinks it would be a good clarification he does not think we would need to go back and re-write SFFAS 27. Also, he believes that point would have been covered somewhere else in SFFAS 27; perhaps the basis for conclusions.

Ms. Payne expressed concern that the preparers will look at each change and ask "is the Board trying to change our practices." So, to the extent that you add something, they're likely to look for the impact. She also indicated that the plain language summary and the basis for a conclusion is more useful to a user who wants to better understand the lending described by Mr. Steinberg.

Ms. Bond suggested that if you're trying to get to the user base, then you should have it as a disclosure rather than additional explanation in the body of the standard. Members noted that there was a disclosure on that point.

Members Bond, Dacey, Showalter, Schumacher, Allen, Reger, Jackson, and Granof agreed that the disclosure was adequate and no change to the standard was needed.

Mr. Granof suggested that the basis for conclusions as drafted does not identify the problems that the proposal seeks to resolve. Ms. Payne agreed and indicated that staff would draft an introduction explaining why the Board took up the project, what problems are to be solved, and then how the proposal solves those problems.

Mr. Allen turned the discussion to question 2 – a requirement that the predominant source of funds be from an external source.

Ms. Payne began by acknowledging that it’s always difficult to structure amendments to an existing standard. Typically, staff tries to fit the new requirements into the structure of the existing standard. The predominant source of funds requirement is drafted as an addition to the definition of a fund but other placement is possible. Paragraph 13 as revised explains that if you have mixed funding, you classify it based on predominant source of funding. An exception is provided if you have a fund that is receiving earmarked funds that are material to the government as a whole. She also explained that this would be the first time that a standard has raised materiality to the government-wide level rather than the reporting entity level. Medicare Parts B and D are used as an example.

Mr. Allen indicated that from a practical matter there is not advance payment from appropriated or budget funds.

Mr. Dacey raised a couple of conceptual concerns with the approach. It is problematic because a report of an entity should include what's material to that entity. He asked why we wouldn’t use materiality to the entity as the exception. Then the reader would see any earmarked revenues that are material to the entity and any earmarked balances that are material.

Mr. Allen said he did not object but that he recalled the focus of SFFAS 27 being on social insurance earmarked funds. These were clearly material at the government-wide level. He had not expected – as a respondent to that exposure draft – so many funds to be at issue.

Ms. Bond agreed with Mr. Dacey's point and argued that it was consistent with the theme of transparency and wanting more disclosure.

Ms. Payne noted that – while sound conceptually – setting materiality at the reporting entity level is likely to cause the deferred compensation funds to be material and meet the exception to classification based on the predominant source of funds.

Mr. Jackson asked if there could be another filter – for example, if the liabilities associated with the fund creates a negative net position, then that fund is not an earmarked fund? He could support this because where a fund has accrued liabilities in excess of its assets there is nothing to earmark.

Mr. Dacey noted that the challenge of negative net position as a filter is that we also want to show the earmarked revenues and costs. The focus is dual—on both the operations and the balance sheet. Some of the funds having negative net position also have significant earmarked activity during the year.

Ms. Payne noted that there are extensive disclosures about deferred compensation plans. So, any special accountability needs are met because you tell the people who put money into a plan the status of the funding sources as well as the liabilities of the fund. She believes the OPM statement accomplishes that goal without the earmarked fund additional reporting. She also noted that deferred compensation is exchange activity so you do not get visibility of earmarked revenue on the face of the statements (because it is reported on the statement of net costs where revenue is not disaggregated by type of fund). She indicated that deferred compensation funds involved an exchange transaction with employees and there is not a special need to be accountable to the general public in the same manner as other earmarked funds.

Members asked if a potential filter could be exchange revenue. Mr. Dacey indicated that you do have some other commercial activities, like insurance, which tend to have a similar pattern of showing a negative net position. That negative net position is the issue because theoretically you shouldn't have negative restricted net position. Because these are exchange transactions, his concern about showing the earmarked revenue could be mitigated.

Mr. Allen asked whether funds that do not have a predominant source of funds from external sources can have earmarked revenues that are material at the reporting entity level.

Ms. Payne said she believes that would pick up the deferred compensation plans. She appreciated the members' desire for a principle based approach but she believes that deferred compensation funds could be excluded on principle. Such funds are substantively different than transactions with the general public.

Members discussed the dilemma that revenue dedicated to a specific purpose – consistent with the criteria in SFFAS 27 - creates an earmarked fund. To argue that a negative net position changes the classification of the fund, would not be consistent with the criteria established. However, they agree that the financing effect intended to be revealed on the balance sheet is obscured by negative fund balances. Members asked whether consideration could be given to exchange revenue – that is, do exchange transactions give rise to the same accountability and financing considerations as non-exchange transactions.

Members and staff discuss the effects of the changes accepted by a majority of the Board. The two changes generally agreed to – the requirement that there be an external source of funds and that the fund should be classified based on the predominant source of funding unless another source is material at the reporting entity level – exclude some funds currently classified as earmarked (such as military retirement and ARRA funds) because they have little or no external funding. However, several of the largest funds with negative net positions and other characteristics that seem to run counter to the goals of earmarked funds reporting would not be excluded. For example, deferred compensation funds receiving significant employee contributions would not be excluded.

Mr. Dacey asked about one of the earlier staff options - to report separately on the balance sheet the positive and negative net positions of earmarked funds. It was never discussed in great detail. Mr. Allen recalled that the complexity made it even more difficult to understand the effect of earmarked funds.

Ms. Payne noted that the fiduciary activities standard excludes payroll withholding accounts from fiduciary because there was no external accountability. Rather, payroll withholdings are an internal function. She suggested that staff explore whether the same logic could apply in earmarked. That is, that deferred compensation transactions are part of an exchange relationship where full accountability is provided through other means. She also suggested that staff explore guidance regarding materiality. At the outset of the project, the Board noted that over 500 funds were being reported and some were insignificant.

Ms. Bond suggested that the negative net position is not really the issue. She would be interested in exploring the option Ms. Payne put forth. She asked that we look at what the purpose of those funds, or take the payroll approach and see if that makes more sense.

Mr. Jackson asked that staff explore more broadly the notion that if the revenue occurs as a result of an exchange transaction, then that does not necessarily lend itself to earmarking. He believed that if you have an exchange transaction the accounting for that transaction gets you what you want to get without an earmarking provision. For example, these compensation plans end up with a liability and that tells you immediately that everything in that transaction is restricted. No matter how you invested it, it's been restricted, so the reader sees clearer the effect. Another example is the nuclear waste disposal fund which results in deferred revenue.

Mr. Allen disagreed because the Board had been evenly divided over whether Social Security is an exchange transaction. While the theory laid out is fine; as a practical matter, he did not want to open that issue up again.

Mr. Dacey suggested that we are spending a fair amount of time on this discussion. He suggested that a pragmatic approach may be to try the approach Ms. Payne suggested. He would also consider including some of the insurance funds – crop insurance - which are exchange. Perhaps, an approach would be to illustrate major buckets that would be excluded but not link the exclusion purely to exchange transactions. The exclusions could be justified from the standpoint that the character of that transaction is such that it shouldn't be earmarked.

Mr. Allen polled the members on their views regarding the various options discussed. Ms. Bond indicated that she thought the approach of using the predominant source had some consensus support. She would like to know more about the effect of the other options. For example, what does it do if we bump the materiality down to the agency level? What does it do if we approach exchange transactions? What does it do if we go the payroll route? And it seemed to her, that absent that information, it's hard to decide.

Mr. Showalter agreed that predominant source was acceptable.

Mr. Steinberg also agreed. He suggested that staff develop further the options of an exception based on materiality at the agency level, exchange transactions, and deferred compensation plans. He suggested that the staff research would let us see what the unintended consequences would be.

Mr. Reger agreed. He would like to find an attribute of those ones that shouldn't be earmarked and use these to exclude them.

Mr. Granof noted that writing the basis of conclusions will be challenging. He pointed to the current draft and noted that for the one exception we give no logical explanation as to why it's excluded. Now more exclusions may be added.

Mr. Allen moved on to question 3 in the staff memo. It asks if the Board agrees that for component entities, no display of earmarked fund amounts would be required on the face of the financial statements.

Members noted that the proposed wording was confusing. Since disclosure can always be accomplished on the face of the statements or in the notes, they felt the standard should be clearer.

Mr. Dacey indicated that he was not troubled by the SFFAS 27 requirement to display earmarked and all other fund amounts on the face of the balance sheet and statement of changes in net position. In many cases, the distinction will not be material but where it is, it is useful. Therefore, he objects to the proposed change.

Mr. Schumacher recalled that the balance sheet presentation is understandable but the statement of changes in net position presents a problem.

Mr. Reger pointed out that almost all component entities currently display both types of funds – whether the distinction is material or not.

Mr. Allen asked about the history of the proposal. Ms. Payne explained that the task force (which included primarily preparers and not auditors)found the statement of changes in net position very difficult to understand. They considered it cluttered. They felt a layperson simply cannot pick them up and understand them, there's too much detail in some of them. Again, there are many agencies displaying the split on the face of their statements when it's simply not a material split.

Mr. Allen polled the members.

Ms. Bond agreed with the language and the clarification.

Mr. Allen also agreed.

Mr. Reger agreed with the goal but did not believe paragraph 19 was needed.

Mr. Steinberg, although he has no problem with the current display, can support the proposal as long as it is clearly expressed.

Mr. Jackson agreed with the proposal.

Mr. Granof indicated that he had heard no evidence on the key question - does it make any difference to the user? Will they make any different decision, any different judgment, whether it's in the notes or the financial statements? Without such evidence, he does not know how to vote.

Mr. Showalter indicated that he was persuaded by Mr. Dacey's views and wanted to find a middle ground. He asked if it would be possible to require display if there was a preponderance of earmarked revenue.

Mr. Schumacher agreed with staff proposal. He believed the current wording could be clearer.

Mr. Granof referred members to concepts. He believes the question is, if it belongs on the face of the financial statement, then is it essential information? That's the key question. Don't we have a statement in one of our concepts as to what goes into the – I'm sure we do.

Ms. Payne indicated that such concepts are included – criteria for such decision are laid out. She also noted that members did not receive a draft basis for conclusions for the staff recommendation. She would articulate the basis for conclusions by pointing out that at the component entity level there are many restrictions on the use of funds. This makes the split between earmarked funds and funds having other types of restrictions hard to understand and put in context. Agencies don't operate as freewheeling entities; they have principal-agent relationships with Congress and the administration. Therefore, they have many types of restrictions.

Mr. Granof asked are the restrictions on earmarked funds essential. He needs to know the answer to be able to vote.

Mr. Allen indicated that there was a majority in support of the proposal.

Mr. Jackson noted that it is disturbing to see the standards move from an entity-wide perspective to a fund accounting perspective. Segment reporting has always been accomplished through notes.

Ms. Bond asked why the table on page nine was needed.

Ms. Payne indicated that the table is one part of a larger case study that illustrated how entries could be made for an earmarked fund. The intent was to assist other agencies in preparing implementation guidance. Since the standard has already been implemented, it is possible to drop the illustration, improve it or simply leave it alone.

Mr. Allen indicated that he would leave it alone.

Mr. Jackson suggested we not address the illustrations until the key decisions are made.

Mr. Granof appreciated the illustration.

Mr. Allen suggested the members consider the remaining issues and return to the illustration at a later time.

Ms. Payne explained that question 4 addresses the need for eliminations at the component entity level. Staff is proposing to allow agencies to present combined earmarked and combined or to present consolidated amounts. In either case, the amounts would have to be properly labeled.

Mr. Dacey indicated that he would simply say eliminate material interfund balances. He would have the eliminations done in the note so that a consolidated earmarked fund balance was available. Then eliminations between earmarked and all other funds would be done on the face of the statements.

Mr. Reger confirmed when asked by Mr. Allen that the information needed for the government-wide report was available through the closing package and the proposed changes would not affect that. He also endorsed Mr. Dacey's suggestion.

Ms. Payne noted that the task force members indicated that they were unable to do eliminations among earmarked funds. Eliminations are performed for the entity as a whole. Eliminations can not be separately identified among earmarked funds, among all other funds, and also between the earmarked funds and all other funds. She added that eliminations at the agency level do not seem useful. The focus is on individual funds to assess the status of the fund – that is, see what it has spent and what it has available. The entity-wide total is informative but it doesn't seem to make a great deal of difference whether specific items – such as payables - are grossed up or not. The total net position is correct (that is, it is not changed by eliminations). So, she sympathizes with the notion of not imposing a cost on the component entities to change their systems so that they can do the eliminations to arrive at consolidated amounts for each of the three levels of aggregation. She noted that SFFAS 27 was unclear (confusing) regarding eliminations and we now see practices that are not usual such as eliminations that do not balance.

Ms. Bond agreed. Mr. Jackson agreed and said the financial statements of the agency would have reflected all the appropriate eliminations and amounts. The only issue is whether the notes would have eliminations. Since the focus is on the revenues and financial positions of each individual fund, he believed combined would be acceptable.

Mr. Allen said, from his perspective, the important aspect was that the amounts be titled properly—either combined or consolidated.

A member asked what current practice was regarding eliminations. Ms. Payne noted that staff had difficulty discerning which amounts were combined and which were consolidated. She gave an example of one agency that appeared to have plugged an amount in order make their earmarked funds balance agree with the disclosure.

Mr. Reger noted that eliminations are not done individually; they are done in the summary form. He said the real question is whether you want them to do eliminations between individual earmarked funds.

Mr. Dacey asserted that the whole reason for elimination is to prevent materially overstated amounts. He comes back to materiality as a threshold. He prefers this approach over the permissive approach of allowing either combined or consolidated.

Mr. Reger indicated that if you want to see consolidated earmarked funds information, it needs to be required. The question is do you need consolidated earmarked funds amounts.

Ms. Bond asked what the value of consolidated earmarked fund amounts would be.

Mr. Reger indicated that it was a matter of whether eliminations were material to any individual fund.

Mr. Jackson noted that in fund accounting, once you have a representation on a fund-by-fund basis, it is not appropriate to eliminate. Each of the individual funds has a specific financial position and results of operations. On a fund-by-fund basis, those inter-fund activities are reflected, are grossed up, and only when you go to a consolidated statement for all those funds does that elimination occur. Elimination is only relevant for a consolidation of the entire entity.

Mr. Allen agreed and added that the state and local standards direct you to gross the funds up because you want to see those activities. At the government-wide level, you then want to see those eliminations.

Mr. Dacey said his concern is that the requirement is to do either consolidated or combined so long as it is labeled correctly. He wondered if there was a principle behind that flexibility.

Mr. Allen agreed. At GASB, the principle was to portray fund activity and all of the activity should be captured on the face.

Mr. Jackson reiterated that he doesn’t see the benefit of consolidation of information across earmarked funds.

Mr. Allen asked if the principle behind the choice between consolidated and combined amounts was part of the reporting model project.

Mr. Jackson said the object of this is to give people a perspective with regard to the operations of individual earmarked funds. It's the individual funds that were clearly restricted by law. The consolidated number means nothing to anyone.

Mr. Allen expressed concern that the issue was broader than earmarked funds reporting. He asked if members were comfortable dealing with it in this project.

Mr. Showalter indicated a preference for being silent on the issue. He preferred to deal with it in the bigger context. He thought the title requirements were appropriate.

Mr. Jackson supported the proposal to require that amounts be labeled correctly. He also felt that the standard should be clear regarding requirements. He would reserve a choice between combined and consolidated for a later date.

Mr. Dacey indicated that he wasn't sure we would get to this issue in the reporting model project because it seems kind of minor. He favors resolving it one way or the other. He believes consolidated totals are needed to avoid presenting overstated amounts in the note or the face of the statements. But, he would remind members it only applies to material items.

Mr. Showalter indicated that he believed this is the wrong place to provide guidance on the issue. Guidance for consolidation eliminations should not be in the earmarked standard. Therefore, he could support the staff proposal to be permissive in this standard and provide for correct labeling.

Mr. Schumacher agreed with Mr. Showalter's desire for a broader approach and expressed some dissatisfaction with a permissive standard. He would leave the standard as it is for now.

Ms. Bond, Mr. Allen, Mr. Jackson, and Mr. Reger endorsed the staff recommendation.

Mr. Steinberg supported a broader approach and leaving the standard as it is for now.

> **Conclusions:** The Board will review an exposure draft incorporating the Board's decisions and basis for conclusions at the next meeting. Staff will research:
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> 1. the existing requirement for a report on the fund
> 2. the effect of the requirement to classify a fund with mixed sources of funding based on the predominant source of funds except in cases where the earmarked revenue is material to the reporting entity
> 3. principles that might justify excluding deferred compensation funds, funds financed by exchange revenue, and/or funds supporting insurance programs

- **Evaluation of Note Disclosures**

Overview

During the October 2010 meeting, the FASAB discussed a staff proposal to review disclosures. The proposed objective of the project was to refine existing disclosure requirements by determining whether certain required information is no longer relevant or useful; could be streamlined; or improved, as well as whether additional information is needed. The scope of the project was intended to be comprehensive and would involve panels who would review each disclosure or a cluster of disclosures. Approximately 18 review panels would be conducted and the panels would consist of preparers, auditors, and analysts. Following the panel discussions, interviews with users would be conducted to provide input about: a) specific items of information they find most valuable or useful and why; and b) their understanding of and interest in specific illustrative disclosures.

FASAB members considered the benefits of the approach and the resources that would be required, and determined that the major issues need to be determined and the project streamlined. For the December 2010 meeting, staff plans to provide a proposal for refocusing the objectives and scope of the project. The following provides details of the Board discussion. GASB had a project on note disclosure with the goal of eliminating unnecessary disclosures and streamlining the remaining disclosures. They found it very difficult to get financial statement users to eliminate any existing disclosures.

Discussion

Mr. Simms explained that during the August 2010 meeting, staff presented a proposal to conduct a survey to determine the disclosures that should be evaluated for enhancement. However, the Board decided that a comprehensive review of disclosures would be needed. Thus, staff proposed conducting 18 panels to review disclosures comprehensively. Each panel discussion would require about 2 hours.

Mr. Allen noted that the project is beneficial, but the reporting model project would be the higher priority. His concern was the time required of agencies to serve on the various review panels. The Governmental Accounting Standards Board (GASB) could not get users to eliminate the disclosures. Users looked to the footnotes because they highlighted reasons for changes in trends. Also, boilerplates kept growing. Information for new requirements was being added to boilerplates from existing requirements. An entity could address all of the notes in about one-third of the pages, if they focused on the material items and the requirements. The review panels could discuss the reporting requirement versus what information is being presented in practice.

Mr. Granof noted that the emphasis should be on what information people are using. Then ensure that the information can be readily provided. Users can provide the benefit side and preparers can provide feedback on the cost. If the cost is onerous, then a decision can be made whether the information is valuable. Users and preparers could be a part of the panels.

Mr. Dacey noted that he was not sure that there would be enough unique users for each of the panels like there would be for preparers. It may be easier to get one user base to discuss disclosures.

Ms. Payne noted that staff conducted a roundtable on internal use software involving preparers and discussed the requirements for internal use software and the information that people want. As a result, they found that there was a disconnect between the OMB tool for managing investments and the FASAB requirements. By bringing the preparers to the table we can ask them to provide feedback on the type of questions they receive on particular items and whether the disclosures align with those questions.

Mr. Reger noted that the depth and breath of the effort may be too overwhelming. There may be a need to concentrate on certain disclosures or stagger the approach by starting with disclosures that could provide more immediate payback.

Ms. Bond noted that doing a comprehensive review is good, but having 18 review panels would be a strain on resources. An alternative could be to streamline the approach rather than streamline the disclosures, i.e., have one or two comprehensive groups that are good at disclosures in general.

Mr. Granof noted that the Board should be looking to the future, whether there would be a hierarchy and there may be a need to prioritize disclosures.

Mr. Allen noted that the Board should be aware that disclosures could be streamlined. For example, with respect to pensions, the GASB noted that a lot of disclosures did not need to be presented as long as the entity provided references to where the pension report could be obtained.

Ms. Bond thought it would be good to have the community inform the Board regarding which disclosures are beneficial and which ones could be streamlined or need clarification. Mr. Reger suggested a panel that has experience in reviewing notes. He noted that they are developing a website for the 2010 government-wide statements that will have links for various things. The idea about adding links to notes certainly streamlines and lessens just the sheer volume of the notes. However, it does actually add to the amount of information that is available. Mr. Allen noted that it is important for staff to talk to preparers to find out the burden on them, and talk to users to find out what information they want. Then, determine how you can best mesh those two together

Ms. Payne noted that staff initially envisioned multiple two to three hour roundtable discussions on a cluster of disclosures because it would be difficult to find enough users with expertise for each disclosure. She noted that there are a lot of ways to get input on disclosures; however, the limitations are expertise and time.

Mr. Steinberg noted that reviews for the Certificate for Excellence in Accountability Reporting (CEAR) program will start sometime in January 2011 and run through the end of March 2011. If the program gets 20 reports this year, they will have 80 reviewers, and they are supposedly looking at the financial statements for an agency, and we can ask them to look at certain things. If the FASAB wants to do that, the program would need the following: 1) The FASAB to come up with precise things that we can tell them to look for rather than just say look at the statements and the notes; 2) it needs to be done prior to December 8, 2010. That is the date when the CEAR training will be conducted and they will need to present the questions to the reviewers at the training.

Mr. Allen noted that the GASB went through a disclosure review and the process involved three tiers:

> Top Tier - What are the essential, critical notes, no matter what we do, leave those alone.
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> Middle Tier – All the notes determined to be between the top and bottom tier.
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> Bottom Tier - Which notes are least valuable to you? These are the ones that are the focus of our work.

The GASB thought the bottom tier was at least fair game for consideration to eliminate or shorten. So, using this process the FASAB could glean that kind of information, i.e., which disclosures are the least valuable notes in helping users understand the entity?

Mr. Allen noted that the FASAB disclosures project could determine what is the real burden of the FASAB requirements on preparers and can we streamline that and still meet the needs of users. However, the struggle is identifying the users.

Mr. Showalter noted that the GASB's disclosure review project resulted in a good framework as to how notes should be structured, which helps readability and the reader's comprehension.

Ms. Bond noted that the project should be more focused and clear about the end product for Board decision. Also, Mr. Reger noted that there should be a more productive way of approaching the project rather than separate panels for each disclosure. Mr. Allen noted that rather than proceeding with separate panels for each disclosure, staff should refocus the project and return to the Board with a proposal for how to proceed.

Mr. Steinberg noted that if the Board was to do anything on a model, the attention might be on the agency model rather than the government-wide model. The current reporting model project focuses on the government-wide model and Mr. Steinberg noted that he had not heard complaints about the government-wide model.

Mr. Granof noted that staff should think about: what exactly you are going to ask; what are the potential answers; and what are you going to do when you are told those answers.

Mr. Showalter suggested a survey of a few disclosures. There are a lot of comments from the various communities about the financial statements and the footnotes and overburden. The Board owes it to constituents to take a look at disclosures.

Mr. Schumacher expressed concern about the burden on preparers and noted that addressing that concern would be a benefit of the project. However, the project should not start with panels for each disclosure. Perhaps, prioritize the disclosures and see what kind of feedback we receive.

Mr. Dacey noted that the project has merits and, if the Board would like to identify those "rough spots," staff could send out something to gather information from both the preparers and users on where those points are either in terms of preparation burden, more information than we need, not enough information, or confusing information, per category. The Board could use that feedback as a process to figure out where we go next as opposed to setting up with 18 panels in the beginning. Mr. Dacey would prefer to try to identify what the biggest areas are, based upon a general survey, and then dig into those a little bit more deeply to see if there is unanimity, or if it is just peoples' idiosyncratic views about a particular disclosure. The real risk is that some might say it is a great disclosure, while others might say that it is unnecessary. In practice, the tendency is to keep them if there is any significant group that wants them.

Mr. Steinberg noted that the Summary of Significant Polices should be a disclosure that is considered as part of the project. Some agencies give you a very good understanding of the structure and operations of the agency; however, some are boilerplate.

> **Conclusion:** Staff will reevaluate the objectives and scope of the project and, at the December 2010 meeting, provide a proposal to the Board on how to proceed.

- **Federal Reporting Model**

<u>Overview</u>

The Financial Reporting Model Task Force (task force) presented nine preliminary draft recommendations intended to increase users' understanding, access, and use of financial information while avoiding costly requirements that do not add value. The presentation included a preliminary draft recommendation to adopt an electronic, web-based reporting method. Features of this method included: a central website for federal financial information which permits users to select the appropriate level of technical information. Also, the website would be searchable, posses drill-down capability, present machine-readable data, permit data to be downloaded in different formats, use multimedia for explanations of statements, and present some information using graphical and other user-friendly displays. FASAB members discussed the benefits and need to implement this recommendation soon. In addition, members noted that some initiatives along the lines of web-based reporting have been started. The task force plans to finalize the report for the December 2010 meeting. The following presents details of the discussion.

Discussion

Mr. Simms noted that the task force has developed a draft report and would like to present some preliminary draft recommendations to the Board. The task force plans to present their final report at the December 2010 Board meeting.   The task force members in attendance were as follows:

- Jonathan D. Breul, Executive Director, IBM Center for The Business of Government, Partner, IBM's Global Business Services
- Patricia E. Healy, Executive Consultant, CGI
- Marvin Phaup, Director, Federal Budget Reform Initiative, Pew Charitable Trusts
- Al Runnels, Deputy Chief Financial Officer, Department of the Treasury
- Jeffrey C. Steinhoff, Executive Director, KPMG Government Institute, and Managing Director, KPMG LLP

Task force members not in attendance were:

- Michael J. Hettinger, Executive Director of Practice Planning and Marketing, Global Public Sector, Grant Thornton LLP
- John H. Hummel, Partner and Federal Segment Leader, KPMG LLP
- Edward J. Mazur, Senior Advisor for Governmental Financial Management, Cherry, Bekaert & Holland, L.L.P
- Sheila Weinberg, founder and CEO, the Institute for Truth in Accounting

The task force noted that their objective was to increase the user's understanding, access, and use of federal financial information while avoiding costly requirements that do not add value and they met during the months of April, May, July, August, September, and October 2010. The task force considered user needs data, the consolidated financial report of the U.S. government (CFR), issues raised by FASAB members, and discussed a wide-range of issues and possible recommendations. The task force presented the following nine preliminary draft recommendations:

1. Adopt an Electronic, Web-Based Reporting Method. The method would provide a central location for information and have drill-down capability. The task force provided an illustration of an electronic, web-based reporting method for the federal government.

2. Present a Functional Statement of Net Cost in the CFR. The task force presentation included an illustrative statement.

3. Provide a Presentation of Net Cost by Budget Function and Department. The task force provided an illustrative presentation.

4. Consider the Statement of Spending being Developed by the Chief Financial Officer's (CFO) Council

5. Change the Balance Sheet Display to Emphasize Net Position. The format would be assets – liabilities = net position.

6. Add a Note to the Balance Sheet that explains the Connection between Net Position and Fiscal Gap.

7. Move the Information in the Statement of Changes in Cash Balance from Unified Budget and Other Activities to either a Note or Required Supplementary Information (RSI), depending upon its Relative Importance to Understanding Financial Position.

8. Change the Labels on the Reconciliation of Net Operating Cost and Unified Budget Deficit to those illustrated in Standard 24, Selected Standards for the Consolidated Financial Report of the U.S. Government

9. Consider Intergovernmental Financial Dependency Reporting in RSI

Messrs. Runnels, Phaup, and Steinhoff led the presentation. Mr. Runnels noted that the preliminary draft recommendations have not been vetted with the Department of the Treasury.

FASAB members thanked the task force for the presentation and appreciated the preliminary draft recommendations. FASAB members expressed the following comments.

Mr. Jackson noted that with regard to the dependency of state and local governments, it probably should not be a part of a consolidated reporting package, but part of a separate type of periodic study, such as a bi-annual type study that showed the relationships. For example, one could see these dependencies at a macro level and start wondering: what are the effects of those dependencies on the income tax stream; how much of those income taxes, for example, flow from retirees, federal retirees, or military personnel and so forth.

Mr. Breul noted that the benefit of a web-based approach is that one can introduce the analysis subsequent to getting the principal data together. The principal data could be followed with a more detailed analysis and make it available.

Mr. Jackson also noted that he has been interested in knowing what should be measured from a performance point of view and what should the metrics be. With credit reform you start dealing with defaults, other information, and the fact that you go through the re-estimation process, you start getting some sense as to how well those programs are being managed.

Mr. Runnels noted that there could be a separate area on this topic with information that would resonate with the public and OMB is currently working on performance information reporting - giving the public the opportunity to see major goals and then tracking it down through the agencies.

Ms. Bond noted that it was useful to see the recommendations and that the OMB has a lot of things underway that are going to be in alignment with them, such as paymentaccuracy.gov where you take a high level and drill it down so that you can actually see where the issue is by program, by measurement, by what they are supposed to be doing and making that real information useful to the public which has been the foremost priority. However, the challenge is making the link to tell the public this is what we spend and here is what you got for it. That is what they are really desperate to have.

Mr. Allen noted that it appears that the task force felt fairly comfortable with the nature of the current data and how it is being presented. Mr. Runnels noted that the CFR is a good report; however some of the statements needed tweaks to provide better understanding for the public. Also, consider sending the citizen’s report to every citizen. Mr. Breul noted that there was some concern among task force members not to propose a time table that was 2, 3, or 4 years out for some changes. There was an anxiousness to propose something that could be achieved in the near term, understanding first that there is enough uncertainty that we did not want to harden a long-term proposal, but second that it was important to make some of this available sooner. In one sense -- a way of thinking about some of this proposal is it is a window on data that is out there on agencies and elsewhere and trying to present that window as opposed to a harden concept that would take 3 or 4 years of design and testing to develop. Therefore, you could move out on some of these promptly understanding that further change could take place later.

Mr. Steinberg noted that a window is good and that the report is fairly good because that was his feeling too. However, more people are not looking at the report and Mr. Steinberg was wondering whether the task force has some thoughts as to how do we get more people to look at this information. Also, Mr. Steinberg noted that he agreed that performance information should be included as part of the financial information and he wondered what would be the best ways of presenting performance information. In addition, one of the values of using an electronic web-based reporting model is that you can measure the length of time that people stay at the computer at that website, where they come from, where they go next, and whether they come back to the website. Those are more meaningful than simply measuring the number of hits.

Mr. Runnels noted that he would like for this to be the last year that we produce hardcopy reports. The process is not very efficient. For example, the desktop publishing could not really do grammar checks very well. The report must be reviewed word- for- word.

Mr. Reger noted that they are developing a website for the government-wide report and was concerned about how to in the long term deal with the need to quantify information after the fact because you do not know what these events are that you want to measure in some cases until after you are down the stream, i.e., How would we start to look at information that might be more helpful to the user, but realizing that the qualification or the segmenting of it has to occur after the fact? Also, currently there are multiple places where people are getting financial information whether it is budget information, USA spending information, financial information. If you were the public or user, how would we go about consolidating the availability of that in the current age with links and data? How do we charge somebody with responsibility of gathering all this financial data in a uniform manner that is subject to the similar reviews so we can have some confidence in the levels and data we are putting out there?

Mr. Reger also noted that Great Britain was talking about that they moved ahead and issued statements for their federal government all the local jurisdictions and people were shocked by their tax burden. The result was that they are implementing extreme measures to reduce the tax burden. It is an interesting question about what would happen if we found a way to consolidate financial information for not only the Federal Government, but state governments, local governments, local jurisdictions, and taxing authorities.

Mr. Breul noted that the task force's first preliminary draft recommendation is for a central website, not a single, not a uniform, but something that has this window into a number of sites and places. Also, that at this point, avoids some of those turf problems and territorial questions of where one thing or another is done, but still makes that data available on an easy basis. That is a key matter the task force arrived at actually rather late in the process, but it was an insight that proved to be very important. Mr. Steinhoff also noted that the system would be searchable. Also, the current report has a lot of valuable information, but we are talking about a way to really array it better and look at ways to more modernly report it and allow folks to analyze what is there. Eventually you might see less of it in some areas and more of it in other areas. Regarding the notes, Mr. Steinhoff noted that one defines what is of use and then one defines what is the best way to report what is of use and not look so much at the burden part of it, but what is of use and how best to get it out in a way that people can understand the numbers.

Regarding the elimination of the paper report, Mr. Runnels noted that Citizen's Guide (a consolidated citizen's guide and an agency-based citizen's guide) probably should be the only paper report.

Mr. Showalter was concerned whether there is other information that may need to be reported; the fact that today's financial statement do not articulate and whether that bothers anybody or not; and the budget amounts getting closer to the financial statements amounts. We do know in some other countries that the reason people pay attention to the financial statements is because financial statements look like the budget. Is it better to bring those two closer together? Does that help the readability and who uses it? Also, will adding the recommended statements confuse readers?

Mr. Runnels noted that it is important for the public to understand the difference between the budgetary information and proprietary information in the statements. They have to be able to reconcile the information as to what is the percent spent on the budget and what results we are getting from that spent. Perhaps people are more confused by the budget than they are by the financial statements because the budgets are gigantic. As envisioned in recommendation a user could go to a central website and then drill down from there. Also, the information would be searchable and they could go across by programs. It presents a lot of capability and a lot of opportunity to present what the public is interested in with the right analysis of it. Agencies, CFOs, or secretaries, deputy secretaries could do a 10-minute presentation of the annual report. That would be highly effective in helping to articulate the value of the information as well as assist the public's understanding of it.

Mr. Jackson asked whether the task force considered loading data out on the web, for example, in some application like the "cloud" and so forth. That information ultimately becomes a database of sorts that in turn people can drill down and then you have to have appropriate disclosure so people understand the data. The federal government produces a lot of data, but people are not reading it. The question then becomes why do we keep producing it in the current manner and why couldn't we use something like the "magic" tier throughout the government for the purpose of being able to see things not only on an agency basis, but on a government-wide basis. Why would we need to produce the financial statements on individual agencies?

Mr. Runnels noted that the Department of Defense (DoD) looked into having one system and found that DoD was too big for just one system.

Mr. Dacey noted that we started a long time ago with budget functions and ran into some operational challenges. Does the task force envision that the agencies would be reporting by budget function as well?

Mr. Runnels noted that there was a strong and pretty early conclusion that functions were right and that budget functions were the most common and enduring set that relate again to the budget and Congress.

Mr. Dacey noted that some of the challenges were that we had agencies reporting by responsibility segments and they were not necessarily in line with budget functions. You had audited statements there and you were translating the information to a different format over here which presented a real challenge for the audit of the consolidated report. Secondly, it created new challenges with intergovernmental transactions between budget functions. Thirdly, some of the ways in which the budget was presented did not necessarily reflect full costing because of the categories and how they grouped certain items together and how they treated, for example, the receipts as opposed to our earned revenue. There are a number of issues which made it a challenge to try to line those up so you could look at the two numbers together.

Mr. Dacey noted that one could take the budget numbers and move them around in a similar fashion so they would be comparable. However, he was not sure that taking the accounting amounts and moving them into the categories that were in the budget is necessarily going to end up with the best presentation because it is not necessarily the most well thought out way to allocate costs into those functions.

Mr. Runnels noted that as the information is vetted with the Department of the Treasury, GAO, and OMB, there has to be a consideration of whether the systems are present, e.g., are we capable of doing this now? If not with the system changes, can we report about function accurately, et cetera?

Ms. Healey noted that the task force was trying to get at the idea that most citizens really do not understand what makes up the Federal Government. We were trying to get more at can we start really putting data out there in terms of programs? Then we start looking back at the budget and the functions with the whole idea that this would be a more meaningful presentation to the citizen who wanted to look at things to see exactly what the Federal Government was doing. Looking at a number the way they are presented in the statements now, the average citizen does not really know what that means. Now, with the power of the website, you can have traditional information out there. You can have statements out there as people want to see statements. You can have a tab for citizens arrayed somewhere else with the same data. You can have a lot of opportunities to move the same data around and array it for different audiences who might go into a website. That is what we had talked about, giving the data to a 15 year old and say, make this sing and dance, but do not change the data. We do have audited data that does roll up that gives us an opportunity at least to explore this possibility.

Ms. Bond noted that the statement of net cost by budget function does have some challenges and will the public understand or is that the most appropriate array. The accounts are set by function so the accounting is going to tie to a function at the highest level. There are some ways to do it that may be less challenging so it might just be kind of that first step that we take in trying to array the data and not taking on too much initially, but trying to get that first step.

Mr. Granof noted that some years ago he wrote an article about the state and local government reporting, but it proposed a data warehouse and the ability to change the assumptions used in projections.

Mr. Jackson was concerned about how to set in motion the task forces' recommendation for an electronic, web-based model. It could move forward fairly rapidly and do away with agency-based paper statements. It is not a matter of changing a standard. Instead, it is a matter of the repository and where the data is available that is required say by statute or otherwise. The OMB, Treasury, and GAO could say we need to move forward on this and here is how we can do this in the next X number of years.

Mr. Runnels noted that the taskforce actually developed some recommendations regarding implementation of the web-based strategy but started thinking about it and decided it would be like project management 101.   However, OMB, GAO, and Treasury would need to get together with a little project to look at how we can implement this with a little contract support. Agencies already provide information electronically to the Max site with OMB.

Ms. Bond noted that the OMB is already moving in that direction in several ways, such as USAspending.gov which has drill down capability. Also, just the fact that we are doing federal transparency down to any transaction above $25,000 for any grant or contract is pretty impressive. We also have Data.gov that permits users to download the data. It is kind of a question of how far can you go initially. What is the biggest bang and where do you take it 2 years, 4 years, 6 years, and 10 years out? It is going to be a progression. It just cannot go light years ahead, right off the bat.

Mr. Reger noted that there are projects underway. The Office of Financial Innovation and Transformation is looking across agency lines and looking at things like payments. For years the Treasury has made 85 percent of the payments and for years Treasury has taken most of the receipts. One could ask why we are stove piped into our accounting activities and what are the other things across those stovepipes that we could consolidate, if not in Treasury, in an agency who is doing it really well and just let them do it for everybody.

Mr. Jackson stressed the need to get something started because all of a sudden you start feeling it has a magnetic attraction associated with it.

Mr. Showalter noted that the Securities and Exchange Commission (SEC) accepts information electronically and has the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system that provide users with electronic access to public company SEC filings. So the notion is not as far off as one would think it is. Most people do not get their financial statements in hard copy anymore.

> **Conclusion:** The task force will develop a final report for the December 2010 meeting.

- **Preliminary Comments on Draft Annual Report**

The Board discussed a first draft of its FY2010 annual report. Overall, members were pleased with the coverage and style. Areas to address in the next draft include:

- identify clearly the outcomes of Board activities
- focus on linking resources to outputs and outcomes (possibly identification of resources by activity such as education, implementation and standards development or by project)
- include information about task forces, roundtables, and other external resources
- improve the presentation of financial information
- consider ways to deliver the report electronically (e.g., an e-report or inclusion of hyperlinks)

A revised draft will be provided to the Board for review and comment between meetings.

- **Steering Committee Meeting**

The Steering Committee discussed the FY2012 budget. No conclusions were reached since FY2011 appropriations have yet to be finalized. The Steering Committee requested that the Board consider its 3 to 5 year priorities in early 2011.

Adjournment

The Board meeting adjourned for the day at 5 PM.

Thursday, October 28, 2010

Agenda Topics

- **Deferred Maintenance**

Mr. Savini began the presentation with an overview of Tab G wherein staff asked the Board to provide editorial comments concerning the draft standard included as Attachment 1. Three Board members provided edits and one member commented concerning the length of the document. Staff is currently working with the Executive Director to find areas to streamline without sacrificing substance.

Mr. Allen requested an update regarding the measurement and reporting phase of the project.

Mr. Savini indicated that the task force met three times concerning the measurement and reporting phase of the project. The task force has begun drafting requirements. The Board will receive more details concerning measurement and reporting in December. He explained that the biggest hurdle the task force has is in the area of equipment. Due to national security concerns and system integration problems, staff believes that the DOD comptroller's office will have to go through significant effort in compiling equipment DM&R estimates and related asset condition information. As a result, DOD has been slow in providing their advice and consultation in regards to equipment. DOD has agreed that at least the dollar estimates relative to equipment are important; however, condition information is problematic.

Ms. Bond asked why the board is moving forward on an issue that staff has been unable to make headway on with DOD. Clearly that this is an enormous issue for DOD.

Mr. Savini noted that he's had significant contributions from DOD; specifically in this area of the definition. As a matter of fact it was primarily a DOD led initiative that first looked at this definition and suggest changes and it should be noted that the current

DOD personnel involved have embraced this definition. He indicated that he believes that much is gained by issuing the definition now since waiting any longer could bring about significant delays and unintended consequences.

Mr. Allen noted that early on the task force provided a similar recommendation that we move ahead with the definition when (originally) several board members asked that very question. It was clearly communicated back to the Board that the task force wanted the definition out of the way before proceeding with measurement and reporting. He supported issuing the SFFAS.

Ms. Bond indicated that she respectfully disagrees.

Mr. Steinberg (addressing Mr. Allen’s comments) asked who communicated that back to us.

Mr. Allen noted that staff raised the issue with the task force and one can also tell by a review of the responses and comments to the exposure draft that the community is in favor of revisions to the definition.

Mr. Savini added that the respondent community stated ten-to-one that they were in favor of the changes and that we should go forward. Moving ahead without a definition can be likened to building a house without a foundation. The definition has to be the foundation for proceeding ahead otherwise he foresees difficulty with the task force in the next phase.

Mr. Allen said when initially addressed by the Board, staff was able to convince members that separating the project into two phases was the most efficient path ahead. In order not to revisit this issue again, he asked that we allow this to proceed so that we can move to the main part of the project; i.e., measurement and reporting.

Mr. Steinberg asked, concerning DOD, was there ever discussion about separating the weapon systems from the rest of the DOD equipment.

Ms. Payne asked Mr. Steinberg if he was referring to the national security issue that DOD faces and that a carve-out provision would be appropriate to avoid that issue.

Mr. Steinberg said yes and that DOD might come back and say that there are different considerations for weapon systems and that there is also a disclosure problem because of national security. Therefore, in order to avoid slowing down the whole process we should consider a carve-out provision.

Mr. Allen believed this is an issue that should be addressed in the context of measurement and reporting. Eventually we may have to answer the question that if there is a carve-out provision from financial statement reporting would we still require condition assessment reporting? And this issue comes under the question of whether or not the provisions of the standard should apply to all capital assets regardless if they're capitalized. He believes this is the most important question we need to answer. As noted by Mr. Jackson at our last board meeting, we need to consider the cost-benefit of requiring an agency to comply with our standards.

Ms. Payne noted that what Staff has relayed is that DOD does not object to providing deferred maintenance information (dollar figure) but rather their concerns are about breaking out their weapon systems at a level of disaggregation that allows a user to associate the level of condition on deployable assets. That is, it is the condition aspect that they are primarily concerned with.

Mr. Jackson said there's probably a way to deal with that issue that would be acceptable to most reasonable people once you complete the definition phase. The definition should not be a threat or problem to anyone. The problem arises in measurement and reporting. With this being said national security issues can be addressed for example by aggregating the data. The Board should not be overly prescriptive because that could create a disincentive for the agencies to report.

Mr. Allen called for a vote regarding whether or not there were any objections to the issuance of the standard.

Mr. Granof concurred with issuance.

Mr. Jackson concurred with issuance. He added that footnote 10 doesn't have any place in the standard since it goes without saying. He also found the length excessive.

Mr. Steinberg said he would not vote against the standard. However, he will make the following points as he abstained. He recalled that he originally questioned the issuance of a standard that only changes the definition without knowing the full context of the project regarding the measurement and reporting impacts. He is not convinced that we can only proceed by having a definition in-place or clear expression and intent of the Board in this regard.

Mr. Steinberg added that he is concerned that some things might occur in the measurement and reporting phase that could change the definition. Secondly, it's always possible that we are causing two separate changes to agencies by issuing two standards as opposed to just one. Lastly, the optics or perception that we have spent Board resources on just revising a definition also concerns me, especially in light of Mr. Jackson's earlier comments concerning its overall length.

Mr. Reger concurred with issuance.

Mr. Allen concurred with issuance. He noted that he support the issuance of the standard although originally questioning the bifurcation.

Ms. Bond concurred with issuance; with reservations. She expressed discomfort with issuing a definition without having the full picture before the Board. Not knowing how this is going to play out and that a briefing on the measurement and reporting phase is only weeks away concerns her. However, she did not want to stand in the way since she desires to support the project. Issuing the definition may provide some value however from a community perspective, but she's not sure that she agrees with that position. I think I am where Mr. Steinberg and Mr. Jackson are on this issue and will concur with reservation.

Mr. Dacey concurred with issuance; with edits. He has similar concerns about issuing a narrow standard for reasons previously stated. However, in the end we do have agreement following our full due process procedures and although there is some risk that that we might have to revisit the definition, we can always adjust it in the next standard. He is deferring to the community and taking their word for it that this is in their best interests. He concurs with issuing the standard with some forthcoming edits.

Mr. Schumacher concurred with issuance. Given the recommendation from the task force and the comment letter responses, he voted in favor of issuance.

Mr. Showalter concurred with issuance. He noted that the Board addressed this question a couple of meetings ago and he is reaffirming the decision we previously made.

Mr. Savini thanked the Board and offered a quote from Mr. David Solomons also known as the *Father of FASB*.

> "It might be thought that definitions of the elements of financial statements are merely of didactic interest, but that is not so. For one thing, agreed-upon definitions can aid in communication. Indeed, if there is no agreement about the meaning of a word, rational discussion of the concept it embodies will be impossible."
>
> **Conclusions:** The staff will revised the draft and circulate a pre-ballot draft for comment. A ballot draft will be provided before the December meeting.

- **Natural Resources**

Julia Ranagan, staff member, opened the discussion by summarizing the natural resource material included at tab H. Ms. Ranagan explained that the briefing materials contained a draft technical bulletin exposure draft in response to the board's decision to issue a technical bulletin to apply the concepts of oil and gas from Statement of Federal Financial Accounting Standards (SFFAS) 38 to other types of natural resources. Ms. Ranagan noted that a technical bulletin exposure draft is a staff document that can be released for comment if a majority of members do not object. Ms. Ranagan then asked the members if they had any general comments, concerns, or questions on the technical bulletin.

Electromagnetic Spectrum (par. 11, pg. 19 and Appendices 2 and 3 of Tab H)

Mr. Reger said he does not see how the electromagnetic spectrum could be valued as an asset. Mr. Allen said he also had that concern but thought staff planned to exclude it.

Ms. Ranagan noted that staff was excluding it from the guidance in the technical bulletin, but would make the exclusion more explicit in the next draft. Ms. Ranagan noted that it was listed in the definition of a federal natural resource which has caused some confusion about whether the technical bulletin should be applied to it or not, so she is going to remove it from the definition and will add a paragraph in the basis for conclusions as to why it is excluded.

Mr. Reger said that would satisfy his concern.

Mr. Steinberg said he agrees with what staff proposes to do but thinks that the board should decide whether to come back to accounting for the electromagnetic spectrum as a separate project. He noted that revenue for the electromagnetic spectrum is exchange revenue and will remain as the only exception under SFFAS 7 if oil and gas is eventually recognized as an asset. SFFAS 7 currently requires exchange revenue to flow through the statement of net cost except for oil and gas royalties and proceeds from auctions of the electromagnetic spectrum. In addition, there are some accounting questions such as should we be recognizing the revenue for spectrum proceeds all at once or should we be applying some amortization to it? Do we need to look at the radio spectrum as a separate project?

Mr. Allen directed Ms. Payne to add accounting for the electromagnetic spectrum to the board's list of potential issues to consider at the next agenda-setting session.

Renewable Resources (Par. 14, pp. 19 – 20 of Tab H)

Mr. Dacey said par. 14 starts off by saying the guidance in the technical bulletin does not apply to renewable resources, but then it goes on to say agencies may apply the guidance to renewable resources if a reasonable analogy can be made. He said he found that a little confusing and asked what are they really trying to say to the agencies in terms of renewable? There is not a whole lot of detail about why renewable resources are different and it was not clear to him why the technical bulletin should not apply to renewable resources.

Ms. Ranagan responded that staff worded par. 14 that way because it thought, due to the nature of renewable resources where the government actually is incurring costs to maintain them and to harvest new things to keep the renewable resources going, that it would not analogize to oil and gas resources as well as something like coal where there is really not a significant cost that the government incurs. But staff believed there may be instances where there is a renewable resource that the government never incurs any cost for that might be more applicable.

Mr. Jackson said they don't need the sentence that says you can do it if it makes sense because they can do that anyway. They can provide that information anyway.

Ms. Ranagan responded that her preference would be to just exclude renewable natural resources because at the present time staff doesn't think any of them would be considered material to agency-level reporting. Staff was trying to develop broad requirements to proactively address instances where additional resources might become material in the future since the federal government is continually looking for new ways to generate income. However, if the board is comfortable with just applying the technical bulletin to the way it is now, she would prefer to exclude renewable resources.

Mr. Jackson said he prefers to say that the technical bulletin does not apply to renewable natural resources because it makes it abundantly clear.

Ms. Ranagan responded that she would rather be silent because agencies would not be permitted to apply the technical bulletin by analogy to renewable resources if they were explicitly excluded.

Mr. Showalter suggested rewriting it so it says the board concluded that the guidance "does not have to be applied" to renewable resources. That is different than "it does not apply" because we are saying you do not have to apply. However, that allows them to apply it if they want to. They could get to that conclusion through the GAAP hierarchy.

Mr. Schumacher agreed, suggesting the phrase "…does not require reporting of renewable resources…"

Mr. Allen asked if anyone objected to Mr. Showalter's suggested wording. There were no objections.

RSI vs. Basic (Par. 15, pg. 20 of Tab H)

Par. 15 in the Tab H materials states "This guidance also does not apply to federal natural resources (e.g., timber) that are already being recognized as an asset in some agency financial statements. Agencies are to continue reporting such resources as assets unless the Board specifies otherwise."

Mr. Allen noted that the technical bulletin did not require agencies to report natural resources information as required supplementary information (RSI) if they were already recognizing it as an asset. He asked staff why the technical bulletin does not allow someone to begin recognizing their natural resources as an asset as well if that is what they want to do.

Ms. Ranagan responded that staff included that particular paragraph to avoid a situation where an agency would need to de-recognize an asset to avoid an audit finding. She explained that timber had been reported as an asset in the past by some agencies. The paragraph was mainly an attempt to avoid de-recognition until the board re-visits the issue and makes the final decision on where natural resources information should be reported. If the board subsequently decides it should be reported in a note disclosure instead of being recognized on the face of the financial statements, maybe then the board would want to suggest de-recognition to be consistent and comparable unless there is a reason otherwise.

Mr. Steinberg questioned whether staff has determined if any of the agencies are still recognizing timber as an asset. Ms. Ranagan responded that she has not been able to confirm that as of yet.

Mr. Dacey inquired if Ms. Ranagan is aware of any non-renewable resources that are reported as assets. Ms. Ranagan responded that she is not aware of any.

Mr. Dacey noted that if the technical bulletin states in par. 14 that agencies are not required to apply the guidance in the technical bulletin to renewable resources, than we do not need this paragraph at all because if they have a current policy already they would not have to change it because we do not make this technical bulletin mandatory for renewable resources.

Mr. Dacey added that if there are nonrenewable resources that are currently being reported as an asset, the agencies would need to change their policies to conform to what is in this technical bulletin.

Ms. Payne suggested asking a question to find out if anyone has capitalized a natural resource. No one objected to Ms. Payne's proposal.

Regional Information (Pars. 20 and 30e., pp. 20-21 and 23 of Tab H)

Mr. Jackson stated that the requirement in par. 30e. to provide regional information to the extent that such information is available and would contribute to an understanding of the information was very soft. He said he does not have a strong preference for regional information but if the requirement stays in there, it should include some criteria for what might be useful.

Mr. Dacey said he had a similar concern about par. 30e. and even read it a little differently. He said the paragraph is almost a presumption that regional information would be included because it is hard to argue somebody would not find some value to it. Mr. Dacey said he did not know if it was intended to be flexible or not. He stated that he was reading the paragraph to mean regional information would almost automatically be provided unless there was a reason that it was misleading.

Mr. Dacey added that he is just not sure of the threshold; he thought about perhaps "if appropriate" or "if it helps the reader understand" or something, but admitted that even those are all kind of soft.

Mr. Allen responded that he does not know if there is that much value in requiring regional information. He said he doesn't think the federal government has other natural resources as dispersed around the United States as oil and gas.

Mr. Showalter agreed, saying that the technical bulletin was taking the wrong oil and gas concept and trying to push it out to all other types of natural resources. He proposed deleting the sentence "To the extent that regional information is available and would contribute to understanding, the information for each region should be provided." from par. 30e. He stated that if someone has a disclosure that they think is important, they will put it in.

Mr. Allen called for a vote on deleting the requirement for regional information. There was unanimous agreement to delete the sentence regarding regional information from par. 30e.

Ms. Ranagan asked if the board wished to delete the requirement for regional information in par. 20 as well. Mr. Dacey said par. 20 should also be removed to be consistent with the board's decision on par. 30e. Mr. Allen agreed.

<u>*Materiality and "Significant" (par. 30f., pg. 23, and Basis for Conclusions, pars. A8 – A10, pgs. 28-29 of Tab H)*</u>

Mr. Granof asked if the word "significant" should be removed from par. 30f.

Ms. Ranagan responded that she left "significant" in that particular paragraph because it was in that paragraph in the standard on oil and gas.

Mr. Granof commented that staff spent two pages discussing the word significant and materiality in the basis of conclusions. He said it seems to him that the whole discussion is unnecessary and it raises more questions than answers since the word “significant” is still left in one place in the document. He noted that the technical bulletin contains the standard materiality box and asked why staff bothered to raise the issue.

Ms. Ranagan responded that she did not take the word significant out of that one particular paragraph because people tend to read into things like that. She noted that if people read the technical bulletin and notice that the word “significant” is not in that particular paragraph but it is in standard 38, they wonder if that means they have to report on all. She proposed leaving the word in to be consistent with oil and gas but taking the materiality discussion out of the basis for conclusions.

Mr. Granof agreed that makes more sense. Mr. Allen concurred.

Mr. Jackson said the discussion of significant brings up another question: how do you know whether it is significant if you can’t measure it in the first place?

Ms. Payne responded that the technical definition of measurable in Concepts 5 means in financial terms while many of these natural resources disclosure requirements center around quantity. You would still have quantity information, but it would not be financially measurable. In standard 38 the lease part doesn’t matter as long as it gets into the discovered category you get something—quantity or both quantity and financial. Ms. Payne added that she thinks staff can clarify what measurable means by putting the definition in the footnote itself rather than just referencing the concepts statement.

Scope of Technical Bulletin (Par. 30f., pg. 23, and elsewhere in Appendix 1 of Tab H)

Mr. Jackson noted that several places in the technical bulletin, including par. 30f., referred more broadly to “federal natural resources under management” or “federal natural resources” rather than to “federal natural resources under lease, contract, or other long-term agreement.” Mr. Jackson asked if the scope was intended to be broader in those instances.

Mr. Dacey said he thought the point of the disclosure in par. 30f. was to indicate that the federal government has other resources that it owns that it needs to tell the reader that it has, even though the resources are not under lease, contract, or other long-term agreement. He cited the Arctic National Wildlife Refuge as an example for oil and gas. He recommended modifying the par. to read something like “because they are not required to be reported under paragraph 19” and then in parentheses saying such as because they are not measurable or because they are not under lease.

Ms. Payne asked the board if they want to narrow the scope of the requirement in this technical bulletin so that it would not send people searching into program offices trying to find out whether they have quantity information that it could report even though the resources are not under lease.

Mr. Dacey said he goes back to why he thinks the board put that narrative requirement in 38 and that was that we had government-owned significant natural resources that were not being reflected on the balance sheet because they did not meet the criteria for being recorded (e.g., Arctic National Wildlife Refuge).

Mr. Jackson pointed out that the technical bulletin includes the phrase “under management” so we have to know it and we are managing it but we are not just reporting it. He said he supposes that is a little trigger that agencies would not have to go searching for all practical purposes for other natural resources it has under management; if it is under management, they should already have that information.

Mr. Dacey said it would be reasonable to require such a disclosure as long as the board does not expect to have a number showing up saying we own X thousand short tons of coal.

Mr. Jackson agreed, saying the requirement should simply be a narrative describing other natural resources, end of discussion.

Mr. Dacey added that the narrative would involve describing other natural resources under management by the reporting entity in whatever terms are appropriate given what information the agency has without extreme research.

The other members agreed to broaden the scope of par. 30f. with the understanding that the narrative requirement is intended to be fairly flexible and would not require a number to be reported.

Ms. Ranagan responded that staff would clarify that the scope of the document is only those resources under lease, contract, or other long-term agreement, except for the disclosure in par. 30.f. that is intended to address other significant natural resources under management by the entity that are not reported in the schedule required by par. 19 either because they are not measurable or they are not currently under lease, contract, or other long-term agreement.

Question on Timing, Cost, and Benefit

Ms. Bond requested that staff include an explicit question to get an understanding of how the community would perceive the implementation of the proposed technical bulletin from a cost perspective, from a timing perspective, and from the benefit perspective. Other members concurred.

Fiduciary Natural Resources (Par. 33, pg. 24 of Tab H)

Mr. Dacey expressed that he has concerns about paragraph 33 which is the fiduciary paragraph. He said that when the board debated SFFAS 38, it concluded at that point in time to not go ahead with requirements to report it. He said his thoughts have not changed since 38 because he still has the same concerns that were communicated in GAO's comment letter on 38. First of all, cost benefit but also the discussion the board had subsequently about whether the federal government wanted to represent that it was somehow fiduciarily responsible for the quantity and amount of reserves that were going to be extracted on behalf of others. He stated that, while the federal government may have some responsibility to manage these natural resources in an appropriate way, there is a real concern about whether it has a fiduciary responsibility for the quantity. If we require the federal government to put a number out there saying it is fiduciarily responsible for X dollars, does that imply that it is guaranteeing delivery of that resource?

Mr. Dacey said he would prefer to delete paragraph 33 at this point in time and not have it be part of this technical bulletin. When the board reconsiders 38, it could reconsider the fiduciary issue again but his thoughts have not changed since 38 about not wanting to do that.

Ms. Bond said she agrees with Mr. Dacey; she thinks it should be deleted and she does not even know that the related question should be teed up.

Mr. Jackson asked if staff needs to talk about it in the basis for conclusions because the board said in 38 that staff was going to address it in the technical bulletin.

Mr. Dacey stated that the language in par. A12 of SFFAS 38 stated that the board would revisit the issue in either the technical bulletin or the reconsideration of SFFAS 38.

Mr. Allen asked if any of the members objected to taking out the discussion of fiduciary natural resources. There were no objections.

Figure 1 – Components of Federal Natural Resources (pg. 27 of Tab H)

Mr. Granof questioned why the far right-hand column of Figure 1 – Components of Federal Natural Resources includes bonus bid, rent royalty and other revenue under the heading “not reasonably estimable.”

Ms. Ranagan responded that once the resources are under contract, the federal government begins to receive the bonus bid and rent. At that point, the quantity is not always known. It is not until the producers have started extracting the coal that they start paying royalties on what is extracted and have a better idea of the quantity. Ms. Ranagan went on to explain that, once the federal government has a lease out for bid, the bonus bid is something that is paid by the bidder just in order to be awarded the lease and then the winning bidders pay rent until they start extracting and are required to pay royalties on what they extract. She noted that it is at some point in time while the producers are still paying rent that the quantity moves from not reasonably estimable to reasonably estimable because the producers would have completed their geological studies and have a better idea what is there, but they have not started extracting it yet.

Ms. Payne suggested moving the “reasonably estimable” and “not reasonably estimable” labels down to the asset value section where the breaks are because it really is the asset value that in some cases might be not be reasonably estimable. There was no objection to that proposed solution.

CONCLUSIONS / NEXT STEPS: The board approved moving forward with the technical bulletin. Staff will make the following edits and then submit a revised exposure draft to the board for an additional review period before releasing for comment:

- Delete “electromagnetic spectrum” from the definition of federal natural resources in par.11; add an explicit exclusion paragraph to the standard; add a paragraph to the basis for conclusions to explain why the spectrum was excluded; and, add accounting for the electromagnetic spectrum to the board’s list of projects for consideration at the next agenda-setting session.

- Change applicability of technical bulletin to renewable natural resources in par. 14 from “does not apply” to “are not required to apply”; language will be permissive rather than exclusionary.

- Delete par. 15 and add a question to find out if anyone is currently capitalizing any of their natural resources;

- Delete the requirement to report regional information from pars. 20 and 30e.;

- Clarify what measurable means in footnote 8 by putting the definition in the footnote itself rather than just referencing the concepts statement;

- Clarify that the scope of the document is only those resources under lease, contract, or other long-term agreement, except for the disclosure in par. 30.f. that is intended to address other significant natural resources under management by the entity that are not reported in the schedule required by par. 19 either because they are not measurable or they are not currently under lease, contract, or other long-term agreement;

- Include an explicit question to get an understanding of how the community would perceive the implementation of the proposed technical bulletin from a cost perspective, from a timing perspective, and from the benefit perspective;

- Delete par. 33 on fiduciary natural resources and the related question;

– Move the “reasonably estimable” and “not reasonably estimable” labels down to the asset value section in Figure 1;

– Delete materiality discussion from pars. A8 – A10 of the basis for conclusions; and,

– Provide a draft of the technical bulletin to DOI for review.

- **Social Insurance**

Members considered a draft exposure draft of an interpretation addressing a potential conflict between strict current law projections of cash flows underlying the Statement of Social Insurance and uncertainty regarding the reasonableness of current law assumptions. Members were asked whether they would support an interpretation to clarify that departure from current law assumptions is permitted in certain circumstances. Members discussed the audit standards and that the auditor is required to consider the reasonableness of the assumptions. Members agreed that current standards for social insurance and fiscal sustainability reporting taken together suggest that assumptions may depart from current law assumptions if they would otherwise be unreasonable. Members agreed it would be beneficial to provide clarification for the preparer.

Members provided some editorial comments and agreed to submit any further editorial comments to Ms. Payne following the meeting.

Conclusions: The Board will review a pre-ballot draft of the exposure draft at the December meeting.

Adjournment

The meeting adjourned at 11:30 AM.