

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
October 21-22, 2009
Room 5N30
441 G Street NW
Washington, DC 20548

Wednesday, October 21, 2009..... 1

Administrative Matters 1

- Attendance 1
- Approval of Minutes 1

Agenda Topics 2

- Measurement 2
- Deferred Maintenance and Asset Impairment 17
- Social Insurance 24
- Natural Resources 31
- Steering Committee Meeting 38

Adjournment 38

Thursday, October 22, 2009..... 38

Agenda Topics 38

- Federal Reporting Model 38
- Federal Entity 46
- Appropriate Source of GAAP (Use of FASB by Federal Entities)..... 57
- AICPA Omnibus 63

Adjournment 63

Wednesday, October 21, 2009

Administrative Matters

- **Attendance**

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

- **Approval of Minutes**

The minutes were approved unanimously at the meeting.

Agenda Topics

- **Measurement**

Ms. Wardlow presented a partial first draft of a FASAB concepts statement on measurement attributes and the October 2009 revised draft of the GASB's August paper on measurement attributes. She briefly reviewed the similarities and differences between the two drafts. Ms. Reese, GASB project manager, indicated that the GASB draft was given a "fatal flaw" review by the GASB at their meeting the previous week; the members indicated they were comfortable with the draft and would be interested to see what choices the FASAB might make. She said the GASB's project would be on hold for a few months to devote board time to other project priorities.

Mr. Allen said that, based on a brief conversation with the GASB chairman, he understood the intent was to break out from the project the portion on accrual-basis measurement attributes as a separate project. That would address the FASAB's concern about the GASB's plan to address measurement attributes in a preliminary views document, rather than going directly to an exposure draft; the GASB could use a preliminary views document for the parts of the project it was most concerned about (i.e. modified accrual) and issue an exposure draft for the accrual measurement attributes portion, if the two boards work together on that portion. Ms. Reese responded that in the GASB's technical plan there is only one project, on recognition and measurement, which would cover both accrual and modified accrual financial statements. She said there had been some thought that the two boards could work together without necessarily carving out a separate due-process document. Mr. Allen indicated that the first step would be to decide whether the two boards should work together on measurement attributes for accrual-basis financial statements.

In response to a question from a board member, Ms. Wardlow said there appeared to have been no board discussion of the FASB's measurement attributes project since her previous report.

Mr. Jackson commented that what the GASB does with remeasured values could have implications for federal reimbursement rates. Some states would like to be reimbursed at current prices for IT equipment and other things, whereas the current rules state that entities should be reimbursed for the amount they paid.

Mr. Allen asked how the board wished to proceed. He recalled that at the previous meeting some members were interested in the GASB's draft and the FASAB staff also planned to prepare a draft. After reviewing both drafts, the board could decide whether any differences suggested that the board should not work with the GASB, or whether the board should present areas of agreement and differences to the GASB and ask the GASB to consider issues that the FASAB raised. Mr. Allen noted that the FASAB draft was not complete and he was not sure whether the board was ready to make a decision. On the other hand, he was open to a vote on the issues. He asked Ms. Wardlow to comment. She said that, even if the board deferred a vote on the extent of collaboration, it would be useful to know what members see as different about the two

drafts and what they prefer, based on both boards' goal to develop a statement that would be useful for future standard setting.

Mr. Showalter said he thought the GASB draft would help him more with the standard-setting process. He understood the GASB draft better and he preferred the structure and some of the specific terms used.

Ms. Fleetwood said it was important to decide whether the board wants to align the two documents. Collaboration between organizations is always difficult. It is generally done when both parties have something to gain, which energizes the effort. She did not think that was the case with this project. It seemed that the boards just wanted to collaborate on something to show it could be done. She could go along with a decision to collaborate, but she would rather put the time and energy into a different project.

Mr. Steinberg said he thought this project was a good choice because it deals with concepts and it was hoped that the two boards would have the same concepts. He supported Mr. Showalter's comments. He found the GASB's terminology more understandable. Also, the purpose of a concepts statement is to guide the board, and he liked the way the GASB draft gave reasons for supporting or not supporting an attribute.

Mr. Allen responded that he had a similar initial reaction, but the corresponding section of the FASAB draft, which will compare the different attributes, has not yet been completed. With regard to the GASB draft, he was not sure he would draw a line saying that if you are looking at the cost of services you must consider historical cost. He had some concerns about that, but he could not really compare the two documents until he saw the same kind of discussion in the FASAB draft. The FASAB document tries to explain more than two measurement attributes. It talks about entry price and exit price, the difference between a measurement method and an attribute. None of that feels quite as comfortable as the GASB's discussion of what one would look to when considering historical cost versus another attribute, but he does not believe he can quite compare the two drafts yet. Mr. Showalter responded to Mr. Allen that he acknowledged that part of the FASAB draft was missing, but he thought the GASB draft was structured better.

Ms. Wardlow said the major differences between the drafts are that the FASAB draft distinguishes among measurement attributes other than historical cost and between measurement methods and measurement attributes, whereas the GASB draft does not. Those additions tend to make the FASAB draft more complex and it would be helpful to know whether they are useful. She asked Mr. Showalter and Mr. Steinberg whether they would eliminate these additional features in order to make the draft simpler. GASB has not said that those considerations are not important; rather, they could be considered when deliberating standards. In her memo she asked whether, given that the concepts statement is intended to guide future standard setting, such a deferral was useful or whether it would be better to include the issues in the concepts statement.

Mr. Allen asked Mr. Dacey to give his views on the two documents before members responded to the questions in the staff memo. Mr. Dacey said that, mainly because of timing, this project was an excellent one for the two boards to work on together. He would not say “converge” on, because that may not occur. But both boards are setting standards for government entities. If the boards do not converge on this project, he would be interested in demonstrating why the federal government is different from state and local governments in terms of their conceptual frameworks. He thinks it is important for the two boards to have that dialogue. Now is a good time to discover whether there are or are not differences and, if there are, why that is the case. This project also feeds in to the reporting model in an important way, such as, with regard to what we want to see flowing through the net cost statement and statement of operations in terms of measurement.

Mr. Dacey said he liked two aspects of the GASB draft. First, the draft addresses measurement issues at a high level—“initial” versus “remeasured” values. He is not very concerned about the terms used because the statement is intended for the board and he believes members can understand the concepts, whatever terms are used. He liked looking at the two attributes and found the FASAB paper less balanced in that regard, although he realized it was not yet complete and GASB has had more iterations in their process than the FASAB has. If the board decides to include subcomponents of initial and remeasured values, maybe that should be later in the document, after the discussion of the two principal categories. In standard setting, the board probably would look at the two major categories, choose one, and then consider possible attributes within the category. Second, he also liked the GASB’s conclusions in its draft, although he realizes that other members may not agree. He liked the effort to establish some fundamental premises, such as that assets which provide services should be reported at the initial transaction measure. The board might not wish to do that, but it would be helpful for the board in conceptualizing the financial reporting model to consider what it is trying to report. As another step, he would like to look at where the two boards are with respect to the balance sheet. The FASAB may not be far from the GASB in practice, except for Credit Reform, and the board should consider whether it is comfortable with that. He would like to see whether there is commonality in reporting assets and liabilities and what the applications of the concepts might be.

Mr. Allen asked Ms. Reese whether he was correct that the term “value in use” is used in the GASB’s impairment standard. If one of the ways of assessing impairment was to look at the value in use, and that is in a standard, why did the board not wish to consider that measurement attribute in its concepts statement? That is, he wondered how the GASB arrived at deciding there were just two attributes to consider, or would value in use be part of “remeasured values”? Ms. Reese responded that the original premise of the project was to consider when items should be reported at historical cost and when they should be reported at fair value. That evolved into concern about the term “fair value,” its many different interpretations, and the fact that it is not as all-inclusive as the “remeasurement” concept. Part of the consideration may have been seeing the FASB’s initial effort to identify nine attributes as somewhat overwhelming,

but the GASB members did not have much interest in subdividing the remeasurement concept and different subsets would not apply to all assets and liabilities.

Mr. Allen asked if there was a discussion of exit price and entry price. Ms. Reese responded that there was a brief discussion but no appetite to explore those issues conceptually. The GASB thought that was a practical question that could be considered when setting standards. Mr. Allen said it was a basic question; that is, the scope of the GASB project was pretty narrow and practically oriented, which is why the draft feels more comfortable when you read it, whereas what Ms. Wardlow has is a more comprehensive look at the whole issue. Ms. Reese agreed that the GASB project is less ambitious and deals with one issue—do you remeasure an asset or liability? Mr. Allen said that probably was the foundation for the relative degrees of comfort that members have with the two drafts.

Mr. Showalter said that he would not suggest removing the extra issues from the FASAB draft at this stage. But he wondered whether the board should start with the GASB document and edit it based on what the board could live with. Would that be a way to determine whether the two boards could agree or not, rather than trying to converge two different documents? By taking the GASB document and editing it, the differences would be evident.

Mr. Allen said that the initial question is embedded in Ms. Wardlow's questions in her memo; that is, how comprehensive does the board want the document to be? Does the board want to talk about the difference between measurement attributes and measurement methods and about the various kinds of current attributes? Members should probably respond to these questions and then make a decision as to the comprehensiveness of the direction. His initial thought when he recognized the difference between the two drafts was that we could be more comprehensive, though it has been helpful to have Ms. Reese define the GASB's specific objective. On the issue of the scope of GASB's project and the ability to be consistent with FASAB, he would call that convergence. If FASAB wants to go beyond that and talk about other attributes, entry vs. exit price, measurement methods vs. attributes, we could maybe make a more robust statement and yet still have convergence. GASB is at a point where they may be open to adding those things if it does not change the basic decisions the GASB has made. She asked Ms. Wardlow to go through the questions in her memo.

Ms. Fleetwood said she agreed with Mr. Showalter. She would prefer to take one document that is easier to follow and ask what the FASAB wants to add to it than try to merge two documents.

Ms. Wardlow said that the second question in her memo asks whether the discussion of measurement methods in the FASAB draft is sufficient or should it be expanded to include the effects of different methods on the financial statements. The board could develop the underlying concepts in a separate concepts statement, or address methods further or entirely in individual standards. Mr. Allen said that the most basic question is

whether the board wants to define the measurement methods. He would say that the board should at least acknowledge the methods and state that they may be addressed in standards. When considering the balance sheet, one would probably be using initial cost most of the time.

Mr. Steinberg said that measurement attributes and methods are two different things and both are needed when specifying how to report assets. Because of that, it would be simpler to include them in the same concepts statement, state that they are two different things, discuss attributes first, and then indicate that choosing attributes is not enough; you also need to decide how to measure them, and there are different measurement methods. Mr. Allen asked whether he thought the discussion in the current draft was insufficient. Mr. Steinberg said that a previous question is whether the FASAB wants to modify the GASB draft. He thought that measurement attributes and methods should be discussed in the same concepts statement, and if that meant adding on to the GASB statement, it would make the FASAB statement that much broader.

Mr. Dacey said he was unsure whether there was enough in measurement methods for a separate project, but in looking at paragraph 10 and subsequent paragraphs in the FASAB draft, he agreed that it is a relevant issue. However, he thought the real question was to what extent the board believes that it will specify a measurement method in a standard. The board has specified a method in Credit Reform and is doing so in Oil and Gas, and we are implying a model in Social Insurance. But he wonders whether the board would actually specify methods in future standards, particularly when the methods—estimation, appraisal, calculation, prediction, etc.—are not all equal, and he was not sure the board would ever specify one rather than another and, therefore, whether measurement should be given much consideration. Present value may be a special case because the board has specified it in some instances. He believes measurement should be addressed but without spending a lot of time on, for example, estimates vs. appraisals.

Mr. Showalter agreed with Mr. Steinberg that the topic belongs in the concepts statement. Referring to Mr. Dacey's comments, he said that having the discussion is helpful because, if the board is going down a path that gets to one of the less reliable estimation methods, we should be thinking about whether that is the right answer, so it would be valuable for the board to talk about the strengths and weaknesses of the different methods. With regard to Mr. Allen's earlier point, he thought it would help flesh out whether the FASAB has any differences from the GASB and where there is agreement. He thought it would be better to discuss those things now while the concepts are being developed than to postpone discussion until the board is setting standards.

Mr. Schumacher agreed with Mr. Showalter that attributes and methods are tied together. It would be easier for the board to address methods in the same concepts statement, and expand on the GASB document where necessary, than to try to address methods in separate standards or in a separate concepts statement.

Mr. Allen said that the four members' comments respond affirmatively to the basic question as to whether there should be a discussion of methods in the attributes concepts statement. He would also like to have responses to the additional question as to whether what is in the current draft is sufficient or should be expanded.

Mr. Steinberg said he would like a discussion of measurement methods to the extent that the board members understand what they are and why they are or are not appropriate.

Mr. Jackson agreed that the methods should be included. Having the methods discussed in the concepts statement, as the board goes through the process of looking at a standard, would enable the board potentially to evaluate measurement methods and propose methods in a standard that might lighten the burden on the preparer and the auditor. We need that kind of discussion in a concepts statement so that when we are using the statement in the standards development process it will spark that kind of thought. We might want to discuss the preferable or acceptable alternative methods that could be used to lighten the burden, given the relevance of the information to decision makers.

Mr. Dacey said that, in terms of expanding the discussion of methods, there are two issues. One is to address the board's needs as a standard setter and what the board needs in order to think about measurement methods. There may be some methods that are only available at the less reliable end of the range and the board might want to consider what to do about that. The point is how the measurement methods could affect the board's decision-making process. It would be helpful to add that twist, although there would be a lot of standards where the board would not address the method and the preparer would decide how to achieve the attribute. As to whether the board should provide information to users and preparers on different measurement methods, the board would need to decide whether to do that in a concepts statement or in some other way.

Mr. Jackson said that his earlier comment was for the board, not the user or preparer. In developing standards, the board might remain neutral because the measurement method is so common. But there might be situations in which the account is important in the sense that it is so commonly recognized, but the precision with regard to that particular account might not be very important. So, in our deliberations it might be that we should not ignore the fact that a liability exists, but we might choose to recommend or provide alternative measurement methods that would lessen the burden on the preparer and the auditor, given the relevance of the account to the decision-making process.

Mr. Werfel said he had two slightly different perspectives. First, he could better answer the questions if he knew what this would mean in terms of time that the staff and board spend deliberating. If he knew that we were entering a process of definitions and brief explanations and this would take a day or two of deliberations about the wording, he would be less inclined to agree with it than if he knew it could be achieved relatively

quickly. By “less inclined” he meant that just looking overall at the FASAB’s work load and this project, he thinks the benefit of doing some of this most likely would come when considering new classes of assets and liabilities for which to set standards. However, he does not see a treasure trove of new things. There is an existing body of standards that he believes capture the main assets and liabilities that the board will issue standards on going forward. There will be new ones, but he believes the board has covered ninety percent of the terrain. So, there may be some marginal benefits, but he is not sure how marginal they are. Secondly, he thought that as the board moves forward it is likely to see the world more through the lens of cash flows and net cost, rather than assets and liabilities. We are potentially entering into a greater work load around nuances surrounding asset and liability measurement. He would like to be sure the board is thinking about that in relation to where we are likely to be spending time in the future. He believes the board will likely spend more time on cash flows than on assets.

Mr. Jackson agreed. However, he considers at times the need for an omnibus standard to go back and revisit some things, especially those that are causing difficulties in the community. He agreed that the board should not spend a lot of time on this concepts statement, but if we had the methods laid out, we might choose through an omnibus process to provide guidance on existing standards that would lessen the burden. He shared Mr. Werfel’s concern about people being preoccupied with the balance sheet when what is important is the statement of net cost. On some of the big issues people are hammering on the balance sheet when the stated purpose of the standard is to measure the cost of operations. If the board were to go back and think about this, the board might provide guidance in terms of the measurement method that would be very helpful to the community at large.

Mr. Allen said he thought that the concepts statement should state that measurement methods are different from attributes and that the current draft has an adequate discussion. However, he heard other members saying that we may need to take the discussion a little further and talk about some of the comparative advantages and disadvantages of some of the methods. Mr. Jackson made a good point about revisiting past standards. It was consistent with the board’s request earlier in the project that staff look at the attribute terms used in standards and the staff found over twenty terms. Many of them refer to the same attributes we are discussing in this project, but with different names. It would be helpful, both in an omnibus statement and going forward, to have a more consistent approach, with more logic as to why the board chose one attribute or another. Very few existing standards explain why the board chose a particular attribute. He could not answer Mr. Werfel’s question about the time needed. It would not be days; it probably would take an hour and a half at three board meetings, but that is only a guess.

Mr. Granof said he thought Ms. Wardlow had done a terrific job, as well as can be expected under the circumstances. His views about concepts statement vary between skepticism and cynicism. He is not sure it matters what the board does. Looking at the concepts statements of the FASB or the GASB, he did not think they affected the

boards' standards at all. When he read the GASB and the FASAB drafts for this meeting, he had a comment on virtually every paragraph, and if he could disagree with something then so could others. There is very little in either document that has not been said just as well forty or fifty years ago. He had recently read a book on asset valuation from the 1970s. Leading scholars of the time all made reasonable arguments for historical cost, current values, present values and various measurements. The GASB and FASAB drafts present very reasonable arguments as well. These documents are nice and as we move forward, members who disagree on whether we should value something at fair value or historical cost will point to a sentence in the statement that we like, but it will not have much impact.

Ms. Fleetwood said the board's time is limited and the board should consider where it puts its energy. If the project is to continue, it should be as simple as possible. She proposed accepting the GASB draft and adding anything that the board believes is necessary.

Mr. Jackson said that if it is written down in a concepts statement he can find what he likes. At least he can find a reason. It is useful from the perspective of providing a set of options that he can choose from.

Mr. Dacey said that, at the end of the project, he hoped the board would decide that its current structure makes some unified sense or is satisfactory. It may not mean as much to him for long-term standard setting as to clarify whether there is a unified theme about what the board has previously decided.

Mr. Allen said that, in his experience at GASB and elsewhere, he would not say that concepts statements never make a difference, but quite often they do not. As Mr. Jackson said, people look at the same document and take the words they like. That provides a more legitimate defense for one's position, even though people point to the same document to support different positions, such as has occurred with the Elements concepts statement and the Social Insurance project. This measurement project is on the agenda in large part because the board has in the past received suggestions from outside the board as well as from board members, including sponsors, that the FASAB needs a comprehensive concepts statement. That message has come through a number of times when the board has examined its agenda. It rises up in the broad sense, but then, when one gets into the details, it does not sound so interesting, or we question whether it will affect the decisions we make. We have invested time in this project. He is very willing to say that the board should take the most expedient route possible, but he is not willing to take the project off the agenda because of the prolonged history of why it was placed on the agenda and the time that the board has spent on it. He would like to keep it on the agenda and now look for the direction it should take.

Mr. Showalter said that part of being a standard setter is to have an infrastructure and a concepts statement is that infrastructure. As a Rule 203 body, the board has to be able to demonstrate that it has such an infrastructure. We need to have a concepts

statement in place. When we deviate from it, we know that, but at least we have the debate. The board needs rules and guiding principles and to be a legitimate standard-setting body, there has to be a set of concepts.

Mr. Allen summarized that the majority of the board agreed there should be a discussion in the draft about the difference between measurement methods and attributes. The next important decision was the scope of the project. Should the scope be the same as that of the GASB's project from the standpoint of practicality, trying to answer a specific important question—when to use historical cost vs. fair value or remeasured values—or is there value added by discussing other attributes? Before taking a vote on that, he asked Ms. Wardlow to review why she thinks it is important to discuss them. He also invited Ms. Reese and Mr. Attmore, the GASB Chairman, to add their thoughts about why they chose differently. He asked Mr. Attmore whether, if the FASAB decided to go beyond the initial two attributes discussed in the GASB draft, the GASB would be open to a similar expansion, assuming that the boards are seeking convergence, which is pretty strongly supported by the FASAB.

Ms. Wardlow said that if one just looked at historical cost vs. fair value, however defined, the contribution of the concepts statement would be small. The board and constituents are all pretty familiar with historical cost and its pros and cons. There may be some value in spelling that out in a FASAB document, but the real value comes with presenting the pros and cons of using a “fresh start” measure or “remeasured value” instead of historical cost. Once one considers that, one needs to recognize that there are different attributes that could be used. The document can make a significant contribution by discussing the differences among, say, replacement cost, market price, and value in use, which otherwise would need to be addressed when setting individual standards. That would make standard setting more difficult and would obviate much of the purpose of concepts statements—that is, the board's desire to develop a consistent body of standards, rather than possibly changing concepts from one standard to another. Even if the board decided to deviate from the concepts, at least the statement would provide a foundation to start with and help explain why the board has decided something different. In her view, it is very important to break out the different fresh start measures, but she is not certain how far to go with that. There are some questions about the differences between fair value and value in use, each of which has more than one definition in the literature. As Ms. Reese mentioned earlier, fair value has many different definitions, so that if the board wishes to discuss it in the concepts statement it would need to adopt a particular definition.

Mr. Allen recognized Mr. Steinberg and asked Ms. Reese to follow him and review her earlier comments on why the GASB has not broken out the various attributes considered “remeasured values.”

Mr. Steinberg said he thought the GASB did break them out. Ms. Wardlow responded that certain attributes are mentioned in the draft as examples of “remeasured values,” but the GASB has not identified any differences among them. The comparisons with the qualitative characteristics and the objectives of financial reporting address

“remeasured values” in general. There is no discussion of fair value vs. value in use, vs. market prices, etc., which are not all the same.

Mr. Werfel referred to reporting military equipment at historical cost. It has been stated for years that, from a variety of different perspectives, there is no value in changing the measurement to a different attribute—it is too expensive, it does not provide better information for decision making, etc. Should the concepts statement inform on that debate? The board has talked before, without a decision, about whether we should reconsider historical cost for certain classes of assets. Should this statement help the board determine whether it would make sense to measure military equipment, for example, in a different way? Or, is the issue one of getting into the details of how historical cost or fair value is intended to be used? Mr. Werfel said this was a threshold question. Is the issue what are the pros and cons of using a particular valuation method for a certain class of assets, or is the issue that, once you have made that determination, then the conceptual framework would kick in and you would consider what it means to value the asset that way.

Mr. Allen said the concepts statement would kick in before you decide how to value the asset. The threshold question is: Are we even going to report military assets in the balance sheet? The concepts statement will not help with that threshold question. It will help with the next question: If you decide to recognize those assets, then how should you value the asset?

Mr. Jackson said that relates to his earlier comment. If we end up with a good concepts statement that has various alternatives—we have attributes and methods and so forth—are there standards that we would want to revisit to see whether the attributes and methods in the concepts statement make sense for retroactive application. He would say absolutely yes, simply because the board did not have the benefit of going through this when the standard was set. Before, the board adopted traditional terms, and historical cost has been a fundamental part of government reporting. If we came forward with a concepts statement with attributes that are well articulated, we could ask ourselves whether we should go back and look at particular standards.

Mr. Schumacher referred to page 7 of the GASB draft where two specific examples are given of remeasured values. He asked Ms. Wardlow, considering how she would structure the statement, would she expand on those examples--that is, expand on the definition, the list, and in what situations the board would use those attributes? Ms. Wardlow responded that she would not go as far as stating that a particular attribute is preferable in a particular situation. She would try to explain the pros and cons of the different attributes and she would probably include examples in a summary comparison of attributes at the end of the document. She would expect members looking at the statement to have different judgments as to the relative weight of the pros and cons of the various attributes in different circumstances. Also, this statement would be only one consideration when setting standards; there would also be practical issues, cost/benefit, and other things to consider. She would not go as far as saying, as she believes the GASB statement does, that for this particular goal, objective, or financial statement, a particular attribute would be preferable for these reasons. Concepts statements last

much longer than standards, or one hopes they do, because they provide a foundation for many standards. She would like to avoid drawing a conclusion in the statement that might be supportable in current circumstances but might not be supportable as circumstances change in the future.

Mr. Jackson agreed with Ms. Wardlow. As he had said earlier, he would prefer that the concepts statement not take the board down a particular route for a particular type of account or transactions. He liked what he had seen so far of the pros and cons in the FASAB document, because it allows the thought process to flow freely during the standard-setting process. Then you can make a decision based on those pros and cons as to which route you want to take with regard to a particular financial statement or account. When a concepts statement takes you down a particular route, you prejudge, before you even have a standard up for discussion.

Mr. Schumacher agreed. He thought there should be a way to use the GASB draft as a foundation and, if we decide to use "initial value" and "remeasured value," then within those categories we could expand on each of the attributes they cover. Instead of just referring to fair value in one sentence, we could go through the pros and cons so that we can continue to work together, but just expand the GASB document.

Mr. Allen asked Ms. Reese, in terms of what she was hearing, why the GASB had decided not to devote the extra time. He thought that earlier she had said the GASB was trying to answer a specific question.

Ms. Reese agreed. She said the project began with simply the big question of when do you use historical cost and when do you use fair value. That is the highest level decision that is made related to measurement. Certainly, if you choose to remeasure, having guidance on how that could be accomplished and the pros and cons of different alternatives would help, but the board did not believe that was the most fundamental objective of the project. As she had mentioned earlier, when the GASB was discussing the scope, the FASB had proposed nine measurement bases with various permutations and in some ways it was overwhelming. The GASB wondered what would be the end result if it were to break down the two main attributes into more groups, and whether it would be complete. Would every potential way of remeasuring be included? Would new ways arise that the board had not addressed in the concepts statement? This seemed to be more specific to particular assets and liabilities, and a lot of these attributes normally do not apply to liabilities. The board thought consideration of individual attributes was more appropriate to standard setting. If the FASAB was interested in providing more detail, she did not know whether the GASB would wish to add the detail to its statement. She reminded the FASAB that the discussion of measurement attributes is one piece of the GASB project. Some of the other components are very large and controversial, and the GASB might not wish to make the project even bigger.

Mr. Allen said the only way he could see convergence occurring would be if GASB were willing to have separate projects, such that the FASAB could be involved in the

measurement attributes part as a free-standing project from the other parts of the project. The FASAB did not want to be involved in modified accrual definitions.

Mr. Allen asked Mr. Attmore if the GASB would be open to addressing the measurement attributes as a separate project. He had been operating with the sense that it was a possibility, because the GASB was planning to issue a preliminary views document with the other, controversial, parts of the project. That would be two steps in due process and, in reference to Mr. Werfel's and Ms. Fleetwood's concerns, the time needed to complete the FASAB project would have to be expanded greatly. Mr. Attmore responded that the intent to issue a preliminary views was partly because the project was so broad, but the GASB could focus on the measurement attributes portion for the joint collaboration. Mr. Allen said that opened it up for the FASAB.

Referring to Mr. Werfel's earlier comments, Mr. Attmore said the GASB has a slightly different approach. When he looks at the overall conceptual framework—this concepts statement is just one piece of it—one thing that the GASB has done differently from the FASAB is to introduce the concept of deferred items as elements of the financial statements. Interperiod equity is very important in the GASB's overall conceptual framework. It takes the GASB to a different point. The GASB did not start with assets and liabilities, as all the other standard setters have done. Because of the GASB's environment, the focus is on flows of resources and cost of services. The board consciously made the decision that one statement is more important than another and it is not the balance sheet. If you give the primary focus to assets and liabilities, you get a different perspective. He said he was expressing his own view.

Mr. Allen said he also believes the operating statement is more important than the balance sheet, but the balance sheet affects the operating statement; a remeasure of an asset or a liability must flow through the operating statement. Mr. Attmore said Mr. Allen was omitting deferrals, which FASAB standards do not recognize. Mr. Allen said he agreed with Mr. Attmore's priority, but he does not believe we can ever separate the two statements because they are interrelated.

Mr. Allen invited other questions or comments. He said he had not asked for a vote, but several members had said they would prefer to address more than just the two main attributes. The board has not decided how that should be done or the level of detail. But those are the two issues for the board—how broad is the project, and then several members have recommended that we take the GASB draft and see what needs to be added. He would like to put that to a vote; that is, is that a direction that the board would like to give to the staff to help with convergence?

Ms. Fleetwood said it was very important to give direction, because if the board wants convergence, people working separately on statements will not achieve it. We should take the GASB draft as the base and add to it if there is something else the board wants include.

Mr. Allen recognized Mr. Granof and said that he would then like to take a vote on the issue of scope. He believed that a majority of members want to include measurement methods, which would expand the scope, and the other expansion would be a discussion of attributes within the main categories. He asked members who support that discussion to indicate at what level the discussion should be.

Mr. Granof said that the discussion about which statement should have priority is significant. Looking at the history of accounting thought, in the early twentieth century the focus of financial accounting was on the balance sheet. Then Paton shifted the focus to matching revenues with expenses. In the past few years, the pendulum has swung clearly back to the balance sheet. Maybe it is now swinging back the other way. Mr. Attmore's point was that the GASB's project is part of a larger project and that makes sense. The FASAB's project is more focused on assets, but it is important to have something in the document that we are looking at only one side of the entry, but we also are concerned about articulation between the statements. It would be helpful to include a paragraph addressing that issue.

With regard to Mr. Allen's question about expanding the scope, Mr. Granof said we definitely should discuss more than the main attributes. It could be a discussion of those attributes with subsections.

Mr. Jackson and Mr. Steinberg agreed with Mr. Granof.

Mr. Steinberg said that the GASB has in its standards a modified approach to reporting infrastructure assets. He asked what attribute would cover that approach. Ms. Reese responded that it would fall within initial values because it is based on acquisition prices. There is no allocation to periods after that, under the theory that the service utility is not decreasing. Mr. Steinberg said the document should at least acknowledge condition assessment as a possible attribute or subset of an attribute. As another issue, he commented that the GASB talks about modified accrual. The FASAB does not have modified accrual, but we do have budget-based statements. He would not suggest that we identify attributes and measurement methods for budget-based statements, but we should acknowledge that federal agencies and the federal government issue budget-based statements and at some point it may be necessary to consider attributes for them. An additional point he would make is that when Mr. Granof talked about the shift of focus from the balance sheet to the operating statement and matching revenues and expenses, and then the shift back to the balance sheet, that might hold in the private sector. But in the public sector the concern has always been with the operating statement. It is what is important. So, as the board starts to look at where certain attributes and measurement methods may make more sense, he would like the discussion to include the impact on the operating statement as much as, or more so than, the impact on the balance sheet.

Ms. Fleetwood said there should be a compelling reason to do something different than the GASB draft—something that really is missing, so that we would be incomplete if we

adopted the GASB draft. She does not believe that is the case and for that reason she would prefer not to expand the scope. She would adopt the GASB draft.

Mr. Allen said he would vote to expand the scope, but he is also sensitive to what Ms. Fleetwood said. When we look at the expanded scope, we need to ask from a real and a practical standpoint, does it make a difference to have those additional discussions? If it does not, then maybe we should narrow the scope again. But, at least initially, he would like to make the two expansions to the scope.

Mr. Werfel voted against expanding the scope. He said he did not see what the practical impact would be of the additional work. He sees many higher practical priorities in his day-to-day work with the financial and audit community and he tries to be sensitive to offering his thoughts to the board on where he thinks the board's energies should be focused. He regards the conceptual framework as more remote than other issues he would like the board to deliberate.

Mr. Dacey voted to expand the scope, within reason, being sensitive to resources. If our document includes a more specific discussion of attributes that are remeasured values, he would place that discussion in a subsequent section, which might be simpler. He agreed that the board should start with the GASB document and its sections on initial values and remeasured values; the discussion of attributes within the two main attributes is a secondary issue. He would not like the additional scope to take a lot of time.

Mr. Showalter agreed with Mr. Dacey. He thought we are really talking about providing more details about the remeasured values. He agreed with Mr. Steinberg's earlier comment that some of the material in the FASAB draft is new to him and he was trying to assess how it was different. All the concepts statement really needs to do is to provide the definitions and then the pros and cons. This would help Ms. Fleetwood's and Mr. Werfel's concerns about the time needed, and Mr. Jackson's concern about not being too prescriptive.

Mr. Schumacher agreed with giving examples of attributes within the two main attributes. The document should give the definitions and then some discussion of the definitions so that the board can draw on that as it writes standards and at least know that there are more than two choices for attributes.

Mr. Allen asked Ms. Wardlow if she saw any problem with treating value in use, for example, as a subset of remeasured values. She responded that she did not see a problem. Mr. Allen said that would constitute a majority for a limited amount of additional material. Ms. Wardlow said a key factor for that would be to reach agreement on the definitions of the attributes so that a decision can be made on what it was necessary to discuss. There are many definitions of fair value, for example. Mr. Allen said that several members have talked about the potential marginal value of attributes other than fair value and historical cost. He would not spend a lot of time on attributes, such as value in use, which may not have a high potential to be used in standards. He does not

think he would get a majority vote to spend time at a meeting to come up with a definition of value in use. We ought to give more attention to the attributes that are most common and likely to be used.

Mr. Allen said that several members had specifically requested that we start with the GASB document, whether that means style, format, or something else. He asked whether that was a specific direction of a majority of the board.

Mr. Showalter agreed. He said he was looking for a track-changes document that would start with the GASB document, question aspects that the FASAB has issues with, and add the material the board has discussed. It was difficult to compare two documents as currently prepared. He would be able to decide better what he agreed and disagreed with if everything was in one document.

Ms. Fleetwood agreed with Mr. Showalter. She would add that, because we are trying to get agreement with GASB, it would be better, to the extent possible, to keep the changes separate rather than changing every other word. For example, Ms. Wardlow could say she is going to add examples here, because she thinks they are necessary, or having something at the end that she wants to add, rather than trying to change the tone or the writing of the document.

Mr. Granof said he was reluctant to constrain Ms. Wardlow in her writing. He agreed with Mr. Showalter: Start with the basic points made. But he would not constrain Ms. Wardlow to use GASB's words. It makes it difficult for an author. It is a burden on the author that he thinks is inappropriate.

Ms. Fleetwood responded that it was difficult to come up with a joint document with multiple authors. Someone has to do the writing. Ms. Wardlow can add sections, but if we say take the concepts and write, we may have two documents again.

Mr. Allen asked Ms. Wardlow if there were questions the board had not addressed. She responded that there was a question about terminology. Mr. Allen said that could be discussed at the next meeting, perhaps with a paper that discussed the advantages and disadvantages of certain terms. Mr. Dacey said he would accept most of what is in the GASB draft, including the terms, unless the board feels that there is something wrong with them as opposed to having a preference. Mr. Showalter agreed and said it would be helpful to include in the analysis how our terms would line up with those of other standard setters.

CONCLUSIONS: The board directed the staff to use the GASB draft (October 2009) as the foundation document for a FASAB concepts statement and make changes if necessary to correspond to the federal government financial reporting environment. A single track-changes document would enable members to identify areas of agreement or disagreement. The board agreed that the scope of the document should

be expanded to include (a) a discussion of measurement methods and (b) a discussion of attributes, such as fair value and value in use, that fall within the attribute category referred to in the GASB draft as “remeasured values.” That additional discussion would preferably be after the initial discussion of remeasured values. The revised draft should include definitions of terms. The reasons for any differences from the terms in the GASB draft would be discussed at the next meeting.

- **Deferred Maintenance and Asset Impairment**

Mr. Savini began the presentation with an overview of the TAB I materials which consisted of a brief review of the three attachments along with a summary of the two questions he was asking the board to address. In addition, Mr. Savini invited questions from the board.

Specific to the first question, staff provided background that many differences exist among the agencies specifically in regards to definitions and terms as well as maintenance practices. It was clear that in spite of the agencies wishing to adopt more common, uniform or consistent definitions/terms, such an outcome would require more time on their part as well as a staggered or building-block type consultative approach with the FASAB. In essence, staff stated that the task force would probably need to approach the board on several occasions in order to achieve its objectives.

Concerning the second question, in accordance with prior board consultations concerning the area of deferred maintenance reporting, agencies were originally granted a fair amount of flexibility. In essence, agencies were allowed to exercise judgment in their asset management plans dealing with maintenance specific to areas such as assessing asset condition and defining acceptable condition. The agency representatives wish to note that although they desire to still retain a fair amount of flexibility, they do not wish to portray any sense of hesitation or unwillingness on their part for greater uniformity or congruence. Specifically, there is a willingness to adopt a refinement of the current maintenance and deferred maintenance definitions so that a greater degree of comparability can be attained while preserving the unique nature of each agency’s mission.

Staff noted that attachment three of TAB I (draft minutes of the latest task force meeting), recorded that several members who are also members of the Federal Real Property Council (FRPC) have expressed a willingness and a recognition that certain agency terms and practices will probably need to change as a result of our (FASAB) work. For example, in the Department of Defense (DOD), they would be willing to make required changes to come into alignment with whatever the board would ultimately decide as long as statutory changes would not be required. As such, staff would like to confirm with the board that agencies would continue to be granted flexibility subject to whatever ultimate changes and refinements might be made through board deliberations.

Mr. Jackson began by asking if concerning question number two, was flexibility required only in the near term or after a standard is ultimately issued. Staff replied that flexibility

would probably be required in both instances. This is since agencies have different missions and asset management practices they would like for the board to recognize in whatever context the board addresses the accounting and reporting matters over deferred maintenance.

Mr. Jackson then noted that the results of the task force's work reinforces why the board originally granted the agencies flexibility. For example, one could take a similar situation at two different agencies and come up with two different results. Additionally, Mr. Jackson further noted that presently, agencies may not have clear enough guidance as to how to distinguish between repair or maintenance activities. The board needs to work on obtaining definitions that are commonly recognized before proceeding to another phase of the project.

Mr. Showalter inquired as to how the task force defined flexibility. Specifically, was it principles based (where guidelines are provided) in connection to the application of an accounting standard or was flexibility interpreted more from an operational perspective such as allowing agencies to "just do the right thing." This distinction is important.

Staff provided two examples of where agencies would probably wish to retain flexibility. For example, allowing management to determine whether an asset is deemed critical or not. Also, another area would be concerning condition assessments and/or methodologies. Although Standard 6 refers to two methods, over time, additional methods have been adopted. Accordingly, agencies would like to still be allowed to select methods that best suit their mission requirements. It appears that agencies are willing to make changes to their existing definitions and classifications of terms (e.g. betterments, improvements, additions, etc.), however, the task force has no intention of writing per se, operational guidelines or desk procedures.

Mr. Granof referred to GASB 34 (in use by state and local governments) which does not prescribe how one goes about assessing the condition of an asset. From his point of view, for state and local governmental reporting purposes, not being prescriptive in this regard seems to be working out well.

Mr. Dacey then addressed a GAO report that addressed deferred maintenance backlog and lack of agency comparability. His question to the board was should seeking comparability between the agencies be a key project goal. Since agencies are calculating deferred maintenance in different ways, unless the board clearly articulates what it believes deferred maintenance should represent, it will not achieve the ultimate goal of comparability. Furthermore, agencies will be required to make changes if in fact we seek to bring about comparability.

Staff advised that over the years the industry has made significant strides in the area of asset condition assessments. Additionally, the presidential executive order which established senior accountable property officers at each agency has also brought about some positive changes in regard to real property management. For example, GSA is collecting real property information in a database which has naturally become important and drawn congressional interest. GSA is currently looking into adding a data element

for deferred maintenance and to the extent possible, would like to seek congruence with whatever FASAB definition is finally chosen. In this way, agencies will avoid having two separate numbers being reported. Accordingly, GSA under the auspices of the FRPC has deferred to our board in hopes that we could either define or redefine maintenance in a manner that can be adopted by all agencies. This issue of lack of comparability is a serious concern for the task force and with the help of representatives from OMB, GAO and the Federal Facilities Council (FFC); we have at least initially determined that trending information would be very important. For example, a deferred maintenance number by itself in comparison to another agency with different mission requirements and different estimation methods/techniques might not be comparable or meaningful. However, if trending information were used representing say a three to five year period, then one could see a more meaningful representation of asset condition and corresponding asset maintenance approaches among the agencies.

At this point Mr. Jackson stated his concern that should the GSA database require discrete asset reporting, we would then have a similar asset by asset driven standard. If so, such a standard if not carefully crafted could end up with creating a new requirement of evaluating “things” as opposed to “systems.” The board may then have an unintended consequence of assessing/valuing individual items as opposed to getting a broad macro view of an agency’s portfolio. Mr. Jackson believes that although asset details are important, users need to see things in a macro sense. Since evaluation methods have a great amount of variability, management can elect to value by class of assets or by individual buildings or discrete systems, etc. Therefore, if the administration or Congress were to require more discrete reporting, the board would need to consider that in its deliberations.

Staff responded by stating that although the standards could go in that micro direction, there is currently no task force intention to do so. However, there could be congressional or OMB action that would require discrete asset condition reporting. Although we have not discussed this as a task force, staff’s initial inclination would be that the way we report deferred maintenance should be to ensure that the RSI categorization that exists at each agency traces to the agency notes which then would trace to the agency balance sheet which then ultimately would trace directly to the CFR. Ideally, we would establish linkage where the categories are identical throughout the financial reports adding to our goal of achieving greater consistency/comparability.

Mr. Allen then stated that based on his understanding of the staff’s work to-date, he would make two suggestions; (1) that the standard should not necessarily determine on what level an asset should be assessed and (2) that any future standard have an overall requirement to assess/value assets using common terms/definitions. In this way, the board has a requirement to ensure that deferred maintenance is reported as consistently as possible throughout government. He does not believe that the board would want to confine an agency’s condition assessment to a specific asset level or category. Mr. Allen emphasized that achieving a common definition of deferred maintenance is very important to this process.

At this point Mr. Dacey raised the issue of inspection cycles or frequency. He noted that asset inspections are not only done in different ways, but at different times and sometimes using multi-year cycles. Mr. Dacey asked the board to consider whether or not it should encourage more frequent condition assessments.

Staff asked the board to refer to attachment three (minutes to the September 1st meeting) noting certain agency comments made by representatives who acknowledge that agency changes might in fact need to be made. Based upon the task force's work thus far, some agencies have begun conversations concerning how they can best prepare for upcoming changes since as the board can well imagine, there are currently different operational definitions at play even within agencies let alone among them. This is one of the positive impacts that the task force is having; inasmuch that agencies are now trying to at least see where they themselves can come into congruence internally. Please note that staff has purposely avoided asking each agency to bring to the task force their discrete definitions since that would have been beyond the project's scope and introduced a complexity and variability beyond the task force's capability to deal with efficiently. As such, staff will be proposing changes to the existing Standard 6 maintenance and deferred maintenance definitions which will come about as a result of our reviewing the FFC's critique of Standard 6. Also, it should be noted that when surveyed by the FRPC almost all of the agencies surveyed stated that they officially follow the Standard 6 definitions.

Mr. Schumacher inquired about cost versus benefit and if the task force had addressed the potential for changes in this context. Mr. Schumacher specifically inquired about any agency response or reaction to potential changes and whether such changes would involve major system changes.

Staff stated that at some agencies there appears to be inefficiencies caused by the variation and differences concerning certain terms and definitions. Referring again to attachment three, staff highlighted comments from a task force member who stated that any alignment of terms will be met with favorable efficiency gains in the field. However, there are some agencies that are more guarded in their comments and have also said they would change but not without a careful cost versus benefit review. Staff is attempting to build a bridge to the functional community and in so doing, not necessarily asking them to entertain changes to their practices at this time. Conversely, staff is attempting to walk things over the bridge from their technical world into our accounting world. In this way staff hopes to best reflect in our accounting standard what is actually happening in this area of asset maintenance. Additionally, if the board were going to build some type of "stretch" into the standard/guidance for the agencies to aspire towards, staff believes that by working from their functional/technical baseline, any such stretch would be viewed as being reasonable and its objective more readily achievable.

In response to the cost versus benefit issue, Mr. Allen stated that such an analysis is often difficult to ascertain. He would suggest that the board adopt a principle that if something were deemed important enough by the board for financial reporting purposes, that cost versus benefit would be a consideration that each agency would need to address. For example, it would seem that each agency's asset management

practices would include rotations of inspections/assessments that would be deemed reasonable to both management and the auditor. Mr. Allen does not believe that the board should delve into managerial decisions regarding when asset assessments need to occur.

Mr. Dacey noted that the board is not creating a new reporting requirement since this is information that has been ongoing and as a result, cost/benefit should not be a significant factor. In his opinion, the board will attempt to bring matters (i.e. terms/definitions) into alignment in order to improve and enhance the value of management information coming forward to users. The question he has is how will the board bring about greater comparability in order to enhance the value of this information to management.

Mr. Allen then asked the staff if there was a need to issue a technical bulletin at this time concerning any of the matters discussed. Staff replied that there was no need currently but a need could arise in the near future.

Mr. Jackson stated that he thought the board's ultimate goal should be to move deferred maintenance from RSI into the basic statements and that this should be in addition to the comparability goal; consistent reporting across the government. He noted that the costs of deferred maintenance are not currently reported and are being understated. Even if at the present time no one foresees a way of moving this information onto the face of the financial statements, the board should view this goal as an incremental process. For example, with this latest stimulus money one can reasonably see that if deferred maintenance information were reported on the face of the financial statements it could have made an impact to the allocation and determination of where this money would be best targeted to.

In response, Mr. Allen agreed that yes, anything that can be reliably measured should be considered for recognition. The hierarchy of financial reporting would be that we would first begin with RSI, then next to the note disclosures, and finally into the financial statements. Mr. Allen went on to say that beginning with RSI (deferred maintenance) the board can then ascertain whether (developed) practices, such as estimating techniques that are reasonably accepted, would allow movement to the next level.

Mr. Steinberg then suggested that in order to answer Mr. Jackson's question, the board should first look to its concept statements to see how they may assist in this regard. However, as he recalled, the reason deferred maintenance information was moved from note disclosure to RSI was because of auditor concerns. The auditors felt that they could not get comfortable with the numbers. As much as Mr. Steinberg would like to see information reported on the face of the financials, he is not sure if the board could achieve that goal in the area of deferred maintenance.

Mr. Allen concurred with Mr. Jackson's remarks that ultimately the board would like to see this type of information flow through to the cost of services and as such it would be good for the board to have an end state in mind; he then turned to Mr. Dacey and asked for an auditor's perspective concerning this matter.

Mr. Dacey stated that the challenge is in ascertaining if the number is in fact measurable given the amount of subjective judgment involved and whether it could withstand an audit. Even if this (the estimate) is done well and clearly documented, the subjective nature of the determination is what gives auditor's concerns. As a first step, he thought it would be prudent to keep deferred maintenance as RSI looking to make improvements where possible in order to help move it along the reporting hierarchy Mr. Allen previously mentioned. Mr. Dacey's opinion was that the scope of the project should be left at improving the comparability of deferred maintenance. Later, the board should have a separate discussion on what to do next. He asked the board to consider what it would like to achieve; trying to drive to a dollar amount that can be audited or trying to ascertain what the impact of deferring maintenance is on the reporting entity.

Staff addressed Mr. Jackson's comment about the cost of services issue in that currently, depreciation does pass from the asset accounts to the statement of net costs. On another point, staff asked that the board recall that GAO has asked OMB and the board to address the concept of fiscal exposure. Fiscal exposure, as staff understands it, is on a continuum and actually transcends historical or traditional accounting. For example, assume that in the future deferred maintenance is booked as a liability, however, without considering the knock-on effects to what deferring maintenance results in could actually do a disservice to the decision maker. It would be advisable for the board at the appropriate time when they do discuss moving deferred maintenance, to consider this issue of fiscal exposure since in this way, the totality and the meaning of what deferred maintenance really is (its impact) comes together.

Mr. Jackson said that he agreed that RSI is the experimental area in financial reporting and as such, the board needs to test and move along the hierarchy to bring about process improvements. It actually might be more important at the end of the process to measure future outlays related to deferred maintenance rather than the actual deferred maintenance itself. Concerning the staff comment regarding depreciation, Mr. Jackson said that he would be prepared to discuss improvements and possible alternatives to the current manner we now use to calculate net costs in regards to depreciable property.

Staff reviewed that the scope of the project is to attempt to take deferred maintenance information and equate it to asset impairment. The task force has just begun addressing impairment issues and initial discussions reveal that the deferred maintenance number alone, without some context, should not be a litmus test or the sole determinant of asset impairment. That is, there are other elements of asset impairment that should be considered.

Mr. Allen then commented that in addition to assisting the government in its asset management of both real property and equipment, the board should also keep in mind that there might be obligations that arise from deferred maintenance that should be considered and placed on the face of the financial statements. Mr. Allen noted that he likens this project similar to writing an MD&A standard wherein the guidance is not necessarily designed for financial statement recognition purposes, but rather to fill other user needs. In essence, by incorporating asset impairment into this project, Mr. Allen

believes that the board is at least addressing that certain costs (resulting from impairment) will float to the statement of net costs if in some way the assets have deteriorated or are compromised according to management's assessment.

Commenting on prior board member observations, Mr. Steinberg stated that the board would in fact be taking a step further since prior to Standard 14 (which reclassified deferred maintenance to RSI), deferred maintenance information resided as a note. Mr. Steinberg submitted that attempting to put deferred maintenance into the statement of net costs is a significant expansion of project scope. Although he is not against this notion, he believes that if the board so decided, the project scope would change. Concurring with earlier comments made by Mr. Dacey, Mr. Steinberg suggested that there would be tremendous value made by just addressing comparability. Also, an interesting concept brought up by the task force is this notion of maintaining an asset to effectively support the agency's mission. This is something new that has the potential of significant impact on condition reporting. Mr. Steinberg concluded by saying that he was in favor of sharpening the definition in order to achieve greater comparability.

Mr. Showalter agreed that it is difficult auditing management intent however; the accounting standards have taken the profession towards fair value accounting, an area full of management intent and subjectivity. As a result, the auditing community has become more comfortable auditing inputs (i.e. intent and subjectivity) as opposed to just outputs (i.e. financial amounts). Mr. Showalter noted that if the board had criteria to measure against, the auditors would be able to audit to those criteria. Also, the board should always strive for the best reporting outcome possible and as previously discussed in a prior session, if the methods do not help us achieve that goal, we should then resort to RSI. Mr. Showalter stated that he would not get overly concerned about the auditing profession's ability to audit inputs as long as the board makes sure to have clear criteria in our guidance.

At this point Mr. Allen turned to staff and stated that there were no objections from the board concerning the way staff has proposed proceeding. Mr. Allen noted that this had been a good discussion and that even though the initial focus of deferred maintenance was not financial statement recognition, the asset impairment portion of this project could potentially result in financial recognition.

Miss Fleetwood sought clarification concerning staff intention over future board consults. Mr. Savini explained that in the near term, staff would like to rework the definitions and then propose changes so the board can review pros and cons to each suggested change. As such, staff intends to come back to the board at a future meeting with such recommendations. Staff further noted that the agencies, as represented on the task force are very happy that the board is taking time to look into this area of deferred maintenance since they all appreciate its importance. Miss Fleetwood stated that the process staff intends to pursue (additional board interaction) appears to be a good idea.

Mr. Allen then concluded this portion of the meeting by thanking staff and board members for the discussion.

- **Social Insurance**

At the October 2009 meeting the staff presented a draft social insurance standard for the board's consideration. The draft reflected what the staff believed the members agreed to through August 2009. The staff explained that the two remaining issues for the board's consideration involve the questions of (1) whether the table specified in the standard for the management's discussion and analysis ("MD&A") section should be required or optional; and (2) whether the standard should require note disclosure of an accrued benefit obligation. In addition, the staff sought any other comments the members may have on the wording of the standard.

Mr. Allen said that in prior meetings the board agreed to move forward with what it had previously approved. He said that initially the board had voted to develop a new financial statement but decided to consider the issue of display – of financial statements – as part of a reporting model project, which several members had argued is the right place to consider it, as opposed to the social insurance project. He said he hoped the members believed that what is in the draft social insurance standard is a compromise that they can support, once the two issues the staff is presenting are resolved.

He turned to the staff's first issue. He noted that the standard prescribed the table's content not its form, which would be up to the preparer; and that nothing precluded the preparer from going beyond that.

The board discussed how prescriptive the standard should be.

Ms. Fleetwood commented that she thought the standard was too prescriptive because it specified what to discuss and where to place the table, i.e., in the financial statement analysis section of the MD&A.

Mr. Fontenrose explained the origin of the latter requirement. The board had wanted to keep discussion of key measures in one place, rather than scatter it throughout the MD&A; and Statement of Federal Financial Accounting ("SFFAS") 15, *Management's Discussion and Analysis*, called for specific MD&A sections, including one on financial statement analysis; and the "key measures" came from the financial statements; therefore, it was logical for the proposed standard to specify that section.

Mr. Jackson noted that paragraph 25.c.i of the draft standards states that the entity should present the closed group measure and explain how it differs from the open group; but the table illustrated on page 42 of the draft standard did not contain the closed group measure.

Mr. Fontenrose explained that the intent of paragraph 25.c.i is to require that the closed group measure be discussed in the MD&A narrative. It is not required to be in the table.

The board agreed that the standard should be clearer that the closed group measure was not required to be in the table.

Mr. Werfel said the MD&A was one area where standards need to be flexible. He noted the research on the reporting model where respondents said they do not understand certain terms. He contrasted that evidence regarding the need to avoid jargon with the work in social insurance where terms were being used with which citizens are likely to have difficulty.

Mr. Steinberg agreed. He questioned the need to prescribe a table. He said the preparer might want to present a graph or narrative or bar charts or something else. He suggested merely requiring the information in the MD&A. He said the meaning behind the numbers was the important thing, not the format.

Mr. Allen responded by noting that the move from the exposure draft's optional table to a required table was part of the compromise that eliminated any balance sheet or operating statement reporting. The table is a summary that links all of the financial statements. Like financial statements, the table is an effective tool for communicating the summary information, more so than footnote disclosures. It complements and illustrates the MD&A narrative. Messrs. Granof and Schumacher agreed.

Mr. Werfel said he was thinking in terms of good standard setting, which he thought involves problem solving. He said he did not see a problem here. He noted that the table has been in the consolidated *Financial Report's* ("CFR") MD&A for years. In this standard, the board was merely locking it in, which may limit the preparer's ability to enhance it in the future.

Mr. Allen responded that the board should not wait for failure. He wondered why the board was debating this. The table is already presented in the CFR and the initial accounting requirements had been scaled back.

Mr. Steinberg mentioned that the preparer would have to include social insurance commitments in the table, which might be less important than some other program in the future.

Mr. Werfel agreed, saying that what might be important in the future is not knowable in the present. He was concerned that the current requirement might require future preparers to present information that was no longer critical or relevant; that the preparer might be prevented from presenting only the most important information.

Some members expressed the view that social insurance information would not need to be reported if the program was financially in balance. Ms. Payne mentioned that information on social insurance programs would be relevant for the foreseeable future,

even if the programs were in balance since the spending is a large portion of the budget and is relevant to all taxpayers.

The board discussed the mechanics of changing prior standards.

Mr. Jackson suggested an approach where the social insurance line items in the table would be defined as key information presented in the statement of social insurance (“SOSI”) – so that, if that information changed or the SOSI was eliminated, then that information would not be required in the MD&A.

Mr. Werfel said that, mechanically, that is something the board should definitely do.

Mr. Allen said the board would not have to do that because, if the SOSI were eliminated, there would not be a number for the table.

Mr. Werfel responded that it might be in the statement of fiscal sustainability because the standard references the “above measures,” which includes social insurance. He favored linking the information only to the basic financial statements as they exist now or in the future. It would mean one less standard would have to be changed.

Mr. Allen said changing prior standards is not a problem. It is accomplished very easily.

The board discussed the value of linking information in the MD&A table to the financial statements.

Ms. Fleetwood reiterated that the only reason social insurance information is reported is that there is a deficit and if the programs were in balance there would be no need to report.

Mr. Allen disagreed, saying that the reason social insurance information is reported is that the board decided the SOSI is an important statement and made it a basic, audited statement; and, it has a bottom line. Mr. Allen noted that no one else has a reporting model like the federal government. The model contains basic financial statements that do not articulate with each other. He asserted that the primary purpose of this MD&A proposal is to link the unarticulated financial statements.

Mr. Showalter agreed with Mr. Allen’s assessment that the table is used to articulate the statements with each other. He noted the standard does not explicitly say that it is an objective; it focuses on the word “measure” no matter where it occurs. He suggested explaining that articulation was an objective of the presentation, and then say explicitly that the table results from the various statements. Then if, for example, information moves from the SOSI to the statement of fiscal sustainability, it is still available. You are not picking up the measure per se; you are picking up the bottom line of each financial statement.

Mr. Werfel made two points about the proposed requirement. First, he said the board would not want to be too short sighted and require future reporting on something that is no longer a problem. Second, he said the objective is to eventually make the MD&A and the “citizens’ report” interchangeable. Even if social insurance remains an important point for the next 20 or 30 years, which he thought it likely will, there may be a reason to present the social insurance information differently in an MD&A-type presentation than the way it is presented on the statement of net cost in order to get an effective message across about the state of the United States finances. It may be that an aggregate number is best, or a certain slice of that number that may tend to be more problematic than looking at the whole; he used Medicare Part D as an example. He noted the board had used language in the past regarding MD&A reporting of fiscal sustainability to the effect that certain information would be highlighted “such as” social insurance, net cost, etc., which provides additional flexibility. He said he liked that approach because the preparer and the auditor are charged with developing the presentation at the moment in time; they can decide what is critical and what is extraneous. He said, in an MD&A environment, the auditor and the preparer can negotiate those types of questions rather than the standard-setter. He mentioned that this was a philosophical position of his on the role of this board and on getting the right equilibrium between these two pieces.

Regarding the term “or other singular presentation” that had been suggested as an amendment to paragraph 26, Mr. Granof asked what an “other singular presentation” could there be other than a schedule or a table. A graph was suggested. Mr. Granof said he could not imagine that a graph alone could capture the information, although it might be supplementary.

Mr. Allen responded that the amendment of paragraph 26 was an attempt to not be prescriptive and yet capture the information.

Mr. Allen polled the members on whether they approved paragraph 26 of the standard as amended.¹

¹ *Staff Note: the following presents paragraph 26 and the associated amendments as discussed by the Board on October 21. In addition, please note that the staff has also included an opening phrase --- “In addition to a narrative explanation” – to incorporate a clarification that Mr. Dacey suggested, i.e., that the table or singular presentation is in addition to the MD&A narrative and would not, by itself, satisfy paragraph 25.*

In addition to a narrative explanation, the MD&A will present include the above measures in a table or another singular presentation (see the illustration for the government-wide entity at **Error! Reference source not found.** of Key Measures). The closed group measure is to be discussed in the narrative only and is not required to be presented in the table or another singular presentation. The table in Appendix B is for purposes of illustration only. The preparer should determine the most effective format for communicating the critical financial information and the

- Mr. Granof said he supports the concept of requiring a statement. He said the wording could be worked out.
- Mr. Jackson approved paragraph 26 as amended.
- Mr. Steinberg approved paragraph 26 as amended. Mr. Steinberg added that he is concerned about being too prescriptive. He said the preparer might want to present programs other than SI, e.g., other health care.
- Ms. Fleetwood approved paragraph 26 as amended. She added that she would like the standard to be explicit that the preparer can present more than what is listed in par. 25. In addition, she prefers that standard not require the presentation to be in a particular section of the MD&A, i.e., the financial statement analysis section. She prefers to allow it to be anywhere in the MD&A as long as it is together. Preparer might want put it elsewhere.
- Mr. Werfel did not approve paragraph 26 as amended. He said it would impact the preparer’s flexibility on form and content, which he said has been generally the domain of the executive branch. For example, the standard reads [par. 25.ii. (a). (b)] “[unified budget] receipts” and “[unified budget] outlays” yet the form and content [of particular financial statements in the CFR, i.e., the “Reconciliation of Net Operating Cost and Unified Budget Deficit ...” and Statements of Changes in Cash Balances from Unified Budget and Other Activities ...”, which are required by SFFAS 24] is “unified budget deficit.” He said the preparer made a determination without FASAB to present the unified budget deficit in this way, without breaking out receipts and outlays, because there is flexibility around many parameters of form and content. He said what should happen is that the preparer takes the basic FASAB standards and develops a presentation. The preparer needs some flexibility in how to present the financial information in the statements themselves. He said that when standards get to this level of granularity it can have unintended impacts on the preparer when they do form and content.

Mr. Fontenrose mentioned that the issue is not the use of terms “receipts” and “outlays” and “deficit” in the proposed standard. There has never been a problem with the CFR MD&A talking about receipts, outlays, and the deficit and also having a financial statement that did not have all those terms in it. A new issue is being raised about the need for amounts in the proposed MD&A table to tie back

reasons for changes during the prior period.

The above is included for reference and approval of the minutes does not represent approval of the above material.

to a particular CFR financial statement where cost is reconciled to the unified deficit.

Mr. Allen noted that, for him, the board’s decision to eliminate the line item on the balance sheet increased the importance of having numbers that tie to the financial statements and not just narrative. It was replacing something that previously had numbers.

Mr. Jackson suggested and the board agreed to delete paragraph 25. ii. (a) [“total unified budget receipts”] and (b) [“total unified budget outlays”]. He asked if Mr. Werfel would consider that a preferable result. Mr. Werfel answered affirmatively, noting it would be a better alignment.

- Mr. Dacey said he was generally supportive of a summary presentation. He noted that the table or other singular presentation called for in paragraph 26 would not, by itself, satisfy the requirements of paragraph 25, which calls for the preparer to present and explain the listed items. A narrative explanation would be required, and the standard should be clarified in that regard. In addition, he noted the need to clarify whether the amounts for the table were required to come from specific financial statements.
- Mr. Schumacher approved paragraph 26 as amended. He said he supports a summary statement or presentation, and agreed with Mr. Dacey’s comments regarding the need for some additional clarification of paragraph 25.
- Mr. Showalter approved paragraph 26 as amended and seconded Mr. Dacey’s comments regarding the need for some additional clarification of paragraph 25.

Summary of the voting on paragraph 26 as amended:

Member	Paragraph 26 as Amended	
	Approve	Disapprove
Mr. Granof	X	
Mr. Jackson	X	
Mr. Steinberg	X	
Ms. Fleetwood	X	
Mr. Werfel		X
Mr. Dacey	X	
Mr. Schumacher	X	
Mr. Showalter	X	
Mr. Allen	X	

The board next discussed note disclosure of an accrued benefit obligation, which was required in paragraph 34 of the standard. The disclosure originated with a prior board member who had received many requests for the number from the public.

Mr. Fontenrose described the accrued benefit obligation and the response the staff received from Mr. Foster, Chief Actuary, Center of Medicare and Medicaid Services (“CMS”), stating that CMS could do the calculation for Medicare. Mr. Fontenrose explained that the respondents to the exposure draft had been fairly evenly divided on the requirement. One of the objections of those did not favor the disclosure was the potential for confusion with multiple numbers.

The board discussed the nature of the disclosure, including its applicability to Medicare, Parts B and D, where participants make a decision to participant upon reaching age 65. Mr. Fontenrose presented the analogy of an insurance program.

The board decided not to require the disclosure. The vote was as follows:

Member	Note Disclosure of an Accrued Benefit Obligation	
	Approve	Disapprove
Mr. Granof	X	
Mr. Jackson		X
Mr. Steinberg		X
Ms. Fleetwood		X
Mr. Werfel		X
Mr. Dacey		X
Mr. Schumacher		X
Mr. Showalter		X
Mr. Allen	X	

CONCLUSION: The board made changes to paragraph 26 of the draft standard regarding the MD&A table (see footnote above).

The board agreed that table or other singular presentation in the MD&A required in paragraph 26 of the draft standard would not, by itself, satisfy the requirements of paragraph 25, which calls for the preparer to present and explain the listed items. A narrative explanation would be required, and the standard will be clarified in that regard.

The board agreed that the discussion of key measures could occur anywhere in the MD&A so long as it was presented together.

The board agreed that the standard should be clearer that the closed group measure was not required to be in the MD&A table or other singular presentation.

The board agreed that the table or other singular presentation is used to articulate or bring the financial statements together. The standard should explicitly say that is an objective.

board agreed to delete paragraph 25.ii (a) [“total unified budget receipts”] and (b) [“total unified budget outlays”] of the draft standard.

The board agreed not to require note disclosure of an accrued benefit obligation.

These and the other edits based on the board’s discussion on October 21 and subsequent communication by board members will be incorporated in a draft standard. The draft standard will then be circulated via e-mail to members for comment before the staff prepares a ballot draft for the December meeting.

- **Natural Resources**

Ms. Ranagan presented the board with a summary and analysis of the nine comment letters that were received on the Revised Exposure Draft (ED), *Accounting for Federal Oil and Gas Resources*. Staff’s analysis of the comment letters resulted in the following three issues for discussion: (1) recognition in the financial statements versus disclosure in the notes; (2) accounting and reporting for other types of federal natural resources beyond oil and gas under lease; and, (3) the provision of Financial Accounting Standards Board (FASB) Financial Accounting Standard (FAS) 157, *Fair Value Measurement*,² as an alternative measurement method.

Issue 1

Ms. Ranagan requested board member feedback on staff’s recommendation that the board adopt the alternative view proposal that the value of federal oil and gas resources and annual changes therein be reported as required supplementary information (RSI) for a three-year transition period and then disclosed as basic information in the notes, rather than recognized on the face of the financial statements.

Mr. Allen provided a brief history of the project and the reasons for issuing a revised exposure draft. He noted that no one is questioning whether federal oil and gas resources meet the definition of an asset; the question is whether or not they can be reliably measured.

² FASB Accounting Standards Codification™ (ASC) 820.10

Mr. Schumacher stated that he thought the board had been told that there was a 99% probability that the amount of proved reserves that was reported would be extracted. Ms. Ranagan explained that may be true for total proved reserves; the problem is that the quantity of proved reserves under federal lands is not known. A representative from the Energy Information Administration had previously informed the board that such data would be reported in the future but it has not been. As a surrogate, the Department of the Interior (Interior) has developed a proposed valuation methodology that uses total annual production as a proxy for the portion of proved reserves under federal lands. Ms. Ranagan noted that it is analogous to an ice berg; Interior is using the tip of the iceberg (the portion that is above the water) to estimate how large the portion of the iceberg is that is under the water, without having a way to verify the actual size of the iceberg.

Mr. Allen asked Mr. Dacey if there is another way to estimate present value that is not tied to quantity (e.g., cash flows). Mr. Dacey responded that even if one were to measure cash flows, one has to look at the precipitator of the flows, which in this case would be the volume. He said he thinks it would be difficult to find another proxy that does not involve estimating quantity.

Mr. Allen responded that he frequently reads about the expansion of oil and gas production and that it would seem to him to be a very conservative number if one were to estimate current cash flows. Mr. Dacey responded that it would be hard to determine when those cash flows would stop and whether they would sustain themselves at their current levels or increase or decrease without understanding the extent of the finite quantity that is under the ground. Mr. Dacey said the volatile nature of the price that would be used to value the cash flows is another reason that he was opposed to balance sheet recognition.

Mr. Schumacher said that he can understand not wanting to recognize oil and gas as an asset on the balance sheet because of the uncertainty surrounding the accuracy of the quantity; however, he said he does not view the volatility of the price as being a valid reason not to recognize because he does not view the price fluctuations as being any different from any other commodity that is reported in the private sector (e.g., lumber, aluminum, etc).

Mr. Allen said that if a decision is made not to recognize these assets on the balance sheet, there needs to be a specific reason for doing so that would not bleed over into every other asset. He does not want the board to unintentionally set a precedent for non-recognition of other assets. He asked the members to consider whether oil and gas resources are actually unique in certain respects.

Mr. Dacey added that another reason why he opposed the ED was because putting a number on the balance sheet for only the portion of oil and gas proved reserves under lease could potentially be misleading to users of the financial statements because the reader needs to understand that there are many other federal natural resources .

Mr. Allen proceeded to solicit the members' views. He started off by saying that he will stick with the ED as it was exposed (three years RSI and then transition to basic – financial statement recognition).

Ms. Fleetwood said she agrees with the current staff recommendation (three years RSI and then transition to basic – note disclosure).

Mr. Steinberg summarized that all of the board members seem to agree that the information should be reported as RSI for three years; what the members are debating is whether to transition the information into basic as financial statement recognition or note disclosures after the three-year transition period. He noted that, either way, the issue of auditability remains. He therefore proposed that the board require the information to be reported as RSI for three years with the intent to transition to basic, but, rather than specify financial statement recognition or note disclosure, put the project back on the board's agenda to make a determination after Interior has gained some experience with reporting the required information.

Mr. Allen asked Mr. Steinberg how his proposal stands up to the board's previous vote that a date certain for a transition to basic was needed to ensure that the preparers and auditors took action in a timely manner. Mr. Steinberg explained that, under his proposal, the standard would still specify that that the information will transition to basic information in three years; it just would not specify where that information would be placed (recognition in the financial statements or disclosure in the notes). The board would re-visit the standard to specify the exact location after it is informed by Interior's experience with reporting.

Mr. Steinberg further explained that since the board has already exposed the standard as RSI and then financial statements, he does not believe the board would have to re-expose the standard if it went his proposed route; the board could issue an amendment to the standard after it gathers more information with which to make a decision.

Mr. Showalter asked why not leave the standard the way it is and require the information transition to the balance sheet. That way, the board can more easily defer the standard and have the information continue as RSI.

Mr. Steinberg said he gathers that Mr. Dacey does not want to ever see the information recognized on the face of the financial statements. Mr. Dacey responded that he seriously questions that the uncertainty will be resolved over time.

Mr. Jackson said he sees the same auditability issues with a note disclosure as with financial statement recognition. If the information is not auditable on the face of the financial statements, what would make it auditable as a note? He said he is concerned about audit exceptions cropping up for an entity that has been receiving clean opinions.

Mr. Allen said that while the audit assurance would be the same, the note disclosure allows for a range of amounts. Mr. Dacey said one can disclose all kinds of things in the notes instead of coming up with one definitive number to put on the balance sheet. Ms. Ranagan pointed out that auditors audit management's assertions – for recognition, management would be asserting that the number is probable and reasonably estimable; for note disclosure, management is asserting that the number is probable but not reasonably estimable. Management would disclose how they calculated the number and the uncertainty surrounding the number. The management assertion that is being audited would be different for recognition versus note disclosure.

Ms. Kearney said the board seems to be trying to make a decision based on unknowns – they do not know if the asset is measurable or if it will ever get to the point of being measurable. She stated that she thought the point of having RSI was to try to find out some of this stuff. Ms. Kearney said it seems to her that the board will have to come back no matter what it decides so she thinks they should keep it as RSI and revisit it if they ever get measurable, auditable data.

Mr. Schumacher responded that he does not see an incentive for anyone to ever measure it if the standard is RSI indefinitely. He said that is why he favors the three years of RSI and then basic because the agency will have to work towards recognition. If two years pass and Interior informs the board that it needs more time then FASAB can defer the standard; however, if the board makes it permanent RSI, then the board has to re-expose to make it basic.

Ms. Kearney inquired if the board could make it RSI for three years and say the board will come back but not say what it is going to do.

Mr. Allen said he would prefer to say RSI and force the board to come back then to say RSI and notes because he does not want to make a definite decision on measurability until he knows more about what information Interior is capable of reporting.

Mr. Steinberg said that was his proposal – in 2 and $\frac{3}{4}$ years, the board would decide whether the information would transition into basic as note disclosures or financial statement recognition.

Ms. Fleetwood inquired if the actual standard would be worded to that effect. Mr. Allen responded that the standard could say that it is on the board's agenda with the intent of bringing it back after two years.

Ms. Fleetwood asked if we would say that we do not know what the decision would be. Ms. Kearney responded affirmatively. Mr. Steinberg said he would disagree; he thinks the decision should be either financial statements or notes because what the board exposed was RSI to basic.

Mr. Schumacher said the board should state what its intention is and have Interior come back to them if they are not able to do it.

Mr. Jackson said if the board puts a date certain in the standard, Interior will be back if it is unable to comply; otherwise, there is no incentive to work towards basic. The board can always stop the transition to basic if it needs to and it would not take that long to do so. He said the board would then have a strong basis for its decision because it would have the actual experience of the people in the field. He added that the board should not have to put a date on its calendar to revisit the standard.

Mr. Allen asked Mr. Dacey if he had a comment. Mr. Dacey responded that his alternative view outlined a number of reasons why he believed, and continues to believe, that the information would be more appropriately disclosed in the notes rather than recognized in the financial statements.

Mr. Allen called for a formal vote. A summary of the votes is included in the table below.

Member	3 years RSI, and then financial statements	3 years RSI, and then notes	3 years RSI, and then make decision on financial statements or notes³
Allen			X
Dacey		X	
Fleetwood			X
Granof			X
Jackson		X	
<i>Kearney*</i>			X
Schumacher			X
Showalter	X		
Steinberg			X

*OMB representative for Werfel (vote is “unofficial”)

Ms. Ranagan confirmed that the majority of the board voted to require the information as RSI for three years and then come back to decide whether it would be recognized in the financial statements or disclosed in the notes. She pointed out that, as such, staff would focus the draft standard towards reporting as RSI, and all of the detailed journal entries and other information that was required for recognition would be removed from the standard. She wanted to ensure that the members were aware that the next draft will look drastically different from the current ED because of the change in focus from recognition to RSI. Members acknowledged the change in focus. However, Mr. Steinberg asked whether the agencies would still need to record and accumulate data to present as RSI; if they did, doesn't using double entry bookkeeping help to assure the

³ This option was defined by the chair as “RSI with a statement that the board will bring the item back on its agenda in three years to decide whether it should be notes or whether it should be financial statements.”

reliability of the data; and if that is the case, why not retain the journal entries to illustrate how the date could be maintained.

Issue 2

Mr. Allen asked staff to summarize its recommendation with regard to the second issue. Ms. Ranagan replied that staff had recommended that if the board decided to accept the alternative view, which supports transition to note disclosures, the same types of note disclosures also be required for other types of natural resources.

However, Ms. Ranagan pointed out that the language in par. 10 that related to other natural resources⁴ was such that any reporting for other natural resources was optional. If entities were required to report on other natural resources, such requirements would need to be re-exposed for comment.

Mr. Allen proposed that the board could include other natural resources in the board's statement of intent when it re-visits the issue in three years and encourage entities to begin similar reporting on other types of natural resources, if material to their agency.

Ms. Payne offered that another option would be for the board to go ahead and issue the standard on oil and gas and then for staff to issue a technical bulletin that applies the standard to other types of natural resources. Ms. Payne said a technical bulletin would have a shorter exposure period, not involve full board level, and get people started on the experiment of reporting RSI for other types of natural resources.

Mr. Allen said Ms. Payne's proposal makes sense to him and asked if anyone objected to that. None of the members objected.

Ms. Ranagan asked whether other natural resources should be addressed only in the basis for conclusions (BfC) of the standard on oil and gas. The members requested that staff maintain par. 10 (reworded, as necessary, to conform to the revised focus and incorporate Interior's comments) and the discussion in the BfC that relates to other types of natural resources. Ms. Payne stated that language would be added to the discussion in the BfC to communicate staff's plan to address other natural resources in a technical bulletin.

Issue 3

Mr. Allen asked if fair value has to automatically mean FAS 157 or if the board could open the alternative measurement method up to any source of fair value. Ms. Ranagan responded that the alternative measurement method was limited to FAS 157 fair value to help address Mr. Dacey's concern that the alternative measurement methods were

⁴ Par. 10 states "Federal lands contain a variety of natural resources other than oil and gas that are not specifically addressed by this Statement. This Statement does not preclude entities from recognizing or otherwise reporting information about other types of federally-owned natural resources."

too open-ended and asked for his thoughts. Mr. Dacey said he was originally concerned that the measurement methods were too open-ended for financial statement recognition, but he is less concerned now that the board has decided to require the information as RSI for the time being. He said he is anxious to find out what methodology Interior will actually be able to come up with to value the asset.

Ms. Ranagan noted that Mr. Dacey had also expressed concerns about limiting the measurement methods for RSI because of the risk that Interior would receive an audit exception if it could not apply either the preferred or alternative method. Mr. Dacey responded that he thinks the measurement methods could be more flexible unless the board does not agree.

Several of the board members agreed that there was great value in being more open and allowing Interior to develop the best estimate that it can. None of the board members objected to providing more flexibility.

Mr. Dacey said the board may want to limit the alternative to some form of fair value rather than being wide open so that something such as cost is permissible. He said the board may not want to be totally open, but it also may not need to be as restrictive as limiting the alternative to FAS 157.

Ms. Ranagan noted that Mr. Dacey had said he is interested in finding out what method Interior can actually apply and asked him if he believes Interior will either come up with a methodology that is based on present value or some form of fair value. Mr. Dacey said he is not sure, but he thinks it would be some form of remeasured value.

Mr. Allen confirmed that none of the board members were opposed to broadening the acceptable measurement methods during the RSI phase. Ms. Ranagan responded that staff would provide some proposed language.

Fiduciary Activities

Mr. Dacey questioned how the board wants to treat reporting for fiduciary activities given the decisions that were made on the earlier issues.

Ms. Ranagan reminded members that the proposed requirements as stated in the ED and the revised ED were for the assets to be presented in the schedules of fiduciary activity and net assets; no additional disclosures or RSI were required by the proposed standards.

Mr. Allen stated that the board would probably not require any disclosures for fiduciary activities if its own assets were being reported as RSI.

Ms. Payne noted that the challenge is that if Interior does not experiment on reporting on fiduciary activities during this three year window to find out if it is costly or impossible to provide the information, then the board loses that window of opportunity. She said

that since Interior said they can provide the information and did not object, she would personally advise that the board have Interior experiment.

Mr. Allen asked if a paragraph could be placed in the BfC that notes that because of the board vote to go RSI, the issue of fiduciary activities was not dealt with but will be addressed when the board re-visits the standard.

Ms. Kearney asked if the discussion about fiduciary activities could be continued at the next meeting because there are issues surrounding the reporting of different numbers between the fiduciary note and the statements to recipients. Mr. Dacey said Bert Edwards also raised some interesting points in his comment letter regarding what a fiduciary should actually disclose that he would like to discuss further.

Mr. Allen thanked staff and concluded the session.

CONCLUSIONS / NEXT STEPS: The majority of the board voted to (1) require that the information in the proposed standard be reported as RSI for three years, and (2) put the natural resources project back on the agenda to decide whether the asset value should be recognized in the financial statements or disclosed in the notes. The board will utilize the experience gained by Interior during the RSI period to inform their decision regarding financial statement recognition versus note disclosure. The board unanimously agreed to broaden the acceptable alternative measurement methods during the RSI phase to allow for greater flexibility in development of a valuation methodology. The board deferred the application of the standard on oil and gas to other types of natural resources to a technical bulletin to be developed by staff immediately following the issuance of the standard on oil and gas. The board will continue its discussion about the requirement to report on fiduciary oil and gas activities at the next meeting.

- **Steering Committee Meeting**

The Steering Committee met in closed session to discuss personnel matters.

Adjournment

The meeting adjourned for the day at 4:10 PM.

Thursday, October 22, 2009

Agenda Topics

- **Federal Reporting Model**

Overview

At the October 2009 meeting, the FASAB discussed the diverse needs of potential users and the challenges involved in meeting those needs. For example, some potential users seek transaction level data such as where federal funds are going, while others seek information that requires accumulating various types of data, such as intergenerational equity. FASAB members discussed the high level of interest in data being presented on the recovery.gov website and they discussed the accounting systems matters that the Office of Management and Budget observed while constructing the site. In addition, members noted the need for managerial accounting information to assist in managing agencies and the need to determine the displays that would capture the data that potential users are seeking.

The FASAB discussed the importance of understanding the needs of potential users and agreed that staff should continue with the user needs study. Also, staff will consider approaches for incorporating ideas for a reporting model. Some members suggested considering the models of other countries or state governments and inviting representatives from other countries or from state governments to attend a FASAB meeting.

Discussion

Mr. Allen began the discussions by noting that, several years ago, the Governmental Accounting Standards Board (GASB) completed a project on the reporting model for states and local governments and now the FASAB has implemented a project to reconsider the reporting model for the federal government. For the October 2009 meeting, FASAB staff is seeking direction from the board to ensure that the relevant issues have been researched before the board begins its deliberations on a new reporting model.

Mr. Steinberg noted that the fact that states and local governments changed their reporting model is a good parallel and the board could learn from that experience. In addition, the board could consider identifying the similarities and differences between states and local governments and the federal government at the time the GASB developed the new reporting model. If the FASAB simply chose to use the GASB model, the board may miss the fact that there are some differences between states and local governments and the federal government.

Mr. Allen noted that the FASAB may have a better opportunity than the GASB because the FASAB is starting at a more advanced state in terms of accrual accounting. Integrating accrual accounting was a core issue for states and local governments. States and local governments previously focused on the budget and were concerned about the amount of resources they have available to spend (current financial resources). Also, while individual accounting standards started to address accrual accounting, such as pensions, the focus remained on the funds. However, a reporting model was needed to enable one to look at the whole government.

Mr. Steinberg noted that because states and local governments cannot print money and it is so important for them to continue to provide police protection, education, and other

services that citizens need on a daily basis, they had to have a method of accounting that showed how much cash and other current financial resources they have. In addition, states and local governments have funds and they pay more attention to those funds than the federal government. Regarding government-wide reporting, most of the financial statements in the federal government are not for the total government, they are for individual entities.

Ms. Fleetwood commented that she did not think that the federal government is advanced in terms of cash accounting. The federal government reports have limited value to a constituent. Constituents can see information by agency or by a particular fund, but they cannot see that they received value for their money. She explained that she hoped that the reporting model project would not say let's not consider an item because we already have that item. Constituents are not getting information on how money is being spent. Websites such as Recovery.gov and Spending.gov give examples of the level of information they would like to have. The reporting model project should not miss that important aspect.

Mr. Werfel provided some background information for the benefit of the new board members, Mr. Showalter and Mr. Granof. Mr. Werfel noted that the Recovery Act requirements are showing some symptoms of problems with the existing reporting model. For example, when the Recovery Act was passed and it was clear that there were transparency mandates, financial reporting and presenting information on what was going on with the money were critical issues that required a structure for obtaining information from agencies quickly. As a result, the reporting model for the Recovery Act was tied to agencies' core financial systems, which were automated sources. Although this approach was not intended to absorb a significant amount of the agencies' resources, it was determined that those financial systems did not answer the questions coming from the President and Vice President, major media outlets, the Congress, the Government Accountability Office (GAO), and others.

Mr. Werfel explained that when the Recovery Act model was architected to the financial systems, a narrow output of information was obtained. The model could not provide answers to questions such as how much funding went to California or Anderson City, Indiana, or how much is going to health IT versus children's programs. Instead, data calls had to be used. In addition, Mr. Werfel noted that financial systems speak a different language from budgetary systems and the way budget programs are defined. There is a translation gap between the financial systems and the way appropriators think about programs and the way budgeters think about programs.

Mr. Werfel noted that, as an example of where citizens are directing their interests, last year the Department of Energy reported 400 "hits" on their website for financial statements. However, between February and April of 2009, there were 400 million hits on the Recovery.gov website.

In addition, Mr. Werfel noted that another issue concerning the current financial reporting model is the cost of accounting systems versus the return they are providing. Agencies are spending, in some cases, billions of dollars to implement an accounting

system over multiple years. However, they are not able to answer basic questions from government leaders and citizens. The Recovery Act is a seminal moment in financial management and it provided a “wake-up” call in terms of the limitations of the current financial reporting model.

The Recovery.gov website has two sources of information: (1) agencies report on the amount appropriated to them, how much they obligated, and how much they outlayed; (2) recipients report information such as how much money was received and how was it used. A separate treasury appropriation fund symbol had to be created for each recovery activity because that was the language that the accounting systems used. In addition there is a reconciliation challenge in translating between financial accounting and budgetary accounting. In some cases, a program has multiple tasks associated with it and in some cases a task has multiple programs associated with it. Also, there is a gap between the way financial systems are wired and the way individuals actually ask questions.

Mr. Jackson noted that the Recovery Act requirements, in a sense, came upon the financial reporting community overnight. If individuals had a need for the kind of information being called for under the Recovery Act, the community should have been thinking about those needs 5 to 10 years ago so that some of the requirements to answer those questions could have been taken in consideration when building systems.

Mr. Werfel explained that a statute has required the presentation of and individuals are reading information on who received funds and when, and the community has launched into providing the information without the infrastructure or internal control or quality assurance. On the other hand, we have feeder systems and transactions we are processing as a government which flow into accrual basis financial statements, which is an expensive process. However, the process is not providing the information that individuals are seeking.

Mr. Jackson expressed concern that he could not see the managerial utility of information on the amount of funds that different contractors receive. He noted that it is unfortunate that the community has not learned how to use the basic accounting systems data to manage, which was the initial intent of the data.

Mr. Werfel noted that there are multiple dimensions to the reporting challenge. On one dimension there is a new demand in the information age for real-time information on how and where we are spending our money, but our financial systems do not support that. On another dimension, we are under extreme budgetary pressure and we need to become more efficient. So, how do we know and measure our operational efficiency as a government? What are we spending as a government in the form of personnel, contracts, systems, and telecommunications, to carry out programs? Possibly, we could build some type of metric around that information to say which of the agencies are having the greatest trajectory in this operating cost or we could implement benchmarking to compare agencies. Currently, to answer these types of questions, we would need to do a significant data call and agencies would be manipulating data and making guesses. This raises the question regarding the value of the net cost figure.

Mr. Werfel believed that the current net cost amount is a deficit type measure rather than a measure to answer the question of what does it cost to operate agencies. The bottom line of an agency operating statement should show the value of some of their operating efficiency efforts such as a lean six sigma program. One could ask whether the program is having an impact on their bottom line operating costs. Another example is the Department of Health and Human Services' (HHS) net cost is increasing because health care benefits are increasing. However, we should be able to get information on how much it costs HHS to deliver health care benefits.

Mr. Jackson noted that one must define what it is he or she wants to measure and the accounting apparatus can respond to that definition.

Mr. Werfel noted that the board could start with a high-level framework showing the areas of emphasis for financial reporting going forward, such as sustainability, managerial cost accounting, and transparency for the citizens. Then, think strategically about taking the current set of financial statements and altering them in a way to support multiple objectives such as transparency for citizens and what internal control would be improved by subjecting information to audit. The Office of Management and Budget (OMB) and the Department of the Treasury (Treasury) are starting to look at ideas for how the government performs its transaction processing and financial reporting to get more immediate efficiencies. For example, one idea is to have Treasury produce all the financial statements for the federal government rather than each agency producing them. Agencies can provide trial balances.

Mr. Jackson suggested evolving away from agency-based financial statements and going to line items that are significant to the government-wide financial statements. Those line items and disclosures could be identified and audited at the agency level. Also, regarding managerial information, the purpose of the CFO Act is to provide information that is important for decision-making.

Mr. Allen noted that the first step should be to obtain an understanding of what information everyone needs and perhaps staff should be involved in some of the OMB and Treasury discussions. Also, staff has asked the board for feedback on whom to meet with to discuss information needs. Members could provide suggestions to staff on possible contacts.

Mr. Dacey noted that the issue is trying to decide whether there are different ways that information needs to be displayed that are different from the ways it is displayed currently. It is apparent that there is a demand for more detailed information which is much lower than that required for financial reporting. Financial reporting is an aggregation of information reported at the Recovery.gov level and displays will need to be designed to facilitate capturing the needed data at the beginning of the transaction. Simply implementing Enterprise Resource Planning (ERP) systems will not address this because the data from the legacy systems have the detail and the legacy systems would need to be changed to feed the ERP systems.

Mr. Dacey also noted that the board needs to think broadly about what data elements are needed and the board can facilitate that discussion and require reporting at some level. Systems would need to be more “nimble” than they are currently to address various information needs.

Mr. Jackson noted that the OMB should be involved early to help determine what costs are important for management of the federal government.

Mr. Dymond noted that the budgetary accounting model was established many decades ago, but it was designed with an eye toward managerial decision-making. Thus, in theory, cost information based on obligations and outlays already exists.

Mr. Werfel noted that an OMB working group is looking at the entire data model, both proprietary and budgetary accounting, and they determined that there is no definition of a program that can serve as the link. Everyone wants the data presented differently. A decision must be made to define a unified taxonomy at the highest level and then build a data warehouse where individuals can pull the information the way they need.

Ms. Fleetwood believed that the reporting model should be a flagship project where the board devotes the necessary time. The financial information being provided at the government-wide level is not what is needed to manage and the board could make a significant difference.

Ms. Payne noted that based on the discussions, the project became broader. The board did have a project on linking cost to performance but it was not staffed. Now, it sounds like the board would like to roll those objectives into this one project.

Mr. Simms noted that his question for the board concerns whether to continue with the user needs study or begin to address the model. He noted that he has made the most progress on the information needs of citizens and is in the process of studying Congress, executives, and program managers.

Ms. Fleetwood expressed concern about whether more resources can be devoted to the project.

Ms. Payne explained ways to increase the resources on the project. She noted that one of the ways FASAB staff leverages its resources is by participating in government-wide activities. Currently, there are a lot of activities in the CFO Council community and there are the Treasury and OMB initiatives that, if FASAB staff is not involved, it will be difficult to translate those activities into board actionable items. Thus, FASAB staff should be actively involved in those activities. In addition, a task force can be created to go forward and an additional staff person could be added. Ms. Payne also stressed that, as part of due diligence, we feel strongly that if we ignore user needs, the FASAB could go down a bad path.

Mr. Werfel acknowledged that users should be involved and he suggested that the FASAB staff begin to transition how stakeholders are approached. When discussing user needs, staff could present the current situation and note this is how the problem is

defined and here are some potential options for reform. Then the FASAB could bring in stakeholders and ask them how difficult will it be to move from the prior model and how much value would the new approach have. This would move the board more in the direction of putting pencil to paper on ideas or solutions and seeing how a new model could look.

Mr. Allen noted that based on the staff's survey, users' needs are diverse. Citizens may not care about internal control, but CFOs do. Also, while citizens want information on intergenerational equity, agency management may not. Information on intergenerational equity cannot be determined at the individual payment level, it must be an accumulation of resources generated versus spent by period or generation. Thus, it is important that we clearly understand user needs.

Mr. Allen also noted that he would like to know what information CFOs use to manage so that we do not develop a model that they still do not use. Mr. Werfel noted that he sees a high-level framework that facilitates agencies building upon that framework in their own unique way. In addition, he noted that currently, there is no relevant "bottom line" in agency financial statements.

Regarding starting at a high level, Mr. Allen noted that one could start by asking what information is needed at an agency and if a traditional balance sheet and operating statement is not needed, we should design what is needed. At the agency level, there is no net position. The government has the ability to take funds from one agency and give them to another. Only at the government-wide level is net position important.

Mr. Jackson noted that although there may not be a "bottom line," in agency financial statements, there may be significant "line items." If one defines what he or she needs to know from a financial or a performance point of view, a line item could be the principal focus for reporting. A series of line items, without a bottom line, could support government-wide reporting and could depict the events that are necessary for measuring the efficiency of an agency's operations.

Ms. Fleetwood noted that there are other countries, such as Canada, that have solved this problem and we should look at them. Also, the information that individuals need appear to be cost accounting oriented. People want to know how their money is being spent and are they getting value for their money. To provide this information, it has to be tagged and we have had projects where we tried to tag information. However, people do not want to know about telecommunications or equipment, they want to know about the school lunch program in their district and did their children receive as much as the children in other districts. Mr. Allen commented that we may not get a financial report to that level. Instead, we need financial reports that individuals can use to drill-down to that level. Mr. Allen also suggested that Ms. Fleetwood provide staff with a brief memo on the reporting models of other countries that staff should consider.

Mr. Dacey stated that one concern is that if one looks at the consolidated statements as a whole and say, for example that \$20 billion is material, most of the agencies will not have amounts that would be audited. Mr. Jackson noted that certain procedures could

be performed at those agencies. Mr. Werfel commented that properly using the agency audit regime will generate meaningful improvements in program effectiveness. Mr. Showalter noted that a series of program audits could be performed at the agency level.

Ms. Fleetwood noted that if the financial community is focusing on things that they really need to manage and on keeping the citizens informed, they will be freed up to focus on those things that are important. Currently, they are focused on information such as the balance sheet that, at least at the agency level, is not necessarily needed.

Mr. Allen noted that there is a dichotomy between the balance sheet and the operating statement. At the GASB, although board members did not want to require state and local governments to report their infrastructure on the balance sheet, they did want a true cost of service amount on their operating statement. In GASB's view, if a local government issued \$500 million in debt to construct a new bridge, their operating statement would look like they issued \$500 million in debt to balance their budget. The purpose of the balance sheet became to say, if a local government issued \$500 million of debt and received an asset for that debt issuance, they can allocate the acquisition cost of the asset over time. This provides a truer view of the cost.

Mr. Allen asked how the dilemma between the balance sheet and the operating statement should be solved. Mr. Werfel noted that it depends on where one emphasizes precision. A concept to consider is that agencies could continue preparing balance sheets, but the statement would not be subject to the same level of precision that it is today.

Mr. Allen asked whether the agencies need to account for its assets. Before there was financial reporting, local governments did not generally track assets except for insurance purposes. The board should consider the by-products of what we do. For example, if the board requires federal agencies to report an item, what does that do to the agency's internal control activities?

Mr. Dacey noted that the board does need to think about its focus between the balance sheet and the statement of operations. Currently, unless the board wants to go to a pure budget basis, the balance sheet is used in part, to allocate costs between reporting periods. Also, in reality, there is the accrual basis and cash basis of accounting and it is difficult to find a middle ground unless we want to expense all fixed. However, that approach raises an accountability issue for fixed assets. Perhaps valuation is not the key to demonstrating accountability but accountability does affect the dynamic of whether we want accrual basis of accounting for fixed assets.

Mr. Werfel noted that if one says where the accruals are most important, it would be at the government-wide level. This would preserve the relationship between the balance sheet and the statement of operations by having a thorough consolidated balance sheet and we would still be drilling down and auditing the other accruals that are material at the government-wide level. At the agency level, the precision on the accruals could be deemphasized, if they are not material to the government-wide financial statements,

and the precision for relevant data such as operating cost or spending data could be reemphasized.

The FASAB members did not object to staff completing the user needs study before developing conclusions and recommendations. Also, some members discussed inviting guest speakers (including experts from states or other countries such as Canada) to come to a board meeting and get the board thinking about options for a reporting model. Mr. Allen asked staff to consider having representatives from other countries or states attend a board meeting at the appropriate time. Also considering that FASAB concepts note that citizens are interested in the consolidated financial report, he asked staff to follow-up on the citizens survey results that indicate that citizens also want information on departments and agencies to better understand what specific information they sought at these levels.

Conclusions: Staff will continue with the users needs study and members will inform staff of possible contacts to consider during the study. In addition, staff will consider reporting models of other countries or state governments and consider having representatives from other countries or from state governments attend a board meeting to discuss their financial reporting model. Also, staff will follow-up on questions regarding the citizens users needs study.

- **Federal Entity**

Staff member Ms. Loughan began the session by explaining the primary objective for the October board meeting was to discuss the revised principles and related criteria for defining the boundaries of the federal reporting entity. Staff provided a brief history of the project and noted staff had previously presented general principles for defining the boundaries of the federal reporting entity and the board had expressed concerns with the potential consolidation of many previously unconsolidated.

Staff explained the Federal Entity Task Force met and discussed the principles and developed a slightly revised approach. The task force agreed the principles should be revised so that financial accountability (inclusion in the budget) would be the first test or conclusive principle for being within the boundaries of the federal reporting entity. The task force also decided the other principles should be second tier or indicative principles that would be assessed after determining if the entity meets the conclusive principle. Working with the task force, staff developed the revised principles and related criteria for the board's consideration.

Staff provided a brief explanation for the revised approach. Specifically, staff noted the principles were revised to include the Conclusive Principle for directly financially accountable which is "Federal reporting entities include all entities that the federal government is directly financially accountable for. This includes entities in the program and financing schedules of the Budget of the United States Government (the President's budget) as well as those entities the federal government has an ownership interest of 100%." The task force believed the revised approach would capture the majority of entities within the boundary of the federal reporting entity by first assessing

entities against the conclusive principle of Directly Financially Accountable. Staff noted the approach is also consistent with concepts in Statement of Federal Financial Accounting Concepts (SFFAC) 2, Entity and Display.

Staff explained the transmittal provides additional background on the approach by explaining the budget should as a general rule, be comprehensive of the full range of Federal activities and staff believes that a decision by the Office of Management and Budget or the Congress to include an entity in the budget settles the matter of the entity being “federal.” Staff notes the conclusive principle represents a starting point in analysis and the indicative criteria are necessary to ensure completeness in the context of the federal financial reporting objectives.

Staff provided a hi-level summary of the Draft principles which was included in the binder materials as follows:

- Directly Financially Accountable is a Conclusive Principle
- Indicative Principles include other entities not meeting the Conclusive Principle. It may include entities:
 - Existing as a matter of law within or established by the federal government to fulfill a public purpose or federally related mission;
 - Over which the federal government has the ability to exercise control with expected benefits or risk of loss; or
 - In which the federal government has a majority ownership interest.
- Misleading to Exclude Principle would include “entities not meeting the conclusive or indicative principles if the nature and significance of their relationships with the federal government are such that the exclusion would cause the federal reporting entity financial statements to be misleading or incomplete.”
- Temporary Exclusion is for conditions that are not likely to remain in existence permanently.
- Section on Consolidation and Disclosures for determining which organizations should be consolidated versus other presentation and disclosures based on the principles met includes a chart that would depict how indicative principles being met would lead to either consolidation or alternative display and disclosures.
- FLOWCHART for Determining the Boundaries of the Federal Reporting Entity and Display

After briefly discussing the Draft, staff noted the transmittal contained questions that would guide the board’s discussion of issues. Staff opened the discussion for board members feedback.

The Chairman explained there was an interface between the reporting model project and the federal entity project that should be considered. The board had agreed that consolidation is not the only option for presentation. The Executive Director noted the federal entity project was initiated to answer the question of what gets consolidated in the federal entity. However, in doing so one must also consider what type of reporting

may be required for entities not consolidated. Therefore, when considering other reporting formats, there are questions that relate to the reporting model and what information is important for presentation and how tightly this needs to be integrated with the reporting model project.

Ms. Fleetwood stated she believes there are two different projects that can continue simultaneously. Mr. Granof noted the two projects are clearly related, but the reporting model project will take much longer and the issues that can be addressed in the federal entity project should be. Mr. Steinberg noted the goal of the federal entity project was to create a standard that captured many of the concepts in SFFAC 2 but also recognize the new types of relationships. Mr. Showalter stated it is very important that the federal entity project ensure possible or potential losses are disclosed .

Ms. Fleetwood explained one issue Treasury is reviewing is consideration of the general fund as a reporting entity that prepares its own financial statement so there is a better understanding of all the things that goes in and out of it. Ms. Fleetwood explained the general fund may be one of the main reasons there are reconciliation and audit issues.

Mr. Allen requested confirmation that resources should continue in this area. Ms. Fleetwood stated the reporting model project is more important, yet this is also important. Mr. Schumacher explained that he believed the project is important because the federal government continues to be involved in these complex relationships so it should continue and be dovetailed as necessary with the reporting model project. Mr. Dacey stated that the federal entity project was initiated to address some of the trouble areas such as FFRDCs and to ensure adequate disclosures. He noted that the decision as to whether something is a federal entity is ultimately decided by OMB and Treasury and that drives down the separate component reporting.

Mr. Allen noted the discussion with GASB at the last meeting was very helpful and there may be situations where a discrete presentation would be helpful in conveying certain relationships.

The board agreed the Federal Entity Project should continue as planned. The Chairman opened the discussion for specific questions regarding the staff draft. Mr. Allen suggested that if members have issues or answered “no” to a particular staff question, those should be addressed at this point.

Mr. Dacey expressed concern with labeling the conclusive criteria “directly financially accountable” as such. He didn’t believe it was necessary. He noted the criteria and discussion was fine, he just didn’t see the purpose of labeling it as such.

Mr. Dacey also questioned the idea of incorporating the notion of the federal government owning 100% of an entity and whether this was included to specifically capture certain entities. Staff noted this was included in the conclusive principle to consolidate any entity the federal government has a 100% ownership interest versus assessing 100% ownership with the indicative principles. Staff explained there weren’t

any specific known entities that this would bring in, but it seemed appropriate to be forward looking to address if the situation arises. However, staff noted this could be incorporated with the indicative principles if preferred.

Mr. Dacey explained that on the surface, most of the principles and related criteria proposed sound appropriate but his biggest concern was whether this would change the current status intentionally or unknowingly. He noted uneasiness--not with what is written--but more so with any unintended consequences that may result. He wondered if there was a separate study outside from the board that could be performed to see what may result or changes in practices. Mr. Showalter commented that GASB had done field tests in similar situations. Staff explained that there had been some consideration in performing some sort of field test or test cases either prior to, or in conjunction with the exposure draft. Staff will consider this further and determine the best timing and method to incorporate testing.

Mr. Steinberg explained that he agreed with the notion of directly financially accountable but believed it needed to be explained further in the proposal. He believes there should be a discussion of the connection to the budget. Mr. Allen noted it is a hard concept to capture and that often it is easier to elaborate with criteria. Mr. Steinberg added that perhaps it could be expanded to include things such as the entity can't adopt their own budget, can't impose taxes, can't take on financial burden, and can't take on debt. Staff explained that language could be added but noted the driving force was the budget. Staff also noted that perhaps even the title directly financially accountable could be revised or dropped as suggested by Mr. Dacey. Ms. Payne explained that typically a concepts statement will elaborate on 'why' but standards typically address the 'what' and the 'why' is included in the basis for conclusion. Mr. Steinberg suggested if the standard doesn't elaborate on the 'why' then perhaps the specific title directly financially accountable isn't necessary. Instead, the conclusive principle could just be for items in the budget.

Mr. Dacey explained that certain entities, such as the Smithsonian, are partially on budget and he asked how the standard addresses that. He noted presently only the budgeted portion is included in the CFR and the other parts (trust fund) are not included. He explained that this may not even be consistent for all entities that are partially on budget. Staff explained the proposal addresses these situations in par. 21 with

“Certain entities may be partially on budget and receive funding from other sources, such as fees, premiums, or donations that are not included in the budget. (FN For example, the Smithsonian Institution receives additional funding from non-federal sources (trust fund receipts) that are not included in the budget as trust funds are not subjected to the budgetary constraints inherent in being included in the budget. Clearly, the Smithsonian Institution is still accountable for their handling of general revenue appropriations, offsetting collections (e.g. donations) that are appropriated for their uses as well as the non-budgetary trust funds.) However, it is the authorities provided by Congress that allow these financing activities to be undertaken and thus accountability is for the entity in

totality. In these cases, the whole federal entity is considered within the boundaries of the federal reporting entity based on this conclusive principle.”

Mr. Dacey notes that in the past, the Smithsonian has identified the federal funds as separable. Mr. Werfel asked what specifically would bring in the Smithsonian endowment fund into the CFR? Mr. Werfel explained that this area needs additional deliberation as he believes the Smithsonian would have compelling arguments as to why it should not be included.

Mr. Werfel explained that he doesn't believe there can be the general rule that if a portion of the entity is federal then the whole entity is federal and should be consolidated because there are public policy arguments that would lead to something different. Staff noted that part of the consideration for these types of entities (those with multiple sources of funding such as appropriation and endowments) was the fact that generally there is an authorization for the endowments and there are federal officials that have oversight of the endowment. The Executive Director explained this is an area where the reporting model would have relevance in perhaps some other presentation or disclosure may be more appropriate over consolidation. Mr. Allen noted this is an example similar to GASB where there is an ongoing relationship and ultimately those resources fulfill a public purpose, the question is what the best presentation of that relationship is.

Mr. Werfel noted the challenge with the project is not only the cultural resistance (such as the fact that the Smithsonian doesn't believe it is part of the federal government) but there are legal issues that are very different from financial reporting purposes in deciding if a particular organization is a federal entity. He added it is tough because there are long standing views on many of these.

Mr. Steinberg noted that the Holocaust is the same as Smithsonian, but both the appropriated funds and the donations are included in the budget and consolidated. Mr. Dymond noted the Smithsonian was originally set up as a trust to administer the trust that Mr. Smithson gave to the federal government for the benefit of the American people, so its trust accounting is not in the budget. The Holocaust Memorial Museum accounts for its donations as offsetting collections in its budgetary accounts. Mr. Werfel noted the Smithsonian keeps two separate books. They close out the federal portion on Nov. 15th and the endowment portion which is based on FASB GAAP on Dec. 31st.

Mr. Dymond noted that GAO would be issuing a report that relates to 200 plus entities that were created or established by the federal government or by government officials for various different purposes. He stated the indicative criteria would most likely touch on many of these organizations.

Mr. Allen asked what might be included in the indicative criteria for ownership interest, because many of the entities considered may not have ownership. He suggested the indicative principle should be clarified to state “if there is ownership” because in many situations if a particular organization is created by the federal government, then there

probably would not be any ownership interest per se by any party, such as non-profits. Staff agreed this area should be revised to reflect that fact because there may be situations where it doesn't fit to require all three indicative principles, especially if it doesn't exist. Staff noted the proposal did not say ownership had to be in a particular form, ownership interest is defined as a claim on the net residual assets of an entity which may in essence get at things like not for profits.

Ms. Fleetwood expressed concern over the chart for the indicative principles as it appeared to be too prescriptive. Staff noted the task force believed a chart similar to this would be most helpful to preparers and users. Ms. Fleetwood noted there is judgment in much of this and a chart such as this seems to take that away. Mr. Showalter explained this is useful for consistent reporting and whether certain organization would lead to consolidation, disclosure or something else.

Mr. Dacey commented the board needs to determine if there is a middle ground between consolidation and disclosure that should be considered. Mr. Jackson noted this gets back to the reporting model project as discussed earlier and what is available for presentation within the existing framework. Alternatively Mr. Dacey suggested the middle ground could be disclosures with additional information, or condensed financial statements. He noted the level of disclosure depends on the nature or significance of the relationship with the entity and whether it would be informative to users. Mr. Dacey suggested that condensed financial information should be presented on an if-needed basis. He explained it is very hard to determine and state when summarized financial information would be helpful. Instead, he believes it should be written in a manner that would include it if needed or considered helpful by the preparer.

Mr. Jackson asked what criteria would be used in determining if something meets the misleading to exclude principle. Mr. Showalter stated it's similar to GASB 14 in that there may be some unique situations where an entity may not meet the noted criteria but it would be misleading to exclude them from the reporting entity. He explained if preparers believe something would be misleading to exclude, it probably should be included.

Mr. Dacey explained he would envision this principle leading to disclosure versus consolidation. He stated that he could see that something that might require disclosure to discuss the relationship and other pertinent information, but its difficult to envision something that would require consolidation if it didn't meet the criteria.

To address Mr. Jackson's question, Mr. Steinberg explained that he agreed with the misleading to exclude principle and that it doesn't require specific criteria. He added the principles have specific criteria, but this is for judgment by the preparer if something is misleading to exclude. He noted that GASB has something similar and it has worked. He added the GASB members identified financing authorities as a type of entity covered by "misleading to exclude", and it may be helpful for the proposal to include specific examples. For example, this may be one way to address the Smithsonian if they don't believe the other criteria are specifically met.

Mr. Allen described that issues such as these is why it's very good to have some sort of middle ground such a discrete presentation--between consolidation and note disclosure. He explained that GASB's use of the misleading to exclude brought things back in to the report in the discrete column, but not consolidated.

The board agreed the misleading to exclude principle should be included in the proposed standard, however; it would not automatically lead to consolidation. Instead, some other presentation or disclosure may be appropriate. Further, some flexibility should be provided with this as well as the indicative criteria. Mr. Allen noted he believed it was possible to meet one indicative principle and be consolidated; therefore the standard must be flexible.

Mr. Steinberg explained that the conclusive and indicative principles determine what is included in the federal reporting entity. He stated there should be a different set of criteria that determines how to present them. Mr. Steinberg stated this would be similar to the GASB approach as well.

Staff requested the board's comments on the Temporary Exclusion provided in draft. Ms. Fleetwood noted par. 64d requires the following disclosure:

“Brief description of the formal plan that describes the federal government's intervention is not expected to be permanent and plans for ending the intervention, including any information regarding the length of such arrangement or plans to change terms of such arrangement.”

She explained that in regards to most of the federal government interventions, there is no such plan. She believed it was too much to expect and normally you wouldn't immediately know the plan for exiting when you intervene.

Staff explained this was included because most of the task force believed 'intent' was very hard to define so this would in some way demonstrate intent. Mr. Allen explained that as written it requires a description of the plan, and if there isn't a plan, then that would be disclosed. Ms. Fleetwood stated that having a plan is different from a written assertion that your plan is for the situation to be temporary and perhaps that is more appropriate. Mr. Schumacher stated that perhaps it should be more a description of the circumstances. Mr. Showalter stated that if there is a plan, it should be described and if there isn't that should be described as well. Mr. Steinberg suggested that maybe it isn't necessarily a formal plan, but more options being considered as the exit strategy.

Mr. Dacey explained the 'Agency Mission-Related Intervention in an Entity' sounded very similar to the Temporary Exclusion and he was trying to understand the difference. Staff explained there are representatives from NCUA on the task force and in working with them, there appeared to be a void with just including the Temporary Exclusion. Specifically, the Temporary Exclusion is described as extraordinary activities that are rare, not routine or normal activities, not part of strategic planning and so forth. The

NCUA (which is similar to the FDIC) believed receiverships were routine and actually a part of their mission. It appeared they may not necessarily fit the temporary description, and because the receiverships are routine, should not require such detailed disclosures. Therefore, staff developed a separate area 'Agency Mission-Related Intervention in an Entity' to address these types of activities with different disclosure requirements that are consistent with existing practices in this area. Staff acknowledged there may be some confusion with the title as many of the temporary exclusion items are mission related as well. Staff agreed this could be clarified and the title changed.

Mr. Dacey noted that par. 64 requires disclosures for temporary situations "for each entity" and questioned if that should be revisited as there may be a significant number of entities. Staff noted that it would be for those that meet the criteria for the exception. Staff noted it could be reconsidered and staff would explore options to state by condition or perhaps by significant entity with others combined in the aggregate or perhaps by agency. Ms. Fleetwood suggested that it could be broken down by significant event where multiple entities may be involved in the one event. Staff explained this would be reviewed further.

Mr. Granof suggested that the type of accounting and reporting should also be included in the required note disclosure. Mr. Allen noted that par. 64e required disclosure of "Other information that would provide an understanding of the possibility of potential financial reporting impact, including financial-related exposures to potential gain and risk of loss to the federal reporting entity resulting from the temporary situation." Mr. Granof explained that he believes it would be appropriate to state what the asset is, how valued, and so forth in the note. Mr. Jackson agreed and stated the disclosure could include the description of how it's included in the statements, such as an Investment in XYZ.

Ms. Fleetwood explained she believed that par. 63 which states "Although these types of interventions may last several years, there is typically an end date in the future, such as a date certain in legislation when the activity will end or when authority expires that supports such interventions. In addition, the federal government is likely to have a plan that demonstrates the intervention is not to be considered permanent. The plan may detail milestone dates for certain actions, the expectations of the interventions and results, necessary factors to end the intervention, as well as a commitment to the plan" is too descriptive. She stated the federal government in most instances won't have this detail. She added that it also seems redundant to what is in par. 64. Staff explained this was written to explain what might exist while par. 64 describes what is required in the note disclosure. Staff further explained the task force was not comfortable with complete reliance on intent and hoped a plan would justify or provide explanation of when an exit strategy could begin. The proposal doesn't say a plan is required, it just says one might exist that may contain certain things. The board agreed that par. 63 may not be necessary as it doesn't really require anything. Mr. Allen explained that this is new territory, especially considering other standard setters don't say much about temporary. Mr. Allen described the current proposal as having to prove that a specific intervention is temporary.

Mr. Steinberg explained that he believes there needs to be something other than timeframe in defining temporary. He believes there are other factors while recognizing intent may be difficult to define. Mr. Allen noted concern with making things too open ended.

Mr. Dacey noted that par. 59a is worded slightly differently with “Example of situations where existence may be temporary are: Temporary control-- the federal government has no plan to continue control permanently and instead plans to relinquish or cede control; and Temporary ownership--the federal government acquires ownership of an entity but it is held exclusively with the view of being disposed.”

Mr. Showalter suggested the use of a definition by describing Temporary as it's not permanent, meaning if you've taken an entity and you don't have plans to keep it, then it is temporary. He added that it doesn't necessarily have to be tied to a timeframe; it is more related to what is the intent at the time of intervention. The intent may be to assess options of what to do with it, and this would still be considered temporary.

Ms. Payne asked what evidence would one look toward to demonstrate intent. Mr. Showalter responded it would be the circumstances at the time and if you don't really know, then it is temporary. Staff asked if the standard should address specific criteria or is management intent or an assertion sufficient. Mr. Dacey suggested wording along the line of par. 59a which addresses that it is based on the intent of management.

Mr. Allen cautioned about going too far the other way and leaving it open ended. He doesn't believe it's fair to say something is temporary unless you decide it's permanent, especially when you are controlling it long-term.

Mr. Dymond explained with the recent interventions, he couldn't think of an instance where legislation either expressly or by design indicated it would be permanent. For example, TARP only authorizes Treasury to purchase assets for about two years. In addition, with conservatorships and receiverships, their design is to be less than permanent type actions. Therefore, he explained there would be evidence other than simply the intent of management. It may be these types of things would fulfill the disclosure for the plan as proposed in the draft.

Mr. Allen noted that was good to know and perhaps the proposal could include some similar language. Staff noted that par. 63 alludes to this by stating “there is typically an end date in the future, such as a date certain in legislation when the activity will end or when authority expires that supports such interventions.” Staff suggested the date certain part needed clarification and perhaps footnoting an example such as the TARP legislation would be helpful.

Ms. Fleetwood reiterated she still had concern with the language regarding a formal plan. Ms. Payne explained members' views have been understood and staff would work towards a revised proposal that hopefully finds a middle ground and an intent

option and let the board decide between those. Mr. Showalter suggested adding language such as 'indications of or evidence of' so to the extent there are indications, they may be disclosed.

Mr. Steinberg asked if the plan was to demonstrate that something is temporary or would it be more appropriate to say there is no plan to make it permanent. Mr. Allen noted this is the friction between this and existing standards. Other standard setters ask for proof that it is temporary, while it appears certain members' preference would be to prove that it is permanent. These are two different approaches that staff will consider further.

Staff explained the Consolidation Criteria and Disclosure Requirements needs to be developed further because staff wanted to first get agreement on the revised approach and principles. In addition, staff also wanted the board member's feedback on whether alternative display options (discrete presentation) could be considered or if this was considered outside of the scope of the entity project.

Mr. Allen noted that there were mixed views by members at the last meeting so he was also interested in the board members' views on GASB's discrete presentation as well as other detailed disclosures such as summary financial statements. Mr. Allen asked if other display options should be considered.

Mr. Granof stated he believed other display options should be considered as there are significant entities and relationships that perhaps shouldn't be consolidated but may require presentation more than disclosure.

Mr. Jackson explained he is a proponent of note disclosure and not a fan of discrete presentation. He added there is a big project on the Reporting Model that will be looking at the big questions about the model and it wouldn't be appropriate to add a column to the face of the statements in this project.

Mr. Steinberg explained he is comfortable with exploring options for consideration. He added options may include providing a footnote with condensed information, a separate schedule with several entities' information provided, or discrete presentation with columns on the face of the statements.

Ms. Fleetwood suggested the Reporting Model should address display options and although she believes discrete presentation would be confusing, it could be considered as part of the Reporting Model project.

Ms. Kearney (on behalf of Mr. Werfel) explained there were advantages for considering the discrete presentation, but it may be more applicable for other situations such as when there is a different source of GAAP. She suggested consideration of such presentation should be done in the Reporting Model project.

Mr. Dacey explained he doesn't believe there is a need for a middle area like discrete presentation but instead he prefers note disclosures. He added that his preference of a minimum disclosure for related parties and then an optional and fairly discretionary approach to what other types of information is disclosed to help the reader understand the potential effects of the entity on the federal government. He added he would be judicious in the disclosure of condensed information. Condensed information should only be included if it is relevant. In addition, consideration should be given to whether the condensed information should be subject to audit, especially when there may be different fiscal year ends and basis of accounting complexities.

Mr. Schumacher explained he would consider options, but he prefers consolidation and note disclosure. However, it may be a valuable exercise to at least consider something similar to the discrete presentation.

Mr. Showalter stated he didn't want to explore discrete presentation. He believes it may have benefit in a fund structure but he doesn't believe it would be useful or accepted by users in the federal environment. He explained he is in favor of disclosing condensed information with the flexibility of allowing the preparer to include additional information.

Mr. Allen explained that it appears the majority of the board does not want to consider the discrete presentation now, but it is something that may be considered in conjunction with the Reporting Model project.

CONCLUSION: Staff will work towards an Exposure Draft (ED) on the Federal Reporting Entity by incorporating the board member comments discussed in the meeting. Staff will develop criteria for determining when entities meeting indicative principles are consolidated and proposed disclosures for entities that are not consolidated. Staff will also consider ways to test the proposal, either case studies before or field testing in conjunction with the ED. Staff is also working with representatives from the Federal Reserve on performing an assessment of how the Federal Reserve would be presented based on the draft principles. A briefing with the Federal Reserve and Federal Entity Task Force has been scheduled for November 18th.

- **Appropriate Source of GAAP (Use of FASB by Federal Entities)⁵**

Ms. Ranagan opened the session by summarizing the briefing materials that had been provided to members, which included an updated project plan, detailed project approach, project history, and documentation of the extensive outreach that staff has undertaken. She referred members to (1) the minutes from the September 9, 2009, roundtable, noting that there was quite a bit of participation from a number of federal entities; (2) the updated results of the cost / burden survey that was originally circulated in 2007, which includes a 12-page summary of the comments; (3) staff's summary of a September 22, 2009, meeting with the controller of the Export-Import Bank, which switched from primarily reporting under generally accepted accounting principles (GAAP) of the Financial Accounting Standards board (FASB) to FASAB with its fiscal year 2006 financial statements; and (4) a September 30, 2009, letter from the Bonneville Power Administration, which has a unique situation in the way that it reports.

Ms. Ranagan acknowledged that the enclosures provide input from only one side of the house: the preparer/auditor side. She summarized that, for the most part, the preparers and auditors are generally strongly opposed to any changes in reporting requirements and report that they have not received any indications that their users' needs are not being met by their current reporting. On the contrary, several roundtable participants and survey respondents noted that their users' needs are better met by FASB GAAP (e.g., donors that want to know costs to raise a dollar and investors that want to see cash flows and the bottom line net income).

Ms. Ranagan explained that several federal entities have switched from FASB GAAP to FASAB GAAP in the last several years for cost/benefit reasons; however, the entities' perspective on cost/benefit is from a different viewpoint than that of the board. The entities' are evaluating how much it costs them to continue preparing FASB-based statements versus the benefit of continuing to prepare FASB-based statements. The board would more likely view cost/benefit from the viewpoint of how much it would cost entities to switch to FASAB GAAP versus the benefits of preparing FASAB-based statements rather than FASB-based statements.

Ms. Ranagan said that staff had not yet directly sought the user perspective to determine whether the standalone financial reports of these entities that primarily apply FASB GAAP are meeting user needs. She said she estimates it would take quite a bit of time to determine the users' needs for all of the different types of entities that are applying FASB GAAP but there would be several benefits to doing so, not the least of which is that it would be the conceptually accurate approach to the project and it would

⁵ [Staff note: The "Appropriate Source of GAAP" is a shorthand reference. The American Institute of Certified Public Accountants (AICPA) has established that FASAB is the source of GAAP for federal governmental entities (as defined in SFFAC 2). This project is being renamed "Reporting by Federal Entities that Primarily Apply Standards Issued by the Financial Accounting Standards Board" (FASB) to more appropriately reflect the objectives of the project. It will be referred to shorthand as "Use of FASB by Federal Entities." For convenience and clarity, these minutes will refer simply to the application of FASB GAAP or FASAB GAAP.]

help address the AICPA's long-standing recommendation that FASAB determine which entities should be permitted to continue primarily applying FASB GAAP.

Ms. Ranagan directed members to the proposed detailed project approach on pages 3 and 4 of the briefing materials and requested member feedback on the plan.

Mr. Allen said he understands that it is a matter of where one sits is where one stands and generally no one wants to change unless it becomes cost-beneficial for them. In his view, most of the entities that primarily apply FASB GAAP would probably continue to primarily apply FASB GAAP, but this project would document that many of the entities have legitimate reasons for primarily applying FASB GAAP.

Ms. Fleetwood said that Treasury requires agencies that primarily apply FASB GAAP to restate to FASAB GAAP when they submit for the governmentwide report;⁶ Treasury does not accept two different sources of GAAP. However, some of the agencies are citing this active project as a reason why they are not restating from FASB GAAP to FASAB GAAP; they say they are waiting for FASAB to finish the project.

Ms. Kearney noted that the Tennessee Valley Authority (TVA) is one of the entities that Treasury has had a problem obtaining audited restated information.

Ms. Ranagan said that TVA is probably the most material of the entities primarily applying FASB GAAP and one of the ones that staff would not anticipate needing additional reporting for their standalone statements from a user needs perspective. She explained that TVA is a public utility and users would conceivably want to be able to compare their financial reports to those of other public utilities.

Ms. Kearney said another issue raised during the roundtable was the rate-setting function and the potential for litigation if an entity were to report two materially different cost numbers under FASB GAAP and FASAB GAAP. She said that she sees discrete presentation as an option for bringing entities into the consolidated statements without forcing a change to FASAB GAAP for those entities that have a legitimate reason for using FASB GAAP.

Mr. Jackson agreed with Ms. Kearney.

Ms. Fleetwood said that she does not want to give the agencies an out because they have been pushing so hard to get them onto FASAB GAAP, but it may be something to think about.

Mr. Jackson said that he believes the utilities are dramatically different from other federal entities and would require different reporting for comparative purposes.

⁶ [Staff note: See T/L 650: I TFM 2-4700, Agency Reporting Requirements for the Financial Report of the United States Government, Section 4705.25—Special Basis of Accounting; available online at <http://www.fms.treas.gov/tfm/vol1/v1p2c470.pdf>; last accessed October 28, 2009.]

Mr. Showalter said he agrees that the board should justify areas where the user group is other than federal reporting, such as utilities.

Mr. Dacey said that, in his view, at a minimum, FASAB should require every entity that is primarily applying FASB GAAP to provide an audited note in its standalone reports that would basically allow the consolidation and elimination of intragovernmental transactions. He said the entities should be providing the debits and credits that are needed to effectively eliminate the entry and consolidate properly.

Mr. Dacey went on to say that a secondary issue is whether the board wants to allow the consolidation of FASB GAAP with FASAB GAAP with disclosure of material differences.

Mr. Dacey said those are two separate options – to force conversion of FASB GAAP into FASAB GAAP or allow FASB GAAP to be consolidated. He recognized that there has been support from the board in past meetings to permit the consolidation of two different sources of GAAP.

Ms. Fleetwood said she does not care what source of GAAP entities use for their own statements but, when Treasury gets the information for consolidation, she wants it to be FASAB because otherwise it is a nightmare to try to figure out what the elimination entry should be.

Mr. Showalter asked if the board thinks there are disclosures that are appropriate for federal entities, which FASAB has issued standards on, that are not being disclosed by the federal entities that primarily apply FASB GAAP.

Ms. Fleetwood said that Treasury's expectation all along has been that all federal entities would convert to FASAB but it has been hard to get that to happen.

Mr. Allen pointed out GASB's position for business-type entities – continue to follow FASB GAAP unless it conflicts with a GASB pronouncement.

Ms. Ranagan summarized the history of the project for the benefit of the three new board members and as a refresher for other board members. She noted that the project has been on the board's agenda 6 times and the board has spent about 12-15 hours deliberating on characteristics and profiles of the entities that primarily apply FASB GAAP and different options for addressing the issues. The last time the project was on the board's agenda was February 2008 at which time the board stated that it did not want to require anyone to convert to FASAB just for the sake of being FASAB and it was comfortable with including two different sources of GAAP in the consolidated financial statements except where there were material differences. The board directed staff to work with OMB, GAO, and Treasury to develop a required note reconciliation for line items where material differences exist between FASB GAAP and FASAB GAAP.

Ms. Ranagan stated that the roundtable participants were strongly opposed to including a note reconciliation in their standalone financial statements for a number of reasons, including Congressional interest, user understandability, concerns over litigation, and media attention. She noted that participants were concerned that because of the lack of understanding of governmental accounting, users would not understand why there were two different numbers. The media would report that agencies were “keeping two sets of books” and they would be called into congressional hearings to ask why they cannot count.

Mr. Allen asked board members for their views on whether staff ought to look at user needs for these reporting entities in light of what members have discussed at the board meeting, staff resources, and project priorities.

Mr. Allen said he believes staff should spend some time looking at the issue of user needs, but not weeks or months.

Mr. Dacey said he had some concerns about the buckets and whether the plan was inferring that the board would require different reporting depending on which bucket the entity falls into. He said he would entertain going down that path but he thought the decision was a simpler “does the board want to allow standalone entities to report on a FASB basis and what are the criteria?” He said he thought the board developed the criteria pretty well when they issued the GAAP Hierarchy standard (SFFAS 34). Then the other two issues are: What information needs to be disclosed so that they can be consolidated, and does that information need to be converted to FASAB GAAP for consolidation?

Ms. Payne responded that staff has approached this project not just from the mindset of facilitating consolidation, but also from the thinking that the standalone reports, if they are generally accepted, should meet user needs and federal user needs.

Ms. Kearney said that she understands why the board would want to reach out and get user needs, but she is a little reluctant to spend a lot of time doing that. She said she believes the board developed a good set of criteria for the GAAP Hierarchy standard, and she is not sure how much this process is going to inform that. She said she is not sure what type of information FASAB would require outside of what is needed for the consolidated financial report. She said if they really needed additional budgetary information, OMB would compel the agencies to report whatever type of information they need; therefore, she is not sure if the board will find any additional reporting requirements for entities that are legitimately applying FASB GAAP beyond what is needed for consolidation.

Ms. Fleetwood said she is reluctant to spend a lot of time on evaluating user needs; therefore, she has a mixed opinion on whether to approve the project approach. She said she certainly does not want staff to spend a lot of time interviewing individual people. Her main concern is that FASAB does not put anything out that causes more difficulty for Treasury in completing the consolidation.

Mr. Steinberg said he likes the buckets because he saw that as a way of differentiating among the different types (e.g., power marketing administrations, those that rely on donations like the Holocaust museum and the Smithsonian, manufacturing, insurance, etc). He said he thinks some of the entities have legitimate user needs like the power marketing administrations, and the buckets will help to differentiate them. He said some of the buckets will show that the entities are using excuses not to make the change and that is where he would focus his efforts: (a) do the users care? and (b) even if they do care, it seems that the users' needs that were given by some of the entities could be addressed by FASAB standards just as easily.

Mr. Jackson said it seems to him that consolidation is the problem; he has not heard any other problems. He said he agrees with Mr. Showalter and others that we should at least nominally get the users' side of the story since it has been presented by the entities as a reason for not applying FASAB standards. Mr. Jackson said the board should not spend an enormous amount of time on this but should validate that pushback.

Mr. Jackson went on to say that the real problem seems to be on consolidation issues and the question becomes, should the board spend enormous amounts of time going through this whole exercise when we could simply intercede and make sure Treasury is getting the data that it needs for consolidation instead of fighting a battle. He said we should nail down what the real differences are for consolidation and make sure that they are addressed in some way to ensure that Treasury gets what it wants and there is a penalty if entities do not do it (e.g., an opinion ramification).

Mr. Jackson added that he has no problem with information being presented in the financial statements on a dual basis – FASB and FASAB GAAP (e.g., securities at cost and securities at market) as long as there is a footnote disclosure that shows how each bucket is reporting.

Mr. Granof said he agrees with what Mr. Jackson and others are saying. He believes that the board should follow up a little bit with a user survey, but not conduct too much more research.

Mr. Allen said that he believes they will be able to take a number of entities off of the table after they put them into the buckets and then the challenges will be where the board spends the majority of its time.

Mr. Showalter said he agrees that it is about the consolidation, and he also believes that it is about the individual federal entities – what is the accounting those federal entities are supposed to follow? He referenced Rules 202 and 203, noting that the auditors are opining on a set of statements saying they are GAAP and they need permanent guidance to be able to continue to do that.

A summary of the board's opinions is contained in the table below.

Do you agree with staff's detailed project approach?

Member	Response	Comments
Allen	Yes	Staff should spend some time looking at the issue of user needs, but not weeks or months.
Dacey	Yes (soft)	Would entertain following the proposed approach but believes the questions to be answered are simpler: (1) Does the board want to allow standalone entities to report on a FASB basis and what are the criteria? (2) What information needs to be disclosed so that they can be consolidated? (3) Does that information need to be converted to FASAB GAAP for consolidation?
Fleetwood	Yes (soft)	Thinks the board already has enough information on this; if they are going to spend time soliciting users needs, she does not want it to be long.
Granof	Yes	Follow up a little bit with a user survey, but do not conduct too much more research.
Jackson	Yes	Nominally get the users' side of the story since it has been presented by the entities as a reason for not applying FASAB standards, but do not go overboard.
<i>Kearney*</i>	Yes (soft)	Okay with the project plan but does not want to spend a lot of time on it because the problem can probably be solved more easily.
Schumacher	Yes	We need to determine the other side of the story – the user needs side.
Showalter	Yes	Need to address consolidation issues but also need to provide permanent guidance for auditors that are providing GAAP opinions under Rules 202 and 203 on FASB-based financial statements for federal entities.
Steinberg	Yes	Put the entities in buckets by type and focus on those where user needs could be a question.

*OMB representative for Werfel (vote is “unofficial”)

Mr. Allen thanked staff and concluded the session.

CONCLUSIONS / NEXT STEPS: Staff will begin work on the proposed project approach, starting with analyzing characteristics of federal entities that primarily apply FASB GAAP, grouping them by type, and determining the primary users' needs of each major grouping.

- **AICPA Omnibus**

Prior to the meeting, on October 20, 2009, the FASAB approved and issued the exposure draft, *Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards*.

Adjournment

The meeting adjourned at 2:30 PM.