

Reporting Entity

Organization: National Science Board

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Q.7. The Board proposes a definition of related parties and disclosures for related parties where the relationship is of such significance that it would be misleading to exclude disclosures about the relationship. The proposal also provides a list of the types of organizations that generally would or would not be considered related parties.

Refer to paragraphs 78-87 of the proposed standards and paragraphs A82-A84 in Appendix A – Basis for Conclusions for a discussion and related explanation.

a. Do you agree or disagree with the related parties definition and requirements? Please provide the rationale for your answer.

The National Science Board (NSB) fully supports the comments made by the National Science Foundation (NSF) on the subject of related parties. The NSB submits comments to highlight some specific points.

The federal government has numerous relationships with private sector and non-profit entities. NSB agrees with FASAB that it is appropriate to focus disclosure requirements only on those relationships of “such significance to the reporting entity that it would be misleading to exclude information about them.” Paragraph A83, Appendix A, and paragraph 78.

In paragraph 80, FASAB indicates that ‘significant influence’ may be exercised by representation on the board of directors or equivalent governing body of an entity. The NSB recommends that FASAB clarify the definition of ‘significant influence’ used in paragraphs 78 – 82 to make clear that Presidentially appointed or Congressionally confirmed individuals in collegial bodies that head agencies, and the institutions with which those individuals are affiliated, do not automatically have a related party relationship with that agency. The operation of the National Science Board is illustrative.

The National Science Foundation by law consists of the National Science Board and a Director. 42 U.S.C. § 1861. There are 24 members of the NSB; they are appointed by the President. Board members are eminent in the fields of basic science, medical science, social science, engineering, agriculture, education, research management and public affairs. The NSB establishes the policies of NSF within the framework of applicable national policies set forth by the President and Congress. In this capacity, the NSB acts both strategically, in that it identifies issues that are critical to NSF’s future and approves NSF’s strategic budget directions, and in certain instances it acts operationally, by approving major new programs plus specified kinds of large grants and awards. There are typically fewer than 15 NSB-approved awards per year.

NSB members may be affiliated with institutions such as universities where researchers are eligible to receive grants and awards from NSF. Individual NSF grant awards are made

pursuant to a peer-review based process within NSF and the vast majority are not reviewed by the NSB. The NSB only reviews proposed awards that are larger than a designated threshold or meet other specific criteria. Federal conflict of interest rules prohibit NSB members from participating in matters where they have a conflict of interest or there is an impartiality concern without prior authorization from the designated agency Ethics Official. Individual NSB members are not involved in the review or approval of any proposed grant awards to their affiliated institutions.

NSB is concerned that the reference in paragraph 80 that significant interest lies in the power to participate in policy decisions may be interpreted too broadly in circumstances where agencies are headed by collegial bodies. This definition should be narrowed to distinguish between 'strategic' (high-level strategy and future direction) policy decisions, and 'operational' policy decisions, that is, day-to-day or transactional level policies. Strategic policy decisions do not have a direct influence on financial transactions and operating decisions and should not be determinative of the existence of a related party relationship. The NSB's strategic policy decisions do not have a direct influence on the day-to-day or financial transactions of NSF. With regard to operational policy decisions, NSB members are regulated by government-wide conflict of interest rules designed to prevent federal employees from participating in matters where they have a conflict of interest or there is an impartiality concern.

The NSB fully supports FASAB's underlying goal of transparency in an agency's financial statements. As a matter of course, NSF and NSB include information in the NSF Financial Statements about the NSB's role in the Foundation and the total amount of grant awards that NSF made to NSB member-affiliated institutions in the reporting year. The yearly award totals from NSF to each member-affiliated institution are provided. In years when the NSB has approved a grant to a Board member-affiliated institution, that amount is provided as well. However, to assume a related party relationship between an NSB member and NSF, or between the NSB member's affiliated institution and NSF, would itself be misleading to the public. It could imply the existence of the factors in paragraph 86, such as the ability to cause the agency to enter in transactions on different terms or conditions than those available to unrelated parties (paragraph 86.c). As explained above, this is not the case with the NSB.

Thus, the NSB recommends clarification of the definition of 'significant influence' paragraphs 78 – 82 to make clear that Presidentially appointed or Congressionally confirmed individuals in collegial bodies that head agencies, and institutions with which those individuals are affiliated, do not automatically have a related party relationship with that agency. This appears to be the intent of paragraph 84.c, but for avoidance of doubt NSB and NSF recommend the changes below.

Paragraph 80 – The current reference to policy decisions should be narrowed to distinguish between "operational" (day-to-day, transactional level) and "strategic" (high level strategy and direction) policy decisions. As noted above, strategic policy decisions do not have a direct influence on financial transactions and operating decisions and should not be determinative of the existence of related party relationships. NSF suggests adding the language from paragraph 79 to the first sentence of paragraph 80 to clarify the intent: **"Significant influence (for the**

purpose of this Statement) is the power to participate in the financial and operating policy decisions of an entity, but not control those policies.”

Paragraph 84 – Paragraph 84.c indicates that “key executives of the federal government and organizations owned or managed by key executives, other employees of the federal government, or members of their families” should be excluded from the related party definition. NSF suggests that FASAB explicitly add **“Including Presidentially appointed agency board members”** to the list of exclusions. Alternatively, paragraph 84.b could be expanded to state **“This exclusion also applies to management and board members of institutions that jointly serve on the board of a federal agency. This occurrence does not automatically result in a related party relationship between the federal government and the individual or the federal government and the affiliated institution.”**

Furthermore, NSF requests that FASAB add the term “that may or may not” to paragraph 84.b as indicated below:

“Organizations with which the federal government transacts a significant volume of business that may or may not result in economic dependence such as....”

b. Do you agree or disagree with the list of the types of organizations that generally would be considered related parties? Please provide the rationale for your answer.

NO NSB COMMENT

c. Are there additional organizations that generally should be considered related parties? Please provide the rationale for your answer.

NO NSB COMMENT

d. Do you agree or disagree with the list of exclusions? Please provide the rationale for your answer.

As noted above, NSF suggests that FASAB explicitly add in 84.c **“Presidentially appointed agency board members”** to the list of exclusions. Alternatively, paragraph 84.b could be expanded to state **“This exclusion also applies to management and board members of institutions that jointly serve on the board of a federal agency. This occurrence does not result in a related party relationship between the federal government and the individual or the federal government and the affiliated institution.”**

NSF requests that FASAB add the term **“that may or may not”** to paragraph 84b as indicated below:

“Organizations with which the federal government transacts a significant volume of business that may or may not result in economic dependence such as....”

e. Are there additional exclusions that should be considered? Please provide the rationale for your answer.

As noted in response Q.7.d above, NSB suggests that FASAB explicitly add “**presidentially appointed agency board members**” to the list of exclusions.

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Q.10. The Statement provides two non-authoritative appendices to assist users in the application of the proposed standards. The Flowchart at Appendix B is a tool that can be used in applying the principles established. The Illustrations at Appendix C offer hypothetical examples that may be useful in understanding the application of the standards.

Refer to Appendix B-Flowchart and Appendix C-Illustration.

a. Do you agree the appendices are helpful in the application of the proposed standards?

NO NSB COMMENT

b. Do you believe the appendices should remain after the Statement is issued?

Yes – the illustrative scenarios in particular help the reader to understand FASAB’s intended application of each definition.

c. Do you believe there should be any changes or additional examples regarding the illustrations that would be useful in understanding the application of the standards? Please provide rationale to support your answer.

NSF, and presumably other agencies with Boards such as the Nuclear Regulatory Commission, Federal Communications Commission, Federal Retirement Thrift Investment Board, and the Corporation for National and Community Service, would benefit from a related party scenario involving agency Board members. The scenario should involve a federal agency with a board of directors that approves strategic and high level budget decisions. A board member with an administrative or professorial role at a collegial institution, or that serves in a management capacity at a not-for-profit organization should be included. The illustration should indicate that the agency does not have a related party relationship with the board member or the institution/organization with which the board member is affiliated.