



November 26, 2013

Memorandum

To: Members of the Board

From: Melissa Loughan, Assistant Director

Wendy M. Payne

Through: Wendy M. Payne, Executive Director

Subj: **Reporting Entity--Tab A¹**

MEETING OBJECTIVES

- To consider staff's analysis of selected issues in response to the comment letters and public hearing participants' testimony on the *Reporting Entity* exposure draft and approve staff recommendations and proposed language revisions.

Due to the anticipated deliberation time for the topics, the issues will be discussed over both Board days and limit the agenda time to approximately two hours per day.

Therefore, the first day will focus on issues surrounding scope and the inclusion principles: In the Budget, Misleading to Exclude, Applicability to Judicial and Legislative Branches and Term for Disclosure Organization. The second day will focus on Temporary, FASB Based Information, and Central Bank Questions.

BRIEFING MATERIAL

The transmittal memorandum includes a discussion and analysis of selected issues and recommendations, beginning on page 3 under Staff Analysis and Recommendations. A full list of Questions for the Board appears on the final page. Staff is expanding the schedule of comment letters by adding an additional column to show the disposition of the comment. This schedule will be updated as the Board progresses through the issues and show the final disposition for respondents. Staff will forward this schedule and a listing of the member identified open issues to be addressed in the March and April 2014 meetings on December 6th.

In addition the following items are attached:

Attachment 1: Analysis of Outlier Cases “in the Budget”

Appendix 1: Relevant Board Minutes (by Issue)

Appendix 2: Federal Reserve Comment Letter

Appendix 3: *Reporting Entity* Exposure Draft (as exposed, no changes are incorporated.)

You may electronically access all of the briefing material at <http://www.fasab.gov/board-activities/meeting/briefing-materials/>

BACKGROUND

As you may recall at the August meeting, we held the public hearing on the *Reporting Entity* exposure draft. There was much feedback received from the participants. The feedback along with 39 comment letters identified areas that warranted additional staff review and potential clarifications to the proposed standards.

NEXT STEPS

Staff anticipates discussing selected issues at this (December 2013) meeting as well as the March and April 2014 meetings. The June meeting we would envision a pre-ballot. The goal is to finalize a ballot by the August 2014 meeting so that it may be forwarded to the sponsors. As noted above, staff also plans to complete a disposition of all comment letters so members can see how they were addressed.

MEMBER FEEDBACK

If you require additional information or wish to suggest another alternative not considered in the staff proposal, please contact staff as soon as possible. In most cases, staff would be able to respond to your request for information and prepare to discuss your suggestions with the Board, as needed, in advance of the meeting. If you have any questions or comments prior to the meeting, please contact me by telephone at 202-512-5976 or by e-mail at loughanm@fasab.gov with a cc to paynew@fasab.gov.

¹ The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

STAFF ANALYSIS AND RECOMMENDATIONS

1. In the Budget

Issue: Analysis and Consideration of Potential Outlier Organizations “in the Budget”

Purpose: After the August Board meeting, there was concern by some members that there may be the potential for outlier organizations in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “*Federal Programs by Agency and Account*.” For example, an organization may be listed in the schedule but the federal government may not exercise control over the organization. There was also the concern that the current draft language may not adequately address all the situations that may come up.

Therefore, the Board requested staff to perform a review of the schedule to determine if there were “outlier” type organizations included. There wasn’t unanimous approval for the review because it would be a huge undertaking which focuses only on a single budget. However, it was agreed that staff would perform a limited review to determine if there are other options for addressing outliers.

Organizations / Population Reviewed: Staff reviewed the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule (approximately 450 pages) entitled “*Federal Programs by Agency and Account*” to determine if there were “outlier” organizations²—staff identified organizations that were:

- Organizations identified in the budget as those agencies make “payments to” and the identified organization did not appear to be federal
 - “university” organizations
 - “institute” and did not appear to be federal
 - “known organizations” that have been brought to FASAB’s attention
 - “grants” to a named organization that did not appear to be federal
-

² Staff identified these groups of organizations as “potential” outliers or organizations that may be included in the budget but not controlled. This is just based on staff going through the schedule selecting the organizations with these words in the title. Staff has not performed audit work or an assessment of control. Staff notes the purpose of this exercise was to consider the organization included on the “*Federal Programs by Agency and Account*” schedule, and other organizations may exist that may be potentially included in the GPFFR.

Analysis of Cases Identified: Based on the limited review, staff identified several cases, based on the criteria identified above. The Board should recognize this was a limited and cursory review of the schedule to identify cases for further consideration. However, the review should meet the purposes of the staff analysis to determine if there is a better option for such organizations.

Details of staff's review are provided in Attachment 1- Analysis of Outlier Cases "in the Budget".

Observations:

Confusion Created by Differences between the Schedule and the Appendix to the Budget (line 14 of Attachment 1)

Several of the organizations discussed at the public hearing are actually listed as **Other Agencies** in the *Analytical Perspectives—Supplemental Materials* and are not identified under another a specific Agency or program. For example, the Public Company Accounting Oversight Board, Standard Setting Body, and Securities Investor Protection Corporation are all listed as Other Agencies (that is, not under the Securities and Exchange Commission (SEC) heading).

However, staff notes the Appendix to the Budget – which provides a more detailed presentation by agency including appropriation language - presentation may be inconsistent with the source designated in the proposed standards for “in the budget” (the supplemental materials). We learned from the SEC representatives that SEC’s section of the Appendix to the Budget includes information pertaining to the Public Company Accounting Oversight Board, Standard Setting Body, and Securities Investor Protection Corporation. This led SEC to propose changes to the “in the Budget” principle.

When contemplating which budget document to use in the proposed standards language, we consulted with OMB and GAO representatives to determine the best document for our purposes. Staff chose the Schedule because it is described as:

“Analytical Perspectives, Budget of the United States Government, Fiscal Year 2014 contains analyses that are designed to highlight specified subject areas or provide other significant presentations of budget data that place the budget in perspective.

The Analytical Perspectives volume also contains supplemental material with several detailed tables, including tables showing the budget by agency and

account and by function, subfunction, and program, that is available on the Internet and as a CD-ROM in the printed document.”³ [emphasis added]

Whereas the Appendix is described as follows:

“Appendix, Budget of the United States Government, Fiscal Year 2014 contains detailed information on the various appropriations and funds that constitute the budget and is designed primarily for the use of the Appropriations Committees. The Appendix contains more detailed financial information on individual programs and appropriation accounts than any of the other budget documents. It includes for each agency: the proposed text of appropriations language; budget schedules for each account; legislative proposals; explanations of the work to be performed and the funds needed; and proposed general provisions applicable to the appropriations of entire agencies or group of agencies. Information is also provided on certain activities whose transactions are not part of the budget totals.”⁴ [emphasis added]

While the Appendix provides more detail, it contains certain activities whose transactions are not part of the budget totals and that was one of the compelling reasons the schedule was selected rather than the Appendix.

Paragraph 57 of the ED provides guidance on administrative assignments based on budgetary treatment as follows:

57. Consolidation entities and disclosure organizations subject to the budget approval and oversight process of the component reporting entity head should be included in the component reporting entity GPFFR. Each component reporting entity should include:
 - a. all consolidation entities listed within its section of the Budget of the United States Government: Analytical Perspectives--Supplemental Materials schedule entitled “Federal Programs by Agency and Account” and [emphasis added]
 - b. all disclosure organizations included within its congressional budget justification.

SEC responded that “Examples of such FASB-GAAP organizations are the PCAOB and the SIPC, neither of which is included in the SEC’s congressional budget justification but **both of which are included in the SEC’s section of the Budget.**” SEC appears to have referenced the budget Appendix rather than Analytical Perspectives. Paragraph 57a is not met—instead, paragraph b and paragraphs 58-63 (addressing Accountability Established Within a Component Reporting Entity and Misleading to Exclude and/or Misleading to Include) should be considered in assessing SIPC, PCAOB and the Standard Setting Body. Paragraph 57 a. alone would not require SEC to include SIPC, PCAOB or the Standard Setting Body since none are listed in SEC’s section of the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “*Federal Programs by Agency and Account*.”

³ OMB website, Description of the Budget Documents and General Notes, <http://www.whitehouse.gov/omb/budget/Overview> last accessed September 18, 2013

⁴ Ibid

[NOTE: this is addressing the component reporting entity question (SEC specific question) but because the organizations are included in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account,” the organizations would appear to meet the ‘In the Budget’ inclusion principle for the government-wide unless excluded based on the proposed changes by staff. Also, materiality provisions always apply.]

Staff will propose clarifications to the reference to the schedule. The question of inclusion at the government-wide level will be considered in the overall clarifications.

Few Accounts Remain

For the remaining organizations or accounts, staff began analyzing them and provided brief descriptions and other relevant information. While reviewing the descriptions, it appears most relate to federal programs or organizations. It also appears that many are immaterial. Based on the descriptions it does not appear staff has identified a large population of “outlier” organizations to develop any new characteristics.

Recommendation:

While the principle ‘In the Budget’ has been used since the mid-1990s and offers a clear starting point to identify organizations for inclusion, it was also the most efficient. Absent budgetary actions – originating with the President’s Budget and leading to appropriations – most federal agencies would be unable to continue operations. Therefore, the most efficient means to identify “federal” agencies is through their participation in the budget process as evidenced by inclusion in the President’s Budget. In most cases, it provides an unambiguous outcome that may not result from considering ‘in the budget’ as one factor among many demonstrating “control.”

The budget is a political document serving many purposes. The 1967 *Report of the President’s Commission on Budget Concepts* indicates that “the budget must serve simultaneously as an aid in decisions about both the efficient allocation of resources among competing claims and economic stabilization and growth.” On the topic of coverage of the budget, the Commission recommended that “the budget should, as a general rule, be **comprehensive of the full range of Federal activities.**” Inclusion in the budget means that allocation of resources to an organization’s activities is determined through federal legislation – making the entity itself financially accountable to Congress and OMB.

Staff believes the “In the Budget” principle should be retained with the following revisions:

- Revise the principle by clarifying the meaning of “non-federal organization receiving federal financial assistance”

- Add footnote to reiterate only the schedule listed in the standard should be used for these purposes
- Revise the footnote by stating the organization does not have to be subject to the Single Audit Act
- Include additional language in the basis for conclusion as appropriate

Specific staff Proposed Language (with changes MARKED):

In the Budget

- 38.** An organization with an account or accounts listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account”⁵ should be included in the government-wide GPFFR unless it is a non-federal organization receiving federal financial assistance.⁶ An organization is a non-federal organization receiving federal financial assistance if it:
- a. Is a state, local or territorial government or
 - a-b. Is a not-for-profit organization or corporation, such as collegial institutions, for which neither of Any listed non-federal organizations receiving federal financial assistance should be assessed against the next two principles (Majority Ownership Interest and Control with Risk of Loss or Expectation of Benefit) are met to determine whether they should be included in the government-wide GPFFR.

1a. Does the Board generally agree with staff’s proposed language to modify the “In the Budget” inclusion principle to address concerns with the proposed standard?

⁵ The Budget presents information in various forms for different purposes. The specifically referenced schedule and no other is to be used for this purpose.

⁶ As defined by the Single Audit Act Amendments of 1996, f~~F~~ederal financial assistance is assistance that non-federal organizations receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, or other assistance. This Statement adopts the definition established in the Single Audit Act Amendments of 1996 but an organization need not be subject to the requirements of the Single Audit Act in order to qualify as a non-federal organization receiving federal financial assistance.

Alternative recommendation

An alternative would be to make “in the Budget” an indicator of control. However, staff believes this could lead to inefficiencies, confusion and the potential for inappropriate assessments of organizations that should be quickly classified as consolidation entities based on the current framework. As discussed in the control principle, determining whether control exists requires the application of professional judgment. Staff believes the “in the Budget” principle avoids the challenges inherent in having to assess all organizations against the control principle. Such assessments create the potential for judgments to be difficult or differ when considering all the indicators of the control principle relative to all organizations.

The challenge that may arise is that some organizations included in the budget are intended to operate with relative independence. Questions about control over the three co-equal branches of government may arise. Control assessments may lead to more debate because many of these organizations have a degree of independence to insulate them from political influence. In addition, staff believes there would be difficulty in assessing ‘who’ may ultimately have control of the organization. In many cases, organizations are established to operate within certain parameters but do not receive day-to-day guidance on operations.

Presently there are two sets of indicators listed—persuasive indicators and other indicators. The most likely approach would be for inclusion in the budget schedule to be considered a *persuasive* indicator. The persuasive indicators states “Certain individual indicators provide persuasive evidence that control exists. Because each indicator provides strong evidence of control, meeting any one indicator would generally mean control is present.”

It is possible that the result would be very much the same as we have in the proposed standard—inclusion in the budget would result in control being met and inclusion of the organization in the GPFFR. However, the use of terms such as “persuasive” and “generally” implies an opportunity to rebut that conclusion. Staff is not certain there would be an advantage to putting budget in the control principle that outweighs the ambiguity it could create. It appears the more straight-forward and clear principle (that accounts for the majority of the organizations included in the government-wide GPFFR) would be clouded in the more judgment based control principle.

Staff was uncertain as to the amount of detail the Board wanted to see regarding this alternative because there was not a clear majority of the Board preferring this approach — most members seemed to support a principles based way to maintain the current framework. Staff includes the following excerpts from the August 2013 minutes (the full excerpt is included at Appendix 1):

“Mr. McCall explained he thought in the budget should remain but we should try to deal with those non-federal agencies that do get federal funds. Mr. Smith explained we should review those

where there is a special funding source that is not coming from the federal government. He suggested in doing so, we should go back and look at the budget and see if there are any other types of entities that are in the budget with some other special funding situation.”

“Mr. Reger suggested the Board defaulted easily to the budget because we needed a north star. He suggested the focus has been where the federal government has control--risk and benefit. Therefore, we should have some inclusion or financial representation. He suggested the Board went to budget and then to the other criteria, but he asked if they are not the same. Mr. Reger explained the budget was an easier way of defining organizations that we all thought automatically had the three criteria.”

“Mr. McCall explained that there should be authority to appropriate money and to spend that money and then there should be sufficient money in the Treasury to cover that. He believes for the vast majority of what we are talking about here that that fits well. Mr. Mc Call said he believes if we have some anchor, the anchor is the budget document.”

“Mr. Dacey suggested it would be interesting to understand what is the delta between in the budget with the intended exclusions we have and control? Whether there is any type of principle conceptually. Whether there is anything that would be different. Mr. Dacey explained maybe there is a category or type of entity that would be in the budget, but not under control. If there wasn't much of a delta then you could go with presumptive decision. Ms. Payne asked about the judiciary branch--who are they controlled by? They are in the budget, but do we need to go through an analysis of are they controlled? Mr. Dacey explained he believes they are controlled as part of the federal government. Mr. Granof noted it raises a good point. They are part of the government-wide report because they are in the budget.

Mr. Showalter explained you can put the budget back into the control side as an indication of control. He believes it was a short cut because we did not want people to have to go through all those other criteria if it was obvious. Mr. Showalter suggested it could be the first item in determining control.

Mr. Reger explained that if it ever existed that in the budget was a control mechanism for something, we have lost that. Over the past 20 years, things are in the budget mostly because court suits have said if they are not in the budget, then you cannot do it. If the issue is really control then that may be a strong indicator, but I am not so sure that it really is the indicator. If you want to return to that, then we really do need to have conversations with OMB about once we do this, in the budget is going to mean a lot more.”

“Mr. Smith explained he does not think that we should break away from the budget to deal with the outliers. We should deal with the outliers because if we open up the control, we are less likely to get what we intend because you are putting an awful lot of items that people can go through and start making arguments about being in the budget versus what is control. Mr. Smith explained he would want to stay with in the budget because that way we know that the majority of the things are in the budget. He suggested we take a look at what type of things that could be in the budget that we want to exempt out.”

“Mr. McCall stated the exercise could be helpful, but he thinks we already have determined in the budget covers ninety-eight percent of the federal government. As time goes on, these outliers may change so doing this exercise a year from now or five years from now could yield different results. He believes answering the cases you know about is helpful, but the idea that FASB and PCAOB should drive what we are doing doesn't seem appropriate. He believes the budget is still a good anchor.”

Therefore, staff took an approach with minimal changes to the control principle. This could be changed or expanded if the Board prefers this approach.

Proposed Language (with changes MARKED):

Indicators of Control

39. As discussed in the following paragraphs, there are indicators that should be considered in determining whether the federal government controls an organization. As noted above, consideration needs to be given to the nature of the relationship between the federal government and the organization and judgment applied to determine whether control exists.
40. Certain individual indicators provide persuasive evidence that control exists. Because each indicator provides strong evidence of control, meeting any one indicator would generally mean control is present. These indicators are when the federal government has the unilateral authority to:

a. Subject an organization to the scope of the budget process which includes budget approval and oversight. Often budgetary actions are required for the continuation of operations. This is evidenced by an organization with an account or accounts listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account” unless it is a non-federal organization receiving federal financial assistance.⁷ An organization is a non-federal organization receiving federal financial assistance if it:

i. Is a state, local or territorial government or

ii. is a not-for-profit organization or corporation, such as collegial institutions, and does not otherwise meet the control indicators or the Majority Ownership Interest principle

a-b. establish or amend the fundamental purpose and mission of the organization,⁸ which may include authorizing the organization to exercise sovereign powers of the federal government and requiring the organization to carry out federal missions and objectives;

b-c. appoint or remove a majority of the governing board members;

⁷ Federal financial assistance is assistance that non-federal organizations receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, or other assistance. This Statement adopts the definition established in the Single Audit Act Amendments of 1996 but an organization need not be subject to the requirements of the Single Audit Act in order to qualify as a non-federal organization receiving federal financial assistance.

⁸ Congressionally chartered nonprofit organizations identified under United States Code (U.S.C.) Title 36, Subtitle II and III, should not be considered controlled solely because amendments to their federal charter must be enacted through legislation. Instead, such organizations should be considered controlled only if they meet the indicators in paragraph 31 or another indicator in this paragraph.

~~c.d.~~ direct the governing body regarding the establishment and subsequent revision of financial and operating policies of the organization; or

~~d.e.~~ dissolve the organization thereby having access to the assets and responsibility for the obligations.

41. Other indicators provide evidence that control may exist, but must be considered in the aggregate and often require the application of professional judgment in assessing. These indicators are when the federal government has the ability to or is obligated to:

- a. provide significant input into the appointment of members of the governing body of the organization or being involved in the appointment or removal of a significant number of members;
- b. direct the ongoing use of the organization's assets;
- c. direct investment decisions including the liquidation of investments;
- d. appoint or remove key executives or personnel;
- e. approve the budgets or business plans for the organization;
- f. require audits;
- g. veto, overrule, or modify governing board decisions or otherwise significantly influence normal operations;
- h. finance the deficits of, provide financial support to, or settle liabilities of the organization;
- i. direct the organization to work with the government to provide services to taxpayers which may include determining the outcome or disposition of matters affecting the recipients of services;
- j. establish, rescind, or amend the organization's governance framework;
- k. establish limits or restrictions on borrowing and investments of the organization; or
- l. restrict the capacity to generate revenue of the organization, especially the sources of revenue.

1b. Alternatively, does the Board prefer staff's (minimal) proposed language changes to include "In the Budget" with the control inclusion principle?

2. Misleading to Exclude⁹

Recap of Responses -Q1c. Do you agree or disagree that an organization should be included in the GPFFR if it would be misleading to exclude it even though it does not meet one of the three inclusion principles? Please provide the rationale for your answer.

Yes/Agree	17	No/Disagree	3	No Response	19
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The 3 Entities disagreeing stated: DHS CFO stated it is too subjective and should be quantified. CCC CFO stated lack of criteria makes it open for audit disagreement. SEC CFO suggested the ED appears to be somewhat biased towards inclusion. HUD CFO and GSA CFO explained the ED did not provide enough information to agree or disagree.

Even some of those agreeing, such as NASA CFO, NRC OIG, AGA FMSB, Treasury Bureaus of Fiscal Service (BFS) stated guidance, criteria and examples would provide clarity. NRC CFO agreed with the principle but should only result as a disclosure organization, not a consolidation entity. Treasury agreed but suggested it would be a footnote disclosure and considered after RP.

Excerpt from August 2013 Minutes Relating to this Issue

Mr. Allen asked if the Board wanted to deal with this misleading exclude and/or include. He suggested one option if it causes so many problems, is to do away with it since it is only there as a catch-all anyway. It is such a slippery slope.

Mr. Steinberg suggested that a better explanation be provided in the basis of conclusions. Mr. Dong noted that he heard that it is creating a bias towards inclusion because it is so confusing.

Mr. Allen recognized it could remain as a caveat. It is often in standards and never defined.

Mr. Dacey explained you could discuss the types of factors considered in deciding whether it was misleading to exclude without defining it. However, the challenge will be producing standards that are objective and neutral and which can be applied consistently. Mr. Allen asked what factors are beyond the ones that we have already listed. Mr. Granof noted that the GASB pronouncement had one example in 25 years.

Mr. Dacey suggested since it was the sponsors intention to assist agencies through this process (determine based on the criteria in the final standard which organizations was in and what was not), then we could come back to the Board and seek amendments to the standard as appropriate to address those issues. Mr. Dacey explained they will have to go through a fairly exhaustive process in implementing the standard. As part of that process, a decision can be made about misleading to exclude – either eliminating it or providing criteria. Mr. Allen agreed

⁹ This analysis is for the Misleading to Exclude principle for the Government wide GPFFR. Staff plans to present the analysis, recommendation and any revised language relating to the administrative assignments for the component reporting entity section when that section is presented.

and said it sounds like the misleading to exclude should remain while the sponsor agencies go through the implementation process.

Staff Recommendation:

While staff recognizes the desire by the community for criteria for the Misleading to Exclude principle, it appears most respondents agree with the misleading to exclude notion because it provides a safe haven for rare but significant cases not adequately covered by the principles. Further, staff does not believe there would be harm or unintended consequences by maintaining the Misleading to exclude principle absent additional criteria.

Staff also recalls the Board discussed the issue of criteria—while having difficulty coming up with examples that weren't already addressed by the three inclusion principles, they believed it better to have the principle to accommodate areas that may arise knowing the preparer and auditor would be allowed judgment in working through what would be misleading to exclude. The Board also discussed how this was comparable to GASB and how infrequent it has been used, but still a worthy safety net.

When discussing in August, it appears the value may be of even more importance during the implementation stage of this proposed standard. Therefore staff suggests retaining the principle and adding clarifying language to the basis for conclusion.

Proposed Language (with changes MARKED):

MISLEADING TO EXCLUDE

35. There may be instances when an organization does not meet the inclusion principles in paragraphs 20 through 31 yet the government-wide GPFFR would be misleading or incomplete if the organization were excluded.

36. Organizations should be included in the government-wide GPFFR if it would be misleading to exclude them.

Basis For Conclusions Language

Misleading to Exclude

A28. The Statement includes a general provision requiring inclusion of an organization if it would be misleading to exclude it. In developing the proposal, some ~~Certain~~ Board members and respondents to the proposal believed this may be problematic because no criteria are offered. However the Board ultimately agreed the general provision could accommodate rare/unique situations that may arise in the future. This is consistent with provisions of SFFAC 2 and -

~~A29. The Board also believes the provision is consistent with~~ the Governmental Accounting Standards Board Statement 14, *The Financial Reporting Entity*.

~~A29. Requiring inclusion of an organization it would be misleading to exclude allows for judgment in It provides for those unique situations not anticipated when the standards were developed. If it were feasible to anticipate such situations and develop criteria then there would be no need to provide for judgment. While there are concerns regarding possible unanticipated consequences, the Board believes the provision will be of benefit during the implementation period. If adjustments are needed, agencies may seek amendments to the standards as appropriate. where the preparer and auditor agree an organization should be included that was not otherwise incorporated as a result of the three principles. Judgment would be required in this area. Therefore, the Board provides for judgment rather than attempting to anticipate these types of situations and develop criteria.~~

2. Does the Board generally agree with staff's proposed language to modify the basis for conclusions to address concerns raised with the "Misleading to Exclude" principle in the proposed standard?

3. Applicability to Judicial and Legislative Branches

Staff notes at least 3 Board members and several respondents noted concern with the how the standard addresses the applicability of the standards to judicial and legislative branches of government. This issue has been deliberated by the Board on several occasions—and while the task force had suggested more aggressive action to encourage reporting by other branches-- the Board discussed the topic at the October 2008 meeting. The conclusion was that all branches should report but that the Board does not lobby for changes.

Relevant Board Minutes- October 2008

Staff also explained one issue the task force discussed in detail was the legislative and judicial branches not being required to report. The task force believes the best resolution may be to seek the appropriate congressional action to require all branches to report. The task force suggested that either FASAB or JFMIP could write a letter encouraging the branches to report or alternatively the letter could be directed to the appropriate committees encouraging legislation. The task force also suggested utilizing taxpayer groups such as the Peterson Foundation to bring attention to the issue. Staff explained that the task force believes the materiality issue is not as important as accountability, and financial statement audits should be required of all branches.

Chairman Allen noted the task force unanimously agreed the federal reporting entity should include all branches of the government. He asked how FASAB should proceed or if there was anything that FASAB can do within its charter to encourage required reporting of all branches. The general consensus was that it is not within FASAB's purview to make such a recommendation. The Board discussed the other options would be to request the sponsoring agencies to initiate something to address this concern or FASAB could simply do nothing.

Mr. Farrell asked if members could request the FASAB purview be expanded to include the branches. He suggested this would allow the Board's position to be on record. Staff explained that in essence FASAB does take a stand on the issue in the proposed ED. For example, if the proposal defines the federal entity to include all branches, then FASAB has taken a stance that all branches should be included and therefore report.

Mr. Jackson suggested that there may be some associates on the hill that might be able to provide advice on how to proceed or they may be able to find people to get support for the proposal. He suggested that it might be better to deal with this issue softly to see if there is support for such a proposal.

Mr. Allen asked if OMB sends requests to the legislative and judicial branch agencies for information and other requirements. Mr. Werfel explained that all of OMB directives are directed to executive branch agencies only.

It was agreed that FASAB does not want to interject or lobby for changes on this matter. Although the Board agrees all branches should be required to report, the Board would not aggressively seek legislation but instead would try to make others aware of the issue.

Staff notes in earlier drafts of the proposed standard, there was a footnote in the Scope section and this similar footnote is in at least one other standard.

Scope

6. This Statement applies to federal reporting entities that prepare general purpose financial reports (GPFR) in conformance with generally accepted accounting principles (GAAP)³ issued by the Federal Accounting Standards Advisory Board (FASAB).

³ The AICPA has designated the FASAB as the source of GAAP for federal reporting entities. Therefore, FASAB GAAP would be the appropriate accounting standards for federal reporting entities in the executive, legislative, and judicial branches.

Staff suggests adding this footnote back to the Scope section and also expanding the basis, but more importantly providing a sub-title for it so it is easily identified and stands out to readers.

Proposed Changes (WITH CHANGES MARKED)

Scope and Applicability

42. This Statement applies to federal reporting entities that prepare general purpose federal financial reports (GPFFRs) in conformance with generally accepted accounting principles (GAAP)¹⁰ as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. Paragraph 66 of this Statement also applies to federal reporting entities that prepare GPFFRs in conformance with GAAP as provided by paragraphs 9 through 12 of SFFAS 34.

Basis for Conclusions

Application to Legislative and Judicial Branches

- A32. Although the legislative and judicial branches (and most organizations within those branches) are not currently required to prepare financial statements, based on ~~this the principle~~ (In the Budget) principle those organizations would be reported upon in the government-wide report.¹¹ As the source of GAAP for federal reporting entities, FASAB GAAP would be the appropriate accounting standards for these entities to adopt to the extent they prepare GAAP-based financial statements.

3. Does the Board generally agree with staff's proposed language to address concerns raised regarding the application to the judicial and legislative branches?

¹⁰ The AICPA has designated the FASAB as the source of GAAP for federal reporting entities. Therefore, FASAB GAAP would be the appropriate accounting standards for federal reporting entities in the executive, legislative, and judicial branches.

¹¹ As the source of GAAP for federal reporting entities, FASAB GAAP would be the appropriate accounting standards for these entities to adopt to the extent they prepare GAAP-based financial statements.

4. Term for Disclosure Organization

While agreeing with the concept of distinguishing between “consolidation entities” and “disclosure organizations”, two respondents (AGA FMSB and SEC-CFO) found the terms somewhat confusing as written in the exposure draft. For example, the AGA FMSB noted that it may cause confusion because the general term ‘disclosure’ is associated with a wide variety of issues, yet as used in the exposure draft it is now associated with the accounting for a very specific purpose. Both respondents expressed concern with using different terms --“entity” “organization” -- as it leads to confusion when reading the document.

Based on feedback, the Board requested staff to consider alternatives for the term “disclosure organization” though there was no concern raised on the distinction between consolidation entity and disclosure organization. Staff would also like to point out that previous terms were core entities and non-core entities [staff first presented the Board with the terms *core government entities* and *discrete accountable entities*, but the Board preferred a simpler approach with the terms “core” and “non-core”] before moving to consolidation entity and disclosure organization.

An important fact members should keep in mind as they consider this issue—the terms for these two are used to distinguish between two types of organizations that are included in the reports. It is a term used in the standard, not a term that would be listed or referenced in financial reports. It is a term that needs to be understood for these purposes and one that reads clearly in the document.

Staff presents the following options (including a sample of how the term would read from a paragraph in the ED):

Non-consolidation entities

Pros	Cons
Keeps it simple. Non-Consolidation—opposite of <i>Consolidation</i> .	Entities may have <i>consolidated</i> financial statements.
New term, not used elsewhere in this context.	May imply a bright line which may not be consistent with flexibility envisioned in the standard.

67. Maintaining a distinction between the finances of consolidation entities and non-consolidation entities will more effectively meet federal financial reporting objectives. Such a distinction allows for separate presentation of financial information for organizations where there is a difference in purpose, governance structure, and financial relationships. Disclosing financial and other information in the notes about non-consolidation entities rather than consolidating financial and other information about all organizations included in a GPFFR may better meet federal financial reporting objectives. Although non-consolidation entities are not subject to the hierarchy of GAAP established for federal reporting entities, information about such organizations are needed for accountability purposes and to meet federal financial reporting objectives.

Staff believes the greatest challenge with other options is that each seems to describe a characteristic of the organization rather than how the organization is to be presented. Given the diversity among the organizations, no single choice fits all. Nonetheless, staff offers the following options:

Accountable entities

Pros	Cons
New term, not used in this context	Consolidation entities are also accountable
Describes relationship	
Accountable—required to explain actions or decisions to someone : required to be responsible for something	

67. Maintaining a distinction between the finances of consolidation entities and accountable entities will more effectively meet federal financial reporting objectives. Such a distinction allows for separate presentation of financial information for organizations where there is a difference in purpose, governance structure, and financial relationships. Disclosing financial and other information in the notes about accountable entities rather than consolidating financial and other information about all organizations included in a GPFFR may better meet federal financial reporting objectives. Although accountable entities are not subject to the hierarchy of GAAP established for federal reporting entities, information about such organizations are needed for accountability purposes and to meet federal financial reporting objectives.

Associated entities

Pros	Cons
New term, not used elsewhere in this context.	May not imply a strong enough relationship for disclosure
Associated—closely connected (as in function or office) with another : closely related especially in the mind	Definition of Associated may be closely tied with related party or may not be considered strong enough.

67. Maintaining a distinction between the finances of consolidation entities and associated entities will more effectively meet federal financial reporting objectives. Such a distinction allows for separate presentation of financial information for organizations where there is a difference in purpose, governance structure, and financial relationships. Disclosing financial and other information in the notes about associated entities rather than consolidating financial and other information about all organizations included in a GPFFR may better meet federal financial reporting objectives. Although associated entities are not subject to the hierarchy of GAAP established for federal reporting entities, information about such organizations are needed for accountability purposes and to meet federal financial reporting objectives.

Affiliated entities

Pros	Cons
New term, not used elsewhere in this context	Definition of Affiliated may be closely tied with related party or may not be considered strong enough.
Affiliated—being in close formal or informal association; related: <i>a letter sent to all affiliated clubs; a radio network and its affiliated local stations.</i>	GASB 14 par 41 and GASB 39 references “affiliated organizations” with government units, agencies, colleges, universities, hospitals, and others may warrant inclusion in the financial reporting entity.

67. Maintaining a distinction between the finances of consolidation entities and affiliated entities will more effectively meet federal financial reporting objectives. Such a distinction allows for separate presentation of financial information for organizations where there is a difference in purpose, governance structure, and financial relationships. Disclosing financial and other information in the notes about affiliated entities rather than consolidating financial and other information about all organizations included in a GPFFR may better meet federal financial reporting objectives. Although affiliated entities are not subject to the hierarchy of GAAP established for federal reporting entities, information about such organizations are needed for accountability purposes and to meet federal financial reporting objectives.

Discrete entities

Pros	Cons
Definition of discrete, especially in conjunction with accountable appears to describe entities. Discrete—apart or detached from others; separate; distinct: <i>six discrete parts</i> .	May cause confusion with the way GASB uses the term discrete. Expectation of separate columnar presentation.

67. Maintaining a distinction between the finances of consolidation entities and discrete entities will more effectively meet federal financial reporting objectives. Such a distinction allows for separate presentation of financial information for organizations where there is a difference in purpose, governance structure, and financial relationships. Disclosing financial and other information in the notes about discrete entities rather than consolidating financial and other information about all organizations included in a GPFFR may better meet federal financial reporting objectives. Although discrete entities are not subject to the hierarchy of GAAP established for federal reporting entities, information about such organizations are needed for accountability purposes and to meet federal financial reporting objectives.

Distinct entities

Pros	Cons
Taken from definition of discrete, it references <i>separate</i> and <i>distinct</i> so it may get at same meaning without confusion of using the same GASB term.	May imply a bright line which may not be consistent with flexibility envisioned in the standard.
New term, not used elsewhere in this context.	

67. Maintaining a distinction between the finances of consolidation entities and distinct entities will more effectively meet federal financial reporting objectives. Such a distinction allows for separate presentation of financial information for organizations where there is a difference in purpose, governance structure, and financial relationships. Disclosing financial and other information in the notes about distinct entities rather than consolidating financial and other information about all organizations included in a GPFFR may better meet federal financial reporting objectives. Although distinct entities are not subject to the hierarchy of GAAP established for federal reporting entities, information about such organizations are needed for accountability purposes and to meet federal financial reporting objectives.

Staff Recommendation:

Based on the Board's feedback and previous discussions, the Board has shown a desire to keep things somewhat simple and straight forward. Keeping in that spirit, staff recommends using 'entity' with both terms. Staff also recommends using the more descriptive 'consolidation entity' and 'non-consolidation entity' which describe the disposition of the entity as it relates to financial statement presentation. Further the terms are simple in terms of not being too complex or associated with other standard setters.

4. Does the Board agree with staff's recommendation to change the term "disclosure organization" to "non-consolidation entity" in the proposed standard?

5. **“Temporary”**

Issue

Staff noted while responding to certain questions in the exposure draft (regarding the inclusions principles, characteristics of consolidation entities v disclosure organizations and the alternative view) several respondents brought up the issue of “temporary” including how it relates to the inclusion principles.

While most of the respondents agreed with the framework and principles established, suggestions were provided as follows:

Certain respondents believed the ownership and control principles should be expanded to indicate that the relationship must be other than temporary in nature between the federal government and the organization in order for an organization to be included in the GPFFR. [DOC CFO, Treasury CFO, GWSCPA FISC] GWSCPA FISC believed that in instances in which the relationship is temporary in nature, the relationship should be disclosed in the notes to the financial statements in the GPFFR.

Certain respondents suggested the Board consider including a criterion in the determination of the consolidation entities that the organization’s relationship with the federal government is other than temporary in nature. [GWSCPA FISC and KPMG] GWSCPA FISC also suggested adding the evaluation of administrative assignments includes a criterion that the administrative assignment has been made on an other than temporary basis.

Staff also notes that 4 respondents agreed with the AV that the proposed standards should not equate receiverships, conservatorships, and interventions with other disclosure organizations to avoid an inference that they are part of the Federal government. [GWSCPA, Intelligence Community, NRC CFO, FDIC] DOC CFO did not support the alternative view but acknowledged steps should be taken to highlight the temporary nature of these organizations in the disclosures, so they are not seen as permanent parts of the federal government.

Staff Discussion

Staff notes the Board has deliberated the issue of ‘temporary’ at several Board meetings. Therefore, staff thought it may be helpful to provide the Board with a brief history by providing excerpts from minutes. The most recent meeting minutes are presented below and earlier minutes are presented in attachment 1.

Excerpts from August 2013 Minutes

Mr. Reger asked if that is an organizational issue? Mr. Showalter said it appeared to be more organizational based on the testimony. Mr. Allen noted KPMG acknowledged that in the question that we asked them where they suggested that the notion of temporary be addressed up front. Mr. Showalter explained it appeared several respondents did not understand the whole section in the back that talks about temporary.

Mr. Granof explained that some of the misunderstandings were not readily explainable and he is not sure reorganization would change that or make it better.

...

Mr. Steinberg explained that he believed he phrased the question wrong in the exposure draft because the respondents that said they did not support it basically said they believed there should be disclosure for the interventions, receiverships and conservatorships. Mr. Steinberg explained he believes these organizations should not be equated with disclosure organizations but there should be disclosures. Mr. Steinberg explained several people discussed temporary, which is one of the basic tenets of his view. He also noted that FDIC's comment letter said they already report on the risks and the exposures of the receiverships and to add additional information and consider them part of the entity they thought would cause confusion.

Mr. Dacey asked Mr. Steinberg if the letters and the testimony provide any different reasons or issues than the Board had already identified and discussed before? Mr. Steinberg explained yes, for example the FDIC added additional reasons and then quite a few of the letters talked about addressing "temporary." While Mr. Dacey noted he appreciated that the explanation of temporary may need to be addressed or clarified. Mr. Steinberg explained the letters suggested they already have these organizations covered, but Mr. Dacey noted that the proposal would not require one to repeat the same information in another note.

Mr. Showalter suggested if we focus on the temporary that may get to a little more clarity of maybe some of what the alternative view was trying to get at. However, Mr. Allen suggested that one of the testifiers explained once they read the whole document, they later recognized we dealt with that. Mr. Dacey explained that some of the respondents believed temporary should be an absolute filter whereas the current proposal does not explicitly say that all interventions are disclosure entities. It suggests that strongly, but it does not say that. If you put temporary, it would be more than absolute threshold and we ought to consider that option. Mr. Allen recalled the downside is the difficulty in defining temporary. Mr. Steinberg explained he suggested it be defined when the legislature takes an enactment to do things that indicate that this is no longer temporary. He suggested if it is a question of what goes on for 30 years, one could consider the things in control criteria.

Mr. Smith acknowledged we need to give it more thought, but if you define what temporary is in the beginning so that the preparer would decide, then they would have to make a determination. He added they might say I think this is going to be five years and is temporary, and once you establish that in the beginning that becomes what is temporary. However, if it goes on longer than that, what is the trigger that you have to use because then it is no longer temporary. Mr. Smith explained that he believes we might have minced examples of how something is expected to be temporary, but then no longer became temporary.

Ms. Payne asked whether the Board wanted clarity around temporary in the context of it being the split between the disclosure organization and a consolidation entity. In this context, there are other characteristics that aid in making that call. When transitioning from an intervention that is temporary to a permanent relationship, you would see some movement in how it is governed by Congress and the President, the goods and services that it provides, and the risks and rewards that the federal government appears to be assuming. Ms. Payne explained the four characteristics plus temporary are a little bit of a failsafe if your temporary definition is not crisp and relies a bit on management's intentions. However, if more clarity about temporary as part of the inclusion principles is desired so that temporary organizations would be excluded rather than included then it would be fundamentally changing the inclusion principles.

Mr. Allen clarified he did not view it as part of changing the inclusion principles. Mr. Dacey explained that some of the commenter's suggested it be part of the criteria for inclusion but he wasn't saying he supported that but there were some discussion on that. Mr. Allen explained that he believes if you support the alternative view in question 12 then you are going to want it to be part of the inclusion principle in the front.

Ms. Loughan explained that the Board agreed the closest any discussion of relationships that aren't expected to be permanent would be in paragraph 44 when we introduce disclosure organizations.

Mr. Allen decided it was time for the Board to vote on whether the alternative view should be considered further. All members except Mr. Steinberg voted the alternative view should not be considered further. Mr. Steinberg explained he would be addressing it in the final document.

As noted above, earlier minutes related to the 'temporary issue' are presented in Appendix 1.

What does SFFAC 2 say?

Par. 45 is very brief and does not use the word temporary, instead it states:

45. The entity or any of the above criteria are likely to remain in existence for a time, i.e., the interest in the entity and its governmental characteristics is more than fleeting.

Note that SFFAC 2 specifically excludes the Federal Reserve System, government sponsored entities, and bailout entities. These exclusions are not justified in SFFAC 2 by reference to the temporary nature of the relationship so we have not presented the related SFFAC 2 text.

Staff Analysis

Based on staff's knowledge of the Board's deliberations and a review of the project history, staff believes the Board has consistently taken the view:

- the standard should be principles based and avoid "exceptions" when possible
- "temporary" is not a factor when considering the inclusion principles
- "temporary" is an attribute for consideration when classifying between consolidation entity and disclosure organization

Staff Recommendation

Staff recommends adding a footnote to paragraph 21 that introduces the three principles established for determining if an organization is to be included in the government-wide GPFFR so that readers are alerted that temporary relationships must be assessed.

Staff recommends adding a 5th characteristic “connected through a relationship with the federal government that is expected to be permanent in nature” to paragraph 38 that describes consolidation entities. The paragraph provides the characteristics that should be considered as a whole to determine whether an organization is a consolidation entity.

Staff also recommends restoring discussion of temporary that was removed from what is now par. 46 in April 2011. Based on comments, there appears to be need for the discussion of the temporary notion and how it relates to the disclosure organizations earlier in the document. Although there have been changes to the ED since that time, this sentence was at the beginning of the discussion of disclosure organizations (non-core in April 2011). See Appendix 1 for previous Board minutes related to this issue.

Proposed Language (with changes MARKED):

Footnote in paragraph 21 that introduces the three principles established for determining if an organization is to be included in the government-wide GPFFR so that readers are alerted that temporary relationships must be assessed:

21. An organization meeting¹² any one of the three principles below is included in the government-wide GPFFR:

[Text below shows revisions to both the consolidation entity and disclosure organization characteristics. Summary text would be affected as well but – for simplicity – such text is not presented in this memo.]

Consolidation entities

43. The organizations that should be consolidated in the financial statements in the GPFFR are referred to as “consolidation entities.” Generally, an organization is considered a consolidation entity if, based on an assessment of the following characteristics as a whole, the organization is:

¹² The three principles are to be applied without considering whether the relationship is temporary or permanent. Instead, permanence of the relationship is to be considered in deciding how to present information about organizations meeting one or more of these principles.

- a. financed through taxes, and other non-exchange revenues.
- b. governed by the Congress and/or the President.
- c. imposing or may impose risks and rewards to the federal government.

d. providing goods and services on a non-market basis.

~~d-e.~~ connected through a relationship with the federal government that is expected to be permanent in nature.

- 44. Organizations listed in the budget, except for non-federal organizations receiving federal assistance (see par 22), are presumed to qualify as consolidation entities while greater judgment will be needed to classify other organizations.
- 45. For consolidation entities, the governance structure is vertically integrated, such that the chain of command and manner of decision-making leads directly to elected officials. Vertical integration may include the establishment of organizational authorities, development and/or approval of budgets, and the appointment of organizational leaders by the Congress and/or the President.

Disclosure organizations

- 46. The federal government has relationships with organizations afforded a greater degree of autonomy than consolidation entities. Some organizations may exercise powers that are reserved to the federal government as sovereign. Other organizations may not themselves carry out missions of the federal government but, instead, are owned or controlled by the federal government as a result of regulatory actions, such as organizations in **receivership**. In some cases, the relationship with the federal government is not expected to be permanent. To avoid obscuring information about these more autonomous organizations while still providing accountability, such organizations are to be disclosed rather than consolidated in GPFFRs. Hereafter; these organizations are referred to as “disclosure organizations.”
- 47. Disclosure organizations may maintain a separate legal identity, have a governance structure that vests most decision-making authorities in a governing body to insulate the organization from political influence, and/or have relative financial independence.
- 48. Disclosure organizations receive limited or no funding from general tax revenues. The Congress and/or the President have less direct involvement in decision-making (governance) than in consolidation entities. Limited risks and rewards fall to the federal government. Disclosure organizations may provide the same or similar goods and services that consolidation entities do, but are more likely to provide them on a market basis.¹³

¹³ Goods and services are provided on a market basis when prices are based on the prices charged in a competitive marketplace between willing buyers and sellers.

49. Disclosure organizations may include but are not limited to: quasi-governmental and/or financially independent organizations, organizations in receiverships and **conservatorships**, and organizations owned or controlled through federal government intervention actions. As noted above, in some cases, the relationship with the federal government is not expected to be permanent. The following disclosure organization types are presented to assist in identifying organizations that are disclosure organizations. The accompanying Appendix C—Illustrations offers non-authoritative hypothetical examples that may be useful in understanding the application of the standards.

An additional sentence should also be added to paragraph A31 in the basis for conclusions that discusses the differences between consolidation entities and disclosure organizations:

Reporting on Organizations—Consolidation or Disclosure

A30. Differences in purposes and governance structures by organizations may require different presentation of related financial information. This Statement provides that the reporting entity should first determine which organizations are to be included in the reports. Next the reporting entity should classify each included organization as a consolidation entity or a disclosure organization. Consolidation entities are subject to the hierarchy of GAAP established for “federal entities” in Statement of Federal Financial Accounting Standards (SFFAS) 34. While disclosure organizations are not subject to the hierarchy of GAAP established for federal entities, information about such organizations is needed for accountability purposes.

A31. Different means of presenting relevant information are provided for consolidation entities and disclosure organizations.¹⁴ The distinction between consolidation entities and disclosure organizations is based on the degree to which the following characteristics are met: the organization is financed by taxes and other non-exchange revenue, is governed by the Congress and/or the President, imposes or may impose risks and rewards to the federal government, ~~and/or~~ provides goods and services on a non-market basis, and/or connected through a relationship with the federal government that is expected to be permanent in nature. Maintaining a distinction between consolidation entities where financial and operational decisions are more directly governed by the Congress and/or the President, and disclosure organizations that are more financially (or operationally) independent will provide information to users that is more understandable and relevant. In some cases, disclosure of information regarding an individual organization is more useful than consolidation of the individual organization’s financial statements in the government-wide financial statements. In other instances, consolidation of individual organizations’ financial statements is needed to provide fair presentation of activities financed by the taxpayers, and/or relying on the taxpayers to settle liabilities.

¹⁴ Consolidated financial statements provided for “consolidation entities” will include all disclosures and required supplementary information required by existing standards. Existing standards will ensure that adequate information is provided regarding the nature and organizational structure of consolidation entities as well as the activities and future exposures.

5. Does the Board generally agree with staff's proposed language to address concerns raised regarding temporary in the proposed standard?

6. FASB Based Information

Issue- Statement proposes FASB based information to be consolidated without conversion

Recap of Responses to Question 5

11 respondents answering the question disagreed that consolidation of FASB based information without conversion for consolidation entities is appropriate (#1PBGC, #6DOC, #10Treasury OIG, #16FRS, #19 CCC, #21HUD OIG, #23SEC, #26 GSA, #30 Intelligence Community, #33 Treasury FMS, #34 NRC)

Issues

- **Intra-governmental Disclosure Requirement - Respondents Believe Current Practice Should Remain**

Several respondents (including some of those that agreed with the overall requirement that FASB based information should be consolidated without conversion) believed the requirement for disclosure of intra-governmental amounts in conformity with FASAB standards is an “unnecessary condition.” The respondents recommended the continuation of the current practice to provide intra-governmental FASB to FASAB conversion information with the GFRS closing package.

- **Budgetary Reporting for FASB entities**

Several respondents that agreed with the requirement (#13 NASA CFO, #36 Treasury CFO) noted concern regarding potential issues that may arise with regards to budgetary accounting.

Several respondents (#33 Treasury FMS, #23 SEC CFO) and public hearing participants that disagreed with the proposal cited that budgetary accounting principles do not apply to FASB and USSGL proprietary / budgetary tie points won't reconcile. They noted component entity's required reconciliation of budgetary and proprietary data would likely be forced out of balance. They also believed it would cause other technical problems for component level reporting to Treasury. KPMG also noted the budgetary issues should be addressed.

- **Concern with using a different Accounting basis**

Several respondents stated consolidating financial information using different bases would provide misleading financial information to users, even with disclosures [#15 NRC OIG, #26 GSA CFO, #30 Intelligence Community, #34 NRC CFO, #39 CCC, #41 HUD OIG] Other comments (#6 DOC) included difficulty making comparison to prior years

GPFFR and that SFFAS 34 dictates using FASAB to prepare the GPFFR and recommends addressing this idea separately due to its significance. Another respondent (#10 Treasury OIG) disagreed because it could result in a material misstatement and a qualified audit opinion on the consolidated entity's financial statements, and in the worst case, an adverse audit opinion, if the resulting misstatement is pervasive to the consolidated financial statements. It was also conveyed (by # 9 KPMG) that paragraph 65 is silent as to how to consolidate GASB¹⁵ entities.

Staff analysis

Intra-governmental Requirement

After reviewing the project history, staff notes the intra-governmental requirement (last part of par. 66) was added in June 2012. The ED provided to members at the June meeting referenced the April 2012 meeting minutes for the addition which is included below:

Excerpt from the April 2012 Minutes

Use of Principles Issued by the Financial Accounting Standards Board

Mr. Dacey noted that the last sentence of paragraph 63 reads "Consolidated reporting entities (i.e. the consolidated government-wide entity or a consolidated component reporting entity) should consolidate component reporting entity or sub-component financial statements for core entities prepared in accordance with SFFAS 34 without conversion for any differences in accounting policies among the entities." He expressed concern that differences in GAAP may result in material intragovernmental differences that will need to be adjusted. He provided the example of the U.S. Postal Service (USPS) expensing their pension cost as they make payments to their multiemployer pension plan rather than recording total accrued pension cost with an associated liability as the pensions are earned. He asked whether the requirement to provide the necessary information for material intragovernmental adjustments should be specifically addressed in the standards or just administratively required by Treasury as they prepare the consolidated governmentwide financial statements.

After a brief discussion by members, Mr. Allen directed staff to develop the wording and placement of a requirement that entities provide that information and come back to the board with a recommendation.

Based on a review of the comment letters, testimony received at the public hearing it appears there is a preference for continuation of the current practice. Current practice is conveyed in Treasury Financial Manual I TFM 2-4700, Agency Reporting

¹⁵ Staff is aware of one "potential entity" for inclusion (whether deemed a consolidation entity or disclosure organization is TBD)--Legal Services Corporation that uses GASB basis. Staff inquired about the possibility of others but no others have been brought up with the exception of DC if certain control factors were deemed to exist.

Requirement for the Financial Report of the United States Government, Section 4705.25 —Special Basis of Accounting.

4705.25—Special Basis of Accounting

Verifying agencies under SFFAS No. 34, The Hierarchy of Generally Accepted Accounting Principles, that use accounting standards other than FASAB standards (for example, Financial Accounting Standards Board), as the basis for their audited financial statement data, or that do not have a fiscal yearend of September 30, are collectively referred to as converting agencies in GFRS. Converting agencies must perform an additional step in GFRS before reclassifying their financial statement line items to the Closing Package line items. They must convert their latest set of audited financial statements to a 12-month set of financial statements using the FASAB standards and a September 30 ending date. Converting agencies reclassify the converted data to the Closing Package line items instead of the data from their latest audited financial statements. They must subject all of the above-mentioned adjustments to their Closing Packages to the audit coverage described in subsection 4705.45.

Verifying agencies that may need to perform this additional step, as described above, are:

(1) Verifying agencies with comparative, audited financial statements not based on FASAB standards:

- Federal Deposit Insurance Corporation;
- National Credit Union Administration;
- Pension Benefit Guaranty Corporation;
- Smithsonian Institution;
- Tennessee Valley Authority;
- U.S. Postal Service;

AND

- Farm Credit System Insurance Corporation.

(2) Verifying agencies with a yearend other than September 30:

- Farm Credit System Insurance Corporation;
- Federal Deposit Insurance Corporation;

AND

- National Credit Union Administration.

For the verifying agencies with a yearend other than September 30, a crosswalk with a 12-month set of fiscal year financial statements should be provided to the Fiscal Service, as support to the Closing Package submission. In addition, these agencies must provide an updated 12-month set of the FY financial statements crosswalk after the audit is completed to show changes, if any, that may impact financial reporting at the Governmentwide level. Agencies must highlight any variances in the subsequent crosswalk and must provide reasons for the variances.

4705.45—Audit Requirements for the Closing Package

For verifying agencies, an audit opinion is required for the Closing Package financial statements, for the current FY and the prior FY, based on agency-entered data in GFRS. This includes the intragovernmental activity and balances contained in the Closing Package's GFRS Module GF004, Federal Trading Partner Note. The IG provides the audit opinion and its text of the audit opinion, regardless of whether the IG or an independent public accountant

(IPA) conducted the audit. For guidance, refer to OMB Bulletin No. 07-04, as amended and as it relates to the Closing Package financial statements. Verifying agencies with a yearend other than September 30 are subject to all requirements of this TFM chapter. However, they are limited to audit assurance on material line items and note disclosures to which the verifying agencies contribute. For additional guidance, refer to the audit of the Closing Package financial statements section of OMB Bulletin No. 07-04, as amended.

The intragovernmental activity and balances contained in the Closing Package's GFRS Module GF004, Federal Trading Partner Note, are included within the scope of the opinion on the Closing Package financial statements. Verifying agencies should review thoroughly information provided as Other FR Data in the Closing Package, which is not subject to audit coverage, to assure consistency with the applicable data.

Each applicable verifying agency must provide the following documents to the IG/IPA to perform the audit on the Closing Package. All of the following documents are a part of the IG/IPA audit scope except the GF007 Other FR Data Report, which must be thoroughly reviewed:

- Reclassified financial statements – GF003F Closing Package Financial Statement Report (including FR Note 23 for the Statement of Social Insurance and FR Note 30 for the Statement of Changes in Social

Insurance Amounts, if applicable);

- GF004F Trading Partner Summary Note Report;
- GF003G Closing Package Line Reclassification Summary Report;
- GF006 FR Notes Report;
- GF007 Other FR Data Report;

AND

- Management representation letter on the Closing Package, which includes the Summary of Uncorrected Misstatements (SUM), and uncorrected misstatements identified in the agency's audited financial statement SUM, which is attached to the agency's financial statement management representation letter (see subsection 4705.50 for instructions for entities with a yearend other than September 30).

Each IG must package a copy of the aforementioned documents in addition to the Closing Package auditors' report and must email them in Portable Document Format (PDF) to GAO, the Fiscal Service, and OMB (see Figure 3 for due dates).

Based on previous meetings, staff believes it was the Board's position that none of the federal entities applying FASB be required to convert to FASAB standards for their standalone general purpose financial reports. Further, staff believes the Board was comfortable with including two sources of GAAP in the CFR. FASAB staff believes information about intra-governmental FASB to FASAB amounts to facilitate elimination entries is procedural in nature and related to reconciliations for Treasury. This type of information should be provided in the GFRS closing package and any necessary guidance should continue to be provided by Treasury in the TFM. Staff also notes there wasn't testimony or responses that indicated the current process with the audited closing package was not providing the necessary information. Therefore, staff believes the proposed wording the ED should be revised by:

- Dropping the requirement for the intra governmental note disclosure. Any required changes to that process should be instituted by Treasury with revisions to the TFM or further guidance in that manner.

Budgetary Reporting for FASB entities

The budgetary reporting issue as it relates to FASB entities is a complex issue when one considers budget reporting is a control mechanism that some FASB preparers may not be subject to or operating under. FASAB staff believes this is a procedural issue related to reconciliations for Treasury, and tie points within agency systems. Similar to how the first issue was considered, this type of information should be provided in the GFRS closing package and any necessary tie-point guidance should be provided by Treasury in the TFM or by other central agency guidance. It isn't something that should be addressed in an accounting standard.

Further, staff has inquired regarding the availability of budgetary information regarding FASB entities. We are trying to determine if all such entities submit budgetary reports to OMB. If not, we would consider whether requiring this information for an entity not subject to budgetary reporting requirements would be appropriate considering that information would imply that the FASB entity was fully subject to the budgetary control process when it is not.

Staff believes options for reconciliation or tie-point issues can be addressed through Treasury's TFM or other central agency guidance by requiring the necessary information—such as:

- requiring submission of SF-133 data by those FASB entities subject to OMB reporting requirements and
- establishing accounts or attributes to segregate FASB entity amounts from the accounts used in the tie point process.

While our research is not complete, we do not recommend a change to the proposed language for the reasons cited above. Instead, we would encourage the Treasury TFM be updated to include the information necessary to support revised tie-points. Staff also believes additional language could be added to the basis for conclusion to acknowledge the Board considered the respondents' concerns in this matter.

ALTERNATIVE

Staff notes the issue of providing guidance for elimination entries and other government-wide consolidation issues was contemplated when FASAB had the active project- Reporting by Federal Entities that Primarily Apply Standards Issued by the Financial Accounting Standards Board (or Appropriate Source of GAAP). In fact two important objectives of the revised project plan presented to the Board in October 2009 were:

- c). Establish requirements necessary to ensure that the stand alone federal financial reports prepared pursuant to FASB standards meet federal financial reporting objectives
- d). Provide guidance to address the case of a federal entity consolidating information from an entity (or entities) applying FASB standards with its own FASAB based information [Note that this does not extend to providing guidance for eliminations. If needed, this can be addressed through implementation guidance or informal assistance.]

Staff believes an alternative would be to assess the current FASB reporting of the identified entities against FASAB's reporting objectives to identify the voids. This would require further review and study as presented in the plan in the project referenced above. This would include determining if additional reporting should be required of the entities that apply FASB GAAP coupled with reviewing that against FASAB reporting objectives and user needs. FASAB staff would like to point out that the Board determined the project should be dropped in 2011 but agreed it could be reopened later.

Staff also notes the most recent 3 year plan included a potential project for "*Reconciling Budget and Accrual Information*" and while this future project would not be specific for FASB entities, it would require information to explain the differences between budgetary and financial accounting information. Staff believes this project could be expanded to include more specific guidance regarding the FASB entities.

Staff cautions that the issues regarding this area may delay the issuance of the reporting entity ED if the scope is widened to include the objectives related to a separate project that were dropped or put to a lower priority. Instead, staff believes additional guidance should be provided by Treasury and or other central agencies or if the Board believes significant issues remain, a separate project be started in this area.

Concern with using a different Accounting basis

The Board has considered this issue on several occasions—not only in this project but also in the SFFAS 34 project and Application of FASB GAAP project. Based on previous meetings and Board deliberations in this project, the Board determined that FASB based statements are acceptable in certain circumstances and amounts in compliance with SFFAS 34 may be consolidated without conversion or adjustment.

Therefore, staff does not recommend a change to the proposed language. The Board considered this issue on numerous occasions, met with auditors on this issue for additional feedback on the concerns. Most of the reasons for allowing consolidation without adjustment are addressed in the basis for conclusion, but staff believes additional language could be added to the basis for conclusions to acknowledge the Board considered the respondents' concerns in this matter.

Proposed Language (with changes MARKED):

66. SFFAS 34 recognizes that a limited number of federal reporting entities prepare and publish financial reports pursuant to the accounting and reporting standards issued by the Financial Accounting Standards Board (FASB). SFFAS 34 provides that GPFFRs prepared in conformity with accounting standards issued by the FASB also may be regarded as in conformity with GAAP. Consolidation entities (i.e. the consolidated government-wide reporting entity or a consolidated component reporting entity) should consolidate component reporting entity or sub-component financial statements for

consolidation entities prepared in accordance with SFFAS 34 without conversion for any differences in accounting policies among the organizations. ~~Nonetheless, any component reporting entity that publishes financial reports pursuant to the accounting and reporting standards issued by the FASB should disclose intragovernmental amounts measured in accordance with federal financial accounting standards to facilitate elimination entries in preparation of the government-wide financial statements.~~

Basis for Conclusions:

Consolidation of FASB-based and FASAB-based Information

A32. ~~While FASAB is the preferred method of reporting for federal entities,~~ the Board has considered the potential ramifications when some federal entities follow GAAP for nongovernmental entities promulgated by the private sector Financial Accounting Standards Board (FASB GAAP) and their information is consolidated with information based on FASAB standards. For example, federal government corporations, the U.S. Postal Service, certain component reporting entities of the U.S. Department of the Treasury, and some other organizations in the executive and legislative branches have historically applied FASB GAAP and continue to do so. SFFAS 34 recognizes that “general purpose financial reports prepared in conformity with accounting standards issued by the FASB also may be regarded as in conformity with GAAP for those entities that have in the past issued such reports.” SFFAS 34 also provides that a federal reporting entity preparing audited financial statements for the first time may adopt FASB standards in the rare case that the needs of its primary users would be best met through the application of FASB standards. The acceptance of these practices raises the question of whether the information prepared under FASB standards may be consolidated with information prepared under FASAB standards in consolidated reports prepared by other component reporting entities and in the consolidated government-wide reporting entity.

A33. The Board has considered such issues on several occasions and provided concepts as follows:

The reporting entities of which the components [preparing reports under FASB or regulatory accounting standards] are a part can issue consolidated, consolidating, or combining statements that include the components’ financial information prepared in accordance with the other accounting standards. They need to be sensitive, however, to differences resulting from applying different accounting standards that could be material to the users of the reporting entity’s financial statements. If these differences are material, the standards recommended by FASAB and issued by OMB and GAO should be applied. The components would need to provide any additional disclosures recommended by FASAB and included in the OMB issued standards that would not be required by the other standards.¹⁶ (SFFAC 2, *Entity and Display*, par. 78 (excerpt from section on “Financial Reporting For An Organizational Entity”))

¹⁶ In October 1999, FASAB was recognized as the Rule 203 standards-setting body for the federal government. As such, FASAB now issues the standards, rather than issuing recommendations to OMB and GAO for issuance of the standards.

A34. The Board determined in SFFAS 34 that FASB-based statements are acceptable in certain circumstances. While there ~~are~~may be significant differences between FASB and FASAB standards, both standards result in accrual-basis information and disclosures that aid users in understanding the information. Converting FASB-based information to FASAB-based information for consolidated financial reports of larger organizations may not be justifiable since conversion may not aid users.

A35. Users may be confused by the presentation of different amounts for a component in its own financial report and in the consolidated financial reports of larger organizations; particularly when both amounts would be in accordance with GAAP for federal entities per SFFAS 34. In addition, conversion imposes a cost and it is not clear that the cost is justifiable based on benefits to the user. Therefore, this Statement ~~proposes~~establishes that amounts derived for component reporting entities in compliance with SFFAS 34 be consolidated without adjustment.

A36. However, if this leads to consolidation in a single line item of amounts measured differently due to differences between FASB and FASAB principles, then one would anticipate disclosures of the different accounting policies and the related amounts to aid the reader in understanding the information provided. The Board considered adopting requirements for such disclosures but believes that existing requirements and long-standing professional practices are sufficient.

~~A36-A37.~~ The Board initially proposed that activities measured in accordance with FASAB standards and amounts related to intragovernmental were required to be disclosed in the notes of component reporting entities to facilitate eliminations at the government-wide reporting level. However, after further consideration of the comments, the board determined this information may not be relevant for the component reporting entity GPFFRs and was more appropriately obtained in the Treasury closing package. Likewise, the budgetary reporting issues that were brought up by respondents appeared to be a reconciliation system issue that should be addressed in the Treasury Financial Manual instead of an accounting standard.

6a. Does the Board generally agree with staff's recommendation to drop the intra governmental note disclosure?

6b. Does the Board generally agree with staff's proposed changes to the basis for conclusions to address concerns raised regarding the FASB conversion in the proposed standard?

7. Central Bank Questions

There have been lengthy Board deliberations about the central bank (Federal Reserve System-FRS) including whether the proposed inclusion principles and attributes for determining consolidation entities and disclosure organizations could be applied to the FRS. In addition, the Board spent considerable time discussing what should be included in the basis for conclusion language that relates to this topic including reviewing specific language during meetings to most accurately explain the Board's position in the basis. We had the opportunity to have representatives from the Federal Reserve brief the task force and the Board on several occasions.

The Federal Reserve also submitted a comment letter, see Appendix 2. Their letter did not answer the questions in the exposure draft specifically, but it did provide points for the Board's consideration. They conveyed that they believed:

- The Federal Reserve System provides a variety of transparent financial reports to the public that exceeds the reporting requirements of the proposed standard.
- Classifying the Reserve Banks and the Board as disclosure organizations provides the most transparent information to the public.
- Consolidation of the Federal Reserve System would reduce transparency and would increase the cost and administrative effort associated with producing the GPFFR.
- The provisions related to minimum disclosures for the central banking system are unnecessary. [They are inconsistent with the objective of principles-based standards and the appropriate level of disclosure would result from applying the inclusion principles and requirements applicable to all other organizations.]
- The authority over the financial accounting and reporting practices of the Board and the Reserve Banks is vested with the Board of Governors.
- They disagree with the proposal to include forward-looking financial information in the audited financial statements for the Federal Reserve System.
- The characterization of the Bureau of Consumer Financial Protection (CFPB) in the proposal is incorrect, and should be revised.

As one may expect, there are still some questions that remain surrounding this material and unique entity. At least one board member questions if the criteria are clear to enable to preparer and auditor to come to a final disposition for the central bank. In addition, there were some comments regarding the minimum disclosures proposed for the central bank. Therefore, staff will request members' input on these areas:

Can the principles be applied to the central bank?

Respondents were asked whether the inclusion principles could "be applied to all organizations, such as the Federal Reserve System, Federally Funded Research and Development Centers, Government Sponsored Enterprises, museums, and others, to determine whether such organizations should be included in the government-wide GPFFR." Eighteen indicated the principles could be applied and three – the Securities

and Exchange Administration (SEC), General Services Administration (GSA), and the Nuclear Regulatory Commission - indicated they could not (18 did not answer the specific question).

Respondents were also asked whether, assuming the organizations are determined to be organizations included in the GPFFRs, “the attributes are adequate to make a determination of whether organizations such as the Federal Reserve System, Federally Funded Research and Development Centers, museums, and others are consolidation entities or disclosure organizations.” Fifteen indicated the attributes were adequate and three did not – the Department of Homeland Security, SEC, and NRC CFO (21 did not answer the specific question).

Members are asked to consider the responses – including narrative responses from individuals who did not answer each question – and raise any concerns at the meeting.

None of the answers to the questions in the ED lead staff to believe the inclusion principles or attributes for consolidation / disclosure could not be applied to the central bank.

As noted above, there have been lengthy Board deliberations about the FRS. The Board discussed how the proposed inclusion principles and attributes for determining consolidation entities and disclosure organizations would be applied. Further, much time was spent on crafting language in the basis for conclusion that discusses the role of preparers and auditors and standard setters, as well as what the Board considered while deliberating the central bank and the decision not to specifically classify the FRS. Staff recalls the language was vetted over several meetings. Staff has included pertinent Board Meeting excerpts at Appendix 1.

Staff is not providing a recommendation. We would like to hear member views regarding the following questions related to the central bank:

7a. Members are asked to consider the responses – including narrative responses from individuals who did not answer each question – and raise any concerns at the meeting regarding whether the criteria and principles can be applied to the central bank.

Minimum Disclosures

The Board proposed minimum disclosures for the central bank that would be integrated with any other relevant disclosures regarding the central bank.

Respondents were asked whether they agreed or disagreed with the minimum disclosures for the central bank and whether there were additional disclosures that should be considered. 15 respondents agreed with the minimum disclosures proposed for the central banking system (22 respondents did not answer the specific question).

Two respondents disagreed: #30 Intelligence Community stated the disclosures should report complete disclosures of FRS activities and additional ones may be necessary. #34 NRC CFO disagreed because they believed the FRS was independent. As noted above, the FRS response also included an objection to the minimum disclosures.

Specific comments about the proposed minimum disclosures (from all respondents, including those that may have agreed or not answered the question specifically) included the following:

Several respondents noted there may be a need for additional disclosures. For example, #6 DOC CFO agreed with the minimum disclosures for the central banking system but noted additional disclosures may be necessary due to the unique nature of reporting requirements for the central banking system. The Intelligence community conveyed the Board should also consider developing a single statement devoted to the central banking system and believed there should be additional disclosures than what was proposed in the ED. For example, it was suggested the minimum disclosures be expanded to provide: an assessment of meeting objectives; paragraph 77 item c include actions such as open market operations, reserve requirements, adjustments to the fed funds rate, specific financial services provided to the federal government, and investments in specific financial instruments used by the Federal Reserve System (e.g. swaps, asset backed securities, collateralized debt and mortgage obligations, interest rate derivatives, commodities, real assets, etc.) in which significant positions are taken; Paragraph 77, item d should also include significant transactions and balances within the fiscal period that would impact the decision making of stakeholders and GPFFR users; and transactions and relationships with foreign governments and financial institutions as well as significant holdings (currencies, debt, treasury securities, ownership interests, etc.) that could be materially useful to a user of the GPFFR. Further, #28 Dillard explained the Central Banking system is too critical a factor in government, not to include it in consolidation. Since the system is regional, all regions of the FRS should be disclosed.

#19 Commodity Credit Corporation agreed but offered the disclosures should be from the reporting entities viewpoint and outline the business relationship and interactions with the central bank.

Two respondents (#9 KPMG and #36 Treasury CFO) explained that when applying the inclusion principles to the central banking system, that a reporting entity could conclude that the central banking system would not be a consolidated entity or disclosure organization. KPMG suggested that paragraph 77 should be deleted as the minimum

disclosure requirements as the disclosure organization objectives provide the necessary requirements for all disclosure organizations. #36 Treasury CFO recommend removing the phrase “and changes in those actions” in paragraph 77(c). Treasury’s agency financial report disclosures currently provide a general description of the FRB’s monetary policy and how this policy is executed. They disagree with disclosing specific details about how monetary policy is executed or even changes in these actions or tools used to affect monetary policy because this discussion would be complex and is subject to significant change each year. Furthermore, they believe audit assurance of this information could be difficult and costly to obtain and a reference to the availability of the FRB’s annual report, as required by paragraph 77(f), would provide a reader with more in-depth information on this subject rather than in Treasury’s agency financial report.

As noted above, #34 NRC CFO disagreed because they believed the FRS was independent, but they also suggested if disclosure was required—it should be limited to items in paragraph 77a, e and f. They believed information contained in 77b, c, and d would be in the FRS reports.

While #31 AGA FMSB agreed with the minimum disclosures for the central banking system and explained the importance of the central banking system warrants minimum disclosures, they questioned FASAB’s decision to not provide a definitive determination as to whether the FRS should or should not be considered within the federal entity and at what level.

As noted above, the majority of respondents agreed with the minimum disclosures. While additional comments were provided, there was a mixture of comments. Some respondents suggested additional disclosure or consolidation; and some respondents suggested the other end of the spectrum. While staff is not drawing any specific conclusion, it should be noted those organizations most familiar with current reporting within component level reports and directly affected by the proposal (Treasury and its current auditor) were the organizations offering suggestions to reduce disclosures.

Staff would also like to note that in Board discussion after the meeting; at least one member suggested that paragraph 77 should be clarified (or reconsidered) regarding its applicability at the government-wide versus component-level.

Staff notes revisions to paragraph 77 were made in February 2013 to include somewhat broader component entity language. They are best explained from the short excerpt from the minutes, see full excerpt of minutes at Appendix 1:

“Ms. Loughan also pointed out there was a small change presented in this morning’s version based on a member suggestion. Staff noted “may be primarily associated or” was added before “administratively assigned” to address the concern that the Central Bank may not be officially assigned. Further, “may” was added because staff was under the impression the Board did not wish to express that the central bank was definitely included and only things that would be included would be “administratively assigned” as the ED is currently structured. Staff noted that they did not want to give the impression that staff doubt that the Central Banking System would be included, but rather is trying to toe the line of principle-based and not imply that something is firmly

included. The additional edit to add "primarily associated with" would cover the case where it is not an included entity."

As noted above, there have been lengthy Board deliberations about the FRS, including the minimum disclosures. In fact, as the Board may recall an Alternative view was presented in December 2012 which prompted the Board to consider revisiting the need for minimum disclosures for the central bank (as it had been proposed in an earlier draft ED, but removed.) Therefore, the Board directed staff to draft minimum disclosures and the Board continued finalizing the specific language at the February 2013 meeting. See Appendix 1 February 2013 minutes for board deliberations on the minimum disclosures. For example, the Board came to an agreement on the specific wording for paragraph 77c after considerable time during the meeting (which is one of the concerns of Treasury) and the minutes indicate:

"Chairman Allen asked if there was proposed wording that needed to be considered or voted on.

Mr. Granof explained his alternative wording was "including dollar amounts when appropriate" but it was suggested to change it to "including an indication of the magnitude as appropriate."

Ms. Payne directed the members to the wording on the screen which was another option.

After briefly discussing the wording, the Board unanimously agreed to the following language to paragraph 76c. "A discussion of significant financial actions, and changes in those actions, undertaken by...." There were no other comments on the minimum disclosures for the Federal Reserve, so the Board moved on to the second topic in the staff memo."

Staff has included pertinent Board Meeting excerpts related to the Central Bank Issue at Appendix 1.

Staff is not providing a recommendation. We would like to hear member views regarding the following questions related to the central bank:

7b. Members are asked to consider the following questions related to the central bank minimum disclosures and raise concerns at the meeting:

- **Are the minimum disclosures necessary?**
- **Are the minimum disclosures necessary in both the government-wide and the component reporting entity GPFFR?**
- **Are there any adjustments needed regarding the wording of the disclosure requirements?**

Relevant Text from the ED:

*Minimum Disclosures Regarding the Central Banking System*¹⁷

77. The following information regarding the central banking system should be disclosed¹⁸ in the government-wide GPFFR and the GPFFR of any reporting entity to which it may be primarily associated or administratively assigned:
- a. Governance structure with particular emphasis on matters affecting its independence and insulation from political influence
 - b. Significant roles and responsibilities (and how these relate to federal policy objectives)
 - c. A discussion of the significant financial actions, and changes in those actions, undertaken by the central banking system to achieve monetary and fiscal policy objectives, such as adjusting the discount rate, purchasing securities (for example, Treasury securities and mortgage backed securities), or undertaking central bank liquidity swaps
 - d. Amounts of significant types of transactions and balances between the central banking system and the reporting entity
 - e. A description of any significant financial risks or benefits to the federal government (including significant changes) and, if possible, the amount of the federal government's exposure to gains and losses from operations
 - f. The availability of annual financial reports and how they can be obtained

Basis for Conclusions

A33. While principle-based standards do not explicitly classify specific organizations as consolidation entities or disclosure organizations, the Board considered the need to illustrate how the inclusion principles and the criteria for classification as a consolidation entity or disclosure organization might be applied to certain significant individual organizations or classes of organizations. For many classes of organizations, illustrations are provided in Appendix C of this exposure draft. With respect to certain significant organizations with particularly unique characteristics, such as the central banking

¹⁷ Central banking system functions are currently carried out by the Federal Reserve System (FRS). The FRS comprises the Board of Governors, the Federal Open Market Committee, the regional Federal Reserve Banks, and the Bureau of Consumer Financial Protection (established in 2010 as an independent bureau within the FRS pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act).

¹⁸ Depending on the circumstances, some of the listed information may be disclosed due to other requirements. The resulting disclosures should be integrated so that concise, meaningful and transparent information is provided and information is not repetitive.

system (Federal Reserve System (FRS)),¹⁹ a majority of the Board did not believe illustrations would be appropriate because the illustrations might become de facto requirements regarding that entity's classification.

A34. The role of preparers and auditors is to assess each organization against the principles in paragraphs 20 – 53 and reach their own conclusions. In contrast, the role of standards-setters is to set accounting standards and consider the potential implications. In doing so, the Board acknowledges some members believe the Board should explicitly address inclusion and classification (as a consolidation entity or disclosure organization) of the FRS in GPFFRs because of the magnitude of its operations. While different individuals could reach different conclusions due to the unique and changing role of the central banking system, most members believe explicitly classifying the FRS, or any entity, at a point in time would be inappropriate and result in the Statement becoming outdated as circumstances change.

A35. Despite the decision not to explicitly classify the FRS, the Board considered each possible classification of the FRS. This consideration did not take into account all the facts and circumstances that would be considered by the preparer and auditor. Instead, like the illustrations in Appendix C, high-level facts were considered in sufficient detail to provide reasonable assurance to the Board that preparers and auditors would consider the appropriate matters in making decisions. The majority of the Board believes the principles are sufficient to aid preparers and auditors in assessing any organization, including the FRS, and in making decisions regarding inclusion and classification as a consolidation entity or disclosure organization.

A36. If the assessment of the FRS resulted in its classification as a consolidation entity, the government-wide consolidated financial statements and related notes would present information as if the FRS and other consolidation entities operate together as a single economic entity. Any balances and transactions among the consolidation entities would be eliminated. For example, all Treasury securities held as investments by the FRS and reported as liabilities by the Department of the Treasury would be eliminated. Significant additions to the government-wide balance sheet as a result of consolidating the FRS would be liabilities for deposits of depository institutions and Federal Reserve notes outstanding as well as assets for investments in non-federal organizations. Consolidation would also affect the reported operating results of the government; interest expense would be reduced by the amount paid by the U.S. Treasury to the FRS and revenue would be reduced by the amount paid by the FRS to the U.S. Treasury.

A37. If the assessment of the FRS resulted in its classification as a disclosure organization, disclosures regarding the FRS would aid users in understanding the FRS, its relationship with the federal government, any significant activities, and any risks posed to the federal government. Such disclosures would allow the reader to consider monetary policy and fiscal policy as distinct activities. The government-wide consolidated financial statements would present the results of fiscal policy. Consolidation of fiscal and monetary policy financial information, as described above, would result

¹⁹ The FRS comprises the Board of Governors, the Federal Open Market Committee, the regional Federal Reserve Banks, and the Bureau of Consumer Financial Protection (established in 2010 as an independent bureau within the FRS pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act). For simplicity, the basis for conclusions discusses the system as a whole rather than its individual components.

in elimination of some Treasury securities. Thus, the use of Treasury securities to conduct monetary policy and their elimination upon consolidation could obscure the Treasury securities (debt) that result from the fiscal policies of the federal government. Further, liabilities for Federal Reserve notes outstanding and deposits by depository institutions differ in character from liabilities arising from fiscal policy. In contrast, disclosures may provide an understanding of the relationship between monetary and fiscal policy and support consideration of these distinct activities.

A38. The Board recognizes the FRS performs a unique federal function—central banking—and there is only one organization of this type. The FRS is unique not only in its mission, but also in its governance, structure, activities and the need to maintain independence in practices. Its responsibilities are broad reaching because of the impact of monetary policy on the country (government, businesses, and citizens) thereby leading to great interest in its activities. The magnitude of its role and transactions led the Board to require certain minimum disclosures about the FRS. The minimum disclosures recognize that there is special interest in the activity of the central banking system. The minimum disclosures are in addition to any other reporting requirements in the government-wide financial report and any reporting entity to which it may have been administratively assigned. The minimum disclosures focus on governance, significant roles and responsibilities, actions to achieve monetary and fiscal policy objectives, transactions with the reporting entity, risks to the federal government and future exposures to gains and losses. The disclosures should be integrated, and depending on the circumstances, also may be required by other provisions in this Statement or other GAAP requirements.

Also under ***Amendments to SFFAC 2, Entity and Display***

A88. Paragraphs 47-50 of SFFAC 2 identify certain organizations or types of organizations (the Federal Reserve System, Government Sponsored Enterprises, and Bailout Entities) that could be included in the government-wide reporting entity based on the SFFAC 2 concepts but that should not be included. This Statement establishes principles to ensure users of GPFFRs are provided comprehensive financial information while recognizing the complexity of the federal government and its relationships with varied organizations. The principles can be applied to the organizations previously excluded and conclusions reached to include the organizations—either as consolidation entities or disclosure organizations—or to continue to exclude the organizations. SFFAC 2 is being amended to ensure that concepts provide a framework for standards-setting but do not themselves establish standards by listing specific exclusions.

QUESTIONS FOR THE BOARD

Wednesday, December 18th Questions for Discussion

1. A. Does the Board generally agree with staff's proposed language to modify the "In the Budget" inclusion principle to address concerns with the proposed standard?

B. Alternatively, does the Board prefer staff's (minimal) proposed language changes to include "In the Budget" with the control inclusion principle?
2. Does the Board generally agree with staff's proposed language to modify the basis for conclusions to address concerns raised with the "Misleading to Exclude" principle in the proposed standard?
3. Does the Board generally agree with staff's proposed language to address concerns raised regarding the application to the judicial and legislative branches?
4. Does the Board agree with staff's recommendation to change the term "disclosure organization" to "non-consolidation entity" in the proposed standard?

Thursday, December 19th Questions for Discussion

5. Does the Board generally agree with staff's proposed language to address concerns raised regarding temporary in the proposed standard?
6. A. Does the Board generally agree with staff's recommendation to drop the intra governmental note disclosure?

B. Does the Board generally agree with staff's proposed changes to the basis for conclusions to address concerns raised regarding the FASB conversion in the proposed standard?
7. A. Members are asked to consider the responses – including narrative responses from individuals who did not answer each question – and raise any concerns at the meeting regarding whether the criteria and principles can be applied to the central bank.

B. Members are asked to consider the following questions related to the central bank minimum disclosures and raise concerns at the meeting:
 - Are the minimum disclosures necessary?
 - Are the minimum disclosures necessary in both the government-wide and the component reporting entity GPFFR?
 - Are there any adjustments needed regarding the wording of the disclosure requirements?

TAB A- Attachment 1- Analysis of Outlier Cases “in the Budget”

	Listed in the Budget and Related Information	Staff Conclusion
1	<p><i>Legislative Branch:</i></p> <p>Legislative Branch Boards and Commissions - <u>Payment to Open World Leadership Center Trust Fund</u></p> <p>http://www.openworld.gov/about-us/about-us</p> <p>Applies FASAB standards in its annual report.</p>	After review, determined the organization for which the account identified is presently included in governmentwide-GPFFR.
2.	<p>Department of Agriculture: <u>Payments to States and Possessions</u></p> <p>Department of Agriculture: Farm Service Agency- <u>State Mediation Grants</u></p>	<p>The organization for which the account identified is a state, local or territorial government. Identification of another government (or governments) receiving federal assistance should not lead automatically to inclusion in GPFFR. While this reference is generic (that is, no specific state or possession is named), a general clarification regarding references to other levels of government may be helpful. Staff proposed revisions to clarify.</p>
3.	<p>Department of Agriculture: <u>Mail Market Orders Assessments Fund</u></p> <p>The Secretary of Agriculture is authorized by the Agricultural Marketing Agreement Act of 1937, as amended under certain conditions to issue Federal milk marketing orders establishing minimum prices which handlers are required to pay for milk purchased from producers. There are currently 10 Federally sanctioned milk market orders in operation. Market administrators are appointed by the Secretary and are responsible for carrying out the terms of specific marketing orders. Their operating expenses, partly financed by assessments on regulated handlers and partly by deductions from producers, are reported to the Agricultural Marketing Service (Budget Appendix) From page 7 of the Appendix of the Budget “BUDGETS NOT SUBJECT TO REVIEW- In accordance with law or established practice, the presentations...the Milk Market Orders Assessment Fund of</p>	

TAB A- Attachment 1- Analysis of Outlier Cases “in the Budget”

	the Department of Agriculture, and the International Trade Commission have been included, without review, in the amounts submitted by the agencies.”	
4.	<p>Department of Education:</p> <p>Office of Special Education and Rehabilitative Services -</p> <p style="padding-left: 40px;"><u>American Printing House for the Blind</u> (Subject to the Single Audit Act)</p> <p style="padding-left: 40px;"><u>National Technical Institute for the Deaf</u> (Formally established in 1965 through an Act of Congress (PL 89 – 36). Began operation in 1967 at Rochester Institute of Technology, with first students in 1968. RIT was founded in 1829.)</p> <p style="padding-left: 40px;"><u>Gallaudet University</u> (established in 1864 by an Act of Congress. Subject to the Single Audit Act and approximately 75% of funding is from federal sources)</p> <p>Office of Postsecondary Education-</p> <p style="padding-left: 40px;"><u>Howard University</u></p> <p>In November 1866, shortly after the end of the Civil War, members of the First Congregational Society of Washington considered establishing a theological seminary for the education of African-American clergymen. ...The University charter as enacted by Congress and subsequently approved by President Andrew Johnson on March 2, 1867, designated Howard University as “a University for the education of youth in the liberal arts and sciences.” The Freedmen’s Bureau provided most of the early financial support of the University. In 1879, Congress approved a special appropriation for the University. The charter was amended in 1928 to authorize an annual federal appropriation for construction, development, improvement and maintenance of the University. http://www.howard.edu/explore/history.htm</p> <p>27% of 2012 funding came from federal appropriations.</p>	<p>After review, determined the organization for which the account identified had been previously considered when the Board developed the footnote for non-federal organization receiving federal financial assistance. Though it may still be considered with revisions, it isn’t a new organization. Clarification may be helpful – staff believes these entities should not be included solely based on being listed in the budget and that evaluation against the remaining principles would be appropriate.</p>
5.	<p>Department of Education: <u>Institute of Education Sciences</u></p> <p>Funds available to carry out section 208 of the Educational Technical Assistance Act may be used to link Statewide elementary and secondary data systems with early childhood, postsecondary, and</p>	<p>The organization currently is included in departmental reports and the government-wide.</p>

TAB A- Attachment 1- Analysis of Outlier Cases “in the Budget”

	workforce data systems, or to further develop such systems: Provided further, That up to \$25,000,000 of the funds available to carry out section 208 of the Educational Technical Assistance Act may be used for awards to public or private organizations or agencies to support activities to improve data coordination, quality, and use at the local, State, and national levels.	
6.	Department of Homeland Security: <u>Refunds, Transfers, and Expenses of Operation, Puerto Rico</u>	As noted earlier, a general clarification regarding references to other levels of government may be helpful. Staff proposed revisions to clarify.
7.	DHS: <u>Payment to Wool Manufacturers</u> This account makes refunds pursuant to Section 5101 of the Trade Act of 2002. This section entitles U.S. manufacturers of certain wool articles to a limited refund of duties paid on imports of select wool products.	This is a generic reference and should not be considered “listed in the budget.” No clarification is needed.
8.	Department of the Interior: <u>Departmental Offices-National Forests Fund, Payments to States</u> <u>Geothermal Lease Revenues, Payments to Counties</u> <u>Oregon and California Grant Lands</u>	As noted earlier, a general clarification regarding references to other levels of government may be helpful. Staff proposed revisions to clarify.
9.	Department of State <u>Payment to the American Institute in Taiwan</u> Budget: The Department contracts with AIT to conduct commercial, cultural, and other relations with the people of Taiwan. The 2014 request includes additional funding for the American Institute in Taiwan in light of Taiwan's entry into the visa waiver program. The Department of State, through a contract with the Institute, provides a large part of AIT's funding and guidance in its operations. Congress, in passing the Taiwan Relations Act, also assumed an oversight role with respect to the Institute's operations. (http://www.ait.org.tw/en/ait-introduction.html)	Review shows that each of these entities is a separate non-profit corporation. These circumstances were envisioned when the exposure draft wording was developed and staff believes that such organizations should be evaluated against the remaining two principles to determine whether each should be included. Clarifying the wording may be helpful.

TAB A- Attachment 1- Analysis of Outlier Cases “in the Budget”

	<p><u>Payment to the Asia Foundation</u></p> <p>The Asia Foundation is a nonprofit international development organization committed to improving lives across a dynamic and developing Asia. ...Working with public and private partners, the Foundation receives funding from a diverse group of bilateral and multilateral development agencies, foundations, corporations, and individuals.</p> <p>http://asiafoundation.org/about/</p> <p><u>National Endowment for Democracy</u></p> <p>Reports under Single Audit Act</p> <p><i>The National Endowment for Democracy (NED)</i> is a private, nonprofit foundation dedicated to the growth and strengthening of democratic institutions around the world. Each year, with funding from the US Congress, NED supports more than 1,000 projects of non-governmental groups abroad who are working for democratic goals in more than 90 countries.</p> <p>http://www.ned.org/</p> <p><u>East-West Center</u></p> <p>Established by the U.S. Congress in 1960, the Center serves as a resource for information and analysis on critical issues of common concern, bringing people together to exchange views, build expertise, and develop policy options. The Center is an independent, public, nonprofit organization with funding from the U.S. government, and additional support provided by private agencies, individuals, foundations, corporations, and governments in the region.</p> <p>http://www.eastwestcenter.org/about-ewc/mission-and-organization</p> <p><u>International Litigation Fund</u></p> <p>Budget: The International Litigation Fund (ILF) is authorized by section 38(d) of the State Department Basic Authorities Act of 1956 (22 U.S.C. 2710(d)) to pay for expenses incurred by the Department of State relative to preparing or prosecuting a proceeding before an international tribunal or a</p>	
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TAB A- Attachment 1- Analysis of Outlier Cases “in the Budget”

	<p>claim by or against a foreign government or other foreign entity.</p> <p><u>International Center, Washington DC</u></p> <p>Budget: These funds provide for the development, lease, or exchange of property owned by the United States at the International Center located in Washington, D.C. to foreign governments or international organizations. Funds also provide for operation of the Federal facility located at the International Center, for maintenance and security of those public improvements that have not been conveyed to a government or international organization, and for surveys and plans related to development of additional areas within the Nation's Capital for chancery and diplomatic purposes.</p> <p>http://www.theintcenter.org/AboutUs.html</p> <p>Reports under Single Audit Act.</p>	
10.	<p>Department of the Treasury:</p> <p><u>Grants to States for Low-Income Housing Projects in Lieu of Low-Income Housing Credit Allocations</u></p> <p><u>Payment to the Yanktown Sioux Tribe Development Trust Fund</u></p> <p><u>Payment to the Santee Sioux Tribe Development Trust Fund</u></p> <p><u>Payment to the Cheyenne River Sioux Tribal Recovery Trust Fund</u></p> <p>District of Columbia</p> <p><u>Federal Payment to the District of Columbia Judicial Retirement and Survivors Annuity Fund</u></p> <p><u>Federal Payment to the District of Columbia Pension Fund</u></p>	<p>As noted earlier, a general clarification regarding references to other levels of government may be helpful. Staff proposed revisions to clarify.</p>
11.	<p>Department of the Treasury: <u>Payment to the Resolution Funding Corporation</u></p> <p>The Financing Corporation functions as a financing vehicle for the</p>	

TAB A- Attachment 1- Analysis of Outlier Cases “in the Budget”

	Federal Savings and Loan Insurance Corporation (FSLIC) Resolution Fund. The Resolution Funding Corporation provided financing for the Resolution Trust Corporation (RTC) and is subject to the general oversight and direction of the Secretary of the Treasury but is not included in the government-wide GPFFR.	
12.	<p>Department of the Treasury: <u>Payment to FRA for AMTRAK Debt Restructuring</u></p> <p>Treasury and Transportation, acting through the Federal Railroad Administration (FRA) in consultation with each other and Amtrak, will advance payments reflecting the early buy-out options (EBO's) on select leases entered into by Amtrak. [Staff notes Amtrak is included as a Related Party, and it includes a discussion of the FRA.]</p>	FRA is included in the government-wide GPFFR. (Amtrak is included as a related party by Department of Transportation.)
13.	<p><i>Other Organizations Listed under “Payment to” and presently included in the government-wide GPFFR</i></p> <p>Christopher Columbus Fellowship Foundation (<u>Payment to the Christopher Columbus Fellowship Foundation</u>)</p> <p>Court Services and Offender Supervision Agency for the District of Columbia (<u>Payment to Court Services and Offender Supervision Agency for the District of Columbia</u>)</p> <p>Harry S Truman Scholarship Foundation (<u>Payment to the Harry S Truman Scholarship Memorial Trust Fund</u>)</p> <p>District of Columbia: <u>Federal Payment to the District of Columbia Courts</u></p> <p>Institute of American Indian and Alaska Native Culture and Arts Development (<u>Payment to the Institute</u>)</p> <p>Morris K. Udall and Stewart L. Udall Foundation (<u>Payment to Morris K. Udall and Stewart L. Udall Foundation Trust Fund</u>)</p> <p>Neighborhood Reinvestment Corporation (<u>Payment to Neighborhood Reinvestment Corporation</u>)</p> <p>Patient-Centered Outcomes Research Trust Fund (<u>Payment to the Patient-Centered Outcomes Research Trust Fund</u>)</p>	To further demonstrate that the wording “payment to” in the Budget does not aid in identifying which entities should be excluded, we note these entities are presently included.

TAB A- Attachment 1- Analysis of Outlier Cases “in the Budget”

14.	<p>Organizations listed separately (not under a larger department or agency)</p> <p><u>Legal Services Corporation</u></p> <p>The Legal Services Corporation (LSC) is listed separately in the Schedule and Appendix. LSC is a non-profit corporation and distributes appropriated funds to local non-profit organizations that provide free civil legal assistance, according to locally-determined priorities, to people living in poverty. The Congress chartered the corporation as a private, non-profit entity outside of the Federal Government. Funding for LSC helps ensure that low-income Americans have an opportunity to obtain access to the courts, due process and fair treatment. [Note that LSC is identified in the list of federal agencies for Single Audit Act reports.]</p> <p><u>Public Company Accounting Oversight Board</u></p> <p>The PCAOB is a nonprofit corporation established by Congress to oversee the audits of public companies in order to protect investors and the public interest by promoting informative, accurate, and independent audit reports. ...The Sarbanes-Oxley Act of 2002, which created the PCAOB, required that auditors of U.S. public companies be subject to external and independent oversight for the first time in history. ...The five members of the PCAOB Board, including the Chairman, are appointed to staggered five-year terms by the Securities and Exchange Commission (SEC), after consultation with the Chairman of the Board of Governors of the Federal Reserve System and the Secretary of the Treasury. ...The SEC has oversight authority over the PCAOB, including the approval of the Board's rules, standards, and budget. ...The Act, as amended by the Dodd-Frank Act, established funding for PCAOB activities, primarily through the annual accounting support fees assessed on public companies based on their relative average, monthly market capitalization and on brokers and dealers based on their relative average, quarterly tentative net capital. http://pcaobus.org/About/Pages/default.aspx</p> <p><u>Standard Setting Body</u></p> <p>The budget does not identify a specific entity.</p> <p><u>Securities Investor Protection Corporation</u></p> <p>The Securities Investor Protection Corporation (SIPC) was created by the Securities Investor Protection Act of 1970 (SIPA), which was enacted on December 30, 1970, primarily for the purpose of</p>	<p>Staff believes that each organization should be evaluated against the remaining two principles to determine whether it should be included. In addition, agencies may need to consider if these entities have been administratively assigned to them per the guidance in the standards. Clarifying the wording may be helpful.</p>
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	<p>providing protection to customers of its members. SIPC is a nonprofit membership corporation and shall have succession until dissolved by an Act of Congress. Its members include all persons registered as brokers or dealers under Section 15(b) of the Securities Exchange Act of 1934 except for those persons excluded under SIPA.</p> <p>http://www.sipc.org/Portals/0/PDF/2012FinancialStatements.pdf</p>	
15.	<p>Non-profits Presently Included in the Government-wide GPFFR</p> <p><u>State Justice Institute</u></p> <p>SJI is a non-profit corporation governed by an 11-member Board of Directors appointed by the President and confirmed by the Senate. By law, the President must appoint six State court judges, one State court administrator, and four members of the public (no more than two of whom may be of the same political party). http://www.sji.gov/</p> <p><u>United States Institute of Peace</u></p> <p>The United States Institute of Peace Act, passed by the Congress and signed into law in 1984, established the Institute as a publicly funded national institution chartered to "serve the American people and the federal government through the widest possible range of education and training, basic and applied research opportunities, and peace information services on the means to promote international peace and the resolution of conflicts among the nations and peoples of the world without recourse to violence."... By law, the United States Institute of Peace is governed by a bipartisan Board of Directors. The board is composed of twelve members from outside federal service appointed by the President of the United States and confirmed by the Senate, and four ex-officio members: the secretary of state (who may designate another Senate-confirmed State Department official), the secretary of defense (who may designate another Senate-confirmed Defense Department official), the president of the National Defense University (who may designate the vice president of the National Defense University), and the president of the Institute (nonvoting). The board is prohibited by law from having more than eight voting members of the same political party.</p>	<p>These organizations are presently included in the GPFFR. They are presented here to demonstrate that “non-profits” may already be included.</p>

TAB A- Attachment 1- Analysis of Outlier Cases “in the Budget”

	http://www.usip.org/aboutus/board.html	

Board Minutes Related to Issue #1 In the Budget

Mr. Allen explained that what most of the Board members said is it seems like when you are talking about in the budget, there needed to be some essence beyond just listed in the budget. He suggested this would be fair guidance to provide staff as he thought that what this meeting was for is to give at least tentative guidance to the staff to go forward.

Mr. Granof explained it seemed some adjustment has to be made within the budget because we did not intend for the FASB to be in the government-wide statements. Some wording has to be incorporated to make sure that is not included.

Mr. McCall explained he thought in the budget should remain but we should try to deal with those non-federal agencies that do get federal funds. Mr. Smith explained we should review those where there is a special funding source that is not coming from the federal government. He suggested in doing so, we should go back and look at the budget and see if there are any other types of entities that are in the budget with some other special funding situation.

Mr. Showalter agreed with Mr. Smith's comment. We need to figure out how to identify where the federal government is a conduit, but it is not really appropriated money. Mr. Showalter asked that there was a challenge in SEC letter whether in the budget was even a principle or not. Ms. Payne explained the principle was shortened to "in the budget" but the principle that underlies it is that through the actions of elected officials, an organization is funded and the elected officials establish the boundaries of what they are allowed to do. The time, purpose, and amount of funding for an agency are established in the budget. Ms. Payne explained that in some venues there are other funding sources than the general tax revenues, but even the authorities are established by being in the budget.

Mr. Steinberg explained that we need to be careful with tying something to an appropriation because for example, all of the SEC's revenues come from the fees that they charge the registrants. It uses no tax monies whatsoever. It is no different, in that respect, than SIPC, FAF, and PCAOB.

Mr. Allen suggested that in the budget can be a more narrowly defined because much of what you were saying is in another criteria-- control. He explained that he doesn't believe you lose it if you narrowed in the budget and pick it up under control.

Ms. Payne acknowledged there is the possibility that you could combine it with control. However, for most you do not have to look at this laundry list to look through. Ms. Payne recognized that we have heard from SEC about three examples. However, there is another case that has come to staff regarding the audit for this year of an entity that has three non-profits that are 100 percent funded by appropriations. But because of a desire for them to appear independent, the money flows through a federal agency to the nonprofits. Ms. Payne noted there are odd incentives and odd structures that you simply would not see in the private sector. She cautioned against underestimating the number of permutations of entities that the budget eventually ends up funding.

FASAB's counsel, Ms. Hamilton explained that SEC receives an appropriation and then the fees that the SEC collect are considered off setting collections that are deducted off that authorization for an appropriation. It is a form of budgetary authority; an appropriation is a form of budgetary authority.

Mr. Steinberg explained they are in the budget, but what makes them different, it ends up being an appropriation which goes to SIPC and FAF and so forth, and is treated by them differently so to speak. In other words, SEC has to stay within the time, purpose, and amount of the appropriation. Mr. Granof explained the FASB's revenues are dependent on what they collect, whereas the SEC gets its appropriation and then what is collected just simply offsets it.

Tab A**Appendix 1- Relevant Board Minutes (by Issue)**

Mr. Reger suggested the Board defaulted easily to the budget because we needed a north star. He suggested the focus has been where the federal government has control--risk and benefit. Therefore, we should have some inclusion or financial representation. He suggested the Board went to budget and then to the other criteria, but he asked if they are not the same. Mr. Reger explained the budget was an easier way of defining organizations that we all thought automatically had the three criteria.

Mr. Dacey suggested that when we put out the exposure draft we said 'in the budget,' which appeared similar to in the budget from SFFAC 2, and we were comfortable with that. Certain entities, even though they were listed in that document, were not considered 'in the budget' under SFFAC 2. He questioned if with a principle-based standard, is it sufficient to make exceptions for these arrangements and is it clear how you identify organizations that qualify? Mr. Dacey noted we put in the federal financial assistance wording from Single Audit Act, but even that was raised as an issue by a number of other commenter's. Mr. Dacey suggested he would like to explore addressing the budget within the control principle. He explained that unless we can come up with clear guidance it may continue to be a problem.

Mr. Steinberg explained that it is coming back to the control so that may be a direction to consider. Mr. Granof explained he believes control is much harder to define. Mr. Steinberg suggested tying "in the budget" to the three elements of an appropriation, i.e. you cannot exceed the time of the appropriation, purpose of the appropriation, and amount of the appropriation.

Ms. Payne explained the things that are in the budget are based on budgetary concepts and the desire to identify the boundaries of federal government activity, the activity that is authorized by elected officials. For example, but for the actions of elected officials, an entity would not have the authority to get the money. They typically include it in the budget because it is through the actions of elected officials that they can rake money in from people that they would not otherwise be able to get the money from. For budgetary purposes, they want to know the size of the activity that is managed by elected officials. That is why things like PCAOB or the standard-setting body get mentioned in the budget.

Mr. McCall explained that there should be authority to appropriate money and to spend that money and then there should be sufficient money in the Treasury to cover that. He believes for the vast majority of what we are talking about here that that fits well. Mr. Mc Call said he believes if we have some anchor, the anchor is the budget document.

Mr. Dong asked if we are doing that because it is a shorthand for the control question or for some other purpose? Mr. McCall explained that it is the government.

Mr. Allen explained you could almost build from the three tiers: start within the budget, then move into another set of criteria, which would be control or something, however, you build it.

Mr. Dacey suggested it would be interesting to understand what is the delta between in the budget with the intended exclusions we have and control? Whether there is any type of principle conceptually. Whether there is anything that would be different. Mr. Dacey explained maybe there is a category or type of entity that would be in the budget, but not under control. If there wasn't much of a delta then you could go with presumptive decision. Ms. Payne asked about the judiciary branch--who are they controlled by? They are in the budget, but do we need to go through an analysis of are they controlled? Mr. Dacey explained he believes they are controlled as part of the federal government. Mr. Granof noted it raises a good point. They are part of the government-wide report because they are in the budget.

Mr. Showalter explained you can put the budget back into the control side as an indication of control. He believes it was a short cut because we did not want people to have to go through all those other criteria if it was obvious. Mr. Showalter suggested it could be the first item in determining control.

Mr. Reger explained that if it ever existed that in the budget was a control mechanism for something, we have lost that. Over the past 20 years, things are in the budget mostly because court suits have said if they are not in the budget, then you cannot do it. If the issue is really control then that may be a strong

Tab A**Appendix 1- Relevant Board Minutes (by Issue)**

indicator, but I am not so sure that it really is the indicator. If you want to return to that, then we really do need to have conversations with OMB about once we do this, in the budget is going to mean a lot more.

Mr. Smith explained he does not think that we should break away from the budget to deal with the outliers. We should deal with the outliers because if we open up the control, we are less likely to get what we intend because you are putting an awful lot of items that people can go through and start making arguments about being in the budget versus what is control. Mr. Smith explained he would want to stay with in the budget because that way we know that the majority of the things are in the budget. He suggested we take a look at what type of things that could be in the budget that we want to exempt out.

Mr. Allen stated he was cautious about only relying on control since we structure control with risk or benefit and we don't have a complete definition and examples of "risk or benefits".

Mr. Steinberg suggested the indicator could be controlled by the budget--they cannot spend the money unless it is within the purpose, time, and amount defined by the budget.

FASAB's counsel Ms. Hamilton explained it is the individual statutes that define your purpose, amount, and time, not necessarily the budget. Ms. Hamilton explained there must be some form of budgetary authority. And that can come in the traditional appropriations, contract authority, or collections because there are different mechanisms to obtain budgetary authority.

Mr. Reger stated he believes the list is a great idea. He asked if we are at the fringes or is this the material items that we really do want to cover it by? It would at least leave us with the ability to identify the things that are in question. Mr. Reger suggested that staff would need help with this- possibly from the fiscal service and OMB. He also suggested that maybe the best way to do it is to go to the agencies. Ms. Loughan explained that it appears this would have been something GAO has probably looked at as part of their government-wide audit.

Ms. Hamilton agreed and stated GAO has looked at it before. She explained they get tapes from OMB that identify agencies, but there are even limitations with that because it is only up to a certain amount and only if statutes specifically mention them.

Ms. Payne suggested that staff review the budget looking for these outliers. Ms. Payne suggested staff bring an analysis of the outliers --ones that are black, white, and a few of the gray in between and look at the characteristics of them. She suggested through this process staff may be able to determine if there are characteristics that make them budgeted for, but not controlled. This type of approach may be preferred instead of a name like non-federal entity receiving federal financial assistance.

Mr. McCall stated the exercise could be helpful, but he thinks we already have determined in the budget covers ninety-eight percent of the federal government. As time goes on, these outliers may change so doing this exercise a year from now or five years from now could yield different results. He believes answering the cases you know about is helpful, but the idea that FASB and PCAOB should drive what we are doing doesn't seem appropriate. He believes the budget is still a good anchor.

Mr. Allen stated he liked the approach of determining if there a principle rather than dealing with the outliers name by name. Mr. McCall explained he agreed and perhaps those that we know about will lead us to the answer as opposed to searching for other organizations that might exist.

Mr. Dong asked with regards to in the budget, do we think that is the upper limit and we start to whittle down the list from there. And if that is the case, right now the principles are constructed A or B or C. He asked if it would simplify it in terms of A and/or B and/or C? Does that have that same effect? Mr. Dong suggested starting with the assumption that the budget is the upper limit and then you overlay the question of ownership interest and you overlay the question of control and does that get you to the subset that you are looking for.

Tab A**Appendix 1- Relevant Board Minutes (by Issue)**

Mr. Allen replied he would not want to do that even though he agrees within the budget is the cleanest approach. He suggested there ought to be a principle that we are focusing on and gathering. He added that if in the budget is an indication of that principle or the concept as opposed to just using the words in the budget and then he considered looking to control.

Mr. Smith suggested that he could perceive something that does meet control clearly and should be in the entity, but it is not in the budget for some reason.

Mr. Dong explained that is why he asked the question--if you start with in the budget, does that capture the universe and more or are you missing part of the universe?

Mr. Allen explained the answer is both. It may capture something we do not want in and it may miss things that we do want in.

Mr. Reger stated he believes eventually you will fix that over time. But if you speak to the principles of control, risk, and benefit then it is just the order in which you do that whether that is a single test in budget and then a drop down test or is that the principle of why you started looking in the budget in the first place.

Mr. Allen stated that it appears most members agree in the budget is the primary indicator of these kinds of principles. Therefore the Board says yes to the first question.

Ms. Loughan explained she understood but reiterated the questions were high-level to open the door for comments and gather feedback. Mr. Allen agreed and stated the answer to that is yes, but staff has to do more work based on this discussion and recognizing that we have not even talked about some of the points.

Board Minutes Related to Issue #5 Temporary**Excerpt from February 2013**

Mr. Showalter commented that Mr. Steinberg is overlooking that these disclosures get in the reporting entity because of the control criteria.

Mr. McCall agreed.

Mr. Steinberg explained the control is temporary.

Mr. Granof noted that may not matter because paragraph 66 says that very clearly. Mr. Showalter explained that what Mr. Steinberg is suggesting is that they are not an appropriate part of the reporting entity, which he disagrees with. He believes they are very much appropriate because our criteria bring them in and once they are in, this is how to deal with them. He added that he believes Mr. Steinberg's position is inconsistent with what we concluded. Mr. Showalter explained that he believed staff did a pretty good job clarifying things as requested. We have the criteria for users; we need to be clear about what to do with them.

Mr. Steinberg explained that is where I disagree with you. They are going to go over these financial statements and use criteria that weren't out there.

Mr. Smith asked for clarification that if it isn't the disclosures Mr. Steinberg is complaining about, it is the fact the standard puts them in.

Mr. Steinberg agreed. He stated that he fully agreed that there needs to be disclosure of the risks and benefits, the transactions, and so forth. But he doesn't believe a standard called reporting entity should single out receiverships, conservatorships, and intervention entities and put them into the same category as all the other disclosure entities.

Mr. McCall asked would he create a fourth category or how would he pull them in?
Mr. Steinberg explained that he isn't creating a fourth category because we took them out.

Chairman Allen explained they meet the control criteria. Mr. Steinberg disagreed. Mr. Steinberg explained he would say that the standard does not apply for entities that were created or established by the private sector and the conservatorships now, even though they may have started out as government entities, laws were passed that made them private sector entities and people went out and bought stock in them.

December 2012

Mr. Steinberg explained as he read the ED, the failed banks are called a part of the government because the title of the standard is Reporting Entity. In addition, receiverships and conservatorships are included because the federal government may take control or ownership of failed financial institutions. Mr. Steinberg explained to him that is implying that they are going to be part of the federal entity. He noted we have reporting on those right now because of other standards in GAAP.

Tab A**Appendix 1- Relevant Board Minutes (by Issue)**

Mr. Dacey explained his view that the equivalent of what is included in the reporting entity under SFFAC 2 is synonymous with consolidation entity in the ED. He also noted informed readers are looking at the statements and may be thinking that owned or controlled in most other standards setters are consolidated. Mr. Dacey explained he believed there was a need for heightened disclosure for these other entities to provide the reader with additional information.

Mr. Steinberg noted it is temporary ownership or control. Also, there are disclosures there because we have other standards that say we should have the disclosures.

Mr. Dacey explained the disclosures are there because of fair presentation and there are related parties and there are other reasons why this information is generally disclosed, but it is not all in the standards.

Ms. Payne agreed but noted it is also is not universal that the concept of “fair presentation” drove to a good result. For example, for Amtrak, which started as an intervention, the disclosure was minimal over the years and has gradually increased, but still does not meet the level that this exposure draft would require. So you don’t have the same outcome across the board with interventions at this point.

Mr. Steinberg noted once the project is final, Amtrak may not be considered an intervention entity. Ms. Payne explained that is another point because it is still being treated as an intervention after many years--actually classified as a related party and excluded. Further—preparers cannot rely on the private sector notion of fleeting being 12 months because most of these activities are not that brief. This leaves unanswered the question of when an intervention activity over and a government activity begun. Mr. Steinberg explained that criteria could be legislation has been set up to make it a federal agency rather than it being a private sector entity to say that something is no longer an intervention activity.

Mr. Showalter explained these entities should be in the financial statement, so this is not about whether they are in the financial statement. The AV is about what standards are going to address how they get into the financial statements. The AV authors believed interventions are risk assumed by the federal government.

Mr. Showalter explained that he believes people want to get the right disclosures and what convinced him was the fact we are splitting these types of transactions up and we have not dealt with all the disclosures. Mr. Showalter noted that at one time we had specific disclosures related to interventions but that went away when we went to generic disclosures.

Mr. Showalter also commented on the temporary nature—and we may say it is not a year, but it is two years or three years, and it is coming in or going out. He acknowledged it is a different intention here than in the commercial sense. Mr. Showalter noted the reason he supported the AV was to get other people’s views about whether we are treating these right. He explained we ought to at least get a question about whether we are handling these entities/transactions appropriately.

Mr. Allen explained he struggled with the notion that we are splitting them in half. He also noted concern with how related parties might be affected. Also, the AV uses the word standard overload, but he explained it is standard overload now to say go out and do all those different standards and use professional judgment to decide whether they need to be disclosed, as opposed to having clear guidance all in one place.

Mr. Showalter noted the project is supposed to be about relationships, but if you believe that, then you can collapse interventions into the upcoming risk assumed standard. Mr. Allen noted there is a separate project to look at that.

Mr. Dacey explained an example may be helpful--TARP acquired AIG and General Motors. Mr. Dacey explained there wasn't any question that we owned the majority of the stock in those two entities as a result of the intervention activities. At the same time there was more of a need when going through the reporting process to say more about GM and AIG, because the federal government had control and ownership, in fact there's even a paragraph in GAO's report about these entities. He explained the presumption by other standard setters that if you own or control an entity, it is consolidated. He added (excluding the conservatorships and receiverships). Mr. Dacey explained he believes if it is owned or controlled you would have a higher level of reporting beyond what would be reported. He noted if the Board does not agree with that maybe that is a good question to ask.

Excerpt from June 2012

Ms. Payne responded that one of the options the board discussed during its deliberations on the core/non-core distinction was providing an exclusion for situations where the federal government's intent was temporary control or ownership. She explained that the issue with having the exclusion was that the board would have to develop criteria for when that is no longer the intention—or the credible intention—of the federal government (e.g., Amtrak started out as an intervention but is still largely controlled by the federal government). She noted that the board decided not to provide an exclusion but staff can reintroduce the notion if that is the view of the board.

Mr. Dong responded that he does not see the benefit of doing that. Ms. Payne agreed, stating that she does not see the undesirable consequence of retaining the core/noncore distinction as it is. No one has said that there is a disclosure that would be missing if the core/non-core distinction is retained and no one has said that the proposed standards are so inflexible that you will end up with more disclosures than you desire for intervention activities.

Mr. Steinberg said that he thinks it would be inappropriate to imply that these organizations, which were never intended to be part of the federal government, are noncore entities. He said, to him, the way the proposed standards are written, it suggests that these organizations are part of the federal government. He again emphasized that New York City is not part of the federal government and saying that they are a non-core entity implies that they are.

Mr. Dacey noted that the distinction of core and non-core only drives the disclosures to be included in the financial reports and not how the entities will be characterized in the financial reports. He asked Mr. Steinberg if he thought the disclosures in the financial report were misleading.

Mr. Steinberg responded that he thought the disclosures were fine; it is how the entities are being classified in the proposed standard that is troubling to him.

Chairman Allen reminded Mr. Steinberg that the board deliberated on the number of categories to use and decided on two.

Mr. Steinberg responded that was the problem; when the board decided to have the same types of disclosures for all of these entities, they eliminated the different disclosures but left all of the different entities under one big category of non-core.

Mr. Dong asked Mr. Steinberg what information may not be provided as a consequence of the entities being grouped together as non-core.

Mr. Steinberg responded that he is not saying there would be any missing information; he is saying that the standard should not classify the entities as such.

Mr. Dacey asked if there was another word besides non-core that would address Mr. Steinberg's concern. Mr. Steinberg responded that he thinks the board should be very explicit about why the entities are there.

Ms. Payne asked if they could call them "consolidated entities" and "disclosed entities." Mr. Steinberg said that may be acceptable.

Chairman Allen asked Mr. Steinberg to work with staff to develop new language and propose it to the board for reconsideration.

Excerpt from August 2011 Minutes

Mr. Steinberg explained that at an earlier stage in the project, there were four groups of entities but now there are two—core and non-core accountable. Staff noted there are still the types of classes noted within the non-core to assist the preparer in making the determination, which includes the Interventions. Staff also noted that they probably aren't going to be labeled "non-core accountable" in the disclosures or financial statements, it is a way to make a distinction, but it is not required to be labeled in any particular format. Staff explained it is a fluid bucket of non-core. For example, look at Amtrak—and how long would one consider it to be temporary intervention. Mr. Steinberg stated Amtrak should be non-core since it was established by the Federal government and the Federal government owns 100% of the stock. He also explained he has concern with calling the intervention entities accountable when he doesn't believe they are accountable.

Ms. Payne suggested the word "accountable" could be dropped for brevity as at times we refer to them as simply non-core. They share the characteristics of the other noncore entities, so staff is not certain why there should be a distinction or a need to exclude from non-core. Chairman Allen asked if there were different disclosures required for them? If so, then he may understand having a different grouping but if the disclosures are the same then he doesn't understand making a different group. Mr. Steinberg noted that the distinction is the fact that these are private sector entities where the government intervened. Chairman Allen noted there are receiverships with private banks as well.

Mr. Steinberg agreed the disclosures may be similar or even the same, but he doesn't believe the interventions should be called non-core accountable entities, it infers the federal government sets them up. Mr. Dacey asked if it would be more appropriate to simply call them non-core as staff suggested earlier. Mr. Reger agreed it might address Mr. Steinberg's issue, if the word accountable was dropped. Mr. Jackson noted par. 42 that describes non-core accountable entities states "federal officials may rely on organizations that have a great degree of autonomy...." The Board believed that language needed to be revised to include others they

Tab A**Appendix 1- Relevant Board Minutes (by Issue)**

may get involved with. For example, later paragraphs (49-51) include the specific references to the examples of types of non-core.

Mr. Dacey noted he had concerns with the word “rely” as well and would prefer that to be revised. He noted that our involvement in some of these were to achieve public policy objectives, such as preserve the economy. Mr. Reger noted that we do identify Federal Government Intervention Actions as a type within the non-core. Mr. Reger asked Mr. Steinberg if that specific identification wasn’t enough within the non-core. Mr. Steinberg explained he didn’t believe they should be included as non-core.

Staff noted it would be an exception. Mr. Showalter explained you would, in essence, be splitting it into a third category, but then bringing it back together because the disclosures would be the same. Mr. Steinberg suggested this category be for those actions related to private companies where the federal government intervenes to preserve jobs, preserve the economy, etc. Ms. Payne explained similar language was included in a previous draft and the Board collectively looked at it and said it was an exception.

Chairman Allen explained that if Mr. Steinberg had a specific proposal on wording then he could present it to the Board for discussion and vote if he chooses. At this point, he suggested the Board move on to the second paper.

Excerpt from April 2011 Minutes

Chairman Allen noted in par. 43 states

43. Non-core accountable entities may provide core federal government goods and services but are more likely to provide goods and services on a market basis. Non-core accountable entities receive limited or no taxpayer support. Accountability rests with the Congress and the President, but they have less direct involvement in decision making than is true in core government entities. Limited risks and rewards fall to the taxpayers. **In some cases, the relationship with the federal government is not expected to be permanent.**

He explained the last sentence gave him concern. He agreed with the attributes for core, but the last sentence relates to something different. He believes par. 43 should be a principle discussing the nature and characteristics of the core entities. **He believes the last sentence is more specific to the temporary nature and interventions and it is dealt with in detail under the discussion of interventions.** Mr. Jackson agreed and believes it didn’t necessarily add anything to the paragraph.

Chairman Allen asked if the Board would object to dropping it from the paragraph 43. Ms. Bond explained that she appreciates it may not fit within that particular paragraph, but as an alternative it might be added to par. 47 or 48 where one might expect to find it. She added the intent might get lost if it is first introduced in par. 56.

Mr. Reger explained it wouldn’t be considered a general criterion that is considered in the up front analysis if it is first introduced in par. 56. Mr. Allen agreed and requested that staff determine which paragraph it would be best placed in but there appeared to be a

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preference for par. 47 or 48 so that it is introduced at the beginning of the non-core discussion.

Meetings Prior to December 2010

Staff notes Board meetings prior to December 2010, the notion of temporary came up as a notion as an 'exception', but the Board voted for a principles based approach and not to have 'exceptions' in the standard—that is when the categories of core and non-core, now consolidation entity and disclosure organization were introduced.

Board Minutes Related to Issue #7 Central Bank**August 2013 Minutes**

Mr. Steinberg explained he had provided a list to staff. One item was the Federal Reserve and he noted people did provide comments about the way we approach the Federal Reserve. He asked if any of the members had changed their thoughts on the Federal Reserve. Staff explained the Federal Reserve representatives would be available to attend the October meeting to answer questions. However, if Board members do not see a need, that invitation could be rescinded.

Mr. Allen noted that if you consider the people who actually addressed the question the majority or just as many said you ought to consolidate it. Mr. Showalter noted that two respondents said they could not see consolidation or disclosure.

Mr. Reger explained that he believed there is a difference between the view of the Federal Reserve and the view of Treasury and their auditor's. He explained Treasury and the auditor's view are much more restrictive than the view of the Federal Reserve regarding information that they would include in disclosure. He explained the Federal Reserve was willing to disclose more, but Treasury's auditors objected last year. Mr. Steinberg explained he believed it was because they thought it was beyond the scope of Treasury's financial statements, but it was more appropriate for the government-wide statement.

Mr. Showalter explained he was concerned about the fact that certain respondents stated they did not think they would meet consolidation or disclosure requirements, but instead would be a related party. He explained he thought it was strange that two people commented on it. Mr. Granof agreed and one could certainly debate whether it includes other organizations, but you cannot reasonably say we did not intend the Fed to be at least a disclosure entity. Mr. Showalter explained that misleading to exclude may be what keeps this in the reporting entity based on some interpretations. Mr. Reger explained he thought the issue related to why we singled out this one organization versus criteria. Mr. Steinberg explained it is hard to say the Federal Reserve is not included when we provide minimum disclosures, however as far as whether it is disclosure or consolidated entity that is not specific. Mr. Granof agreed.

Mr. Allen explained it is not up to us to decide whether it was a disclosure organization or a consolidation entity. He would be concerned if somebody can read our standard and then somehow come to the determination it wasn't included. Mr. Steinberg stated if he followed the reasoning through, he would determine they were a disclosure organization.

Mr. Reger explained Treasury had no issue about disclosing a relationship with the Federal Reserve, but they thought they were a related party as opposed to a disclosure organization. He added that the issue may be they didn't see disclosure because they didn't see a reason for the category.

Mr. Dacey explained he didn't get anything from the letters or the testimony that would provide additional facts that would change his position on the ED. He didn't believe it challenged our criteria for minimum disclosures. Mr. Dacey noted one point was raised, which not only related

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to the Federal Reserve, specific to paragraph 72 and 73 with whether certain types of information should be required or suggested to be disclosed.

Mr. McCall explained he noted most people thought the criteria were adequate for either consolidation or disclosure and could be applied to the Federal Reserve. However, one respondent was puzzled the Board did not make that determination. Further, everyone seemed to say yes that the criteria appeared adequate to make the determination, but nobody was willing to make that. Mr. McCall explained that he would like to know from the Federal Reserve how they consider themselves--either a consolidation entity or a disclosure organization.

Mr. Reger explained that is not a question that is up to the Federal Reserve. Although one can gather their feedback, this is not going to be the Federal Reserve that is going to decide that question. Mr. Allen noted that one consideration is how the disclosure organization viewed themselves. Mr. McCall asked if Treasury and GAO would be providing to the Board the reasons for the decision.

Mr. Reger explained the decision would be part of the normal process of putting together the financial statements based on the standard the Board has promulgated. Mr. McCall asked if the information provided by the Federal Reserve -- why they think they are one or the other--will be used in the decisions made by Treasury and GAO. Mr. Reger confirmed he would use every piece of information in deciding. The Board at least has been fairly clear what the intent is. Mr. Reger explained he believed Treasury has been pretty clear at this point, about what they will do. There is some concern over that market piece expressed by Treasury and by their auditor about how you get that in Treasury statements. Could you get it in the consolidated if you didn't get it in the statements? At this point, they would come through Treasury because that is the only organization with which they have a relationship. Mr. Reger explained the Federal Reserve has not objected to providing us a lot of information that we thought we wanted to include. They have been forthright about what information is available, how you get to it, the age of certain data, the risk of market analysis of certain data.

Mr. McCall explained he would respect his decision, but he would still like to hear from the Federal Reserve about how they view themselves. Mr. Reger said they have offered to come back in October and we should give them advance questions. Mr. Allen agreed that staff would coordinate to have representatives from the Federal Reserve at the October meeting and provide advance questions.

February 2013 (includes detailed discussion on minimum disclosures)

Ms. Loughan noted the first item for discussion was the proposed minimum disclosures for the Central Bank. Staff explained the Board directed staff to start with the staff proposed disclosures presented at the December 2012 meeting for the Federal Reserve but also incorporate Board member suggestions from the meeting. After considering the feedback and follow-up discussion with members, staff proposed the disclosures as listed in paragraph 76 of the ED draft.

Staff noted most feedback from members was positive and suggested the floor be open for Board discussion. Ms. Loughan also pointed out there was a small change presented in this morning's version based on a member suggestion. Staff noted "may be primarily associated or"

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was added before “administratively assigned” to address the concern that the Central Bank may not be officially assigned. Further, “may” was added because staff

was under the impression the Board did not wish to express that the central bank was definitely included and only things that would be included would be “administratively assigned” as the ED is currently structured. Staff noted that they did not want to give the impression that staff doubt that the Central Banking System would be included, but rather is trying to toe the line of principle-based and not imply that something is firmly included. The additional edit to add “primarily associated with” would cover the case where it is not an included entity.

Mr. Showalter confirmed that even if for some reason we concluded it was not included the financial statements, all of these disclosures would still be required for the central bank. Ms. Payne agreed.

Chairman Allen explained he would like to raise a point with Question 6 to respondents.

He asked if we should say these are minimum disclosures regardless of whether the

Federal Reserve is a consolidation entity or a disclosure entity. He noted that we ought to clarify that this is regardless --we saying we want these disclosures and that is why they are called minimum.

Mr. Dacey noted that, as drafted, the Board would want these disclosures to apply even if the central bank is determined to be a related party, which he thought would be unlikely. Chairman Allen agreed.

Chairman Allen explained that we framed minimum disclosures for this specific entity because of the specific relationship. He also noted that we have asked if the standard provides the appropriate guidance on whether it is included and, if so, how it is included.

He explained that begs the other question of, what if you have decided you don't want to include it.

Mr. Dong explained that he thought it was our discussion last time to have this information regardless of how they were classified.

Chairman Allen agreed but stated it should be clarified here. He noted that it was theoretically possible that a financial statement preparer could decide it is neither a consolidation nor a disclosed entity?

Mr. Dong asked regarding this specific entity, and he questioned what the likelihood of that was. Chairman Allen agreed that it would be close to zero

Mr. Reger also agreed and shared confusion over what it is we are trying to now clarify by suggesting this question be added.

Chairman Allen explained that we don't say it is included, we only say there are minimum disclosures. Therefore, the question should cover that as well.

Mr. Dacey questioned whether the ED as drafted currently says that these are the minimum disclosures because of the unique relationship or does the standard imply a specific treatment

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of the central bank. After discussing the wording, the Board agreed to simplify it as much as possible and only refer to the minimum disclosures in the standard language.

The Board believed the question covered too many topics and should be split. Mr. Dacey suggested moving the issue of whether any organization should be specifically identified as included or excluded for consolidation or disclosure. He noted the Board has spent a lot of time on the issue of principles-based standards and that could be addressed in a question, with specific examples of entities. The Board discussed the sequencing of Question 6 and agreed that it should focus solely on the minimum disclosures for the Federal Reserve and the narrative would need to be revised so the narrative and preamble fit the questions that remain. The Board noted question 6b was not written in a way to solicit responses, so staff would revise and determine the best location for this question. It was agreed staff would revise question 6 by splitting and/or moving portions to other questions for the Board's consideration. It was agreed the Board would review the revised questions at Thursday's session. Ms. Loughan asked if there were any other comments on the minimum disclosures for the Central Bank.

Mr. McCall noted that he had a comment on paragraph 76b. He noted the description "risk and benefits," but he believes it should say "any significant financial risk or benefits to taxpayers and to the federal government." He explained that it is in his view; it is not the relationship between the Federal Reserve and the federal government solely. It is also the relationship between the Federal Reserve and taxpayers. Mr. McCall noted that in various parts of the standard, we used taxpayer—such as in paragraph 37, which is under consolidation entity, one of the criteria is imposing or "may impose risk and rewards on the taxpayers." He also noted in paragraph 42, it says "limited risk and rewards fall to the taxpayer." He explained that both disclosure organization and consolidation entity use the word "taxpayer" in the criteria.

Chairman Allen asked if there was a catch-all phrase that we could use in all of these instances, because it appears they all apply. Mr. Dacey wondered what is meant by the "taxpayer" and "impacts the taxpayer" and how Mr. McCall perceives it. Mr. Dacey explained that he believes we are talking about things that affect the government and that the term "to the taxpayer" may be used in many cases to equate to "to the government." He asked if there is a difference between how you perceive affecting the government, risk or rewards to the government versus risk or rewards to the taxpayer?

Mr. Dacey noted he was a little concerned if we are starting to go into indirect effects, such as affecting the economy. Mr. McCall noted that our criteria for consolidation entities and disclosure organization refers to the taxpayer. Therefore, when we get back to the disclosures for the Central Bank, we forget about the taxpayer there. We say "risk to the federal government" and that isn't consistent in our wording.

Mr. Steinberg noted he agrees with Mr. McCall and believes it gets back to the objectives of federal financial reporting that is in our concept statement--the third objective is stewardship. He noted that it explicitly says that the country is something broader than the government. He explained it doesn't use the word "taxpayer," but it uses the word "country" and "nation." Mr. Steinberg explained the financial reports should enable people to assess whether the government contributed to the well-being of the country and whether it left the country better off or worse off. The Federal Reserve can take actions that have no impact on the government per se, but because of monetary policy, could have a tremendous influence on the country.

Mr. Reger explained that he was a little concerned that we are talking about significantly modifying the purpose of the report. The discussion of what the report's basis or intent was, and

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remains, is kind of significant. He explained the report does not report out on every single policy action taken by the Congress or the government might make that affects the citizens of the country.

Mr. McCall explained that he wanted to point out the criteria the Board agreed on are not consistent.

Mr. Showalter explained he was in agreement with Mr. Reger's concern. He believes when we refer to citizen, we meant indirectly citizens have to pay through increased taxes to the federal government. He explained we can't open this up to any possible ramification of federal policy on the taxpayer or citizen that would not be auditable from that perspective and we need to be clear what we mean by impact on the taxpayer. He explained he believes we mean burden on the taxpayer through the responsibility to the federal government, not any impact. Mr. Dacey agreed and believed he personally preferred saying "to the government" where we say "to the taxpayer."

Mr. McCall noted he was thinking along some of the comments that Mr. Steinberg made and there are probably actions that the Federal Reserve makes regarding unemployment and those types of things that could directly affect the taxpayer, maybe indirectly.

Mr. Dacey noted he understood but that might open up a Pandora's box. For example, if the sequestration causes a reduction in TSA agents at the airport, it is going to affect my economic welfare by having to stand longer and not be productive for a longer period of time to get on an airplane. So, it would have an effect on me. So, he was concerned about that indirect effect. He agreed we should be consistent.

Mr. Granof noted that we have already broadened it somewhat when we added paragraph c for discussion of actions taken by the Central Bank with respect to monetary and fiscal policy, which goes beyond relations with the government itself.

Mr. Dacey explained that he does not have a concern with what we added because it is describing the actions they are taking; whereas the other is the effect of those actions on the taxpayer and he would have concern with that.

Mr. Smith asked for an example of a risk that would be to the taxpayers that is not to the government that we would be trying to say this is what we would lose in the standard if the wording was not included. He was trying to understand exactly what we want to capture by adding taxpayer. He explained that he sees that as broadening this, that someone could go interpret it now that could be further than what we want.

Mr. Steinberg suggested the example of the Federal Reserve has adopted the policy of buying \$85 billion a month of mortgage-backed securities and, also, issuing bonds of \$85 billion. If they all go bad, somebody needs to pay off. If the thought is that the Federal Reserve will just issue more money because they are the ones that issue the money in this country, if they do issue the money, and you increase the money supply, then it causes a tremendous rate of inflation, much more than you have otherwise. It wouldn't affect -- well, it would affect the interest rates. It would affect the average citizen a lot more.

Mr. Dacey noted we address this by saying "the government."

Mr. Smith agreed and thought that we get that disclosure now.

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Mr. Steinberg noted that as Mr. Granof pointed out paragraph c addresses a lot of this as well.

Mr. Reger agreed there is a general discussion of monetary policy in c. He noted the questions are in 76 e ("significant financial risks or benefits to the federal government") because it is even more variable in terms of predicting eventual effects on the economy.

He explained he doesn't think we really have a way of telling the reader what the short- or long-term effect of that monetary policy is, especially if we are going to follow the example in terms of an event that I don't think would occur anyway. But let's say the mortgagebacked securities decreased in value to the point where you would want to increase the monetary supply. That might be the best action in the world we could take right at that second, depending on thousands of other things that would be going on. He did not see how such a requirement is possible or auditable.

Mr. Dacey noted he would like to clarify a point. If the value does go down and they sell them at a loss, then you are not creating money supply at that point; you just sell them at a loss and the Federal Reserve records a loss. It reduces the amount that gets transferred to the federal government from that payment.

Mr. McCall noted we increased the money supply when we bought the mortgage-backed securities.

Mr. Dacey explained the impact still gets back to the government. Although there is an indirect effect of all of this on the economy and on the citizens, but, again, the indirect part is the part that he was very concerned about bringing into the disclosures.

Chairman Allen wanted to recap that the Board had been discussing the issue of "federal government" versus using "taxpayer and federal government." And the reason it is best to use the word "the federal government" is that, if possible, we would like you to describe these policies and, government is of the people, for the people, and therefore, the government is the people, so to speak. But, in this case, "the amounts of the federal government's exposure" is preferable to taxpayer or citizen's exposure. Chairman Allen asked Mr. McCall if he was Okay with the explanation thus far.

Mr. McCall explained he was okay with it. However, he just wished in consolidation entity and disclosure organization we would use the federal government only in the criteria. He noted there is inconsistency between our criteria and how we are now using.

Mr. Dacey agreed and asked if we could make it consistent and use "federal government" throughout?

Ms. Payne suggested that in paragraph 37, what you are really looking at is how operations are financed through the process of taxation. The Congress' appropriations from tax revenues with financing eventually paid through taxes to cover any deficit. She suggested staff would replace "supported by the taxpayer" with "financed through general taxation and other non-exchange revenues."

Mr. Reger suggested if that is what the Board agrees then staff will have to search the entire document to ensure it is used correctly. Staff will have to search through the document for these two terms and ensure that every time they are mentioned that we have a consistency of what we are intending to say.

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Ms. Loughan asked for the Board's confirmation on making the change.

Mr. McCall noted he would be okay leaving but he wanted the other members to understand his concern. He believes there is some merit to using the word "taxpayer," but it just seems inconsistent.

Mr. Showalter explained when you use "taxpayer" in concert with "risk and benefit" there is concern. I don't think we need to scrub "taxpayer" out of the whole document, but instead ensure the context that is limited.

Ms. Payne asked if the Board was comfortable with where it is used in the context of who is financing the operation but not in the context of risks. Mr. Showalter agreed.

Chairman Allen directed staff to read through the document and use their best judgment based on the input from the Board to determine the changes necessary to make consistent.

Mr. Granof explained he was concerned that paragraph 76c ("A discussion of the actions

undertaken by the central banking system to achieve monetary and fiscal policy objectives including significant actions such as adjusting the discount rate, purchasing securities (for example, Treasury securities and mortgage backed securities), or undertaking central bank liquidity swaps") in that this discussion of the actions undertaken by the Fed will be boilerplate from year to year. He explained they engage in the same actions every year.

What is significant is the difference in the magnitude of those actions. Mr. Granof explained they are always going to buy Treasury securities, but what matters is how much Treasury securities are they going to buy each year. He added that it is critical that we include in there some mention of the dollar amounts along the lines of "discussion of the actions, including dollar amounts, when appropriate." Mr. Granof explained these amounts are in the public domain and they are audited, in the Federal Reserve's financial statements. He noted that it seemed to him that the cost would be minimal and the benefit substantial.

Mr. Dacey explained that he believed the cost would be substantial. He noted there is an opinion on the financial statements as a whole, not on specific line items in those statements. Mr. Dacey noted he has explained his concerns at prior meetings. [Staff notes these issues have related to audit cost with respect to benefit. See prior minutes for detailed discussions.]

Mr. Granof noted he appreciates Mr. Dacey's comments but this is a general comment on standard-setting. He believes the role of the standard-setter is to do what is best for the users of the statements and then, you bring in the cost by balancing that with the cost to the preparers and the auditors. Mr. Granof explained it is a meaningless statement without some sort of indication as to the magnitude of those amounts.

Mr. Dacey explained that even before one considers the audit cost, there is also the fact you are looking at financial statements which are 12-months old at that point. He explained there is the issue of relevance and he wasn't sure without substantial disclosures that you could even attempt to explain to the reader how those actions had an impact on things since it is 12-months old. Mr. Dacey explained this was disregarding for a moment the potential additional cost that would be incurred because it is a very complex subject.

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Mr. Granof explained he understood the argument about the 12-month old information and that it may be stale information, but that, of course, is a problem with the entire report.

Mr. Showalter asked Mr. Granof if his concern was more in regards to the change in policy. Mr. Granof agreed. Mr. Showalter suggested that the language be modified to indicate a change or the extent of the modification. He explained then, you may not have a number, but rather a percentage or something. Mr. Granof explained that is what he was going to suggest because he is not concerned with specific auditable amount. For example, he wanted to know what is going on, that this year we engaged in QE2s.

Mr. Dacey explained he didn't have a problem with that general discussion of magnitude.

His concern is dollar amount.

Mr. Reger noted he agrees with Mr. Showalter. In addition, he believes the value in the discussion of item c is to know what has changed this year and to ask the Federal Reserve annually in this to provide a synopsis of the changes or alterations in policies which would have a significant effect.

Chairman Allen explained when he reads paragraph 76c, he envisioned there would be amounts. He noted it says, "What significant actions did you take," which is adjusting the discount rate. I think it doesn't mean anything to say, "I adjusted the discount rate."

Purchasing/undertaking Central Bank liquidity swaps, we undertook that. Well, that doesn't say anything. You have to say something like, "We increased from \$10 billion to \$50 billion the amount of liquidity swaps."

Mr. Dacey noted that he doesn't necessarily agree as you could explain with narrative. He noted the purpose is to describe monetary policy or to give a description of the interaction between the federal government and the Federal Reserve. It is to give the risks and rewards that it provides back to the federal government. Mr. Dacey explained putting amounts would be a challenge in this disclosure.

Chairman Allen explained that without amounts, he would drop paragraph c. Mr. Granof explained that is why he would say "if appropriate." Mr. Dacey said that would be okay.

Mr. Reger asked does it make a difference if the Federal Reserve doubled or halved the discount rate, or do you want to know the effect of that action. Mr. Reger explained the words are more important than the numbers to the less-than-expert reader in terms of saying what that cost.

The Board briefly discussed the issue of perspective and relevance how it is important in understanding information presented. The Board also discussed the examples of discount rates and debt presented in the financial statements.

Chairman Allen explained the example of discount rates--you might report you raised the discount rate one-fourth of 1 percent. But what does the word "raise" mean? One must provide some perspective.

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Mr. Dacey explained it gets back to trying to give the reader a basic understanding of the operations of the Federal Reserve during the year. There are public policy statements addressing actions they have taken and what they were intended to achieve.

Mr. Showalter noted that he believes 76c could be answered with or without numbers.

Chairman Allen stated that he now agrees, but some things may result in a number.

Mr. Dacey explained he looks at this from the standpoint of the direct relationship or if the Board is trying to explain the impact on the government that is very broad. He agreed appropriate disclosure could be accomplished with what is in paragraph 76c. He noted that the Board could add the word "change" as discussed earlier to clarify.

Mr. Granof explained that since the Federal Reserve is part of the federal government, we want to know what have they did. He explained we have to stop thinking of the Federal Reserve as affecting the government, because he believes the Federal Reserve is the government.

Mr. Reger asked if that means the effects of monetary policy should be disclosed. He asked how that is different from telecommunications regulation.

Mr. Granof explained a critical difference is that what the Federal Reserve does (as opposed to telecommunications) has an impact on fiscal policy. He added it involves liabilities of the government and when they are buying and selling Treasury securities it is critical because it affects the government, and it affects the economy as well.

Mr. Dacey explained information regarding buying and selling of Treasury securities will be audited and disclosed in the financial statements. Mr. Granof explained that is what he wants assurance of.

Chairman Allen asked if there was proposed wording that needed to be considered or voted on.

Mr. Granof explained his alternative wording was "including dollar amounts when appropriate" but it was suggested to change it to "including an indication of the magnitude as appropriate."

Ms. Payne directed the members to the wording on the screen which was another option.

After briefly discussing the wording, the Board unanimously agreed to the following language to paragraph 76c. "A discussion of significant financial actions, and changes in those actions, undertaken by...." There were no other comments on the minimum disclosures for the Federal Reserve, so the Board moved on to the second topic in the staff memo.

December 2012

Staff explained the first item of discussion would be Alternative View #1 regarding the Federal Reserve System (FRS) and to make sure that all Board members have a clear understanding of the AV. Ms. Loughan noted the first question would be if the authors of the alternative view intend for the FRS to be a disclosure entity. When staff first read it as presented, that was our understanding. However, based on feedback, perhaps that's not correct, and staff would like

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one of the AV authors, to explain the AV to ensure all are on the same page and how it should be interpreted.

Mr. Granof explained it is hard to answer, because we have to step back and look at the document as a whole. He explained some of his concerns are from a more basic position going back to what we're trying to accomplish in this document. Mr. Granof explained that the document doesn't set forth what the overall problem is and what it is that we're trying to resolve in this document. He explained in his view the major problem has always been the Federal Reserve.

Mr. Granof added as he read the document, the Board never really discussed all of the consequences of the document. He believes it in many ways is left to the auditors and the preparers to make the ultimate decision. He explained that he would rather know is how it's going to affect certain key entities, such as the Postal Service for example.

Mr. Granof explained as it is now; it seems that the intent is that the Federal Reserve System should be a disclosure entity. And yet one of the reasons as explained in the basis, there are complexities in consolidating the Fed. However, that's not the reason we're excluding the Fed and that's inconsistent with the standard. Mr. Granof explained we don't consolidate the Fed, not because it would distort the financial statements but rather that it doesn't meet the criteria that are specified. He explained the proposed standard should be clarified exactly why we're excluding the Fed.

Mr. Allen explained that the key question is if the alternative view specifically intends to make the Federal Reserve a disclosure entity.

Mr. Steinberg explained the alternative view as written does not take a position either way. The alternative view focuses on the disclosures.

Mr. Allen explained it is a little confusing. He added the first sentence or two it looks like what you're saying is that this is a disclosure entity. If the intent isn't to do that then we need to be clear on that point.

Mr. Dacey explained that the preamble suggests that regardless of whether it's a disclosure or consolidation entity, that this disclosure would be required. He explained that FASAB doesn't require disclosure of similar information for other consolidated entities. If FASAB did so, it would extend the financial statements significantly.

Mr. Allen suggested that may relate to the second question, and the focus is on whether the intent of the AV is to state that this is a disclosure entity. It appears the wording would have to be clarified.

Mr. Showalter explained the alternative view currently is the majority view. So the standard would be worded as proposed by the AV.

Mr. Allen explained he believed there was uncertainty among members supporting the AV on the point we are discussing and it doesn't appear that a majority of the board supports that point. Mr. Allen explained if the intent of those supporting the AV is not to require the Federal Reserve be a disclosure entity, then the reader would rely on the framework as currently set forth in the ED.

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Mr. Granof explained that there are different views on that.

Mr. Allen explained that the full Board should understand that point before so they can determine if there are additional disclosures that are necessary.

Mr. Steinberg explained he would agree it is not the intent of the AV as it is written to require the Federal Reserve to be a disclosure entity.

Mr. Granof explained to get five people onto an AV, there was a lot of compromising. He added that his view differs from some of the other members. He explained he is probably in the minority view that the Board does have an obligation to specify whether the Federal Reserve is a disclosure entity or a consolidation entity.

Mr. Allen explained that he could go into a longer discussion on how one can vote with an AV, but in essence what we're really trying to do is to gather feedback that will help us deliberate to a standard. Mr. Allen explained if there is a point a member feels strong enough about, they can focus in on it as a question or as an alternative view. He noted that to specify the Federal Reserve as a disclosure entity seems like such a fundamental question that it would be necessary to have an AV. However if we are focusing on additional disclosures we can obtain due process feedback on that issue with a question without an AV.

Mr. Granof explained that he agreed. He added that if the only issue is more disclosure then that's probably something we can resolve very quickly.

Mr. Allen asked if that is what the issue is for the other four AV people. Mr. Granof explained that he believes certain members are uncomfortable with the document as it is that it doesn't quite justify the position and there are certain inconsistencies.

Mr. Steinberg explained five members believe there should be additional disclosures. He added the five members agree with the original majority of the Board. Mr. Steinberg explained they can make the AV more clear and have the additional disclosures; but that doesn't mean that there's not going to be Board members that are still uncomfortable with the direction it's taken. Mr. Steinberg added Mr. Granof explained he thinks the role of a standard setting body is to be more precise. Mr. Steinberg stated that he agrees with him on that. He added that Mr. McCall has always considered consolidation, so he may have an alternate view on that issue.

Mr. Allen asked if it could be addressed with a specific question that says while the majority of the Board feel this way, there are individual Board members who believe that it should be consolidated or that the Board should specify that it's consolidated, or should specify that it's a disclosure entity, and to provide feedback on those points. Mr. Allen asked if that would get the feedback necessary to deliberate a standard. He explained he did not want to miss an opportunity to get all the feedback so that the Board has a basis for making a decision.

Mr. Showalter explained he would support requesting feedback. He explained the reason he joined the alternative view was really that we needed more feedback. Mr. Showalter explained he doesn't agree with Mr. Granof because the nature of the Fed is changing, and where we sit today will change tomorrow. Mr. Showalter explained he supports a principles-based standard because of the nature of the Fed; otherwise we would be amending the standard every time the Fed does something differently. However, he believes the Board should be open to get feedback. Mr. Showalter added the Board is split on some of the issues related to this, so we ought to get feedback.

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Mr. Dacey asked for which parts of the document should feedback be requested.

Mr. Showalter explained he believed there are three issues: One is whether there are enough disclosures on the Fed. Two (which most will debate with Mr. Granof) is whether the Board should be specific about the type of entity the Fed is. Three is potentially the interventions and AV provisions we haven't talked about. [The second AV, to be discussed.]

Mr. Granof explained on the issue of consolidation versus disclosure, he wasn't sure that the Board had considered all of the implications of consolidating. He noted this was Mr. McCall's point.

Mr. McCall explained he believes that the auditor and the preparer should make the determination whether an entity is a consolidation or disclosure entity. He added he doesn't believe the criteria we have are sufficient. He also noted the Board has had enough discussions on whether consolidation is a viable alternative. Mr. McCall proposed adding a question that would give feedback from the people that read the exposure draft that would satisfy concerns. He explained he wanted to know if the criteria are specific enough or clear enough that you would have an idea of how the Federal Reserve should be disclosed or consolidated. Mr. McCall added that he agreed that it can be a disclosure or a consolidation entity with additional disclosures, but would like additional feedback on that question.

Mr. Allen asked staff if to capture the points discussed in one or two questions.

Mr. Granof explained he wasn't sure that his issue had to be asked because the Board has discussed that. Mr. Allen explained that he understands that not all members will support the standard. However, in the end we can still have somebody who dissents but there should be some feedback on the issue. Mr. Allen explained therefore, let's ask for some feedback so we can have some discussion that may persuade you or persuade us. Mr. Granof agreed that he believed it could be a legitimate question-- should the Board specify whether there should be a disclosure or consolidation?

Mr. Reger explained it seems that in an exposure draft we're supposed to take a position and propose it, and then ask questions of people about things that they think we should take into consideration in deciding what the rule is. He explained the more fundamental question is we've voted over and over to go to a principle-based standard, and yet every time we come up to this we sort of want to back away from the principle. Mr. Allen asked if he thought asking a question is backing away from the principle. Mr. Reger stated no, but he believes the questions should focus on the disclosure and that may drive us to a different discussion about the principle.

Mr. Dacey explained in his view he believes we have a fundamental agreement as a Board but some members want to add more disclosures. He added, with the alternative view there are some more requirements and the question is how we get feedback on whether people think more disclosure should be required. Mr. Allen noted that there was some concern if there was total agreement with everything aside from the additional disclosures, as Mr. Granof and Mr. McCall had raised at least some other questions.

Mr. Steinberg explained we are proposing a principle that the Federal Reserve can be reported either way. There are some members that would like feedback on that--it would be do you think the Board should be more specific in saying either one way or the other, or laying out the guidelines in such a way with the principles that it's pretty clear which way to go. Mr. Steinberg

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explained he understands that situations may change, but it seems that's the role of standards, so that when situations change then you see you go from this side to that side.

Mr. Showalter explained if you say the central bank is consolidated, the criteria are basically taken off the table because the Board has made the decision for the issuer.

Mr. Steinberg explained that he is not saying it should be consolidated or disclosed. He explained the standard should be clear enough that everybody reading would come to the same conclusion. Because right now he believes it is written such that it could go either way.

Mr. Showalter explained that may be true, but people are making those decisions because they have personal belief in where it goes, not necessarily because they've applied the criteria to arrive at that conclusion.

Mr. Reger added that it may be based on the circumstance that we're in today. Mr. Showalter agreed and that's why he is trying to be flexible. The Board concluded these criteria should be appropriate for all the entities. He added, that a question could be added to the ED asking "do you agree the central bank's role was so different that (to Mr. Granof's point) you need to look at it differently than we've looked at it because of the role of the central bank?"

Mr. Reger suggested that it not be limited to just the central bank, but ask if there are entities that are so unique that they need to be considered outside the current draft standard; for example, the central bank.

Mr. Smith explained his position was similar to Mr. Showalter and he agreed to the alternative views because he thought there were some unresolved issues. He added that he wasn't in agreement with Mr. Granof. He supports the idea of getting feedback as suggested. He also agreed we should keep it broad and ask if there are other entities that are special. Mr. Smith also agreed the Board needs to discuss the merits of the disclosure.

Mr. Dong asked if the protocol was to take a position. He asked if we can make the statement whether there are other entities that are special and get feedback on that, or are we asking the question open-ended?

Mr. Reger stated if we believe the standard as drafted is not encompassing enough to reach a conclusion, then we should ask the question--Should there be other criteria that should be applied in the standard? Are there enough criteria in the exposure draft that allows us to make determinations about specific entities?

Mr. Allen explained the questions appeared consistent with what Mr. McCall proposed. It appears we could cover the issues in one or two questions. Mr. Allen noted there could be some challenge with addressing special entities, and you may have to say 'such as the central bank.' However, he noted a question about whether the criteria are sufficient to help those who prepare and audit financial statements to arrive at the appropriate GAAP answers is what we should strive to articulate.

Mr. McCall explained he believes the preparer and the auditor should make that decision. However, he notes the central bank's financial statements are over two trillion dollars in assets which is basically equivalent to what's on the federal government's financial statements. Mr. McCall explained he wants to add a question that asks respondents do you agree or disagree

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that the criteria are sufficient and adequate to apply to a central bank in making a determination whether the entity should be reported as a consolidation entity or as a disclosure entity.

Mr. Allen suggested we may want to use the central bank as an example, but who says that's the only unique organization out there where the criteria are not sufficient enough?

Mr. Reger agreed and suggested that it should be broader. Others may consider organizations such as the post office, museums, Amtrak, and the boy scouts. Mr. McCall agreed that it would be okay to say such as the central bank. Mr. Granof noted there are other unique organizations but the Fed is really unique; it has been treated as unique. It is specifically called out as an exception in SFFAC 2, so he believes there is justification for at least mentioning the Fed.

Mr. Dacey explained that he believes we should give more than one example because we don't want respondents to think that because it relates to the central bank, it doesn't apply to them. Otherwise, they may ignore the question. Mr. Dacey agreed a general question about the adequacy of the criteria may be appropriate. He noted if we're going to apply this to other entities, and if it suddenly changes the dynamics of what we currently have, we ought to know about that, even if they're not unusual entities. Mr. Granof explained that's exactly his concern, we don't know how it is going to affect lots of entities.

Mr. Allen explained staff would work on wording to capture the questions agreed upon and the Board would review at the next meeting. He directed the Board to discuss the next issue.

Ms. Loughan explained the next issue would be determining whether the Board is in agreement that additional disclosures are necessary for disclosure entities. Staff directed the members to page 5 of the staff memo, which provided a snapshot of the additional proposed AV draft disclosures, and also staff proposed disclosures.

Mr. Allen suggested the members first discuss whether they want to have additional disclosures. He noted that we're talking particularly about one entity, but that doesn't mean that there couldn't be others

Ms. Loughan agreed and noted the ED as written, one relies on the objectives along with examples to determine the information to present for disclosure entities. Staff explained an earlier version of the ED had more specific required disclosures for entities that perform sovereign functions but the Board voted to take those out.

Mr. Allen asked the Board members to explain their position regarding the issue for additional disclosures.

Mr. Reger asked if the discussion is whether we believe that it is important to have additional disclosure requirements of any disclosure entity or are there classes of entities that meet certain criteria for which the current disclosure requirements are not sufficient? Mr. Reger explained he had concerns because there may be considerations, like timing and report dates, because they could have an effect on disclosures for some entities.

Mr. Granof explained that he is concerned with the Federal Reserve and hopes it will come through in the alternative view because he believes it is unique entity. He noted it has three or four trillion dollars in assets; therefore, he has no trouble specifying disclosure requirements for that one entity.

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Mr. Showalter explained he supported the AV because there are unique activities related to the Fed which won't get properly disclosed. He noted this is not a reflection on what is currently being disclosed because we're trying to establish standards that go beyond what is currently being done. Mr. Showalter explained there are some unique responsibilities that would not get picked up in the current disclosure. He explained the AV is trying to fill in the gap because the role of the central bank cannot be ignored because there is only one central bank.

Mr. Dacey asked (conditionally) if the decision were made to consolidate, do the AV authors still feel the additional disclosures would be necessary and appropriate? Mr. Showalter explained that it would probably be more important because if you go back to the other FASAB standards they probably did not consider the role of the central bank. Mr. Granof agreed.

Mr. Dacey explained that his concern is what makes the central bank so unique that we shouldn't be applying similar requirements for a wide variety of entities that we consolidate. Mr. Showalter explained that it is driven by the magnitude. Mr. Dacey explained that his concern was that we do not talk about the organizational structure of the Defense Department, how it operates, what its mission is, etc. Therefore, if we don't go down that path for other consolidated entities, how does one make the distinction?

Mr. Granof explained that it is not just the magnitude of the dollars, but also the unique aspects of the transactions in which it engages.

Mr. Dong noted the Board should be clear in terms of what the focus and objective is--the need and nature for additional disclosures. There seems to be a lot of conversation in terms of the Federal Reserve, but then we say other entities may be unique. Mr. Dong explained if we broaden the discussion to other entities that changes the substance of what has been identified in terms of additional disclosure. Mr. Showalter noted the AV position is only about the Fed.

Mr. Allen explained there may be other federal entities (railroads) that probably played even a more important part in expanding our nation at some point in time, and there is something unique about them.

Mr. Granof explained what is unique about the Fed is its impact on monetary and fiscal policy. In other words, financial statements are directly concerned with things such as interest rates and the Fed has a dominant role. Mr. Granof explained that the Federal Reserve is different than the Defense Department because it has a more direct impact on fiscal and monetary policy.

Mr. Showalter explained if you look at it another way, we could have just incorporated it into all our disclosures but that would be overkill disclosure on the rest of the population. He added what we are trying to do is carve out a particular entity and deal with that and not lay it across all the entities. Mr. Showalter explained the Board could ask the question do you believe there are similar entities. Mr. Reger agreed it was important to frame a question.

Mr. Allen agreed that a question may help, along the lines of --do we view disclosures as potentially inadequate in any other circumstance? And the answer for some board members has been yes for the Federal Reserve. One of the challenges is that we have some existing standards that require broad disclosures. Mr. Allen also noted the disclosures for disclosure entities are quite principles-based. Therefore, you may not get some of the specific things listed in the AV and would that be sufficient.

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Mr. Smith explained he believed we could ask a question if respondents believe the central bank is unique and based on the present standards, what we would miss and would the statements be deficient related to the Federal Reserve. Based on the feedback the Board could determine what we need to incorporate into the standard, because otherwise we could have a deficient standard.

Mr. Reger asked if we need to have that discussion in relationship to all the other entities that we report on for instance, the agencies. Mr. Smith explained he thought this discussion related to the Federal Reserve because it was unique, probably due to the fiscal crisis but he doesn't believe it changed the significance of the Federal Reserve. It just might have brought it to light. But the fact now is that we know that the Federal Reserve is a big issue, and warrants looking into further.

Mr. Steinberg explained the proposed language in the alternative view is pretty critical and he noted a difference in the staff proposal subparagraph D - "A discussion of the nature and purpose of significant monetary and fiscal policy activity during the period, and significant balances between the central bank and the reporting entity during and at the end of the period." Mr. Steinberg explained the second part of that, he interprets to mean that it is the nature and purpose of significant monetary activity by the Fed with the rest of the government. However, he noted in the second bullet of the alternate view—the disclosures are not those just with the government, it is those kinds of transactions that they are doing that will affect more than the government but will affect the economy and the country.

Ms. Payne explained it is possible to read that in multiple ways and it was not staff's intent to limit the first half of that bullet to intragovernmental transactions. She noted staff could separate them, but the discussion would still be broad. Mr. Granof asked for clarification and if it was the intent of staff that transactions with outside parties would be disclosed?

Ms. Payne explained the intent was that there would be a discussion of transactions with outside parties. The balances, the requirement to report balances, would simply be the Treasury's securities and any other intra-governmental balances. Staff further explained if this were classified as a consolidation entity there would be no problem with getting the balances and subjecting them to audit. The Board had discussed presenting amounts for disclosure entities and concluded that it did not expect to see amounts. Further, the Board was careful about the reference to audited financial statements to ensure it was not including these statements within the scope of the reporting entity's audit because for many of these disclosure entities, the auditor will have limited reach in the audit. Staff was trying to not violate the decision that the Board had made earlier while creating a disclosure requirement to satisfy both circumstances - a consolidation or disclosure entity.

Mr. Showalter asked for clarification if the amount the Treasury engaged with a third party would not be subject to audit. Mr. Dacey explained that, for example, the purchase of mortgage-backed securities by the Federal Reserve wouldn't be part of GAO's audit of the federal government if it wasn't consolidated. Mr. Showalter noted the auditor of the Fed is auditing those transactions, so it is subject to audit. Ms. Payne explained the transaction is subject to audit, it is a matter of whether the government-wide auditor would have to take responsibility. Staff was relying on the prior decision of the Board to be very careful in writing the disclosure requirements for disclosure entities such that you did not expand the scope of the federal auditors.

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Ms. Loughan directed members to paragraph 72a. Staff noted when this issue came up before; language was added about significant involvements with outside parties. Staff explained the language that was added was added as example information, but the Board had talked about this issue regarding involvements with outside parties, and that's what had been agreed upon to be added to paragraph 72a.

Mr. Allen noted the disclosures are about disclosure entities, what if the decision is made to consolidate-- then 72a doesn't necessarily apply unless it's picked up in some other standards. Therefore, that would be one of the reasons of requiring key disclosures that we want regardless of how you treat this entity. However, if we do, we still have the same audit challenges. Are we somehow binding the auditor so that there is no chance we are ever going to get an opinion on these financial statements because there are numbers that he's not even authorized to audit or can't audit.

Mr. Dacey explained that he thought we had reached a balance of telling people where the financial report can be obtained, and pointing them to the website, which he thought was the agreement on that issue. Mr. Allen explained the Board should have a good understanding of where we stand on that, but apparently that doesn't go far enough for certain members.

Mr. Steinberg noted that if that were the case, this notion of saying there are statements available by reference, is there a need to produce a CFS because every agency in the federal government puts out a financial statement. Mr. Dacey noted there are references to other statements for more detail.

Mr. Steinberg explained if it is a financial statement for the US government to show what the US government has done and how has it affected us or will affect us in the future, then it should encompass all of those things that have affected us and should affect us in the future. As far as the audit is concerned, he recognizes the cost/benefit on audit, but right now the statement is not audited, because there is a disclaimer on it.

Mr. Dacey explained that will change someday and our decisions should not be predicated on that. He noted when we get to a point of having a clean opinion, GAO would need to rely on the work of other auditors, and will have to coordinate with all the other auditors in carrying out the audit. He explained based on auditing standards, the auditor has responsibility to audit the numbers in the notes..

Mr. Dacey explained as soon as you are associated with a number, it would entail a significant cost to get satisfactory evidence about that number. He also explained numbers for the Fed would be 12 months old, which may be misleading. Mr. Dacey explained providing information on the balances with the government would at least be relatively current. He noted this issue presents a cost/benefit problem, and he thought the Board had deliberated and resolved it at a prior meeting.

Mr. Steinberg noted that he did not agree because it appears since we cannot give them current information, we will not give them any information. Mr. Dacey explained that he was saying that some information that is old and stale may be misleading or not worth telling the reader about. Telling the reader where they can obtain more information that is current may be more meaningful.

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Mr. Steinberg asked how we could refer readers to get more current information because it's going to be as current as what you would have put in the report. Mr. Dacey explained the Federal Reserve has unaudited information available quarterly.

Mr. Dacey recapped that it increases audit costs to put otherwise unaudited information in and have to audit it because we are associated with it. Mr. Steinberg noted the statement right now is unaudited. Mr. Dacey disagreed and explained that there is a lot of information that is audited (at the agency level)—he referenced the Treasury Department note which is included in the binder materials and the additional information.

Mr. Reger explained this year as a result of the Board's discussions, Treasury tried to enhance disclosure for the Federal Reserve. Mr. Reger noted the AV document said that the Fed has business with multiple other agencies, and yet his inquiries at the Federal Reserve say they have no business relationships of any material thresholds with any other federal agency.

Mr. Reger explained what he did through Treasury was disclose the Treasury relationships with the Federal Reserve. He noted the Treasury auditor is somewhat uncomfortable with the preparer at this point because they are including a lot of detail in the Treasury statements. Mr. Reger noted the other important issue is this is the first time there are disclosures in the consolidated which do not come up through other entities and that is a significant change of approach and policy.

Mr. Allen explained that is what we're trying to clearly understand and what we're trying to figure out now is can we leave it at that point or is it necessary to say here's the unique information we want that wouldn't otherwise be provided. Mr. Allen noted his concern was the specificity in the AV, for example, some of the investments that they were holding. He asked Mr. Reger whether he had envisioned the disclosures would be to that level of detail.

Mr. Reger explained he was not concerned about the general discussions of things, of missions, policies, even current conditions to the extent he can get current condition. However, he noted concerned about numbers, carrying numbers that he would have to rely on that may be six, nine, or twelve months old or information that isn't in the public arena already. Mr. Reger explained he was concerned about the timeframes, especially at the end of the period. We have to be careful about the fundamental issues of audit and not to violate that. And fundamental discussions about the nature of not only this but other reporting entities like TVA who we accept numbers from which are quite old. He noted there are other organizations that are going to fall into that category.

Mr. Granof asked when you consolidate another entity and that other entity is audited by an independent auditor, how do you accept those, what assurance do you have or what disclosures do you make?

Mr. Dacey explained at a high level, the auditor decides whether you're going to refer to their reports, or take responsibility, which takes a higher level of involvement by the auditor.

Mr. Granof noted that if you consolidate the Fed, then presumably you wouldn't take responsibility for auditing them, you would rely on their auditor. But if you had to disclose certain figures, couldn't you say we have not audited this, we do not accept responsibility for it, and it is based on the work of whoever audits it.

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Mr. Dacey agreed that while it is technically possible, there is a cost. Mr. Granof asked for clarification. Mr. Dacey explained the new standard requires more involvement of the auditor, even when you refer to other auditors. Mr. Reger added the subsequent auditor has some responsibility for due diligence over numbers that are reporting from a previous audit.

Mr. Dacey explained the auditor under the new standards, even if you refer, is responsible nonetheless for the group audit opinion on the entire set of financial statements, and that would increase the effort and cost to another auditor.

Mr. Granof noted we are debating cost. Mr. Granof asked if certain disclosures that are based on the audited financial statements of the Fed would involve significant cost.

Mr. Dacey stated it could, depending on the nature of the disclosures. However, Mr. Dacey explained if you disclose policies and general directions they're taking, you can likely obtain that kind of audit evidence at no significant cost.

Mr. Granof explained it appears if we are talking about a specific number, like purchases of mortgages, realistically it could be a lot of time and money. He added this is very significant because we are talking about a cost/benefit issue here, and I do not have any sense of the benefit, let alone the cost.

Mr. Dacey explained part of the cost/benefit is the relevancy of data that is 12 months old. Mr. Reger agreed and stated realistically, part of the reason we are talking about the Fed is the actions the Fed is taking currently. So is it going to be relevant to have nine- or 12-month old data, other than policy level discussions which the Board has already agreed to?

Mr. Granof explained it is relevant because it gives you a sense of the magnitude of what is involved. He added he believes in the last few years the Fed has engaged in massive transactions, not only with mortgage securities, but even with foreign banks. Mr. Granof believes that information is relevant to a reader. However, he does not know how to quantify the benefit and the cost is difficult to quantify.

Mr. Dacey explained it would be a significant effort because that number needs to be supportable and audited.

Mr. Dong questioned the incremental benefit of the additional disclosures when there's more timely information available by referring readers to information already in the public domain.

Mr. Allen explained he would let the AV authors answer that question, but before we get to that, there were requests for a break.

~ (Break) ~

Mr. Allen explained the Board was discussing whether the uniqueness of the Fed and/or other organizations is such that we should have a requirement that we specify additional disclosures. Mr. Allen noted this was a challenge because we are not sure exactly which disclosures we would get by the existing standards and the proposed standards. He asked members if they were comfortable as a Board exploring the possibility of additional disclosures.

Mr. Granof agreed because of the unique nature of the Federal Reserve, there are things which should be disclosed, and if not disclosed based on current standards, there are things that should be required.

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Mr. Showalter noted the staff proposal on page 5 states “The central bank is a unique federal organization. Whether classified as a consolidation entity or a disclosure entity, the reporting entity must disclose, at a minimum, the following regarding the central bank...” Mr. Showalter noted it addresses the issue of whether it’s a consolidation or disclosure entity, by ensuring the disclosures apply even for consolidation entities. He believed the staff proposed wording should be used as a starting point.

Mr. Allen explained he wanted to first ensure the full Board wanted to have the additional disclosures. And then if the answer to that is yes then we will consider what disclosures.

Mr. Showalter explained he was part of the AV, so yes and the lists appeared reasonable.

Mr. Smith stated he was supportive of additional disclosures but the Board needs to decide what they need to be.

Mr. Allen asked if the answer is just for the Fed, or would you broaden it to use the Fed as an example? In other words would you say because of the uniqueness of other organizations such as the Fed, additional disclosures may be necessary to cover them, or would you keep it to the Fed because the unique nature of the Fed?

Mr. Showalter explained he was sensitive to overload, and getting back to Mr. Dong’s earlier point, he would say the Fed or any other organization you think is appropriate.

Mr. Smith stated he would also focus it to the Fed, but he would want comments back if somebody else believed another organization or entity was of the same level of significance, identify what that entity is and what disclosures they think that would be needed.

Mr. Allen explained the standards are applied to both the government as a whole and the department and agency level. So should we define this disclosure as only being appropriate for the government as a whole?

Mr. Dacey explained there are a number of factors weighing into his mind in this whole area--one is it would be ideal if we had more of a consensus on a position. Therefore, to help achieve that consensus he has some sympathy to add requirements for the Federal Reserve, depending on what those requirements are. Conceptually, he does not think it is harmful but he is unsure whether it is still a principle-based standard. Therefore, he sees merit in asking appropriate questions, but they should be limited to the Fed only. He does not believe there is a need to ask questions about whether there are others; he believes the current standard is sufficiently flexible to achieve the objectives and have adequate disclosures.

Mr. Dacey noted, as he stated before, that he does have concerns about the cost benefit of certain information, if that was expected. He explained it should be consistent with our framework and applicable for the governmentwide and for component entities, if they are administratively assigned to a component entity that would be relevant — he said the only entity with transactions with the Fed at this point appears to be Treasury.

Mr. Allen asked for Mr. Dacey’s clarification that we should not specify that it’s only a government-wide.

Mr. Dacey stated that he would prefer that we included it where it was administratively assigned as well, which would be consistent with the framework. At this point, that is Treasury

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Department's financial statements. They are the ones that record the balances and transactions.

Mr. Dong explained he would support additional disclosures and the staff proposed language on page five as a starting point. He also agreed that we should focus on the Fed only for the reasons described earlier.

Mr. Reger explained he would support additional disclosures. He noted the Fed is trying to be more transparent in their dealings and there were improvements in the note. Mr. Reger agreed the staff proposal was a good place to start, but there are some concerns.

Mr. McCall explained he supported additional disclosures. His support is because if we were to look at the consolidation entity criteria and everyone around the table perform an assessment against these criteria some would say it's consolidation, some would say it's disclosure entity. Therefore, he supports additional disclosure because the Federal Reserve seemed most problematic and we could not make a call. He noted when he looks at disclosure entities, limited risk/rewards fall to the taxpayer, and Federal Reserve does not meet those criteria to him. On the contrary, when he looks at consolidation entities, imposing risk/rewards on taxpayers, he thinks it is very important.

Mr. McCall explained regarding staff's proposal 5A through E --A through C seem to say it is a disclosure entity, it talks about mission, relationship, and independence. While D is the only one that seems to be an additional alternative view comment and there may not be a proper balance and he believes we are still mixing aspects of consolidation and disclosure.

Mr. Granof explained we are faced with a cost benefit issue. And the problem that we as a Board face, and this is typical of most standards setting Boards, people do a fantastic job of articulating the costs, but the benefits are much more elusive. Mr. Granof stated that the Board should keep that in mind and also recognize that there are outside interests who are not going to speak up.

Mr. Allen explained we schedule a public hearing which helps more than just written comments. Mr. Granof noted even there, you are not going to get too many citizens.

Mr. Allen explained the majority of the Board agreed to explore additional disclosure and several members have said to start with the staff recommendation on page 5 of the staff memo.

Mr. McCall noted some concern or that it might have been leading you one way or the other. Mr. McCall explained that A through C is similar to what's already there for disclosure entities. Mr. Allen acknowledged and asked if he was comfortable with the approach because the whole premise of this is we are saying regardless of the decision that one makes about whether it is a disclosure entity or a consolidation entity, these are disclosures that we feel are necessary.

Mr. Showalter acknowledged there are fewer issues to worry about with disclosure entities, but if you consolidate there will be more issues.

Mr. Dacey explained as he recalled when we first drafted the paragraph (similar paragraph in an earlier version that the Board took out), the idea was that we would apply this list separately. He explained if you are going to a model where you are talking about these incremental disclosures that are necessary, even if it were consolidated, this may be too broad of a list. For example, he explained he did not think all of them were applicable.

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Mr. Dacey explained there is synergy, but the list on the bottom of page five of the addendum (Alternative Views and Staff Response) has more items than we need if we're going to treat it as incremental to what would be a disclosure entity or incremental towards a consolidation entity. It appears this is more of a replacement list when it was drafted.

Mr. Allen asked if we ought to write this in such a way that we are saying these are exposures we want regardless. Mr. Dacey agreed but some of these were written with the intention of being a disclosure entity, and maybe they are not on the list.

Ms. Payne explained the challenge for staff is the accounting standards do not have a note one requirement, so it becomes a little bit of a challenge to say incremental to what. Mr. Dacey explained if it were a disclosure entity there are requirements in paragraphs 69 through 72, so it would be incremental to that. He explained when you go to a consolidation entity then none of those requirements in 69 through 70 will be disclosed, and you're looking at what would you want if it's consolidated as sort of your base list.

Mr. Allen asked isn't it OK if we duplicate the list because we are starting with the premise that regardless of how you classify, we want these disclosures. Otherwise, wouldn't you need to add a second sentence that says if you are a disclosure entity most of those are picked up anyway or disclose the things there?

Mr. Dacey explained that was his question --if you are consolidated, then is that the intent to add a lot of information. He explained it gets back to the concerns about not currently talking about the mission of every consolidation entity. It would be appropriate if it was a disclosure entity but if it was consolidated, maybe that's not an incremental reporting requirement.

Mr. Allen noted Mr. Dacey's point is clear, because somebody reading the standard is going to say that is pretty duplicative, that's the same thing you asked for two pages earlier. This is written in a comprehensive manner because the entity may determine it is a consolidation or disclosure entity, so this is written comprehensively.

Mr. Allen asked if there were specific disclosure the members wanted to discuss.

Mr. Reger noted that it appears staff worked on the compromise and many of these were paraphrased from the AV. He explained that he has a continuing problem with dates, specifically during and at the end of the period.

Mr. Dacey explained if we are limited to the transactions of the central bank with the reporting entity Treasury should have that data available and audited. Mr. Reger asked if we have the year-end balances audited. Mr. Dacey stated yes.

Mr. Dacey explained separating staff proposed D into two pieces might avoid some confusion. But if you take the last part of D on its own, between the central bank and the reporting entity those would be audited and would be available, and are reported currently. Mr. Dacey explained that for E, he believes if it were consolidated, there are both possibilities--E as a separate requirement or is it inherently going to be addressed through all the other standards we have to deal with it. If it were disclosed, it is a matter of whether these are incremental to the ones in 69 through 70. He added, it depends on how you look at it. If it is a replacement you have a lot of disclosures here. If it were to be consolidated it may not be necessary or appropriate. Mr. Reger noted on F, this is the amount of the federal government's exposure in the past.

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Ms. Loughan explained some of these are a repeat of what we already have. Mr. Dacey notes this brings back his earlier question--Should this list be viewed as incremental if it were disclosed , incremental to the requirements on page 69, or is it kind of a replacement list, saying this is what you have? Ms. Loughan suggested some may consider a full list for when it's a consolidation entity. Mr. Dacey noted that is what it was based on when we originally drafted a section.

Mr. Dacey stated that he believes the list goes beyond what the AV proposed.

Mr. Allen asked if the second bullet satisfied the AV authors as it seemed to be the biggest point of contention. Mr. Showalter explained at least at a minimum we'd want a description, but it sounds like Mr. Reger is saying he can describe it but he can't give any numbers.

Mr. Reger explained to the extent the numbers are already covered in Treasury's financial statements he can give provide the numbers. But to the extent that there might be something in the Federal Reserve's financial statement but not in a relationship with Treasury, that is not something he could provide. Mr. Reger noted they could discuss monetary policy stuff, but he did not know if they provide numbers regarding that.

Mr. Dacey explained that he didn't see a problem discussing the general nature of monetary policy and how it's carried out and some of the vehicles we're using to carry out monetary policy conceptually. However, if we start discussing what monetary policy decisions they made last week that is a different level of detail and support, because it gets back to audit evidence. He explained we can determine this is generally what the Fed is doing, and get enough audit evidence to support that through documentation, but when you get too detailed it becomes more problematic.

Mr. Showalter questioned whether the second bullet from the AV disclosures is completely addressed in the staff proposal.

Mr. Allen noted his concerns with the second bullet from the AV because they are too detailed, it discusses the Fed's types of transactions and specific disclosures about each of those and why they undertook those.

Mr. Steinberg explained much of the detail came from the Don Hammond briefing in August.

Mr. Granof explained the Federal Reserve is part of the federal government and if the federal government is going to engage in multiple millions of dollars in transactions - in buying mortgage backed securities or engaging in transactions with foreign banks – which are not only monetarily significant but politically significant as well, then they should be disclosed in the financial statements.

Mr. McCall explained he had concern with how one considers some of the disclosure requirements--describe the relationship of the organization, the nature of the federal government's relationship with the disclosure entity, and specifically as it relates to the Federal Reserve System, is it the federal government? Or is it a federal entity? He noted it is not a state or a local government, it is not a non-profit or a for-profit, and then what is left. What is it? Mr. McCall explained that he did not think the Board had complete agreement that the Federal Reserve is part of the federal government.

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Mr. Allen explained there are criteria for inclusion in the GPFFR. He added he did not think any members disagreed. He believed the question was how to include it and that may be open to debate.

Mr. Dacey stated that he agrees conceptually with describing policy actions but the words in the AV suggested that a lower level of detail may have been intended. Mr. Dacey explained he was generally supportive of information about what the Fed is undertaking; it just has to be something that we can audit because there are some limitations on access. It is just when you start getting into very finite details it becomes much more problematic.

Mr. Dong explained he wanted to support Mr. Dacey's point. In addition, it would be helpful to get clarity from the colleagues who wrote the AV to explain specifically what gap we are trying to fill, and then bring it back to the question proposed before the break, and that is given those incremental disclosure requirements how does that relate back to the cost?

Mr. Showalter explained that item D in the staff proposal needed additional language and clarification as to what it means. He agreed that the AV wording may be a little strong, but "Discuss the nature and purpose" is not strong enough.

The Board discussed ways of improving item D in the staff proposal by adding examples from the AV without putting in too much required detail. The agreed upon wording at the meeting was:

"A discussion of the various actions undertaken by the central bank to achieve monetary and fiscal policy objectives including significant actions such as adjusting the discount rate, purchasing securities (for example, Treasury securities, mortgage-backed securities), or undertaking central bank liquidity swaps" – [the requirement would be more descriptive of the nature of the transactions to be discussed]

Mr. Allen explained staff will provide revised wording for disclosures at the next meeting and it could be fleshed out more fully then. He suggested the Board move on to the next AV.

Ms. Loughan suggested the second AV on interventions, receiverships, and conservatorships be handled the same way. Staff explained Mr. Steinberg had sent revised wording so it might be beneficial for Mr. Steinberg to explain the alternative view so members have a clear understanding.

Mr. Steinberg explained the original wording saying limited to sovereign functions got across the wrong point, therefore there are revisions. The AV authors were concerned about failed banks, GSEs and bailout entities. He explained they believe they were not meant to be part of the federal entity.

Mr. Steinberg explained the AV says it can be corrected by removing receiverships, conservatorships, and intervention entities from the proposed standard by stating that because they were never intended to perform the federal government's sovereign functions, plus they have less than a permanent relationship with the federal government, they are not part of the federal reporting entity.

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Mr. Allen acknowledged this is an issue the Board struggled with over the past couple of years. He noted one of the first paragraphs makes a statement that the standard is not saying whether something is legally part of the government or is not part of the government. Mr. Allen explained if that is where this leads, he has some concerns with the unintended consequences of this, because it kicks out more than just those three types of organizations if we have sovereign purpose.

Mr. Steinberg stated the word sovereign purpose could be dropped. He explained they were not meant to be part of the federal entity.

Mr. Showalter explained the AV authors put sovereign in because we were trying to get a principle-based approach, but we can take it out if it is a problem. Mr. Steinberg stated that it is an explanation for why those three kinds of groups are not part of the government.

Mr. Dacey explained he has a fundamental question because the AV refers to these as being part of the federal entity. Mr. Dacey explained the structure of the draft ED as it currently exists, says we have entities for which elected officials are accountable, and then we define that as meeting these certain criteria, and then a decision is made about consolidation or disclosure. Mr. Dacey explained the document explains consolidation entities are federal entities and that means they follow SFFAS 34- FASAB GAAP, but that only applies to the consolidation entities.

Mr. Dacey explained disclosure entities are not part of the federal entity definition, and we do not require them to follow FASAB GAAP. Mr. Dacey explained he does not think our standard is saying it is part of the "federal" entity. He expressed concern with the AV as this may be shifting the whole paradigm of the exposure draft. Mr. Dacey explained that the ED says disclosure entities are part of the GPFFR, not part of the federal entity.

Mr. Reger explained that he was confused too. He questioned what was the intent in doing an AV? He explained he could not make out the difference between it and excluding this stuff.

Mr. Steinberg explained as he read the ED, the failed banks are called a part of the government because the title of the standard is Reporting Entity. In addition, receiverships and conservatorships are included because the federal government may take control or ownership of failed financial institutions. Mr. Steinberg explained to him that is implying that they are going to be part of the federal entity. He noted we have reporting on those right now because of other standards in GAAP.

Mr. Dacey explained his view that the equivalent of what is included in the reporting entity under SFFAC 2 is synonymous with consolidation entity in the ED. He also noted informed readers are looking at the statements and may be thinking that owned or controlled in most other standards setters are consolidated. Mr. Dacey explained he believed there was a need for heightened disclosure for these other entities to provide the reader with additional information.

Mr. Steinberg noted it is temporary ownership or control. Also, there are disclosures there because we have other standards that say we should have the disclosures.

Mr. Dacey explained the disclosures are there because of fair presentation and there are related parties and there are other reasons why this information is generally disclosed, but it is not all in the standards.

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Ms. Payne agreed but noted it is also is not universal that the concept of “fair presentation” drove to a good result. For example, for Amtrak, which started as an intervention, the disclosure was minimal over the years and has gradually increased, but still does not meet the level that this exposure draft would require. So you don’t have the same outcome across the board with interventions at this point.

Mr. Steinberg noted once the project is final, Amtrak may not be considered an intervention entity. Ms. Payne explained that is another point because it is still being treated as an intervention after many years--actually classified as a related party and excluded. Further—preparers cannot rely on the private sector notion of fleeting being 12 months because most of these activities are not that brief. This leaves unanswered the question of when an intervention activity over and a government activity begun. Mr. Steinberg explained that criteria could be legislation has been set up to make it a federal agency rather than it being a private sector entity to say that something is no longer an intervention activity.

Mr. Showalter explained these entities should be in the financial statement, so this is not about whether they are in the financial statement. The AV is about what standards are going to address how they get into the financial statements. The AV authors believed interventions are risk assumed by the federal government.

Mr. Showalter explained that he believes people want to get the right disclosures and what convinced him was the fact we are splitting these types of transactions up and we have not dealt with all the disclosures. Mr. Showalter noted that at one time we had specific disclosures related to interventions but that went away when we went to generic disclosures.

Mr. Showalter also commented on the temporary nature—and we may say it is not a year, but it is two years or three years, and it is coming in or going out. He acknowledged it is a different intention here than in the commercial sense. Mr. Showalter noted the reason he supported the AV was to get other people’s views about whether we are treating these right. He explained we ought to at least get a question about whether we are handling these entities/transactions appropriately.

Mr. Allen explained he struggled with the notion that we are splitting them in half. He also noted concern with how related parties might be affected. Also, the AV uses the word standard overload, but he explained it is standard overload now to say go out and do all those different standards and use professional judgment to decide whether they need to be disclosed, as opposed to having clear guidance all in one place.

Mr. Showalter noted the project is supposed to be about relationships, but if you believe that, then you can collapse interventions into the upcoming risk assumed standard. Mr. Allen noted there is a separate project to look at that.

Mr. Dacey explained an example may be helpful--TARP acquired AIG and General Motors. Mr. Dacey explained there wasn’t any question that we owned the majority of the stock in those two entities as a result of the intervention activities. At the same time there was more of a need when going through the reporting process to say more about GM and AIG, because the federal government had control and ownership, in fact there’s even a paragraph in GAO’s report about these entities. He explained the presumption by other standard setters that if you own or control an entity, it is consolidated. He added (excluding the conservatorships and receiverships). Mr. Dacey explained he believes if it is owned or controlled you would have a higher level of reporting

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beyond what would be reported. He noted if the Board does not agree with that maybe that is a good question to ask.

~ (Lunch) ~

Mr. Allen explained he would like to open the meeting back up for pros and cons of exclusion or not, and then take a vote on that.

Mr. Dacey asked for clarification of the AV and whether there is agreement that these entities should not be consolidated, and whether it is a question of whether they are included as disclosure entities or excluded totally.

Mr. Allen explained his understanding is that we have criteria for inclusion in the reporting entity, and then we have criteria for whether we decide it is a disclosure entity or a consolidation entity and then we have related parties. Mr. Allen explained it seems like we have a problem if you exclude this group from this standard-- why in the world would you still keep related parties in this standard--they're actually further removed than these kinds of organizations.

Mr. Allen explained he thought the standard was good because it tried to deal with all relational issues while acknowledging that there may be some other risk issues that we need to resolve.

Mr. Reger asked if the AV authors could explain their perspective a bit further.

Mr. Dong asked what the benefit to taking this approach was.

Mr. Steinberg explained there are two: 1. it is ideologically pure as to what the federal reporting entity is. The federal reporting entity should reflect what is intended to be within the federal government. 2. it assures that in regard to the intervention entities it will put all of the intervention entities into a single standard. Further, Mr. Steinberg explained the document as written does not provide for all disclosures you would want for intervention entities.

Mr. Dacey noted concern because if we took out those three categories, we would have other disclosure entities conceivably out there, and we are still not saying those are part of the federal reporting entity. He notes there is a keen distinction for following FASAB GAAP and at this point it is only the consolidation entities.

Mr. Steinberg explained this is part of what he believes to be unintended consequences that Mr. Granof referred to before. If you are saying that only the consolidation entities are part of the federal entity there could be some things that we have as disclosure entities when we follow the other criteria, like the postal service or Amtrak. Are we willing to say the postal service is not part of the federal government?

Mr. Dacey explained he thought the proposed ED was clear as to establishing what is a federal reporting entity for applying SFFAS 34 and that aligned with consolidation entities that have to follow FASAB standards.

Mr. Steinberg explained his interpretation of the ED is that the reporting entity includes both consolidation and the disclosure entities. Mr. Dacey noted disclosure entities are in the report but they are not in the federal entity. The standard lays it out as "in the report", not "in the entities". He noted the ED makes reference to this.

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Mr. Steinberg explained he also believes all interventions should be in one standard and addressed at some point. Ms. Payne noted all interventions would be addressed in standards but it was not clear that could be done in a single standard due to the diversity of interventions. For example, in the economic recovery act funds there were loan guarantees and direct loans to alternate energy companies; does that make them interventions? Staff noted the recovery act funds were intended to stimulate the economy and they were targeted to an industry which could not otherwise thrive. There were other policy reasons for pursuing alternative energy. Ms. Payne asked if it made sense to exempt them all and address them in one standard and whether that meant amending SFFAS 2 to exclude from the existing loan guarantee standards any loan guarantees made through intervention activities?

Mr. Dacey noted TARP made significant loans and equity investments. Under current standards, there is SFFAS 5, SFFAS 2 as well as level D GAAP and the equity investments themselves are reported at fair value so there is a range of standards that may apply but there is concern if one expects to have one standard on interventions. That would be a challenge, and he explained he was not sure how to pose a question to respondents about that.

Mr. Steinberg explained he didn't think we had spent enough time to make the assumption. If the only thing is we intervened, the entity is not part of the federal government.

Mr. McCall noted his concern is the AV appeared to add a fourth principle for determining whether an entity should be included. He explained that when he looked at the inclusion principles, by adding a fourth does not mean that you only report on the sovereign entities. Mr. McCall explained that by adding a fourth principle did not take out interventions, receiverships, and conservatorships. He explained that he believes they should be part of the federal report. Mr. McCall stated the AV was less clear.

Mr. Reger agreed and stated that he did not see the need for it. He explained if certain members are having trouble understanding the AV, respondents who have not had the in depth discussion will have difficulty.

Mr. Steinberg explained he did not want them in the standard. However, he noted that does not mean you do not report and that is the same thing that was done in SFFAC 2. Mr. Steinberg noted the first question you ought to ask is do you want them in or out.

Mr. Allen explained that his belief is this document is not about defining something that is the federal government; it is about defining what should be included in the financial statements of the federal government.

Mr. Granof noted that in this document we are equating the intervention and receiverships with the Fed and they are both disclosure entities because that is how they are categorized. He noted in his opinion, the Fed is an integral part of the government, but these are not.

Mr. Allen explained he understood his point, but they both should be included in the report because we are trying to capture all of these kinds of relationships. Mr. Granof stated that he agreed but it should be clear that they are categorically different than other types of disclosure entities.

Mr. Dacey noted that there does not seem to be any debate around the table that these entities are not consolidated. The issue seems to be whether we have additional disclosure apply to

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these entities, because they are out under this alternative view, they are not consolidated, or they're not part of the federal entity.

Mr. Dacey also noted there was discussion about not needing the disclosure because the AV said they are covered in other standards. Mr. Dacey also asked if we own or control an entity but do not consolidate—is there a need to disclose more about that as opposed to other entities like the interventions where we do not have control or ownership. He noted that he believes there is a need to explain more in those situations, using the example before, GM and AIG versus some of the banks, which are all intervention activity.

Mr. Steinberg noted that paragraph 9 of the alternative view, indicates there are some additional disclosures that would be appropriate for intervention entities. Mr. Steinberg also noted that he had exception with Mr. Dacey's point that the federal entity is only the consolidation entities.

Mr. Dacey explained that he is only differentiating federal to mean they have to apply FASAB GAAP under SFFAS 34. Mr. Steinberg noted that he thought a lot of disclosure entities have to apply FASAB GAAP. Mr. Dacey explained that he did not agree because the AICPA recognizes FASAB as the standard-setter for federal entities, and it is based on the definition in SFFAC 2 currently for what is a federal entity. He added that if we say disclosure entities have to follow FASAB GAAP, there would be issues. Mr. Dacey explained that it appears to be a wording issue—the ED uses “included in the report”, whereas Mr. Steinberg refers to “in the “federal entity.” Mr. Dacey noted this was a difference in the way the standard was set up and staff was explicit, in various points throughout. Staff noted paragraph 64 is explicit.

Mr. Allen noted that paragraph 66 lays out what we are trying to accomplish by saying our federal financial reporting objectives could not be met without information regarding these disclosure entities.

Ms. Loughan explained when we started the project and considered scope, it was the boundaries of the reporting entity—to consider all of the organizations for which elected official are accountable that should be included in that report. Staff believes to not include all of them would seem incomplete and that is one of the reasons staff does not agree with the AV. Some may view it as a difference in terminology, but the scope of the project and the standard was to identify the organizations that should be included in the GPFFR.

Mr. Smith asked staff with that summary, does staff believe there is no entity being excluded under the standard, so all would be in the report? Ms. Loughan explained that is what the inclusion principles were developed for, along with the misleading to exclude principle, so it would appear to capture all material organizations. Staff explained part of Mr. Steinberg's (AV) reasoning is to guard against peoples' impressions of what is a federal entity for political or legal purposes and in the first paragraph of the executive summary of the exposure draft we try to guard against that.

Mr. Allen suggested the Board take a vote on the AV so we know if it represents the majority view.

Mr. Reger explained he did not support the AV and did not want to restate anything because he was confused by the need for the AV.

Mr. Steinberg supported the AV because he believes it has been not been addressed adequately. He reiterated that he wanted to get interventions, receiverships and conservatorship

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out of the federal entity, but not out of federal reporting. He suggested taking out the division of receiverships and conservatorships, federal government intervention and quasi-governmental – because quasi-governmental covers everything. He noted that they could not be taken out completely. Instead, he would address them in an explicit statement, similar to SFFAC 2, that they are not part of the federal entity but there are still required disclosures.

Mr. McCall stated he would leave the discussion of the three within the current ED.

Mr. Granof explained there needs to be more clarity in the ED, perhaps distinguish between something that's disclosed and the disclosure entity.

Mr. Showalter agreed with Mr. Granof's comment (distinguish disclosure entities from disclosure.) Mr. Allen also commented that paragraph 64 could be expanded upon. Mr. Showalter explained that he found the second AV and discussion confusing, but there appears to be a question if the interventions are really disclosure entities, but the Board may end up in the same spot if we still disclose information. He noted originally he thought this was about risk assumed disclosure and that is why he thought it was valid, but that does not appear to be at this point.

Mr. Smith explained these are not part of the federal entity, but the disclosure in the standard seems fine. He was not sure if there was a way to tweak the language but they need to be disclosed and he is comfortable with them in the standard because when staff explained it covers all organizations considered, and then it is why it should be in the proposed standard.

Mr. Dacey explained he likes the draft ED. He added he does not favor moving to the AV because we then have to argue that the federal government is not accountable for these entities. He explained he would understand if there are some additional disclosures that people think are necessary for intervention activities, but he noted we have one in the list already for intervention activities. Mr. Dacey also noted the Board could add questions to solicit feedback.

Mr. Dong stated he did not see the need to have the AV.

Mr. Allen agreed and said he did not support the AV. He believes that since we want disclosures about these things it just seems like this is the natural place. However, Mr. Allen explained he would be open to clarity considering if several of you would support clarifying certain things such as the difference between "federal entity" and "in the financial report" and "disclosed" and "disclosure entity" better.

Mr. Allen noted the vote shows the ED will remain the majority position on interventions, conservatorships and receiverships.

Mr. Steinberg noted that Mr. Allen had previously asked him how he would handle this area, so he wanted to repeat his thoughts for the Board and staff consideration as they make changes. Mr. Steinberg explained he would drop the three categories of disclosure entities, then rewritten what was dropped because maybe some has to come back in. Next, he suggested reading the document to ensure there is no indication that these intervention receiverships are part of the federal entity and if so, insert a specific statement that being part of disclosure is not the same as being part of an entity. Mr. Allen explained that the Board is in agreement the document should be reread to clarify any inferences and such.

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Ms. Payne explained making changes regarding inferences are difficult. Staff explained in the draft we refer to “organizations” being considered for inclusion, and once they were included we shifted to calling them “entities”, hence the name “consolidation entity” and “disclosure entity”. Ms. Payne asked if “disclosure organization” would be a better name.

Mr. Showalter explained that it was a step in the right direction. Mr. McCall noted he liked “disclosure organization” and believes it helps because we talk about disclosures related to consolidation entities. Mr. Dacey suggested considering “disclosure relationships” because that is what we are talking about.

Mr. Steinberg explained it may be a slippery slope. He also noted concern because we have not taken a look at the different things that are in this report to determine how they may be affected and what some of the implications are. Mr. Allen suggested the use of a question if that is the kind of feedback he wants.

Mr. Steinberg asked if GASB does pilot tests of some of the standards before they issue them. Mr. Allen explained it might be beneficial if you have particular concerns just to have staff send something to an agency and ask for feedback, just as we did with the Federal Reserve. Mr. Steinberg explained that he did not think it was an agency level issue. Mr. Reger noted the agencies are easy; the question is those other significant entities.

Mr. Dacey clarified that there was no longer any reason to discuss any aspects of the sovereign issue based on the discussion. Mr. Allen confirmed.

Ms. Loughan requested members to forward any other comments on the ED.

Ms. Payne explained the plan going forward is for staff to do a rewrite based on the agreements at today’s meeting, but that would not put the Board at a point of voting next meeting. Mr. Allen thanked staff and agreed the Board would see a revised draft ED at the February meeting.

CONCLUSIONS: The Board agreed to explore additional disclosures for the Federal Reserve and start with the staff proposed disclosures.

The Board directed staff to:

- Develop Questions for Respondents to address the following Federal Reserve issues:
 - Are the attributes for consolidation and disclosure entity sufficient to make a determination for a central bank (the Federal Reserve System)? Also, are there other significant entities (please identify) for which it may be difficult to determine if it is a consolidation or disclosure entity?
 - Are enough disclosures about the central bank (or other significant entities) required? If not, what additional disclosures should be made?
- Develop additional disclosures for the Federal Reserve and start with the staff recommendation but also incorporate Board member suggestions from the meeting.
- Review the document and revise to clarify inferences with “federal entity” and “in the financial report” and “disclosed” and “disclosure entity” in ways that may make the document clearer to readers.

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Staff will have a revised ED at the February meeting with the agreed upon changes, but there is not a plan to vote at the next meeting. Staff will provide a revised timeline and milestones in February.

October 2012*Federal Reserve System Basis for Conclusions Language*

Staff explained that initial draft language regarding the Federal Reserve System (how consolidation might obscure the financial effects of fiscal policies) was distributed after the August Board meeting. Staff received comments from approximately half of the members on the draft language. Members offered suggestions to the draft language for clarity.

Staff explained of those responding, certain members appeared to support the draft language, while certain members expressed some reservation with the draft language. Of the members noting concern, one member believed consolidation of the Federal Reserve was appropriate and any obscurity that may occur could be made clear through the notes to the financial statements. Other members noting concern pointed out that obscurity is not one of the criteria for determining whether an entity is a consolidation entity or a disclosure entity. Staff revised the language based on the comments received. Staff directed the members to see par. A31 - A35 in the ED for marked changes.

The Chairman opened the discussion up for questions, comments and if the Board was prepared—a vote on the Revised Federal Reserve System language.

Chairman Allen explained he thought it was appropriate and reached the balance between reasons without saying that it is or it isn't consolidated. He added that it was written objectively.

Staff explained some additional editorial and other comments had been received and those would be included in the draft tomorrow.

Mr. Showalter explained that he was supportive of the wording and that he gave some edits, but it does not change anything substantive.

Mr. Smith explained he was also supportive.

Mr. Dacey explained he was supportive as well with a couple of edits.

Mr. Steinberg explained he had a few issues of concern. He explained that he is still not sure whether the Federal Reserve should be consolidated, but he does know whether the argument why they should not be consolidated is crisp enough. It appears the reason why they are not consolidated is it would distort financial statements and yet that was not one of the criteria for consolidation versus disclosure entities.

Mr. Steinberg further explained that another big issue he has is the disclosures may not get all the information about the Federal Reserve, namely the transactions they take on behalf of the government, and also as you read the paper nowadays it is taking actions in order to promote job creation. He acknowledged there are factors and objectives for disclosures, but he doesn't think they will result in the necessary disclosures.

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Chairman Allen suggested his concern about disclosures be addressed secondly. He noted right now the Board is considering whether the wording and the basis of conclusions is appropriate to set the tone that there are reasons that someone may want to disclose versus consolidate.

Mr. Steinberg explained he was for disclosure versus consolidation on the basis of practicality, but what the standards say is we are not consolidating. We are going to disclose because it would distort the consolidated government's financial statements and that is not one of the criteria the standard proposes for differentiating between consolidation and disclosure entities.

Chairman Allen explained what the standard says is we are not going to specifically state a conclusion regarding any entity. This is a principles-based standard and we give criteria. We are not going to say whether it is or is not. But all this is trying to do is say there are reasons one may want to consider disclosure as opposed to consolidation.

Ms. Payne explained the logic or model in the basis for the conclusions is slightly challenging—it was helping people make the leap to the outcome from the criteria. She explained staff can make some editorial changes to make that crisper, but it is not that staff was trying to introduce a criteria. Staff explained it would be very difficult for practitioners to make an operational decision on what is understandable and what is obscuring. The discussion of “obscuring” is really a discussion of the quality of the outcome or the result, and the criteria are what help us avoid that outcome.

Mr. Steinberg explained that he interpreted it to mean the reason we are not consolidating the Federal Reserve is because it will distort the federal government's financial statements. If that is the case then that should be one of the four criteria for the standards—we are not going to put something into consolidated if it distorts consolidated.

Chairman Allen stated it is only explaining the impact as it relates to a specific entity, but it is not changing those three basic criteria.

Mr. Steinberg explained the basis for conclusion may be different than our standards for reporting.

Ms. Loughan explained the way the standards are set up; you assess them based on the attributes that were established for a consolidation entity and disclosure entity. One makes that assessment and the results would be a consolidation and disclosure entity. Staff explained what we were establishing in the basis for conclusion more or less supports what that assessment is and it explains it further as it relates to the presentation. Ms. Loughan explained the way the standard is established the attributes are what determines what the entity is. The basis for conclusion was explaining the need for making a distinction between entities that have those criteria and entities that do not have those criteria.

Mr. Steinberg explained that he understood staff's point, but reiterated that it comes across as if we have three criteria, but we do not want to consolidate it so now we will take the basis of conclusion and explain why it is not consolidated.

Mr. Allen suggested dropping the whole discussion in the basis for conclusion if it leads to this type of interpretation—with readers believing there is a fourth criteria. He explained the Board made a conscious decision that we are not going to specifically specify each of the entities and

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make a decision for them. The Board sets the criteria and it is up to the preparer and the attester as to how that criterion is applied.

Mr. Steinberg explained that he agrees with that. However, he believes that what we are also saying is if those criteria do not apply, in addition, you can say if it distorts the financial statements in the total government, then you can consider that reason.

Mr. Allen stated he hoped that wasn't how people read it. Mr. Steinberg explained that is how he read it.

Mr. Granof indicated that he agreed entirely with Mr. Steinberg. He explained that he thought the basis for conclusions does not support the standard and that we were adding another criterion in the basis of conclusion.

Ms. Payne explained staff intended it to explain why we pursued having the criteria. She explained it is comparable to qualitative characteristics--understandable, relevant, reliable information. Those are the reasons you lay out the standards the way you do.

Mr. Granof explained when considering the Federal Reserve, one would expect an explanation of why the Federal Reserve is not included. And one would expect an explanation that is consistent with the criteria; that is, it is independent, etc. Instead, the basis for conclusions explains that it distorts the financial statements, which are not related to one of the four criteria in the standard.

Chairman Allen explained we were not trying to do that. We were trying to say that here are the criteria and they should be applied using professional judgment. The board was not saying - and the last wording changes tried to make it even clearer that we were not saying it is a consolidation or disclosure entity.

Ms Loughan explained the standard establishes two types of entities and they have two different types of presentations. Staff explained this was trying to explain why there are two different types of presentations.

Mr. McCall explained in the section we talk about what is disclosed and what is consolidated, but he does not really understand why we then start talking about the Federal Reserve. It seems like the basis should be the entities to be included and there are criteria for that. Mr. McCall stated the report preparer would make a determination of whether they are included or not. Mr. McCall questioned why we start making a case for why the Federal Reserve, if you consolidate that it would obscure everything. Mr. McCall explained that it seems that would be outside of the basis.

Ms. Loughan explained that previously there was not any language regarding the Federal Reserve, other than the sentence as to why we removed it from SFFAC 2. We added this after the discussion with the Federal Reserve representatives. It was at the board's request to add something regarding the Federal Reserve deliberations.

Mr. Showalter explained he was a little confused by this conversation because the Board directed the staff to write this.

Mr. Steinberg agreed that staff was directed to write it, but in doing so it appears a fourth criterion was written.

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Mr. Showalter explained he did not see it that way. He explained that he saw it as a result and not a criterion. But if that is not clear, we need to fix that. When he read it, he saw it as a result.

Mr. Steinberg explained the words are, for example, in considering Federal Reserve System, some members believe that consolidation might obscure the financial effects of fiscal policies while disclosures might shed more light.

Ms. Payne explained the context for that sentence or the paragraph is the lead-in sentence—"the board considered whether the proposed principle-based standards were likely to result in fair presentation of certain significant entities." She explained that is specifically what staff was asked to document, that the board thought about how the standards and the criteria would play out with a significant entity like the Federal Reserve and to document why some thought it still would be fair presentation.

Chairman Allen asked Mr. Steinberg if his argument was to take the discussion out of the basis.

Mr. Steinberg explained people will ask why isn't the Federal Reserve in there. The standards are supposed to be clear.

Ms. Loughan explained the basis still has the paragraph that says the principles must be applied to the Federal Reserve. We do not say what the outcome is.

Chairman Allen asked Mr. McCall if he would propose taking that out of the basis for conclusions. If people are reading this saying this is the fourth criteria, then we have created something we did not want to create. It was only there because we had a lot of discussion of the Federal Reserve and we thought we should put something in the basis of the discussion that we had.

Mr. McCall explained the Federal Reserve is key to what we are talking about, but the whole standard is not just about the Federal Reserve.

Mr. Dong explained the basis is for illustrative purposes.

Mr. Dacey explained we might need to be clear that in testing the characteristics of the standard, the board considered whether the distinction is effective. But in making that decision, it is important because if you do not make that distinction properly, these are the potential outcomes of that. He explained it might be helpful to talk about the obscurities before you talk about the Federal Reserve and use the Federal Reserve as an example. Mr. Dacey explained if you do not separate these properly, you are going to have obscurities. There may be other things that may result if you start consolidating entities that should be disclosed and vice versa.

Mr. Smith agreed with Mr. Dacey and added that when you apply the criteria that you have to really apply judgment and think about it.

Mr. McCall explained when he looks at the criteria for consolidation and disclosure they are-- is taxpayer supported, governed by the Congress or the President, imposes or may impose risks and rewards to the taxpayer and provides goods and services on a nonmarket basis. He added that he did not remember a discussion of each one of those as it relates to the Federal Reserve.

Ms. Payne explained we did not go into that level of detail because we did not want to reinforce the notion that we were assessing the Federal Reserve to establish a firm classification; especially since circumstances may change over time.

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Chairman Allen reminded the Board they were in the midst of a vote and with Mr. Steinberg's points—he had brought up two. And the second one would be discussed later regarding disclosures. However, the first regarding whether there is another criterion is something that needs to be considered now.

Mr. Steinberg explained either you have to add it as one of the criteria, which maybe we do not want to do, but then we have to come up with rationale as to why, despite the criteria the Federal Reserve is not consolidated. Mr. Steinberg explained that the Board is so hung up on this notion of principles-based, but the Federal Reserve is different.

Chairman Allen explained that is why we decided to put some language in the basis.

Mr. Steinberg explained that perhaps we need to address the entity specifically in the standards.

Chairman Allen suggested the Board finalize the vote on whether there is support for the proposed wording in the basis for conclusion.

Mr. McCall explained that he would say no.

Mr. Granof explained he would say no also. He added that if we have to justify why the Federal Reserve is going to be excluded, we have to justify why in terms that specifically relate to the criteria.

After other members had voted, Chairman Allen summarized the count by stating a majority of the board agreed with the language; however, the concern raised by three members is significant enough to address. Therefore, he requested staff to attempt to resolve and bring back revised language for the Board's consideration on Thursday.

Mr. Showalter commented that Mr. Granof had suggested that we concluded that the Federal Reserve is excluded, but he thought we had not concluded because we were not making a decision.

Chairman Allen agreed the board is not making decisions regarding any individual entities.

Mr. Granof explained that when we issue a standard like this, we had better know what the result is going to be and whether or not the Federal Reserve System will be included or not because we are talking about a couple of trillion dollars in assets and liabilities. He believes the Board should know the results since we appear to be making a decision. Mr. Granof explained when we issue a standard; we had better know what the implications are. We had better know whether the FRS would be included or not. He explained, based on our discussions, we have decided at least tentatively that our standard will be written so that the FRS will be a disclosure entity rather than a consolidation entity.

Mr. Showalter explained that his point was whether disclosures about the entity were appropriate for the user. The way it is written, we are giving the preparer the ability to decide. He added that he does not think it would drop out. Mr. Showalter explained it is either consolidated or disclosure. Further, he believes there will be adequate disclosures no matter which way they go and that the user will be informed. He is comfortable with the way it is worded in that the user will get the information they need. Mr. Showalter explained that he doesn't care which way it comes out as long as the information is there for the user to

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understand. He added it is up to the user to decide, but either way, disclosure to the public will be appropriate.

Mr. McCall explained that in reading the basis, it states Treasury's securities are a significant asset of the Federal Reserve banks that is consolidated and the securities held would be eliminated. The use of Treasury securities to conduct monetary policy may introduce volatility and variability and so on. He explained that as he read this, the board has made it a determination that disclosure is the way to go as opposed to consolidation and it seemed like we made a conclusion.

Mr. Smith stated he agreed with Mr. Showalter and he believed we were leaving this open and had not made a conclusion.

Mr. Steinberg explained that he always thought that the purpose of standards was to provide some explicitness so both preparers and users would know what to expect. He believes the Board should make up its mind one way or the other.

Mr. Showalter explained that the reason we want it worded this way is because we want to have a principle-based standard as entities change over time or evolve and we do not want to have to go back and change the standard every time the role of the Fed changes. It would be difficult to definitely say what the disclosures should be because what may be true today, may be different next year. He explained preparers need some flexibility.

Mr. Dacey explained that even in the standard language, we do not come to a definitive conclusion on specific entities or types of entities.

Mr. Dong explained that the material as presented leads the reader to believe that you actually have come to a conclusion just because of the balance of one type versus the other. Mr. Dong suggested if you want to follow the approach of not drawing any conclusions on any specific entity and if you do want to use the Federal Reserve for illustrative purposes, then we take an approach where we actually trim back some of the language because it is heavily weighted towards one side of the argument.

Chairman Allen agreed that was legitimate. He noted staff had made certain changes but more may be required.

Staff noted some members wanted to add more reasons as to why it should be disclosure and staff attempted to balance it out, while considering other members wanted to add something regarding consolidation. But when we first started, it was a shorter version. Staff believes at this point, we can either tone it down or remove certain references. It is up to the board.

Mr. Showalter explained that is what he was going to suggest--vote on being silent on the Federal Reserve.

Chairman Allen asked the three board members who object to this wording-- Would any of you support just being silent totally on this.

Mr. Granof explained he would not want to be silent.

Mr. McCall explained we need to continue to talk about the Federal Reserve. He added that when he read this and what the characteristics are for consolidation and the paragraphs, it says in contrast to consolidation, disclosure may aid users in understanding. He explained as a

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reader, he believes that we have already applied the criteria against the Federal Reserve and we come to the conclusion that disclosure is better. Mr. McCall does not think that we have looked at the criteria at all relating to the Federal Reserve.

Mr. Dong explained there appeared to be two questions at issue that are being mixed up or interrelated-- One is do we mention the Federal Reserve and two is do we draw a conclusion about the Federal Reserve.

Chairman Allen explained the second one we have already discussed a couple of times, that we were not going to reach a conclusion on the Federal Reserve. I think the board got comfortable with that.

Mr. McCall explained that the basis does not support that fact.

Chairman Allen explained the board does not make specific conclusions.

Ms. Payne explained staff could bring that language forward as an introduction and then include the following points or notions:

1. we did test to see if disclosure or consolidation could produce satisfactory results
2. describe the disclosure, the reasons for disclosure, and what you get with the Federal Reserve,
3. describe consolidation, the reasons for consolidation, and what you get with the Federal Reserve
4. present a more balanced, neutral presentation
5. explain that it is inappropriate for the board to attempt a complete analysis against the criteria (because that would require going into the field and talk to lawyers, talk to constituents, stakeholder) to see how the criteria play out
6. the board does not make a call on any one entity because it might change over time.
7. will make it clear that that has not been done and there is no implication that the board ruled upon the classification
8. language will capture that whether it was consolidated or whether it was disclosed, users probably get the information they need.
9. explain what you would get under each classification regarding the central bank -- pros and cons of each.

Staff committed to bringing this revision for tomorrow's discussion.

Chairman Allen asked if any members objected to Ms. Payne's proposal.

Mr. Steinberg explained that he believes the FRS should be disclosed but there has to be more information. He explained he would have written the standards such that he would talk about consolidation entities, disclosure entities, and also a section about central banks. Mr. Steinberg explained the section would be about central banks, which exist around the world and this is the way you would report a central bank as a disclosure.

Mr. Granof also expressed some reservation and explained that he has been consistent throughout this discussion. He consistently maintained that this project was mainly about the Federal Reserve; mainly because the Fed is so important and therefore he wants to make sure that the conclusion indicates that we have given careful consideration to the Federal Reserve. He added he did not want to leave doubt as to where we stand with respect to the Federal

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Reserve. He explained that he believes users want to know where this board stands with respect to the Federal Reserve.

Mr. Showalter explained that is where he disagrees with Mr. Granof's statement. Principle-based standards provide criteria in which the user makes an informed decision because they are in the best position to make that decision, not us.

Mr. Granof explained the standards-setting board has to know the results of what the standards are.

Mr. McCall explained that the principles should be clear enough that any user could make a determination of where they fit. In terms of the Federal Reserve, we all have views and opinions about it.

Ms. Payne explained staff never envisioned this project as being exclusively about the Federal Reserve. In fact, it was not frankly a major consideration until the financial crisis. But having now done a bit of reading about the Federal Reserve, if we were to do a project on how to report on the central bank, she would advise the Board to begin with the reporting objectives because our reporting objectives were written in the context of fiscal policy. Our reporting objectives really do not consider what user needs are regarding monetary policy. If this were a project about the central bank, staff would have a taskforce of economists, public policy experts, and fiscal policy analysts, and we would have approached this very differently and had different options on the table.

Mr. Showalter reiterated he was not that overly concerned about consolidation versus disclosure because either way the information should come out.

Mr. Steinberg explained that he believes we ought to write the standard to get us there—the specific disclosures we may want. Let's come up with some principles for a central bank.

Chairman Allen explained the revised FRS language would be discussed tomorrow but at this point, the Board would be moving on to staff's next issue.

Day 2

Staff provided members with revisions to the reporting entity exposure draft for review and approval. After a period of member review, Ms. Loughan identified three main areas in the revised document for discussion before opening the discussion to other areas:

1. the basis for conclusions for the Federal Reserve language,
2. the related party language, and
3. the questions for respondents.

Staff requested overall concerns before getting to editorial items.

Mr. Showalter noted the draft is well done and raised a conceptual question. He asked if conclusions regarding the Federal Reserve System should be indicated in the basis for conclusions. He would rather describe the consideration and say it assured members that the appropriate matters would be considered by preparers in arriving at their decisions.

Mr. Dong asked the conclusions being drawn in paragraph A37 relative to the previous two paragraphs which describe some of the shortcomings if you were to consolidate. He observed

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that when you get to paragraph A37, it says that whether you consolidate or disclose, you're moving the ball forward. He asked if he is reading that correctly?

Mr. Allen observed that both Mr. Showalter and Mr. Dong read the paragraph to imply it's okay to choose one or the other.

Mr. Dong noted the construction leads you to conclude the majority of the board says that whether you do one or the other, you're still advancing the cause.

Mr. Allen said he read it to say that we're not going to tell you which of these decisions to reach but that either one will result in appropriate disclosure. He suggested that was a little different nuance.

Mr. Steinberg suggested that at paragraph A33 at the end, where it says the board did not provide an illustration of the central bank it should say "Others believe that a Central Bank's role is so unique that applying the same principles that are applicable to other components could result in misleading or less than full disclosures." Then, somewhere after paragraph A37 he would suggest an alternative view that would say why a Central Bank is a unique component. This whole discussion—lasting for the last 5 years—is indicating why the central bank is unique. He believed we should then be specific as to what we think the disclosures in the GPFFR should be for the Central Bank.

Mr. McCall suggested deleting paragraphs A35 and A36 because paragraph A34 is sufficient. He noted that he does not agree that the central bank should be specifically addressed. He believes the users and the auditors should decide how it should be presented—as a consolidation entity or a disclosure entity. He noted the majority of the board believes it is the role of the preparers and auditors to assess each organization against the inclusion principles in paragraphs 17 through 33 and then either consolidate or disclose based on paragraphs 34 to 41.

Mr. Allen agreed.

Mr. McCall also suggested an edit to change "would result in meaningful disclosure" to "...meaningful information" because disclosure requires a decision on classification. He also endorsed a suggestion from Mr. Showalter regarding paragraph A34.

Mr. Bell noted that in paragraph A37 there is a little bit of inequity -- the first part of that paragraph is a general statement about the inclusion principle but then the second part specifically refers to the Federal Reserve. So in order to make that paragraph parallel shouldn't we simply say criteria in paragraphs 34 to 41 are sufficient to aid preparers in making decisions concerning consolidation or disclosure?

Some members agreed and Mr. Allen asked if Mr. McCall agreed.

Mr. McCall did and noted he really does not see the need for paragraphs A35 and A36; and possibly A34, because they present both sides and he was not sure that it is our role to decide.

Mr. Allen asked members about the need to keep paragraphs A35 and A36.

Mr. Showalter noted he liked the way staff set this up and referring back to the illustrations. So, he would keep it because he thinks it illustrates without having the authority of an illustration.

Mr. Dong noted the prior discussion about giving equal time to both sides of the argument and likes paragraph A34 because it does that. Paragraphs A35 and A36 seem to be focused on one side of the argument.

Ms. Payne agreed and noted the challenge of transitioning the discussion to disclosure without referring to the drawbacks some see in consolidation. The people who support disclosure seem to do so because consolidation obscures.

So when you get into paragraph A36, about disclosure, there's a little more compare/contrast. She suggested re-sequencing the points in the paragraph could improve on that and make it clearer that's why the paragraph comments on consolidation.

She further commented there was merit in the view that the paragraphs are not reaching a conclusion and seem out of place. The benefit of keeping them is if a respondent wants a start on making the analysis of whether to be troubled by the principle-based approach.

Mr. Allen suggested going back to the key things that require consolidation, you can have the discussion there without any point about whether it is misleading to consolidate versus disclose.

Mr. Dacey noted that he had not reached a definitive view at that point. On the one side, he wondered if it does create a problem – since the issue does not extend to all kinds of different agencies and the two organizations that are involved in this decision are sitting at this table. On the other hand, if this is not reaching a conclusion, he thought the factors that are considered are very clear and relevant to the decisions. He explained he isn't arguing to keep it or remove it at this point but asked who we are trying to communicate with.

Mr. Showalter agreed and indicated he was also struggling with that point. His one concern was that if the Board deliberates and had thoughts then why didn't the Board include them. He thought that was the unanswered question and Mr. Dacey agreed.

Mr. Bell suggested that the language could perhaps be softened a bit to reflect that in specific areas the Board felt this or that. As written it sounds fairly declarative that this or that would result. It seems to draw a number of conclusions when it's really not. The Board seems to come to conclusions for purposes of discussion but the text seems to read as an official conclusion.

Ms. Payne noted that staff had the impression, from the previous day's discussion, that the board wanted to say something about the quality of consolidation and the quality of disclosure and that with either outcome, one could be satisfied. However, this is not necessary and the text could simply explain what information would result from consolidation and from disclosure. Such a discussion might help respondents analyze whether they want to push for a specific conclusion on the Federal Reserve or agree that a principles-based approach is appropriate. If the text was stripped of the "belief" statements and just included a fact based description it might be helpful.

Mr. Showalter noted the other thing he thought was going to be in paragraph A34 that was not in there, was the fact that we haven't actually done an exhaustive analysis. Mr. Dacey suggested prefacing it by saying these are some but certainly not all of the points that would be considered in an actual analysis.

Mr. Showalter said we want to encourage the preparers to do their own analysis and consider all the facts in arriving at a conclusion.

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Mr. Allen asked if you lay out that the board had some discussion and two members believe the standards should deal with the central bank.

Mr. Steinberg objected. He thought the members holding that view should write up the reasons behind their view.

Mr. Allen agreed and suggested taking that sentence out of paragraph A34 so it would be a neutral account of points to consider.

Mr. Steinberg thought paragraphs A34, A35, and A36 present one side and then the text should present the side that Mr. Bell indicated. It would say you could go either way. Then he thought members with his view would write something that indicates it could be the other way.

Mr. Bell suggested deleting the last sentence of A34 to provide a better transition.

Mr. Allen asked if it would be better to move the A37 sentence to A34 because the last sentence of A34 was the driver of this whole discussion. He noted the Board had concluded that it did not want to specifically conclude on the Federal Reserve; nevertheless the majority of the Board did have this discussion to assure themselves that the standard would be appropriately applied. He liked conveying that message.

Ms. Payne explained that it was a transition to the analysis; stating why the analysis was done.

Mr. Bell suggested considering a sentence before that to say we are presenting potential implications of each possible classification.

Mr. Allen posed the question as whether you want paragraph A34. If we're not going to say anything at all in 35 and 36, you would consolidate some principle out of 34 and 37 to make a bland statement without going into any details. The other view would be to keep the information about the majority of the board believed that we shouldn't address this specifically and did have some discussion about the pros and cons to assure members they had reached the appropriate decision. And then the text would note "however two board members did believe it should be explicitly considered"—which is the alternative view.

Mr. Granof suggested that may be a bit disingenuous. He observed that the Board seems to believe the Federal Reserve is a disclosure entity but we want to say let's leave it up to the auditors and the preparers. He finds this an ambiguous position to present in the basis.

Mr. Allen believes the vote would not be unanimous --- a minority may believe it's a consolidation entity. However, such a vote would not be consistent with developing a principle-based standard.

A few members noted their views with some saying they are undecided.

Mr. McCall said our principles should be clear enough that we think those principles allow organizations to make decisions with some confidence they are making the right decision. Such organizations would have to document that decision. He thought the basis for conclusions could convey that with what we have in A37 with some addition maybe from what's in A34. If we chose to leave A35 and A36, he would take the last sentence of A35, which starts the opposing view, and move it to the next paragraph. It would then say compared to consolidation some

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members viewed disclosure as... This structure would offer more parity and avoid starting with a negative.

Mr. Allen suggested an initial vote on whether members want some generic discussion by consolidation of A34 and A37 or some details from A35 and A36 but in a neutral manner. After that, there would be some discussion of the other point of view offered by Mr. Steinberg.

Mr. Steinberg said his view would depend on the way A34 and A37 is once finalized. The reason he wrote the alternative point of view was that we had criteria for what gets consolidated and not consolidated. The text yesterday as he interpreted added fourth criteria to justify not consolidating it. Some members noted the text says you can go either way and everybody around this table, he believes, wants disclosure. If it can go either way, then he believes we can solve the problem by recognizing Central Banks are unique enough to be decided under a different principle. If somehow or another you can get from A34 to A37 to the Federal Reserve as a disclosure entity because of the criteria that are in the standard then you don't need a separate principle for Central Banks.

Mr. Allen noted the Board's decision yesterday to not add that fourth criteria.

Mr. Steinberg agreed and said now you've got to explain it in such a way that you're not using the fourth criteria, but are clear the Federal Reserve is a disclosure entity.

Mr. Dacey noted the discussion was helpful. He felt the Board agreed to make clear that it had not done a thorough analysis. Given that, it is inappropriate or unnecessary in A35 and A36 to say the Board believes. However, we do explain, in A33, the fact that we considered the illustrations and we also considered the Federal Reserve. So it is possible to just omit A34 and A37 but say the Board thought about all these things and we think that preparer has sufficient principles-based guidance to decide.

Mr. Smith asked about the history of the discussion and how we got to where we are. He thought we developed the standard and it looked like the Federal Reserve was discussed because it's unique. But, he noted we agree we don't have to make the call, the auditors and the Federal Reserve's got to make the call. He wondered why we would have such a lengthy deliberation about the significant judgments required about the Federal Reserve and then not document the discussion in the basis for conclusions.

Mr. Bell noted he thought the discussion was helpful in understanding the application of the principles—just as the illustrations are. The risk is the appearance that the Board deliberated sufficiently to decide and created an unintended requirement. Aside from that risk, he finds the discussion helpful.

Mr. Dacey noted, to Mr. Smith's point, the discussion of the Federal Reserve did provide insights as to whether the criteria were right and the disclosures sufficiently robust that it would provide the nature of information that would be appropriate for the user. So, he thought the discussion was informative. To Mr. Bell's point, if the text presents some of the considerations that were discussed, he would not view it as creating a requirement. His bigger concern would be coming to a conclusion as to what was the right answer by saying "members believe." Reporting some of the points raised during the discussion in a neutral way and should not create a problem.

Mr. Allen asked how we should modify A34 to A37.

Ms. Payne indicated that there seem to be two alternatives. One is to present a combined, and shorter, A34 and A37 (omitting A35 and A36). The other is to make A35 and A36 a presentation of some of the points raised but not attributing them to members.

With regard to the Federal Reserve basis for conclusion language, on Thursday the Board unanimously approved the second option to present some of the points raised but not attribute them to members.

Mr. Allen asked staff what the next steps would be.

Ms. Payne said staff would send a revised pre-ballot draft after the meeting. As long as there are no new technical matters that wouldn't have been discussed in public, a ballot draft would be provided after the next pre-ballot.

In discussing Mr. Steinberg's potential alternative view, Mr. Steinberg repeated his preference for a clear decision that the Federal Reserve would be a disclosure entity. He also noted that he would consider further what the required disclosures are and decide whether he thinks they would disclose what's important for a Central Bank.

Mr. Allen noted that staff had made clear that if you do consolidate -- even though we don't have specific disclosures in this document for consolidation entries -- we do have specific disclosures in other standards for consolidation entities.

Mr. Granof noted that if the preparer and auditor decide the Federal Reserve should be a consolidated entity there's no specific guidance as to what disclosures the Federal Reserve should make. And because the Federal Reserve is unique, the disclosures that the Federal Reserve should make are not necessarily detailed in any other standard.

Mr. Allen suggested getting to that when we look at the paragraph two additions; if it's inadequate then maybe you want some additional disclosures for consolidated entities.

Mr. Dacey noted that what we're saying is if it were consolidated and the Federal Reserve had investments, the investment disclosure requirements, which we are getting ready to develop in another project, would apply.

Mr. Granof noted our discussions have always assumed that the Fed would be a disclosure entity— and that's reasonable. But, we're leaving it open and it's up to the preparer. If it's consolidated, he does not think that those other standards are adequate and that is a major issue.

Mr. Allen noted we have a risk assumed project and if we think there are some unique risks that would result from the relationship we could address them through that project.

Mr. Dacey and Mr. Allen indicated they understood Mr. Granof's point regarding disclosure of risks from monetary policy. Mr. Granof indicated classifying the Fed as a disclosure entity would ensure risks were disclosed.

Mr. Showalter noted he understood the point, but indicated that International Financial Reporting Standards do not address specialized industry issues—rather they rely on principles.

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He suggested adding a reminder, to the A34-A37 paragraphs, that unique relationships should be disclosed. Mr. Showalter asked Mr. Dacey's views.

Mr. Dacey responded that the standard setters, accounting standard setters by and large, have not clearly defined what their presentation means. However, he views it as compliance with GAAP plus additional disclosures to avoid the presentation from being misleading. He noted it is not clear in some of the standards that that additional disclosure is needed beyond what is specifically identified. He felt it would be appropriate to consider a broad requirement about the statements in their entirety and decisions made that some additional disclosures may in fact be necessary to avoid the statements from being misleading.

Mr. Allen summed up the next steps indicating that staff will rewrite A34 through A37, Mr. Steinberg will decide whether he has additional alternative views to provide clarity and remove uncertainty.

Ms. Payne noted that staff will make revisions and circulate a pre-ballot. If changes to the pre-ballot are editorial, a ballot will be provided to the members. The ballot indicates the final date for alternative views to be submitted. When an alternative view arrives, staff decides whether to recommend any counterpoints or clarifications in the body of the Board's majority basis for conclusions. If revisions to the body of the basis for conclusions are needed, then the Board would likely discuss them in December. If not, the balloting would continue.

TAB A Appendix 2- FRS Comment letter

July 2, 2013

Ms. Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6H19
441 G Street, NW, Suite 6814
Washington, DC 20548

Dear Ms. Payne:

We appreciate the opportunity to comment on the Federal Accounting Standards Advisory Board's (FASAB) proposed Statement of Federal Financial Accounting Standards entitled *Reporting Entity*. Defining the boundaries of the federal government for purposes of financial reporting is a challenging task and we appreciate the FASAB's effort to enhance the understandability, relevance, and transparency of financial information provided to the public in the federal government's general purpose federal financial reports (GPFFR).

The Board of Governors of the Federal Reserve System (Board) has statutory authority to establish the accounting and financial reporting practices of the Board and the Reserve Banks (collectively, the Federal Reserve System) and, as a result, we believe that it is important to provide comments on this proposed standard, which has implications for Federal Reserve System financial reporting.

The Board shares the FASAB's commitment to financial reporting transparency that underlies the *Reporting Entity* exposure draft. We have no concerns continuing the current GPFFR practice of including substantial information about the Federal Reserve System's financial interactions with the federal government in the footnotes. Similarly, we have no objections to including within the GPFFR additional information sourced from our audited annual financial statements. We do not object to the requirements of the proposed statement that would result in the Reserve Banks and the Board being treated as disclosure organizations with limited disclosure requirements (as opposed to consolidation entities). We do have concerns, however, if the provisions of the proposed standard were to suggest that the Board or the Reserve Banks should consolidate their financial statements with those of the rest of the federal government. Consolidation of this nature would unnecessarily reduce transparency, undermine the statutorily protected independence of the Federal Reserve System, distort the statements of the U.S. Government, and increase the costs of preparing and auditing the GPFFR.

I. The Federal Reserve System provides a variety of transparent financial reports to the public that exceeds the reporting requirements of the proposed standard.

The Federal Reserve System provides a substantial amount of information to the public, and its financial reporting practices are particularly robust. Each week, the Board publishes the balance sheet of each Reserve Bank along with other significant

financial information on their assets and liabilities. The Board also publishes an annual independent audit of the financial statements of the Board, each of the twelve Reserve Banks, and the combined Reserve Banks.¹ The Board began publishing an unaudited quarterly combined Reserve Banks' financial report in 2012. The annual audited Board and Reserve Bank financial statements, and the Reserve Banks' weekly and quarterly financial reports can be accessed from the Board's public website at http://www.federalreserve.gov/monetarypolicy/bst_fedfinancials.htm. We believe that the information we provide to the public demonstrates our ongoing commitment to transparency and should be sufficient for meeting the purposes of the standard without incurring additional costs.

II. Classifying the Reserve Banks and the Board as disclosure organizations provides the most transparent information to the public.

Disclosure of financial information in the GPFFR footnotes, as opposed to consolidation in the federal government's financials, will provide relevant financial information while avoiding misleading perceptions about the relationship between the federal government and the Federal Reserve System. In particular, classifying the Board and the Reserve Banks as disclosure organizations recognizes the Federal Reserve System's independence as a central bank under the Federal Reserve Act, while including focused and relevant financial information in the GPFFR.

Although we understand that the proposed standard intends to provide a broader definition of the federal reporting entity, we believe that the evaluation of each entity should give appropriate weight to those functions and activities that most significantly affect the financial operations of the entity.

The *Reporting Entity* exposure draft recognizes that the federal government achieves its objectives through a wide range of organizations, which fall at different points on the control continuum. The Federal Reserve System performs many functions that fall at different points on the continuum described in the exposure draft. For example, the Reserve Banks interact closely with the federal government in their role as fiscal agents and depositaries for the federal government. In that role, the Reserve Banks auction Treasury securities; process electronic and check payments for the Treasury; collect funds owed to the federal government; maintain the Treasury's bank account; and develop, operate, and maintain a number of automated systems to support the Treasury's mission. The Treasury Department pays the Reserve Banks for these services from appropriated funds that are reflected in Treasury's financial statements. That role, however, accounts for a relatively small portion of the financial operations of the Reserve Banks.

At the other end of the continuum, by statute, the Federal Reserve operates independently with respect to determining and implementing monetary policy, and that function has a much more significant effect on its financial condition and operating results. The Federal Reserve Act provides the Board, the Reserve Banks, and the Federal Open Market Committee with specific separate authorities and responsibilities and is designed to preserve the independence of the Federal Reserve System entities from other

¹ Annual financial statements of the Board of Governors, the 12 Federal Reserve Banks, and the combined Reserve Banks are prepared on a calendar-year basis.

government departments and agencies, including the U.S Treasury. The current FASAB Statement of Federal Financial Accounting Concepts 2: Entity and Display recognizes the independence of the monetary policy authority, stating that the Federal Reserve System’s “organization and functions pertaining to monetary policy are traditionally separated from and independent of the other central government organizations and functions in order to achieve more effective monetary and fiscal policies and economic results. Therefore, the Federal Reserve System would not be considered part of the government-wide reporting entity.” Further, Reserve Banks are not government agencies, and the treatment in the GPFFR should be consistent with their character.

III. Consolidation of the Federal Reserve System would reduce transparency in the GPFFR.

Consolidation of the Federal Reserve System’s financial information in the GPFFR would partially eliminate assets and liabilities stemming from both fiscal and monetary policy in a way that would reduce the transparency of the government’s fiscal operations. For example, the Reserve Bank’s holdings of Treasury securities acquired in the conduct of monetary policy would be eliminated along with the U.S. Treasury’s debt liabilities after consolidation, obscuring the federal debt resulting from the federal government’s fiscal operations. The portion of interest expense paid on the Reserve Bank’s holdings of U.S. Treasury securities would also be eliminated. Consolidation would also result in presenting deposits of private financial institutions held at the Reserve Banks as obligations of the federal government, which they are not.

IV. Consolidation of the Federal Reserve System would increase the cost and administrative effort associated with producing the GPFFR.

Because the Federal Reserve System reports financial information on a calendar-year basis, its audited financial information would be stale by the time it was included in the fiscal year based GPFFR dated as of September 30. Although the information could be updated by performing a nine-month “walk-forward” of Federal Reserve System financial information, the cost to the federal government of auditing this information would be significant.

In addition, the U.S. government, the Board, and the Reserve Banks apply different sets of accounting principles (FASAB, U.S GAAP for public companies, and Board of Governors established principles, respectively).² Reconciling these principles for reporting purposes would involve additional cost to both the federal government and the Federal Reserve System and could potentially increase financial reporting risk without any material benefit. These costs and efforts may also exist to a lesser extent if the Board and the Reserve Banks were to be classified as disclosure organizations under the standard.

² The Board’s and Reserve Banks’ accounting and reporting policies are governed by the Board. The Reserve Banks apply accounting standards developed by the Board of Governors, which are documented in the *Financial Accounting Manual for Reserve Banks* <http://www.federalreserve.gov/monetarypolicy/files/BSTfinaccountingmanual.pdf>

V. The provisions related to minimum disclosures for the central banking system are unnecessary.

The disclosure requirements for the central banking system described in paragraph 77 are inconsistent with the FASAB's objective of providing a principles-based standard. We believe that applying the proposed standard's inclusion principles and disclosure requirements that are applicable to all other organizations will result in an appropriate level of disclosures of Federal Reserve System financial information. The proposed disclosures for disclosure entities and the minimum disclosures for the central bank are very similar, even though the two sets of disclosures are described somewhat differently. For example, paragraph 73a, which is applicable to all disclosure organizations, requires disclosure of "information about how its mission relates to federal policy objectives, actions taken on behalf of the federal government, its organization and any significant involvements with outside parties." That requirement is substantially the same as the minimum disclosure requirement for the central bank described in paragraph 77b, which requires disclosure by the central bank of "significant roles and responsibilities (and how these relate to federal policy objectives)." We recommend deleting paragraph 77 in its entirety.

VI. The authority over the financial accounting and reporting practices of the Board and the Reserve Banks is vested with the Board of Governors.

FASAB's authority, which is derived from statutory authorities of the OMB, GAO, and Treasury, does not include authority to impose reporting requirements on the Board and Reserve Banks, given that (1) the Board is an independent entity in the executive branch; (2) neither the Board nor the Reserve Banks have reporting or other relationships to FASAB; and (3) Congress has separately established the financial reporting requirements applicable to the Federal Reserve System and vested final authority over those reports in the Board without directing the Board or the Reserve Banks to issue financial statements in accordance with FASAB requirements.³ To the extent requirements to report about the Federal Reserve System would be imposed on another entity, such as the Department of the Treasury, it is unclear how the Treasury can be expected to fulfill this obligation when the requested information pertains to the central bank, not the Treasury, and the central bank does not report to the Treasury.

The Board's statutory powers and reporting requirements largely address the issues in the proposed statement. These statutory provisions take precedence and the proposal would be in conflict with them. For example, Congress has addressed its expectation regarding transparency of Federal Reserve System financial information.

Public Access to Information- the Board shall place on its home Internet website, a link entitled "Audit", which shall link to a webpage that shall serve as a repository of information made available to the public for a reasonable period of time, not less than 6 months following the date of release of the relevant information, including—

³ The Federal Reserve Act requires the Board to order an annual independent audit of the financial statements of the Board and the twelve Reserve Banks. 12 USC section 248b (1999).

- (1) the reports prepared by the Comptroller General under section 714 of title 31, United States Code;
- (2) the annual financial statements prepared by an independent auditor for the Board in accordance with section 11B;
- (3) the reports to the Committee on Banking, Housing, and Urban Affairs of the Senate required under section 13(3) (relating to emergency lending authority); and
- (4) such other information as the Board reasonably believes is necessary or helpful to the public in understanding the accounting, financial reporting, and internal controls of the Board and the Federal reserve banks. [12 U.S.C. 225b.]

In addition, as required by statute, the Board includes in its annual report to Congress a full account of its operations.⁴ To the extent the information you seek in the proposed statement is included in the Board's existing reports, we suggest that you reference these reports in the GPFFR.

VII. We disagree with the proposal to include forward-looking financial information in the audited financial statements for the Federal Reserve System.

The proposed disclosures and the minimum disclosures both include a requirement to disclose future exposures to gains and losses from future operations. Such information about future events is very difficult to audit and including such information in audited financial statements provides a false sense of reliability to such information. Further, preparers of the financial statements are unable to predict future monetary policy actions or when they will occur. Although it may be possible to report on contingencies arising from past events, it would not be feasible to report relevant and reliable financial information about pre-decisional future operations of the central bank that could be audited. The Federal Reserve System does not include forecasts and forward-looking information in the financial statements of the Board and the Reserve Banks. Instead, as it deems appropriate, such information is provided through other means. We recommend removing the disclosure requirements related to future exposures from paragraphs 72 and 73 of the proposed standard.

VIII. The characterization of the Bureau of Consumer Financial Protection (CFPB) in the proposal is incorrect, and should be revised.

Paragraph A32, footnote 57, in the proposed standard describes the Federal Reserve System as comprised, in part, of the CFPB. When Congress created the CFPB as a part of the Federal Reserve System, it provided that the CFPB's financial statements "shall not be consolidated with the financial statements of either the Board of Governors or the Federal Reserve System." The proposed standard should be clarified in

⁴ The Federal Reserve Act Section 10. Board of Governors of the Federal Reserve System. 12 USC 247b.

this regard and, specifically, the references to the CFPB should be removed from the footnote.

In conclusion, we thank the FASAB for the opportunity to comment on the proposed standard and respectfully ask for consideration of the recommendations and suggestions in this letter. If you have any questions or would like to discuss these comments, please contact Greg Evans at 202-452-3945 or Larry Mize at 202-452-5232.

Sincerely,

Louise L. Roseman
Director
Division of Reserve Bank Operations
and Payments Systems Division

Donald V. Hammond
Chief Operating Officer



Federal Accounting Standards Advisory Board

REPORTING ENTITY

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by July 3, 2013

April 3, 2013

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation to comment, or preliminary views document may be issued before an exposure draft is released on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- ["Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board."](#)
- ["Mission Statement: Federal Accounting Standards Advisory Board"](#), [exposure drafts](#), [Statements of Federal Financial Accounting Standards and Concepts](#), [FASAB newsletters](#), and other items of interest are posted on FASAB's website at: www.fasab.gov.

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Contact us:

Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 6814
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Washington, DC 20548
Telephone 202-512-7350
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www.fasab.gov



Federal Accounting Standards Advisory Board

April 3, 2013

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

Your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards, entitled *Reporting Entity*, are requested. Specific questions for your consideration appear on pages 4-9 but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by July 3, 2013.

All comments received by the FASAB are considered public information. Those comments may be posted to the FASAB's website and will be included in the project's public record.

Mail delivery is delayed by screening procedures. Therefore, please provide your comments in electronic form by e-mail to fasab@fasab.gov. If you are unable to email your responses, we encourage you to fax the comments to (202) 512-7366. Alternatively, you may mail your comments to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6H19
441 G Street, NW, Suite 6814
Washington, DC 20548

We will confirm receipt of your comments. If you do not receive confirmation, please contact our office at (202) 512-7350 to determine if your comments were received.

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. A public hearing has been scheduled at 9:00 AM on **August 28, 2013**, in Room 7C13 at the GAO Building, 441 G Street, NW, Washington, DC. Please notify Melissa Loughan, FASAB Assistant Director, at loughanm@fasab.gov or (202) 512-5976, by July 29, 2013, if you wish to provide oral comments at the public hearing.

Sincerely,

Tom L. Allen
Chairman

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

The Board is proposing principles to ensure organizations for which elected officials are accountable are included in general purpose federal financial reports (GPFFRs). The principles proposed to guide financial reporting recognize the complex diverse organizations possessing varying legal designations (for example, government agencies, not-for-profit organizations, corporations) that are used to address public policy challenges. The principles herein are not intended to establish whether an organization is or should be considered a federal agency for legal or political purposes. Rather, this exposure draft (ED) provides principles to guide preparers of financial statements at the government-wide and component reporting entity levels in determining what organizations should be included in the reporting entity's GPFFR for financial accountability purposes.

The government-wide GPFFR should include all organizations (1) budgeted for by elected officials of the federal government, (2) owned by the federal government, or (3) controlled by the federal government with risk of loss or expectation of benefits. In addition, the Board is proposing that an organization be included in the government-wide GPFFR if it would be misleading to exclude it even though it does not meet one of the three inclusion principles. When any of these conditions exists, the Board believes information regarding the organization is necessary to provide accountability.

This ED provides for determining the most appropriate means—consolidated financial statements or disclosures—to include information about these organizations in GPFFRs. Determining the most appropriate means requires an assessment of the degree to which the following characteristics are met: the organization is financed by taxes or other non-exchange revenue, is governed by the Congress and/or the President, imposes or may impose risks and rewards on the federal government, and/or provides goods and services on a non-market basis. Note, however, not all characteristics are required to be met to the same degree; classification is based on the assessment as a whole.

Generally, consolidated financial statements presenting the financial position and results of operations are appropriate for those organizations financed by the taxpayer, governed by elected officials, imposing risks and rewards on the federal government, and providing goods and services on a non-market basis. Consolidated financial statements present the financial information as if the organizations were a single economic entity. Such a presentation is needed to show – in the aggregate – the net cost financed by taxpayers, the assets available for use, and the liabilities to be settled in the future. Organizations to be included in the consolidated financial statements within the GPFFR are referred to as “consolidation entities” and are subject to the hierarchy of generally accepted accounting principles established for “federal entities” in Statement of Federal Financial Accounting Standards 34.

Consolidation is not appropriate for organizations operating with a high degree of autonomy. Some organizations that meet the principles for inclusion are insulated from political influence and intended to be non-taxpayer funded. Presenting information about these discrete organizations in consolidated financial statements would obscure the operating results and

financial position of the reporting entity. Instead, information about these types of discrete organizations should be disclosed in notes to the consolidated financial statements of reporting entities applying federal financial accounting standards. The disclosures should reveal the nature of the relationship to the reporting entity, relevant activity during the reporting period, and the reporting entity's future exposures to risks and rewards resulting from the relationship. Organizations to be disclosed in the GPFFR are referred to as "disclosure organizations." While disclosure organizations are not subject to the hierarchy of generally accepted accounting principles established for federal entities, information about such organizations is needed for accountability purposes.

The Board proposes each component reporting entity's GPFFR include all organizations for which it is accountable. This includes all consolidation entities and disclosure organizations administratively assigned to it. The GPFFR for the government-wide reporting entity would be a consolidation of component reporting entity GPFFRs including information regarding disclosure organizations. One member would alter the proposal by not equating organizations in receivership, conservatorship, or owned or controlled as a result of an intervention to other disclosure organizations. This member notes that the Board is undertaking a project on risk assumed and believes that that project should establish the requirements for all receiverships, conservatorships, and interventions, not just those encompassed by these proposed standards. This member's alternative view is presented on page 54.

In addition to the relationships that lead to organizations being included in the GPFFR based on the principles described above, the federal government may have relationships with other parties. The Board also proposes to require disclosures if one party to an established relationship has the ability to exercise significant influence over the other party in making financial and operating decisions, and the relationship is of such significance that it would be misleading to exclude information about it. The parties engaged in these relationships are "related parties." The disclosures would provide information about the nature of the government's relationship with the related party and other information to aid in understanding the relationship and its potential financial reporting impact, including exposures to risk of loss or potential gain as a result of the relationship.

The proposed Statement would be effective for periods beginning after September 30, 2016. Earlier implementation is encouraged.

HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

This Statement would improve federal financial reporting by improving guidance for identifying organizations to include in the GPFFRs of the government-wide reporting entity and component reporting entities. When implemented, GPFFRs will provide users with consolidated financial information about federal reporting entities, information about disclosure organizations owned or controlled by the federal government, certain disclosures about the central banking system, and information about significant related party relationships. This information will aid in meeting federal financial reporting objectives.

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QUESTIONS FOR RESPONDENTS

The FASAB encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also would welcome your comments on other aspects of the proposed Statement. The Board plans to hold a public hearing on August 28, 2013, and you are welcome to offer oral comments at that time. Please notify Melissa Loughan, FASAB Assistant Director, at loughanm@fasab.gov or (202) 512-5976, by July 29, 2013, if you wish to provide oral comments at the public hearing.

The Board believes that this proposal would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

Because the proposal may be modified before a final Statement is issued, it is important that you comment on aspects that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

The questions in this section are available in a Word file for your use at <http://fasab.gov/board-activities/documents-for-comment/exposure-drafts-and-documents-for-comment/>. Your responses should be sent by e-mail to fasab@fasab.gov. If you are unable to respond electronically, please fax your comments to (202) 512-7366. Alternatively, you may mail your comments to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6H19
441 G Street, NW, Suite 6814
Washington, DC 20548

All comments are requested by July 3, 2013.

Q1. The Board is proposing three inclusion principles for an organization to be included in the government-wide GPFFR:

- An organization with an account or accounts listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “*Federal Programs by Agency and Account*” unless the organization is a non-federal organization receiving federal financial assistance
- An organization in which the federal government holds a majority ownership interest
- An organization that is controlled by the federal government with risk of loss or expectation of benefit

In addition, the Board is proposing that an organization be included in the government-wide GPFFR if it would be misleading to exclude it even though it does not meet one of the three inclusion principles.

Refer to paragraphs 20-36 of the proposed standards and paragraphs A12- A29 in Appendix A - Basis for Conclusions for a discussion and related explanation.

- a. **Do you agree or disagree with each of the inclusion principles? Please provide the rationale for your answer.**
- b. **Do you believe the inclusion principles, and the related definitions and indicators, are helpful and clear? Please provide the rationale for your answer.**
- c. **Do you agree or disagree that an organization should be included in the GPFFR if it would be misleading to exclude it even though it does not meet one of the three inclusion principles? Please provide the rationale for your answer.**
- d. **Do you agree the inclusion principles can be applied to all organizations, such as the Federal Reserve System, Federally Funded Research and Development Centers, Government Sponsored Enterprises, museums, and others, to determine whether such organizations should be included in the government-wide GPFFR? Please provide the rationale for your answer.**

Q2. The Board proposes distinguishing between two types of organizations in GPFFRs and this distinction will ultimately determine how they are reported: consolidation entities and disclosure organizations. Consolidation entities generally are (1) financed by taxes or other non-exchange revenue as evidenced by their inclusion in the budget, (2) governed by the Congress and/or the President, (3) imposing or may impose risks and rewards on the federal government, and/or (4) providing goods and services on a non-market basis. In contrast, disclosure organizations are those that (1) receive limited or no funding from general tax revenues, (2) have less direct involvement, and influence, by the Congress and/or the President, (3) impose limited risks and rewards on the federal government, and/or (4) are more likely to provide goods and services on a market basis.

The Board proposes consolidation entities be consolidated in the government-wide financial statements and the information about disclosure organizations be disclosed in notes. The Board also proposes that certain factors and objectives be considered in determining the information about disclosure organizations to be disclosed in notes. The Statement allows flexibility in the information presented as long as the disclosure objectives are met. The Statement also provides examples of information that may meet objectives.

Refer to paragraphs 37- 53 and 64-77 of the proposed standards and paragraphs A30-A54, A62-A63 and A71-A81 in Appendix A - Basis for Conclusions for a discussion and related explanation.

- a. **Do you agree or disagree with the concept of distinguishing between consolidation entities and disclosure organizations? Please provide the rationale for your answer.**
- b. **Do you agree or disagree with the attributes used to make the distinction between consolidation entities and disclosure organizations? Please provide the rationale for your answer and identify additional attributes, if any, that you believe should be considered.**

- c. **Do you agree or disagree that, assuming the organizations are determined to be organizations included in the GPFFRs, the attributes are adequate to make a determination of whether organizations such as the Federal Reserve System, Federally Funded Research and Development Centers, museums, and others are consolidation entities or disclosure organizations? Please provide the rationale for your answer and identify any organizations you believe the attributes could not be adequately applied to, and additional attributes, if any, you believe are needed to address these organizations.**
- d. **Do you agree or disagree with:**
- i. **the factors to be considered in making judgments about the extent of appropriate disclosures (see par. 69),**
 - ii. **the objectives for disclosures (see par. 72), and**
 - iii. **the examples provided (see par. 73)?**

Please provide the rationale for your answers.

Q3. The Board proposes each component reporting entity report in its GPFFR organizations for which it is accountable; that includes consolidation entities and disclosure organizations administratively assigned to it. Administrative assignments can be identified by evaluating:

- the scope of the budget process,
- whether accountability is established within a component reporting entity, or
- rare instances of other significant relationships such that it may be misleading to exclude an organization not administratively assigned based on the previous two principles.

The Board recognizes that in rare instances it also may be misleading to include an organization that is administratively assigned to a reporting entity based on the above principles. In such cases, the organization may be excluded.

Refer to paragraphs 54-63 of the proposed standards and paragraphs A55-A61 in Appendix A - Basis for Conclusions for a discussion and related explanation.

- a. **Do you agree or disagree that each component reporting entity should report in its GPFFR organizations for which it is accountable, which includes consolidation entities and disclosure organizations administratively assigned to it? Please provide the rationale for your answers.**
- b. **Do you agree or disagree that administrative assignments can be identified as provided in paragraphs 54-63? Please provide the rationale for your answers.**

Q4. The Statement provides for each reporting entity (the government-wide and component reporting entities) to consolidate financial information for all consolidation entities for which it is accountable without regard to funding source (for example, appropriations or donations). For certain organizations, such as museums and performing arts organizations, this may lead to consolidating funds from sources such as donations that are presently not consolidated in the government-wide GPFFR.

Refer to paragraphs 54-64 of the proposed standards and paragraph A19 in Appendix A - Basis for Conclusions for a discussion and related explanation.

Do you agree or disagree that each component reporting entity (for example, museums) and the government-wide reporting entity should consolidate in their entirety organizations for which it is accountable without regard to funding source, including those receiving appropriations and donations? Please provide the rationale for your answers.

Q5. For consolidation entities, the Statement proposes that FASAB and Financial Accounting Standards Board (FASB) based information should be consolidated without conversion of FASB-based information to a FASAB basis.

Refer to paragraphs 65- 66 of the proposed standards and paragraphs A66-A70 in Appendix A - Basis for Conclusions for a discussion and related explanation.

Do you agree or disagree that consolidation of FASAB and FASB based information without conversion for consolidation entities is appropriate? Please provide the rationale for your answers.

Q6. Central banking (through the Federal Reserve System) is a unique federal responsibility with distinctive characteristics. The proposed standards do not specify that the central banking system be included in GPFFRs or whether, if included, it would be classified as a consolidation entity or a disclosure organization. Because of the unique nature and magnitude of central banking transactions, and the fact there is only one organization of this type, the Board proposes certain minimum disclosures regarding the central banking system. These disclosures would be required in addition to any other reporting requirements regarding the central banking system. The information should be disclosed in the government-wide GPFFR and the GPFFR of any reporting entity to which it may be primarily associated with or administratively assigned. Depending on the circumstances, some of the minimum disclosures may have been addressed in other requirements. The resultant disclosures should be integrated so that concise, meaningful, and transparent information is provided and information is not repetitive.

Refer to paragraph 77 of the proposed standards and paragraphs A30-A37 in Appendix A - Basis for Conclusions for a discussion and related explanation.

- a. **Do you agree or disagree with the minimum disclosures for the central banking system or believe there are additional disclosures that should be considered? Please provide the rationale for your answer.**
- b. **Do you believe there are other significant organizations for which minimum disclosures should be made? Please specify which entities, if any, and the nature of disclosures and provide the rationale for your answer.**

Q7. 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.
- 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.
- c. Are there additional organizations that generally should be considered related parties? Please provide the rationale for your answer.
- d. Do you agree or disagree with the list of exclusions? Please provide the rationale for your answer.
- e. Are there additional exclusions that should be considered? Please provide the rationale for your answer.

Q8. The Board proposes conforming changes to Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, to rescind or amend language to remove criteria for determining what organizations are required to be included in a federal reporting entity's GPFFR from the concepts statement because criteria will be in a statement of federal financial accounting standards. Refer to paragraphs 88-101 of the proposed standards and paragraphs A85-A88 in Appendix A - Basis for Conclusions for a discussion and related explanation.

Do you agree or disagree with the conforming changes to SFFAC 2? Please provide the rationale for your answer.

Q9. The Board proposes the Statement and Amendments to SFFAC 2, *Entity and Display*, be effective for periods beginning after September 30, 2016. Refer to paragraph 102 of the proposed standards.

Do you agree or disagree with this effective date? Please provide the rationale for your answer.

Q10. 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?
- b. Do you believe the appendices should remain after the Statement is issued?
- 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.

Q11. Are there other unique situations that should be addressed within this Statement? Please explain fully and also how the situation is not addressed by this Statement when considered in its entirety.

Q12. One member has an alternative view regarding receiverships, conservatorships, and interventions. The Board member does not believe receiverships, conservatorships, and intervention organizations should be equated with other disclosure organizations. He believes guidance in the proposed standards gives the impression that these organizations are part of the federal government. Further, he believes all types of interventions should be addressed in the Board's project on risk assumed.

The other members believe the proposed standards appropriately distinguish between consolidation entities and disclosure organizations including receiverships, conservatorships, and interventions resulting in ownership or control. The Board deliberated alternatives regarding such organizations, including creating an "exception" similar to the approach taken in SFFAC 2, but determined an exception would be rules-based rather than principles-based. Such an exception would require more detailed guidance, or "rules," to aid in determining whether ownership or control of such organizations is expected or intended to be permanent.

Instead, the proposed standards establish principles for when relationships with organizations create a need for accountability, and how information should be included in GPFFRs. The Board believes it is important to address these relationship matters in a single Statement of Federal Financial Accounting Standards and has not proposed exceptions. The Board also addresses in this proposed Statement whether organizations are required to apply the GAAP hierarchy for federal reporting entities. Disclosure organizations are not required to apply the GAAP hierarchy for federal reporting entities and this should avoid giving the impression that all disclosure organizations included in GPFFRs are federal reporting entities or "part of the federal government." To further avoid giving this impression, the Board clarified that it is not the purpose of this Statement of Federal Financial Accounting Standards to assist in determining what entities are "part of the federal government" for legal or political purposes.

Refer to paragraphs 7, 13-14, 41, 49-53, and 65 of the proposed standards and paragraphs A1-A2, A9-A11, A20-A23, A30-A31, A44-A54, and A89-A93 in Appendix A – Basis for Conclusions for a discussion and related explanation.

- a. Do you agree or disagree with the alternative view that the proposed standards should not equate receiverships, conservatorships, and interventions with other disclosure organizations to avoid an inference that they are part of the Federal government? Please provide the rationale for your answer.**
- b. Do you agree or disagree with the alternative view that the guidance for all interventions, regardless of type, should be presented in a single Statement of Federal Financial Accounting Standard? Please provide the rationale for your answer.**

INTRODUCTION

PURPOSE

1. The federal government and its relationships with organizations have become increasingly complex. Notwithstanding these complexities, **general purpose federal financial reports**¹ (GPFFR) for the government-wide reporting entity should be broad enough to reflect the Congress and/or the President's accountability for those organizations. In addition, **component reporting entity** GPFFRs should allow the Congress and/or the President to hold management accountable. Although Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, addresses identifying **reporting entities** and criteria for including components in a reporting entity, questions have continued in this area indicating the need for standards.² Standards that can be used to identify organizations to include in the GPFFR of the government-wide reporting entity and each component reporting entity are important to meet federal financial reporting objectives.
2. This Statement guides preparers of GPFFRs in determining what organizations to report upon, whether such organizations are considered "consolidation entities" or "disclosure organizations,"³ and what information should be presented. This guidance, together with existing guidance, will ensure that users of GPFFRs are provided with comprehensive financial information about federal reporting entities and their relationships so that federal financial reporting objectives are met. This Statement requires reporting entities to disclose certain information about disclosure organizations administratively assigned to them. It does not require new **disclosures** regarding consolidation entities administratively assigned to reporting entities. Any existing required disclosures for the consolidated financial statements of the reporting entity, which include the consolidation entities, would continue to apply. While not addressing the inclusion or classification of the components of the central banking system, the Statement does establish certain minimum disclosures regarding the central banking system.
3. This Statement also guides preparers of GPFFRs in identifying **related parties** and in determining what information to provide about related party relationships of such significance that it would be misleading to exclude information. There are specific disclosures regarding related parties that are in addition to those required regarding disclosure organizations.

¹ Terms defined in the Glossary are shown in **bold-face** the first time they appear.

² SFFAC 2 is a Concepts Statement and is considered Other Accounting Literature. See Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles (GAAP), Including the Application of Standards Issued by the FASB* for more information regarding the hierarchy.

³ "Consolidation entities" and "disclosure organizations" are terms used to distinguish between entities based on the degrees to which the entity is (1) financed by taxes or other non-exchange revenue, (2) governed by elected or appointed officials, (3) imposing or may impose risks and rewards to the federal government and (4) providing goods and services on a market or non-market basis. See par. 36 - 52 for more information.

4. The guidance recognizes an organization's legal form may not reflect the substance of the relationship between the federal government and the organization. As such, the legal form or designation of an organization does not always determine whether it should be reported in the government-wide GPFFR. Even in cases where legislation indicates an organization is "not an agency or instrumentality" of the federal government, the organization should be assessed against the guidance contained in this Statement to determine whether it should be included in the reporting entity's GPFFR. Inclusion results from a need for accountability given the nature of the relationship between the federal government and the organization but inclusion does not change the legal form of the organization.

MATERIALITY

5. The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

PROPOSED STANDARDS

SCOPE AND APPLICABILITY

6. This Statement applies to federal reporting entities that prepare general purpose federal financial reports (GPFFRs) in conformance with generally accepted accounting principles (GAAP) as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. Paragraph 66 of this Statement also applies to federal reporting entities that prepare GPFFRs in conformance with GAAP as provided by paragraphs 9 through 12 of SFFAS 34.
7. This Statement does not require any entity to prepare and issue GPFFRs. The purpose of this Statement is to enable federal reporting entities preparing and issuing GPFFRs to determine:
 - a. whether SFFAS 34 is applicable to an organization,
 - b. what organizations should be included in the GPFFR of federal reporting entities applying SFFAS 34,
 - c. the manner in which information should be presented for organizations included in the GPFFR, and
 - d. what disclosures, if any, are needed regarding related parties.

DEFINITIONS

Definitions in paragraphs 8 through 12 are presented within the standards because they are new terms intended to have a specific meaning when applying the standards.

8. **Reporting Entity** Reporting entities are organizations that issue a GPFFR because either there is a statutory or administrative requirement to prepare a GPFFR or they choose to prepare one. The term “reporting entity” may refer to either the government-wide reporting entity or a component reporting entity (see definitions below).

Statement of Federal Financial Accounting Concepts (SFFAC) 2 provides criteria for an entity to be a reporting entity.⁴ The criteria focus on whether an entity’s:

- a. management is responsible for controlling and deploying resources, producing outputs and outcomes, and executing the budget or a portion thereof (assuming that

⁴ SFFAC 2, par. 29-38, provides a discussion on Identifying the Reporting Entities for General Purpose Financial Reporting.

- the entity is included in the budget), and is held accountable for the entity's performance.
- b. financial statements would provide a meaningful representation of operations and financial condition.
 - c. financial information could be used by interested parties to help them make resource allocation and other decisions and hold the entity accountable.
9. **Government-wide Reporting Entity** The government-wide reporting entity's GPFFR includes all organizations for which the Congress and/or the President are accountable based on principles established in this Statement.
10. **Component Reporting Entity** "Component reporting entity" is used broadly to refer to a reporting entity within a larger reporting entity.⁵ Examples of component reporting entities include organizations such as executive departments, independent agencies, government corporations, legislative agencies, and federal courts. Component reporting entities would also include sub-components (those components included in the GPFFR of a larger component reporting entity) that may themselves prepare GPFFRs. One example is a bureau that is within a larger department that prepares its own standalone GPFFR.
11. **Control with risk of loss or expectation of benefit** "Control with risk of loss or expectation of benefit" is the power to impose will on and/or govern the financial and/or operating policies of another organization with the potential to be obligated to provide financial support or assume financial obligations or to obtain financial resources or non-financial benefits.⁶ See paragraphs 25 - 34.
12. **Related Parties** Organizations are considered to be related parties if the existing relationship or one party to the existing relationship has the ability to exercise significant influence over the other party in making financial and operating decisions.

ORGANIZATIONAL APPROACH TO DEFINING BOUNDARIES

13. The federal government is unique because its constitutionally established powers, motivations, and functions are different from those of all other organizations. It is an extremely complex organization responsible for the common defense and general welfare of the nation. Although there are various perspectives⁷ for viewing the federal government, an organizational approach was established in SFFAC 2⁸ as the most appropriate perspective for understanding the composition of the federal government. SFFAC 2 established that GPFFRs should include the aggregation of organizations⁹ for which the

⁵ The larger reporting entity could be the government-wide reporting entity or another component reporting entity.

⁶ For example, a non-financial benefit would be one where the federal government benefits from a service being provided to it or on its behalf.

⁷ SFFAC 2, par. 13-28, discusses the organizational, budget and program perspectives of the federal government, as well as the intertwining of the perspectives.

⁸ SFFAC 2, par. 29-38.

⁹ "Organization" is used broadly and may include among others departments, agencies, bureaus, divisions, commissions, corporations, and components.

federal government is financially accountable as well as other organizations for which the nature and significance of their relationship with the government are such that their exclusion would cause the federal government's financial statements to be misleading or incomplete.

14. Accountability demands comprehensive reporting. To provide comprehensive reporting, the federal government must report on organizations that serve varied purposes and have complex governance structures and finances. In some cases, disclosing financial and other information in the notes about an organization rather than consolidating financial and other information about all organizations may better meet federal financial reporting objectives.
15. This Statement first establishes the principles for identifying organizations to include in the government-wide GPFFR (see Principles for Inclusion in the Government-wide GPFFR beginning with paragraph 20) and then distinguishes between consolidation entities and disclosure organizations (see Reporting on Organizations—Consolidation Entities or Disclosure Organizations beginning with paragraph 37).
16. This Statement also establishes that component reporting entities' GPFFRs must include all consolidation entities and disclosure organizations for which they are accountable so that both the component reporting entity and government-wide GPFFRs are complete (see Identifying Organizations Component Reporting Entities Are Accountable For beginning with paragraph 54).
17. The Statement provides guidance for how to report on consolidation entities and disclosure organizations (see GPFFR Consolidation and Disclosure beginning with paragraph 64).
18. The Statement establishes minimum disclosure requirements regarding the central banking system (see paragraph 77).
19. Lastly, the Statement provides for disclosure of related party relationships of such significance that it would be misleading to exclude information about them (see Related Parties beginning with paragraph 78).

PRINCIPLES FOR INCLUSION IN THE GOVERNMENT-WIDE GPFFR

20. This Statement provides three principles for determining which organizations should be included¹⁰ in the government-wide GPFFR and also requires inclusion of organizations if excluding them would be misleading (see paragraph 36).
21. An organization meeting any one of the three principles below is included in the government-wide GPFFR:
 - a. In the Budget
 - b. Majority Ownership Interest

¹⁰ "Included" means the information is either consolidated or disclosed.

c. Control with Risk of Loss or Expectation of Benefit

IN THE BUDGET

22. An organization with an account or accounts listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account” should be included in the government-wide GPFFR unless it is a non-federal organization receiving federal financial assistance.¹¹ Any listed non-federal organizations receiving federal financial assistance should be assessed against the next two principles (*Majority Ownership Interest* and *Control with Risk of Loss or Expectation of Benefit*) to determine whether they should be included in the government-wide GPFFR.

MAJORITY OWNERSHIP INTEREST

23. The federal government (directly or through its components) may have an ownership interest¹² in an organization. An ownership interest is a legal claim on the net residual assets of an organization such as holding shares or other formal equity instruments. The holding of an ownership interest usually but not always entitles the holder to an interest in voting rights.
24. Majority ownership interest exists with over 50 percent of the voting rights or net residual assets¹³ of an organization. When the federal government (directly or through its components) holds a majority ownership interest in an organization, it should be included as either a consolidation entity or a disclosure organization in the government-wide GPFFR.¹⁴

CONTROL WITH RISK OF LOSS OR EXPECTATION OF BENEFIT

25. An organization that is controlled by the federal government with risk of loss or expectation of benefit should be included in the government-wide GPFFR. For these purposes, control with risk of loss or expectation of benefit is defined as follows:

Control with risk of loss or expectation of benefit is the power to impose will on and/or govern the financial and/or operating policies of another organization with the potential to be obligated to provide financial support or assume financial obligations or obtain financial

¹¹ As defined by the Single Audit Act Amendments of 1996, federal financial assistance is assistance that non-federal organizations receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, or other assistance.

¹² “Ownership interest” is the possession of substantially all of the benefits and risks incident to ownership. *FASAB Handbook as of June 30, 2012--Glossary*.

¹³ For example, the federal government may hold more equity in preferred stock than all other stockholders but the preferred stock may be non-voting.

¹⁴ Ownership interests 50% or less should be accounted for in accordance with the appropriate accounting standards per the GAAP hierarchy. However, the organization should still be assessed against the control inclusion principle and the misleading to exclude principle.

resources or non-financial benefits.¹⁵ Both the power and either the risk of loss or expectation of benefits aspects of the definition should be met to justify inclusion of an organization. Hereafter, control with risk of loss or expectation of benefit is referred to as “control.”

26. Control refers to the ability to control, whether or not that ability is actively exercised, and should be assessed at the reporting date regardless of the federal government’s ability to change it in the future. In determining whether control exists, it is necessary to determine the substance of the relationship between the federal government and the organization as it may not be completely reflected by the legal form of the relationship.
27. Control does not necessarily mean the federal government has responsibility for the management of the day-to-day operations of an organization. Rather, it is the federal government’s authority to determine or influence the policies governing those activities that indicates control.
28. Determining whether control exists requires the application of professional judgment. The federal government achieves its objectives through a wide range of organizations which individually will fall on a continuum. At one end of the continuum, it is clear that an organization does not have the power to act independently and is controlled by the federal government—such as an executive department. At the other end, the organization has the power to act independently and, while the federal government may have a level of influence, it is clear that the federal government does not have control—such as a foreign government.

Indicators of Control

29. As discussed in the following paragraphs, there are indicators that should be considered in determining whether the federal government controls an organization. As noted above, consideration needs to be given to the nature of the relationship between the federal government and the organization and judgment applied to determine whether control exists.
30. Certain individual indicators provide persuasive evidence that control exists. Because each indicator provides strong evidence of control, meeting any one indicator would generally mean control is present. These indicators are when the federal government has the unilateral authority to:
 - a. establish or amend the fundamental purpose and mission of the organization,¹⁶ which may include authorizing the organization to exercise sovereign powers of the federal government and requiring the organization to carry out federal missions and objectives;

¹⁵ For example, a non-financial benefit would arise when the federal government receives a service or a service is provided to others on its behalf.

¹⁶ Congressionally chartered nonprofit organizations identified under United States Code (U.S.C.) Title 36, Subtitle II and III, should not be considered controlled solely because amendments to their federal charter must be enacted through legislation. Instead, such organizations should be considered controlled only if they meet the indicators in paragraph 31 or another indicator in this paragraph.

- b. appoint or remove a majority of the governing board members;
 - c. direct the governing body regarding the establishment and subsequent revision of financial and operating policies of the organization; or
 - d. dissolve the organization thereby having access to the assets and responsibility for the obligations.
31. Other indicators provide evidence that control may exist, but must be considered in the aggregate and often require the application of professional judgment in assessing. These indicators are when the federal government has the ability to or is obligated to:
- a. provide significant input into the appointment of members of the governing body of the organization or being involved in the appointment or removal of a significant number of members;
 - b. direct the ongoing use of the organization's assets;
 - c. direct investment decisions including the liquidation of investments;
 - d. appoint or remove key executives or personnel;
 - e. approve the budgets or business plans for the organization;
 - f. require audits;
 - g. veto, overrule, or modify governing board decisions or otherwise significantly influence normal operations;
 - h. finance the deficits of, provide financial support to, or settle liabilities of the organization;
 - i. direct the organization to work with the government to provide services to taxpayers which may include determining the outcome or disposition of matters affecting the recipients of services;
 - j. establish, rescind, or amend the organization's governance framework;
 - k. establish limits or restrictions on borrowing and investments of the organization; or
 - l. restrict the capacity to generate revenue of the organization, especially the sources of revenue.

Situations Where Control Does Not Exist

32. Because of the federal government's broad powers and economic influence, control should not be inferred from either:
- a. authority to exercise regulatory powers over an organization; or
 - b. economic dependency of the organization on the federal government.

33. The federal government has the power to regulate many organizations by use of its sovereign and legislative powers. For example, the federal government has the power to regulate the behavior of organizations by imposing conditions or sanctions on their operations. However, the governing bodies of the regulated organizations make decisions within the regulatory framework. Regulatory powers do not constitute control for purposes of this Statement because the federal government's interest in these organizations extends only to the regulatory aspects of the operations.
34. Certain organizations may be economically dependent on the federal government but ultimately retain discretion as to whether to accept funding or do business with the federal government. For example, many nonprofit organizations rely on federal government funding but that does not mean they are controlled by the federal government. Although the federal government may be able to influence organizations dependent on federal funding or business through purchasing power, the federal government typically does not govern their financial and operating policies.

MISLEADING TO EXCLUDE

35. There may be instances when an organization does not meet the inclusion principles in paragraphs 20 through 31 yet the government-wide GPFFR would be misleading or incomplete if the organization were excluded.¹⁷
36. Organizations should be included in the government-wide GPFFR if it would be misleading to exclude them.

REPORTING ON ORGANIZATIONS—CONSOLIDATION ENTITIES OR DISCLOSURE ORGANIZATIONS

37. The principles above should be used to assess what organizations to include in the GPFFR. Next, a distinction should be made between “consolidation entities” and “disclosure organizations” as that distinction determines how the organizations will be reported. This distinction is based on an assessment of the degree to which the following characteristics are met: the organization is financed by taxes and other non-exchange revenue, is governed by the Congress and/or the President, imposes or may impose risks and rewards to the federal government, and/or provides goods and services on a non-market basis.¹⁸ Note, however, not all characteristics are required to be met to the same degree; classification is based on the assessment as a whole.

CONSOLIDATION ENTITIES

38. The organizations that should be consolidated in the financial statements in the GPFFR are referred to as “consolidation entities.” Generally, an organization is considered a consolidation entity if, based on an assessment of the following characteristics as a whole, the organization is:

¹⁷ Although such situations would be rare, this Statement provides for situations that may arise.

¹⁸ Goods and services are provided on a non-market basis when they are provided free of charge or at charges that bear little relationship to the cost of providing such goods or services.

- a. financed through taxes, and other non-exchange revenues.
 - b. governed by the Congress and/or the President.
 - c. imposing or may impose risks and rewards to the federal government.
 - d. providing goods and services on a non-market basis.
39. Organizations listed in the budget, except for non-federal organizations receiving federal assistance (see par 22), are presumed to qualify as consolidation entities while greater judgment will be needed to classify other organizations.
40. For consolidation entities, the governance structure is vertically integrated, such that the chain of command and manner of decision-making leads directly to elected officials. Vertical integration may include the establishment of organizational authorities, development and/or approval of budgets, and the appointment of organizational leaders by the Congress and/or the President.

DISCLOSURE ORGANIZATIONS

41. The federal government has relationships with organizations afforded a greater degree of autonomy than consolidation entities. Some organizations may exercise powers that are reserved to the federal government as sovereign. Other organizations may not themselves carry out missions of the federal government but, instead, are owned or controlled by the federal government as a result of regulatory actions, such as organizations in **receivership**. To avoid obscuring information about these more autonomous organizations while still providing accountability, such organizations are to be disclosed rather than consolidated in GPFFRs. Hereafter, these organizations are referred to as “disclosure organizations.”
42. Disclosure organizations may maintain a separate legal identity, have a governance structure that vests most decision-making authorities in a governing body to insulate the organization from political influence, and/or have relative financial independence.
43. Disclosure organizations receive limited or no funding from general tax revenues. The Congress and/or the President have less direct involvement in decision-making (governance) than in consolidation entities. Limited risks and rewards fall to the federal government. Disclosure organizations may provide the same or similar goods and services that consolidation entities do, but are more likely to provide them on a market basis.¹⁹
44. Disclosure organizations may include but are not limited to: quasi-governmental and/or financially independent organizations, organizations in receiverships and **conservatorships**, and organizations owned or controlled through federal government intervention actions. In some cases, the relationship with the federal government is not expected to be permanent. The following disclosure organization types are presented to

¹⁹ Goods and services are provided on a market basis when prices are based on the prices charged in a competitive marketplace between willing buyers and sellers.

assist in identifying organizations that are disclosure organizations. The accompanying Appendix C—Illustrations offers non-authoritative hypothetical examples that may be useful in understanding the application of the standards.

Quasi-Governmental and/or Financially Independent Organizations

45. Quasi-Governmental and/or Financially Independent Organizations have relationships with the federal government that are not temporary but differ from consolidation entities with regard to governance and/or financial arrangements. Such disclosure organizations are on a continuum that considers such factors as whether the governance is through appointed officials versus a structure that vests most decision-making authorities in a governing body to insulate the organization from political influence; whether the organization is financed primarily through taxes and other non-exchange revenues versus limited or no such financing; and whether it provides goods and services on a non-market basis versus provide goods and services on a market basis.
46. Governance differences typically lead to greater independence. Characteristics may include the following:
 - a. Longer appointments of key executives or governing boards to allow these appointees a degree of independence from the Congress and/or the President
 - b. Delegated operational authority to provide a service or execute a program in a manner similar to private business enterprises
 - c. Private sector legal characteristics, such as not-for-profit status under the Internal Revenue Code
 - d. Exemption by statute from laws or regulations dealing with the federal budget, funds, personnel, ethics, acquisition, property, or works
 - e. Voluntary association with the federal government and shared purposes to implement government policies
47. Financial differences typically lead to greater fiscal autonomy. Characteristics may include the following:
 - a. Primarily funded from a source other than appropriations
 - b. Delegated financial authority to provide a service or execute a program in a manner similar to private business enterprises
 - c. Principally engaged in selling goods and/or services to organizations outside of the federal government
 - d. Intended, in the normal course of its operations, to maintain its operations and meet its liabilities from revenues received from sources outside of the federal government
48. Not all organizations of a given type will meet the characteristics above. Examples of the types of organizations that could be consolidation entities or could be quasi-governmental

and/or financially independent organizations are **Federally Funded Research and Development Centers**, museums, performing arts organizations, universities, and venture capital funds. Each organization should be assessed objectively since there are likely to be differences among the organizations within these example types such that some should be consolidation entities and others disclosure organizations.

Receiverships and Conservatorships²⁰

49. The federal government may take control or ownership of failed financial institutions, such as banks, with no goal to maintain control or ownership. Receiverships or conservatorships are established to liquidate failing financial institutions or to guide such institutions back to safe and sound conditions.²¹ Organizations controlled or owned through receiverships or conservatorships are likely to be disclosure organizations.

Federal Government Intervention Actions Resulting in Control or Ownership

50. In exceptional circumstances such as economic instability or a national security crisis, the federal government may intervene in organizations not previously meeting the inclusion principles. Interventions arise because of the federal government's broad responsibility for the well-being of the country. Some, but not all, interventions establish ownership or control such that the organization then meets the inclusion principles. Although intervention actions are not expected to be permanent, they may not include a specific time limit.
51. Typically federal government intervention actions are not routine activities. Strategic planning documents are unlikely to include objectives to routinely initiate such interventions or to permanently operate organizations acquired through interventions.
52. Examples of intervention actions resulting in control or ownership include:
- a. The federal government provides financial support and, in doing so, obtains control of an established organization but expects to relinquish or cede control.
 - b. The federal government acquires an ownership interest in an organization but expects to end its interest as soon as practicable.
53. Intervention actions that exist at fiscal year-end must be assessed to confirm the resulting control or ownership is not expected to be permanent. If the intervention activities are not expected to be permanent or other characteristics of disclosure organizations exist, organizations controlled or owned as a result of intervention actions would be disclosure organizations.

²⁰ This type differs slightly from federal interventions. Receivership and conservatorship activities are considered part of the mission of the federal reporting entities that perform them.

²¹ For example, the Federal Deposit Insurance Corporation (FDIC) is an independent agency created by the Congress with the mission "to maintain stability and public confidence in the nation's financial system by: insuring deposits; examining and supervising financial institutions for safety and soundness and consumer protection; and, managing receiverships."

IDENTIFYING ORGANIZATIONS COMPONENT REPORTING ENTITIES ARE ACCOUNTABLE FOR

54. The government-wide reporting entity is the only federal reporting entity that is an independent economic entity²² and the inclusion principles are expressed from the perspective of the federal government. However, GPFFRs for the government-wide reporting entity represent a consolidation of component reporting entity GPFFRs. Therefore, component reporting entities must identify and include in their GPFFRs all consolidation entities and disclosure organizations for which they are accountable so that both the component reporting entity GPFFRs and government-wide GPFFR are complete.
55. A component reporting entity's GPFFR should include all organizations that would allow the Congress and/or the President to hold the component reporting entity's management (appointed officials or other agency heads) accountable for implementation of public policy decisions. Inclusion would also reveal the risks inherent in component reporting entity operations, and enhance accountability to the public. Each component reporting entity is accountable for all consolidation entities²³ and disclosure organizations administratively assigned to it.
56. Administrative assignments to component reporting entities are typically made in laws and policy documents such as statutes, budget documents, regulations, or strategic plans. Administrative assignments can be identified by evaluating:²⁴
 - a. Scope of the Budget Process
 - b. Accountability Established Within a Component Reporting Entity
 - c. Misleading to Exclude and/or Misleading to Include

SCOPE OF THE BUDGET PROCESS

57. Consolidation entities and disclosure organizations subject to the budget approval and oversight process of the component reporting entity head should be included in the component reporting entity GPFFR. Each component reporting entity should include:
 - a. all consolidation entities listed within its section of the *Budget of the United States Government: Analytical Perspectives--Supplemental Materials* schedule entitled "Federal Programs by Agency and Account" and
 - b. all disclosure organizations included within its congressional budget justification.²⁵

²² SFFAC 2, par. 38.

²³ A component reporting entity comprises all consolidation entities administratively assigned to it and should present information about disclosure organizations assigned to it.

²⁴ Component reporting entities should develop processes to ensure they identify and assess any organizations (1) within the scope of their budget process, (2) for which accountability is established within their component reporting entity, or (3) which are misleading to exclude. It is anticipated that central agencies will determine if there is a need for coordinated guidance to ensure government-wide consistency.

ACCOUNTABILITY ESTABLISHED WITHIN A COMPONENT REPORTING ENTITY

58. Consolidation entities and disclosure organizations for which a component reporting entity has been assigned accountability responsibilities should be included in the GPFFR of that entity. Determining whether accountability was established or assigned to a component reporting entity requires the consideration of certain indicators and the application of professional judgment. Indicators²⁶ that accountability has been established in the component reporting entity include:
- a. Statutes or regulations establishing an organization state that it is assigned to or part of a larger federal organization.²⁷
 - b. An organization is included in the component reporting entity's published organization chart.
 - c. The component reporting entity acquires and/or monitors²⁸ ownership interests in organizations where there are ongoing responsibilities²⁹ such as:
 - i. coordinating and/or conveying input on strategic plans,
 - ii. providing appropriated funds to the organization and receiving requests for funding in the current and/or future years,
 - iii. administering any federal grants or contracts awarded to the organization,
 - iv. monitoring activities and/or reporting on outcomes, or
 - v. monitoring the value of the ownership interest.
 - d. A controlled organization³⁰ was established by statute or by action of the component reporting entity to support the mission of the component reporting entity, and a continuing relationship exists. Examples of continuing relationships include those in which the component reporting entity:
 - i. approves bylaws including any amendments,
 - ii. is represented on the governing board (for example, as an ex-officio member),
 - iii. appoints members of the governing board,

²⁵ A congressional budget justification is a document submitted annually to Congress to justify an organization's budget request.

²⁶ These indicators provide evidence that accountability was established or was assigned to a component reporting entity. Meeting any one would typically mean accountability was established.

²⁷ For example, the U.S. Census Bureau (officially the Bureau of the Census, as defined in Title 13 U.S.C. § 11) is part of the U.S. Department of Commerce.

²⁸ Such responsibilities may be assigned to a program office.

²⁹ These responsibilities are examples of actions or activities performed by the component reporting entity that are indicative of monitoring an ownership interest in an organization, which is an indicator of accountability.

³⁰ Where control exists at the government-wide level based on paragraphs 25-34.

- iv. coordinates and/or conveys input on strategic plans,
 - v. monitors organizational performance,
 - vi. approves budgets, operating plans, or contracts with others,
 - vii. establishes and executes cooperative agreements with the organization,
 - viii. administers federal grants to or contracts with the organization,
 - ix. testifies before Congress regarding organization performance and objectives, or
 - x. has significant financial transactions or balances that indicate ongoing managerial involvement.
59. If more than one component reporting entity is assigned responsibilities as described above, the following guidance applies:
- a. Disclosure organizations should be included in the GPFFR of each component reporting entity assigned such responsibilities.
 - b. Consolidation entities should be administratively assigned to only one component reporting entity.³¹ The component reporting entity assigned the largest share³² of responsibilities described in paragraph 58 generally should include the consolidation entity.
60. If a disclosure organization has not been administratively assigned to a consolidation entity, the disclosure organization should be reported by a component reporting entity (a) assigned responsibility for transferring funds to the disclosure organization or (b) with which its mission most closely aligns.

MISLEADING TO EXCLUDE AND / OR MISLEADING TO INCLUDE

61. There may be instances where an organization is not administratively assigned to the component reporting entity based on the principles in paragraphs 57-60 yet the component reporting entity GPFFR would be misleading or incomplete if the organization were excluded. If so, such organizations should be included in the component reporting entity's GPFFR.³³
62. There may be instances where applying the principles in paragraphs 57-60 to consolidation entities would result in misleading presentation for the component reporting entity. For example, an organization may have been legally established within a larger organization while authorized to operate independently. While such conditions are expected to be rare, if it would be misleading to consolidate the organization in the

³¹ Note that the component reporting entity to which a consolidation entity is administratively assigned may also be administratively assigned to a higher-level component reporting entity.

³² Largest share as used here is based on the most significant administrative role.

³³ Although such situations would be rare, this Statement provides for situations that may arise.

component reporting entity GPFFR, the organization may be excluded so long as it is consolidated in another component reporting entity or directly in the government-wide reporting entity.

63. Determining whether it would be misleading to include a consolidation entity administratively assigned to a component reporting entity requires the application of professional judgment. Examples³⁴ of indicators that it may be misleading to include an organization are:
- a. The budget submission is combined for procedural purposes only, as indicated by:
 - i. the budget request not being approved by component reporting entity management, or
 - ii. the absence of involvement by component reporting entity management regarding budget execution, investments, or strategic planning.
 - b. The component reporting entity provides no direct oversight of the organization.
 - c. The organization's funding is separate from the component reporting entity's funding.
 - d. Inclusion of the organization's financial information in the component reporting entity's financial statement could be misleading as to the entity's responsibilities for the organization's liabilities and other obligations.
 - e. The organization has established itself as a stand-alone organization since its inception and has routinely prepared audited financial statements since that time.
 - f. The organization provides financial data directly to the Department of the Treasury for the government-wide GPFFR.

GPFFR CONSOLIDATION AND DISCLOSURE

CONSOLIDATION ENTITIES

64. Consolidation entities' financial statements should be consolidated for the government as a whole to facilitate an assessment of the financial position³⁵ of the federal government and the cost of operations financed by taxes and other non-exchange revenue. Component reporting entities should consolidate the financial information for all

³⁴ The indicators listed in 63 a. – f. are examples and there may be other indicators not included on this list. Further, no specific number of indicators need be present to determine an organization would be misleading to include. This determination is based on the assessment as a whole after considering all facts and often requires professional judgment in making such decisions.

³⁵ The consolidated financial statements should include amounts and balances, consistent with applicable accounting standards, even if the amounts and balances arise from or are supported by different funding sources (e.g., appropriations or donations).

consolidation entities administratively assigned to them. Consolidation³⁶ aggregates the individual financial amounts of organizations that constitute a reporting entity and results in presentation of information for a single economic entity representing taxpayer-supported activities, resources, and obligations.

65. Consolidation entities as defined herein are considered federal reporting entities and should apply GAAP as defined in SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. This Statement does not establish new disclosure requirements regarding consolidation entities but acknowledges existing standards require disclosures.
66. SFFAS 34 recognizes that a limited number of federal reporting entities prepare and publish financial reports pursuant to the accounting and reporting standards issued by the Financial Accounting Standards Board (FASB). SFFAS 34 provides that GPFFRs prepared in conformity with accounting standards issued by the FASB also may be regarded as in conformity with GAAP. Consolidation entities (i.e. the consolidated government-wide reporting entity or a consolidated component reporting entity) should consolidate component reporting entity or sub-component financial statements for consolidation entities prepared in accordance with SFFAS 34 without conversion for any differences in accounting policies among the organizations. Nonetheless, any component reporting entity that publishes financial reports pursuant to the accounting and reporting standards issued by the FASB should disclose intragovernmental amounts measured in accordance with federal financial accounting standards to facilitate elimination entries in preparation of the government-wide financial statements.

REPORTING ON DISCLOSURE ORGANIZATIONS

67. Maintaining a distinction between the finances of consolidation entities and disclosure organizations will more effectively meet federal financial reporting objectives. Such a distinction allows for separate presentation of financial information for organizations where there is a difference in purpose, governance structure, and financial relationships. Disclosing financial and other information in the notes about disclosure organizations rather than consolidating financial and other information about all organizations included in a GPFFR may better meet federal financial reporting objectives. Although disclosure organizations are not subject to the hierarchy of GAAP established for federal reporting entities, information about such organizations are needed for accountability purposes and to meet federal financial reporting objectives.
68. For those organizations classified as disclosure organizations, the preparer should exercise judgment in determining the appropriate disclosures based on the factors and principles provided herein. Information regarding disclosure organizations should be disclosed in accordance with **Disclosure Requirements** as detailed in par. 70 to 73 below after considering the factors listed in par. 69.

³⁶ Consolidation is a method of accounting that combines the accounts of those entities line by line on a uniform basis of accounting and eliminates balances and transactions among the entities. For selected financial statements such as the statement of budgetary resources, a combined financial statement which does not eliminate balances and transactions among the entities is acceptable.

Factors in Determining Disclosures

69. Materiality is an overarching consideration in financial reporting. Preparers should consider both qualitative and quantitative materiality in determining the information that should be presented regarding disclosure organizations. Beyond materiality, the following factors³⁷ should be considered in making judgments about the extent of appropriate disclosures:
- a. **Relevance to reporting objectives** – Significance of the disclosure organization to meeting the reporting objectives established in SFFAC 1, *Objectives of Federal Financial Reporting*, with regard to the reporting entity. In particular, this would include the significance of the information regarding results of operations and financial position to meeting the operating performance and stewardship reporting objectives.
 - b. **Nature and magnitude of the potential risks/exposures or benefits associated with the relationship** – Information is needed to provide an understanding of the potential operational or financial impact, including financial-related exposures to risk of loss and potential gain, to the consolidation entity resulting from the disclosure organization's operations.
 - c. **Disclosure organization views/perspective** – Information about how the disclosure organization views its relationship with the federal government. For example, whether the disclosure organization views itself as an extension of the federal government or operationally independent of the Congress and/or the President may influence the type and extent of information that is disclosed.
 - d. **Complexity of the relationship** – More complex relationships would involve additional detailed disclosures to ensure the relationship is understood by the readers.
 - e. **Extent to which the information interests, or may be expected to interest, a wide audience** – Due to the sensitivity of the relationship, materiality of the transactions, media attention, or other reasons, interested parties may expect more extensive information regarding the disclosure organization or its relationship with the federal government.
 - f. **Extent to which there are no alternative sources of reliable information** – An objective of GPFFRs is to meet the needs of users who may have limited access to information or statements and lack the ability to demand the desired information.

Disclosure Requirements

70. In addition to the factors presented in par. 69 regarding the extent of disclosures, both qualitative and quantitative factors should be considered in determining whether information regarding a disclosure organization should be presented separately due to its

³⁷ The factors are presented in a list for consideration in the aggregate; no individual weights should be assigned or interpreted.

significance or aggregated with the information regarding other disclosure organizations. If information is aggregated, aggregation may be based on disclosure organization type, class, investment type, or a particular event deemed significant to the reporting entity.

71. Disclosures should be integrated so that concise, meaningful and transparent information is provided. Integration is accomplished by providing a single comprehensive note regarding the disclosure organization and related balances or by incorporating references to relevant notes elsewhere in the GPFFR but relating to the disclosure organization. For example, a reference may be made to a note regarding investments in the disclosure organization.
72. For each significant disclosure organization and aggregation of disclosure organizations, information should be disclosed to meet the following objectives:³⁸
 - a. **Relationship and Organization**: The nature of the federal government's relationship with the disclosure organization(s)
 - b. **Relevant Activity**: Nature and magnitude of relevant activity during the period and balances at the end of the period
 - c. **Future exposures**: A description of financial and non-financial risks and potential benefits and, if possible, the amount of the federal government's exposure to gains and losses from the past or future operations of the disclosure organization
73. Examples of information that may meet the above objectives and provide the necessary understanding of the disclosure organization's relationship and organization, relevant activities, and future exposures specific to the federal government are provided below.³⁹ In determining what information is needed to meet the objectives in paragraph 72, the factors in paragraph 69, including the complexity and nature and magnitude of the relationship, should be considered. The list of examples below may not be exhaustive and additional items of information necessary to meet the objectives should be disclosed even if not specifically identified in the list below.
 - a. The name and description of the disclosure organization,⁴⁰ including information about how its mission relates to federal policy objectives, actions taken on behalf of the federal government, its organization and any significant involvements with outside parties
 - b. The nature of the relationship between the federal government and the disclosure organization including relevant information regarding:
 - i. How any control or influence over the disclosure organization is exercised

³⁸ The objectives are not listed in any order of preference.

³⁹ No individual example is itself a required disclosure. Nor are the examples required in the aggregate. Therefore, the examples are not alternatives or substitutes one for another. Rather, a disclosure that meets the objectives in paragraph 72 should be provided.

⁴⁰ For simplicity, information is described in relation to a single disclosure organization. Nonetheless, the information may be presented for an aggregation of similar disclosure organizations.

- ii. Key terms of contractual agreements, statutes, or other legal authorities
 - iii. The percentage of ownership interest and/or voting rights
 - c. For intervention actions, the primary reasons for the intervention and a brief description of the federal government's plan relative to monitoring, operating and/or disposing of the disclosure organization and/or a statement that the intervention is not expected to be permanent
 - d. A description and summary of assets, liabilities, revenues, expenses, gains, and losses recognized in the financial statements of the reporting entity as a consequence of transactions with or interests in the disclosure organization and the basis for determining the amounts reported (or a reference to other disclosures where such information is provided)
 - e. A discussion of the disclosure organization's key financial indicators and changes in key financial indicators
 - f. Information regarding the availability of the disclosure organization's annual financial report and how it can be obtained
 - g. In the event that contractual agreements, statutes, or other legal authorities obligate the reporting entity to provide financial support to the disclosure organization in the future, information regarding potential financial impacts (including those terms of the arrangements to provide financial support and liquidity, including events or circumstances that could expose the federal government to a loss)
 - h. The nature of, and changes in, the risks and benefits associated with the control of, or other involvement with, the organization during the period
 - i. The amount that best represents the federal government's maximum exposure to gain or loss from its involvement with the disclosure organization, including how the maximum exposure to gain or loss is determined (If this cannot be quantified, a narrative discussion could be offered.)
 - j. Other information that would provide an understanding of the potential financial impact, including financial-related exposures to risk of loss or potential gain to the reporting entity, resulting from the disclosure organization's operations including important existing, currently-known demands, risks, uncertainties, events, conditions and trends—both favorable and unfavorable
74. Any disclosure organization's financial information presented in the reporting entity's GPFFR should be based on accrual-basis standards provided in generally accepted accounting principles or an other comprehensive basis of accounting developed for its

specific type of entity.⁴¹ This includes generally accepted accounting principles for the relevant domain (FASAB, Governmental Accounting Standards Board, or FASB).

75. When information is derived from the disclosure organization's financial report, it is preferable but not mandatory that the report be for the same reporting period as the government-wide reporting entity. If a disclosure organization's reporting period differs from the government-wide reporting entity's and it is not cost-beneficial to align the reporting periods, any financial information disclosed from the disclosure organization's financial report should be for a reporting period ending within the government-wide reporting entity's reporting period.
76. Significant changes in information occurring from the end of the disclosure organization's reporting period should be reported consistent with the requirements of SFFAS 39, *Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards*.

MINIMUM DISCLOSURES REGARDING THE CENTRAL BANKING SYSTEM⁴²

77. The following information regarding the central banking system should be disclosed⁴³ in the government-wide GPFFR and the GPFFR of any reporting entity to which it may be primarily associated or administratively assigned:
 - a. Governance structure with particular emphasis on matters affecting its independence and insulation from political influence
 - b. Significant roles and responsibilities (and how these relate to federal policy objectives)
 - c. A discussion of the significant financial actions, and changes in those actions, undertaken by the central banking system to achieve monetary and fiscal policy objectives, such as adjusting the discount rate, purchasing securities (for example, Treasury securities and mortgage backed securities), or undertaking central bank liquidity swaps
 - d. Amounts of significant types of transactions and balances between the central banking system and the reporting entity

⁴¹ Consolidation entities should apply the GAAP hierarchy established in SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

⁴² Central banking system functions are currently carried out by the Federal Reserve System (FRS). The FRS comprises the Board of Governors, the Federal Open Market Committee, the regional Federal Reserve Banks, and the Bureau of Consumer Financial Protection (established in 2010 as an independent bureau within the FRS pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act).

⁴³ Depending on the circumstances, some of the listed information may be disclosed due to other requirements. The resulting disclosures should be integrated so that concise, meaningful and transparent information is provided and information is not repetitive.

- e. A description of any significant financial risks or benefits to the federal government (including significant changes) and, if possible, the amount of the federal government's exposure to gains and losses from operations
- f. The availability of annual financial reports and how they can be obtained

RELATED PARTIES

- 78. In addition to organizations for which the Congress and/or the President are accountable,⁴⁴ the federal government may have relationships with other parties. Only relationships of such significance that it would be misleading to exclude information about such relationships warrant disclosure.⁴⁵ Guidance is provided below but judgment will also be required to identify relationships that warrant disclosure as related parties.
- 79. Related parties: Organizations are considered to be related parties if the existing relationship⁴⁶ or one party to the existing relationship has the ability to exercise significant influence over the other party in making financial and operating decisions.
- 80. Significant influence (for the purpose of this Statement) is the power to participate in the policy decisions of an entity, but not control those policies. Significant influence may be exercised in several ways, sometimes by representation on the board of directors or equivalent governing body but also by, for example, participation in the policy-making process, interchange of managerial personnel, or dependence on technical information. Significant influence may be gained by a minority ownership interest, statute, or agreement.
- 81. Significant influence does not arise from regulatory actions or economic dependency alone. However, regulation or economic dependency, together with other factors, may give rise to significant influence and therefore a related party relationship. Judgment is required in assessing the impact of regulation and economic dependence on a relationship.
- 82. Although component reporting entities of the federal government may significantly influence each other, component reporting entities are subject to the overall control of the federal government and operate together to achieve the policies of the federal government and are not considered related parties. Therefore, component reporting entities need not be disclosed as related parties by other component reporting entities.
- 83. Related parties *generally* would include (see paragraph 84 for organizations *generally* not included) but are not limited to:
 - a. **Government sponsored enterprises** not meeting the Inclusion Principles

⁴⁴ Entities for which the Congress and President are accountable are in the budget, majority owned, or controlled and would meet the inclusion principles and be reported as either a consolidation entity or disclosure organization and not be subject to related party reporting.

⁴⁵ Significance is assessed at the reporting entity and may differ among component reporting entities and the government-wide reporting entity.

⁴⁶ Relationship as used in this context refers to material transactions or events involving both parties.

- b. Organizations governed by representatives from each of the governments that created the organization, including the United States, wherein the federal government has agreed to ongoing or contingent financial support to accomplish shared objectives (for example, multi-lateral development banks)
- 84. In the context of this Statement, the following generally would not be considered related parties:
 - a. Organizations meeting the Inclusion Principles
 - b. Organizations with which the federal government transacts a significant volume of business resulting in economic dependence such as government contractors, state and local governments, collegial institutions, and non-profit organizations⁴⁷
 - c. 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
 - d. Foreign governments
 - e. Organizations created through treaties or trade agreements that define common goals and means for joint action where the U.S. role in governing and financing the organizations is not significant
 - f. Special interest groups⁴⁸
- 85. Although paragraph 84 discusses the potential exclusion of certain organizations as related parties, other factors may create a need for related party disclosures for such organizations. The use of judgment will be necessary in identifying those factors consistent with the information needs described in paragraph 86.
- 86. Certain information regarding significant related party relationships may enable users to better understand the financial statements of the reporting entity because:
 - a. Related party relationships might expose the federal government to risks or provide opportunities that would not have existed in the absence of the relationship;
 - b. Related party relationships can influence the way in which the federal government operates with other entities in achieving its individual objectives; or
 - c. Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on different terms and conditions than those that would normally be available to unrelated parties.

⁴⁷ However, economic dependency, together with other factors, may give rise to significant influence and, therefore, a related party relationship.

⁴⁸ Special interest groups refers broadly to organizations whose members share common concerns and try to influence government policies. Examples include but are not limited to labor unions, trade associations, religious organizations, membership organizations, and lobbying organizations.

87. For related party relationships of such significance to the reporting entity that it would be misleading to exclude information, the following should be disclosed:
- a. Nature of the federal government's relationship with the party, including the name of the party or if aggregated, a description of the related parties. Such information also would include, as appropriate: the percentage of ownership interest.
 - b. Other information that would provide an understanding of the relationship and potential financial reporting impact, including financial-related exposures to risk of loss or potential gain to the reporting entity resulting from the relationship.

EFFECT ON EXISTING CONCEPTS—PROPOSED AMENDMENTS TO SFFAC 2, *ENTITY AND DISPLAY*

88. The purpose of this section of the Statement is to propose conforming amendments to Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, as described in the following paragraphs. Conforming changes were not needed in paragraphs 11- 37 and these paragraphs were retained in SFFAC 2 as they provide concepts regarding reporting entity. Conforming changes were not considered regarding paragraphs 54 – 77 and paragraphs 79 – 112 because they address concepts outside the scope of this Statement.

89. Paragraph 2 is replaced with the following paragraph which describes the amended purpose and contents of the Statement.

The purpose of this statement is to establish concepts regarding what would be encompassed by a Federal Government entity's financial report. The statement specifies the types of entities for which there should be financial reports (hereinafter called "reporting entities"), establishes an organizational perspective for considering the makeup of each type of reporting entity, identifies types of financial reports for communicating the information for each type of reporting entity, suggests the types of information each type of report would convey, and identifies the process and factors the Board may consider in determining whether information should be basic information, required supplementary information (RSI), or other accompanying information (OAI).

90. Paragraphs 3 - 5 are rescinded because the preamble applicable to all concepts statements, which was adopted at the time SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements* was issued, addresses the topics covered.

91. Paragraph 6a below is inserted following paragraph 6 to recognize the importance of accountability in determining organizations to be included in the reporting entity GPFFR:

6a. SFFAC 1 also discusses accountability and users' information needs as the foundation for the objectives of federal financial reporting. Specifically, par. 71 states "It may be said that 'accountability' and its corollary, 'decision usefulness,' comprise the two fundamental values of governmental accounting and financial reporting. They provide the foundation for the objectives of federal financial reporting. ...The assertion of accountability therefore leads to identifying, first, those to whom government is accountable and, second, the information needed to maintain and demonstrate that accountability." Based on the concepts established

in SFFAC 1, it is clear that accountability is a fundamental goal of financial reporting to be considered in establishing the boundaries of general purpose federal financial reports.

92. Paragraph 7 is rescinded because the preamble applicable to all concepts statements addresses the topics covered.
93. Paragraph 10, first bulleted item is amended by replacing it with the following bulleted item addressing an understanding of what the reporting entity entails:
- ensure information at each reporting level includes information about all relevant organizations to support accountability by including organizations that are in the budget, owned, or controlled with risk of loss or expectation of benefit;

94. Paragraph 38 is amended to exclude references to other paragraphs amended by this Statement. Paragraph 38 is replaced with the following:

The ultimate aggregation of organizations is into the Federal Government which, in reality, is the only independent economic entity. The Federal Government encompasses all of the resources and responsibilities existing within the component reporting entities. The aggregation would include organizations for which the Federal Government is financially accountable as well as other organizations for which the nature and significance of their relationship with the Federal government are such that their exclusion would cause the Federal Government's financial statements to be misleading or incomplete.

95. Paragraphs 39 -50 are rescinded because the standards herein provide guidance on the same matters. It is not necessary or appropriate to retain the guidance in SFFAC 2.
96. The sub-heading before paragraph 51 - "Other Aspects Concerning Completeness of the Entity" - is revised to read "Other Aspects Concerning Completeness of the Component Reporting Entity."
97. Paragraph 51 is replaced with the following:

Identifying the organizations to include in the reporting entity is one aspect of ensuring that the users of a reporting entity's financial reports are provided with all the information relevant to the reporting entity. However, because the only independent economic entity is the entire Federal Government, financial resources or free services are often provided from one component in the government to another component without a quid pro quo. For example, a portion of the retirement costs of Federal employees is reported by the Office of Personnel Management rather than the organizational entities employing the persons. Thus, within parameters more appropriately established in accounting standards, it is important to ensure that the reporting entity's financial reports include amounts that are attributable to the reporting entity's activities, even though they are recorded elsewhere. This is particularly important for costs associated with the use of human resources; personnel services are such a major part of most government activities. It is also important for the costs of services provided by other reporting entities, such as computer services provided by another unit.

98. Paragraphs 52 – 53 are rescinded because these paragraphs relate to issues covered in standards and are not necessary for understanding the notion of the reporting entity.
99. A new sub-heading "Need to Distinguish between Consolidation Entities and Disclosure Organizations" is inserted at paragraph 53A.

100. Insert Paragraphs 53A – 53 E under the sub-heading: “Need to Distinguish between Consolidation Entities and Disclosure Organizations” - The proposed language provides a high level explanation of consolidation entities and disclosure organizations. These are new terms introduced in the proposed Statement and critical to understanding the reporting entity concept in the federal government. More importantly, the proposed language describes the need to distinguish them and the reason for this distinction in terms of financial statement presentation.

53A. The Federal Government is a large and complex organization. In order to fulfill public policy objectives, the Federal Government may use both consolidation entities (such as departments and agencies) and organizations that are distinct from consolidation entities to fulfill public policy objectives (such as financially independent organizations). These distinct organizations are referred to collectively as “disclosure organizations.”

53B. Disclosure organizations may maintain a separate legal identity, have a governance structure designed to insulate the organization from political influence, and/or be granted relative financial independence. Despite disclosure organizations’ relative operational and financial independence, accountability for all organizations owned or controlled by the Federal Government rests with the Congress and/or the President. So, both consolidation entities and disclosure organizations should be included in financial reports to provide accountability.

53C. It may be difficult to provide accountability, by meeting financial reporting objectives, through consolidated financial statements because they blur the distinction between consolidation entities and disclosure organizations. Consolidated financial statements may obscure the fact that resources and resource allocation decisions for disclosure organizations are more independent than similar decisions for consolidation entities. While consolidation entities are financed by taxpayers and governed by elected officials, disclosure organizations often do not rely on taxpayers for financing or elected officials for spending authority. For example, a single-column presentation of information for all organizations likely would create a risk of incorrect inferences. Such inferences may include the amount of assets and revenues available for consolidation entities to use in general government activities, and the extent to which taxpayers stand ready to liquidate liabilities and meet expenses of disclosure organizations.

53D. Maintaining a distinction between consolidation entities and disclosure organizations may more effectively meet federal financial reporting objectives. Such a distinction may be maintained through discrete presentation of information regarding disclosure organizations. Nonetheless, disclosures are not a substitute for consolidation entities recognizing the financial effects of transactions with disclosure organizations.

53E. Consolidated financial statements for only consolidation entities will facilitate an assessment of the financial position of the federal government and the cost of operations financed by taxpayers. Consolidation aggregates the individual financial statements of organizations that constitute a reporting entity and results in presentation of information for a single economic entity representing consolidated taxpayer supported activities, resources, and obligations. Consolidation entities are considered federal entities and should apply GAAP as defined in SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. The following sections discuss display of information in consolidation entity financial reports.

101. Paragraph 78 is rescinded because it is not conceptual guidance. It identifies an expectation that material differences between the recognition and measurement requirements under the Financial Accounting Standards Board and the FASAB standards will be adjusted before consolidation.

EFFECTIVE DATE

102. This Statement is effective for periods beginning after September 30, 2016. Earlier implementation is encouraged.

The provisions of this Statement need not be applied to immaterial items.

APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

Introduction

- A1. The federal government and its relationships with other organizations have become increasingly complex. These complex relationships make it difficult to identify federal entities for financial accountability purposes. In addition, some organizations may be viewed as “non-federal” and yet be owned or controlled by the federal government. Identifying the organizations to be included in the government-wide and component reporting entity general purpose federal financial reports (GPFFRs) is necessary to ensure the completeness of GPFFRs.
- A2. GPFFRs should include the varied organizations for which the Congress and/or the President are accountable regardless of their form. Therefore, the primary reason for developing standards for the government-wide and component reporting entity GPFFRs is to ensure that users will be provided with complete financial information about the federal government. While SFFAC 2, *Entity and Display*, provides criteria for determining if an organization should be included in the entity, questions have continued in this area that resulted in the need for standards.

Project History /Task Force

- A3. In 2008, the Board formed a task force to support the project. The objective of the task force was “to assist in developing the proposed standards on the boundaries of the reporting entity and specific criteria for determining whether an organization should be included.”
- A4. The task force met several times over the course of the project and also exchanged numerous ideas and recommendations electronically. The task force views and recommendations were presented to the Board for its consideration during the development of these proposed standards. The task force’s assistance was essential and its views carefully considered by members during deliberations. (See Appendix E for a list of task force members.)

Organizational Approach to Defining Boundaries

Underlying Concepts

- A5. The federal government is complex and therefore defining the boundary of GPFFRs may be difficult. Its constitutionally established powers and often its motivations and functions are different from other organizations. Despite these complexities, difficulties, and differences, accountability is a fundamental goal of financial reporting. As noted in SFFAC 1:

The federal government derives its just powers from the consent of the governed. It therefore has a special responsibility to report on its actions and the results of those actions. These reports must accurately reflect the distinctive nature of the federal government and

must provide information useful to the citizens, their elected representatives, federal executives, and program managers. Providing this information to the public, the news media, and elected officials is an essential part of accountability in government.⁴⁹

- A6. SFFAC 1 discusses accountability and users' information needs as the foundation of governmental financial reporting. Specifically, paragraphs 71 and 72 state "It may be said that 'accountability' and its corollary, 'decision usefulness,' comprise the two fundamental values of governmental accounting and financial reporting. They provide the foundation for the objectives of federal financial reporting. ...The assertion of accountability therefore leads to identifying, first, those to whom government is accountable and, second, the information needed to maintain and demonstrate that accountability."
- A7. SFFAC 1 explains that the federal government has a special responsibility to report on its actions and the results of those actions. SFFAC 1 discusses the information needs of both internal and external users including the citizens, their elected representatives, federal executives, and program managers because meeting user information needs is an essential part of accountability in government.
- A8. An organizationally based approach to defining boundaries supports accountability to all users but particularly to external users who may be unaware of the nature of organizational relationships. Focusing on organizations helps to identify who is accountable and for what. In addition, an organizational approach provides meaningful financial statements by aligning boundaries with defined organizations for which there would likely be users of GPFFRs.⁵⁰

Identifying and Classifying Organizations

- A9. The Board considered several alternative approaches to identifying organizations for which elected officials – the Congress and/or the President – are accountable. This Statement provides that reporting entities should first identify what organizations⁵¹ are to be included⁵² in the reports. The three principles for including organizations in the government-wide GPFFR are: In the Budget, Majority Ownership Interest, and Control with Risk of Loss or Expectation of Benefit. The Statement also includes a provision requiring inclusion of an organization if it would be misleading to exclude it.
- A10. Next, for those organizations to be included, a distinction is made between consolidation entities and disclosure organizations. This distinction determines how financial information is to be presented in the GPFFR. Consolidation entity financial information is to be presented in consolidated financial statements and related notes. Disclosure organization financial information is to be disclosed in notes to the financial statements.
- A11. Professional judgment is required in the application of the standards proposed in this Statement. This Statement presents a principles-based approach to determining which

⁴⁹ SFFAC 1, paragraph 8.

⁵⁰ See SFFAC 2, paragraphs 29-38, for a discussion of the organizational approach.

⁵¹ "Organization" is used broadly and may include among others departments, agencies, bureaus, divisions, commissions, corporations, and components. In certain instances, a specific program or "fund" may be subject to certain reporting requirements or have characteristics such that a GPFFR for the program or fund is needed. Examples may include the Highway Trust Fund or the General Fund. See SFFAC 2, par. 25 – 28.

⁵² "Included" means an organization's information is either consolidated or disclosed.

organizations should be included⁵³ in the government-wide GPFFR because of the wide and varying relationships of the federal government. General purpose federal financial reports for the government-wide reporting entity should be broad enough to report the Congress' and the President's accountability for organizations. This ensures that the financial reports contain all the information essential for fair presentation of the government's financial position and results of operations.

Principles for Inclusion in the Government-wide GPFFR

In the Budget

- A12. Identification of an organization in the President's Budget is the clearest evidence that an organization should be included in the government-wide report. Absent budgetary actions – originating with the President's Budget and leading to appropriations – federal organizations would be unable to conduct operations. Financial reporting objectives – budgetary integrity, operating performance, stewardship, and systems and controls – could not be met if organizations identified in the budget were not included in the financial reports. Therefore, the most efficient means to identify organizations for inclusion in the GPFFR is by their participation in the budget process as evidenced by being listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account.”
- A13. Although the legislative and judicial branches (and most organizations within those branches) are not currently required to prepare financial statements, based on this principle (*In the Budget*) those organizations would be reported upon in the government-wide report.⁵⁴
- A14. Organizations should include any financing accounts associated with the organization although such accounts may not be specifically identified in the schedule. For example, the schedule entitled “Federal Programs by Agency and Account” may not identify federal credit reform financing accounts, but those accounts should be included in the GPFFR for the organization.

Organizations Receiving Federal Financial Assistance

- A15. The schedule entitled “Federal Programs by Agency and Account” also sometimes identifies specific recipients of federal financial assistance. SFFAC 2 acknowledges that the “Federal Programs by Agency and Account” schedule sometimes names an organization to receive a “subsidy” and states “This does not mean, however, that an appropriation that finances a subsidy to a non-Federal entity would, by itself, require the recipient to be included in the financial statements of the organization or program that expends the appropriation.” Thus, “subsidy” is the term used in SFFAC 2 to distinguish such “non-federal” organizations from the organizations intended to be included in the GPFFR.
- A16. While the provision in SFFAC 2 was correct, the Board is proposing standards, and believes terms used in this Statement should be defined. The Board considered ways to

⁵³ Note that this Statement does not specify which organizations must prepare and issue financial statements.

⁵⁴ As the source of GAAP for federal reporting entities, FASAB GAAP would be the appropriate accounting standards for these entities to adopt to the extent they prepare GAAP-based financial statements.

define “subsidy” but concluded it was more appropriate to rely on the existing definition of “federal financial assistance.”

- A17. The proposed language ensures organizations that receive federal financial assistance⁵⁵ as defined by the Single Audit Act Amendments of 1996 but listed under an appropriation in the schedule entitled “*Federal Programs by Agency and Account*” aren’t automatically included in the GPFFR. Most grants are provided through programs and the recipient organizations are not necessarily listed in the budget. However, in some cases, an organization may be listed. The Board believes a means to confirm whether specifically identified recipient organizations are “non-federal organizations receiving federal financial assistance” is needed. When such organizations are listed in the budget, they should be assessed against the “majority ownership interest” and “control with risk of loss or expectation of benefit” principles before being excluded from the government-wide GPFFR.
- A18. Generally, the Board believes preparers can identify organizations that are in fact receiving “subsidies” as described by SFFAC 2. The Statement provides that, although these may be listed in the budget, they are neither automatically included based on the first inclusion principle nor automatically excluded based on the assumption or perception that they would not be owned or controlled. The Board does not believe it would be appropriate to articulate how subsidies are presented in the “*Federal Programs by Agency and Account*” schedule or refer to other budget documents because such treatments may change.

Organizations Partially in the Budget

- A19. The Board deliberated the issue of certain organizations being partially in the budget (i.e., some of their operations or accounts are not in the President’s Budget), such as a museum receiving substantial donor support. The Board determined the organization should be included in the government-wide GPFFR based on the “in the budget” principle. The Board further decided that such organizations should be presented in the same manner as other consolidation entities or disclosure organizations, as discussed later in the Statement. Therefore, the language in the principle (“in the budget”) does not provide separate and distinct guidance for organizations partially funded by non-budgetary sources. This means the organization is either a consolidation entity or a disclosure organization and should be reported as one or the other, in its entirety. Further, paragraph 39 provides that organizations listed in the budget are presumed to be consolidation entities.

Need for Additional Principles

- A20. While the principle “in the budget” is the most efficient means to identify organizations for inclusion, there are additional principles to be considered to identify other organizations that should be included in the government-wide GPFFR. The budget principle represents a starting point in analysis but accountability goals could not be met solely through that principle. Because the budget’s purposes differ from financial reporting objectives in many respects (such as the focus on the allocation of budgetary resource flows versus costs of operations), it is possible that organizations or activities might be excluded from the budget for reasons that do not justify exclusion from financial reports. For example, some organizations may be established to operate in a manner similar to businesses and

⁵⁵ “Federal financial assistance” is assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, or other assistance.

excluded from the budgetary process. Therefore, additional inclusion principles are necessary to ensure completeness in the context of the federal financial reporting objectives.

Majority Ownership Interest

A21. Ownership interests typically provide owners access to resources and exposure to risks while supporting their desired goals. Federal financial reporting objectives require that information about service efforts, costs, and accomplishments be made available. To ensure such information is included, when the federal government holds a majority ownership in an organization, it should be included in the GPFFR. As described in the Statement, majority ownership interest exists with over 50 percent of the voting rights or the net residual assets of an organization.

A22. The Board noted that some may question how to account for minority ownership interests (less than 50 percent). The Board agreed addressing minority interests through the project is likely to be less effective than allowing the GAAP hierarchy to fill any void. To address the potential question, the Board included within the Statement a footnote stating ownership interests 50 percent or less should be accounted for in accordance with the appropriate accounting standards per the GAAP hierarchy.

Control with Risk of Loss or Expectation of Benefit

A23. When the federal government controls an organization with risk of loss or expectation of benefit, the organization should be included in the government-wide GPFFR to provide accountability. As detailed in the Statement, control involves the power to impose will on and/or govern the financial and/or operating policies of another organization with the potential to obtain financial resources or non-financial benefits or be obligated to provide financial support or assume financial obligations as a result of those actions. Both the power and the risk of loss or expectation of benefit aspects of the control definition should be present to justify inclusion of the organization in the GPFFR.

A24. For example, the Statement provides for situations where the risk of loss or expectation of benefit does not exist—in the instance of the federal government exercising regulatory powers over an organization. In these cases, the federal government is unable to exercise that power for its own benefit and rarely explicitly assumes risk of loss. Therefore, including such an organization in the GPFFR would misrepresent the financial position and results of operation of the government. This would not support achievement of the objectives of financial reporting.

A25. For financial reporting purposes, assessment of control is made at the reporting date and based on current legislation, rather than legislation that may or may not be enacted in the future.

A26. Determining control requires judgment, and the Statement provides indicators to assist in making determinations. The first set of indicators is “persuasive” as the federal government has the authority to control and any one of the listed items would generally mean control is present. The second set of indicators requires more judgment because the set of indicators is considered in the aggregate to assess whether the federal government has the ability to control the organization.

A27. Because the government does not usually seek only financial benefits, the expected benefit associated with control does not have to be a financial benefit. Instead, it may be non-financial. For example, it may be in the form of a service provided on the federal government's behalf or the ability to direct the work of the other organization to deliver goods and services.

Misleading to Exclude

A28. The Statement includes a general provision requiring inclusion of an organization if it would be misleading to exclude it. Certain Board members believed this may be problematic because no criteria are offered. However the Board ultimately agreed the general provision could accommodate rare situations that may arise in the future. This is consistent with provisions of SFFAC 2.

A29. The Board also believes the provision is consistent with the Governmental Accounting Standards Board Statement 14, *The Financial Reporting Entity*. It provides for those unique situations where the preparer and auditor agree an organization should be included that was not otherwise incorporated as a result of the three principles. Judgment would be required in this area. Therefore, the Board provides for judgment rather than attempting to anticipate these types of situations and develop criteria.

Reporting on Organizations—Consolidation or Disclosure

A30. Differences in purposes and governance structures by organizations may require different presentation of related financial information. This Statement provides that the reporting entity should first determine which organizations are to be included in the reports. Next the reporting entity should classify each included organization as a consolidation entity or a disclosure organization. Consolidation entities are subject to the hierarchy of GAAP established for “federal entities” in Statement of Federal Financial Accounting Standards (SFFAS) 34. While disclosure organizations are not subject to the hierarchy of GAAP established for federal entities, information about such organizations is needed for accountability purposes.

A31. Different means of presenting relevant information are provided for consolidation entities and disclosure organizations.⁵⁶ The distinction between consolidation entities and disclosure organizations is based on the degree to which the following characteristics are met: the organization is financed by taxes and other non-exchange revenue, is governed by the Congress and/or the President, imposes or may impose risks and rewards to the federal government, and/or provides goods and services on a non-market basis. Maintaining a distinction between consolidation entities where financial and operational decisions are more directly governed by the Congress and/or the President, and disclosure organizations that are more financially (or operationally) independent will provide information to users that is more understandable and relevant. In some cases, disclosure of information regarding an individual organization is more useful than consolidation of the individual organization's financial statements in the government-wide financial statements. In other instances, consolidation of individual organizations' financial statements is needed to provide fair

⁵⁶ Consolidated financial statements provided for “consolidation entities” will include all disclosures and required supplementary information required by existing standards. Existing standards will ensure that adequate information is provided regarding the nature and organizational structure of consolidation entities as well as the activities and future exposures.

presentation of activities financed by the taxpayers, and/or relying on the taxpayers to settle liabilities.

A32. While principle-based standards do not explicitly classify specific organizations as consolidation entities or disclosure organizations, the Board considered the need to illustrate how the inclusion principles and the criteria for classification as a consolidation entity or disclosure organization might be applied to certain significant individual organizations or classes of organizations. For many classes of organizations, illustrations are provided in Appendix C of this exposure draft. With respect to certain significant organizations with particularly unique characteristics, such as the central banking system (Federal Reserve System (FRS)),⁵⁷ a majority of the Board did not believe illustrations would be appropriate because the illustrations might become de facto requirements regarding that entity's classification.

A33. The role of preparers and auditors is to assess each organization against the principles in paragraphs 20 – 53 and reach their own conclusions. In contrast, the role of standards-setters is to set accounting standards and consider the potential implications. In doing so, the Board acknowledges some members believe the Board should explicitly address inclusion and classification (as a consolidation entity or disclosure organization) of the FRS in GPFFRs because of the magnitude of its operations. While different individuals could reach different conclusions due to the unique and changing role of the central banking system, most members believe explicitly classifying the FRS, or any entity, at a point in time would be inappropriate and result in the Statement becoming outdated as circumstances change.

A34. Despite the decision not to explicitly classify the FRS, the Board considered each possible classification of the FRS. This consideration did not take into account all the facts and circumstances that would be considered by the preparer and auditor. Instead, like the illustrations in Appendix C, high-level facts were considered in sufficient detail to provide reasonable assurance to the Board that preparers and auditors would consider the appropriate matters in making decisions. The majority of the Board believes the proposed principles are sufficient to aid preparers and auditors in assessing any organization, including the FRS, and in making decisions regarding inclusion and classification as a consolidation entity or disclosure organization.

A35. If the assessment of the FRS resulted in its classification as a consolidation entity, the government-wide consolidated financial statements and related notes would present information as if the FRS and other consolidation entities operate together as a single economic entity. Any balances and transactions among the consolidation entities would be eliminated. For example, all Treasury securities held as investments by the FRS and reported as liabilities by the Department of the Treasury would be eliminated. Significant additions to the government-wide balance sheet as a result of consolidating the FRS would be liabilities for deposits of depository institutions and Federal Reserve notes outstanding as

⁵⁷ The FRS comprises the Board of Governors, the Federal Open Market Committee, the regional Federal Reserve Banks, and the Bureau of Consumer Financial Protection (established in 2010 as an independent bureau within the FRS pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act). For simplicity, the basis for conclusions discusses the system as a whole rather than its individual components.

well as assets for investments in non-federal organizations. Consolidation would also affect the reported operating results of the government; interest expense would be reduced by the amount paid by the U.S. Treasury to the FRS and revenue would be reduced by the amount paid by the FRS to the U.S. Treasury.

A36. If the assessment of the FRS resulted in its classification as a disclosure organization, disclosures regarding the FRS would aid users in understanding the FRS, its relationship with the federal government, any significant activities, and any risks posed to the federal government. Such disclosures would allow the reader to consider monetary policy and fiscal policy as distinct activities. The government-wide consolidated financial statements would present the results of fiscal policy. Consolidation of fiscal and monetary policy financial information, as described above, would result in elimination of some Treasury securities. Thus, the use of Treasury securities to conduct monetary policy and their elimination upon consolidation could obscure the Treasury securities (debt) that result from the fiscal policies of the federal government. Further, liabilities for Federal Reserve notes outstanding and deposits by depository institutions differ in character from liabilities arising from fiscal policy. In contrast, disclosures may provide an understanding of the relationship between monetary and fiscal policy and support consideration of these distinct activities.

A37. The Board recognizes the FRS performs a unique federal function—central banking—and there is only one organization of this type. The FRS is unique not only in its mission, but also in its governance, structure, activities and the need to maintain independence in practices. Its responsibilities are broad reaching because of the impact of monetary policy on the country (government, businesses, and citizens) thereby leading to great interest in its activities. The magnitude of its role and transactions led the Board to propose certain minimum disclosures about the FRS. The minimum disclosures recognize that there is special interest in the activity of the central banking system. The minimum disclosures are in addition to any other reporting requirements in the government-wide financial report and any reporting entity to which it may have been administratively assigned. The minimum disclosures focus on governance, significant roles and responsibilities, actions to achieve monetary and fiscal policy objectives, transactions with the reporting entity, risks to the federal government and future exposures to gains and losses. The disclosures should be integrated, and depending on the circumstances, also may be required by other provisions in this Statement or other GAAP requirements.

Consolidation entities

A38. Consolidation entities generally provide goods and services on a non-market basis. That is, prices are not established solely through market transactions where supply and demand determine price. Goods and services provided on a non-market basis may be free of charge or provided at prices that are either not economically significant or bear little relationship to the cost of the goods or services.

A39. Consolidation entities are financed through taxes and other non-exchange revenue as evidenced by inclusion in the budget. Significant risks and rewards fall to the federal government for consolidation entities. Inclusion in the budget is the clearest evidence an organization is relying on the taxpayer and that elected officials are key decision makers.

A40. The budget is a political document serving many purposes. The 1967 *Report of the President's Commission on Budget Concepts* indicates that “the budget must serve simultaneously as an aid in decisions about both the efficient allocation of resources among competing claims and economic stabilization and growth.” On the topic of coverage of the budget, the Commission recommended that “the budget should, as a general rule, be comprehensive of the full range of Federal activities.” Because the budget includes “federal activities,” entities listed in the budget, except those receiving federal financial assistance, are presumed to qualify as consolidation entities.

A41. The assessment of whether an organization meets the attributes for a consolidation entity is based on the assessment of all the attributes and the degree to which each is met. As such, not all attributes are required to be met; classification is based on the assessment as a whole.

Disclosure organizations

A42. Disclosure organizations receive limited or no funding from general tax revenues. Disclosure organizations, in contrast to consolidation entities, are often structured so there is a clear barrier or limit on taxpayer financing of the entity. Disclosure organizations have relative financial independence and often provide goods and services on a market basis. This may be an effort to shield the federal government from risk.

A43. Another contrast with consolidation entities is that with disclosure organizations, the Congress and/or the President have much less direct involvement in decision-making. Decision-making may rest with a governing board insulated from political influence and there may be situations where disclosure organizations have a separate legal identity.

A44. It is important to recognize the continuum that exists among disclosure organizations. For example, despite a greater degree of autonomy, some disclosure organizations may still exercise powers that are reserved to the federal government as sovereign. Other disclosure organizations may not themselves carry out missions of the federal government but, instead, are owned or controlled by the federal government as a result of regulatory or intervention actions.

A45. The Statement provides categories of disclosure organizations primarily as a way to help identify disclosure organizations. However, the Statement does not require presentation by any specific class or category and allows flexibility in presenting information about disclosure organizations. The categories of disclosure organizations include quasi-governmental and/or financially independent organizations, receiverships and conservatorships, and federal government intervention actions.

Quasi-Governmental and/or Financially Independent Organizations

A46. The Statement describes quasi-governmental and/or financially independent organizations as those disclosure organizations where governance and/or financial differences lead to greater independence. The Statement identifies both governance and financial characteristics that would be found in this type of disclosure organization.

A47. Quasi-governmental and/or financially independent organizations may include certain FFRDCs, museums, performing arts organizations and universities, and venture capital funds. Because details may differ among organizations in each example type, an objective

assessment may classify some individual organizations as consolidation entities rather than disclosure organizations. Appendix C- Illustrations offers examples that may be useful in application.

Receiverships and Conservatorships

A48. The Statement describes receiverships and conservatorships as disclosure organizations. This includes those failed financial institutions and banks the federal government takes control or ownership of with no goal to maintain the relationship. Absent a decision to make control permanent, such controlled or owned organizations would be disclosure organizations and are not subject to the GAAP hierarchy for federal entities included in the GPFFR.

Federal Government Intervention Actions

A49. The Statement describes federal government intervention actions as disclosure organization involvements resulting from exceptional circumstances where the involvements are not expected to be permanent. SFFAC 1 acknowledges the unique nature of federal government activity and its broad responsibilities. Paragraph 50 explains “The federal government is unique, when compared with any other entity in the country, because it is the vehicle through which the citizens of the United States exercise their sovereign power. The federal government has the power through law, regulation, and taxation to exercise ultimate control over many facets of the national economy and society...” SFFAC 1 describes the federal government’s responsibility for the general welfare of the nation in paragraph 53-54 as “a broad responsibility that involves multiple goals.”

A50. With these broad responsibilities, the federal government may decide to take certain actions or intervene in certain situations. Examples may include actions to provide stability to the financial markets, key industries, states, cities, counties, or military occupation of another country.⁵⁸ These types of federal government interventions are considered rare.⁵⁹ Historically the federal government has been involved in few commercial enterprises on an equity basis or shared ownership basis.⁶⁰ Although the federal government may not act to maximize profits, the federal government may intervene and act in capacities to protect citizens. This may ultimately lead to taking control of organizations or acquiring some form of ownership.

A51. The federal government may also intervene by providing assistance through extending loans or debt guarantees that do not meet the inclusion principles established in this Statement. Such transactions should be accounted for in accordance with the appropriate accounting standards per the GAAP hierarchy. This Statement does not include additional disclosures for such intervention actions.

A52. Currently SFFAC 2 provides an exception for situations where the criteria leading to consolidation are met temporarily. Specifically, paragraph 45 of SFFAC 2 states “The entity

⁵⁸ After the signing of the Japanese Instrument of Surrender in 1945, Japan was supervised for 6 years by the Allied (primarily American) forces and subject to military control, with General MacArthur at the head of the Occupation administration. (Takemae, Eiji; 2002, p. xxvi)

⁵⁹ The financial crisis that began in 2007 is considered to be the most severe since the Great Depression. (White Paper on Changes to Financial Regulations)

⁶⁰ Congressional Research Service (CRS) Report for Congress RL30533, *The Quasi Government: Hybrid Organizations with Both Government and Private Sector Legal Characteristics*

or any of the above criteria are likely to remain in existence for a time, i.e., the interest in the entity and its governmental characteristics are more than fleeting.” “Fleeting” may imply periods of one year or less to some and the Board considered how to clarify the term “fleeting.” Ultimately, the Board decided terms such as “fleeting” and “temporary” imply a time limit.

A53. However, there may be instances where an intervention is longer than one year due to the extreme factors of the national crisis. In most instances, it is difficult to establish and meet a timeline for ending an intervention. In these instances, the focus continues to be on governance and protection, rather than maximizing profits or establishing new federal government lines of business. Although the actions may be longer than one year, the interventions are “not expected to be permanent.” The Board established this “non-permanent” expectation as a characteristic of disclosure organizations rather than relying on “temporary” or “fleeting” to avoid the implication that a time limit could be established.

A54. A further implication the Board wishes to avoid is that organizations owned or controlled as a result of interventions are considered “federal entities.” The Statement recognizes that such interventions create a need for accountability but they do not make the disclosure organizations arising from intervention actions “federal entities.” Hence, the Statement proposes that disclosure organizations not be subject to the GAAP hierarchy for federal entities.

Component Reporting Entities

A55. The Board believes there should be consistency in treatment of organizations at the government-wide and the component reporting entity levels. The reasons for including organizations at the component reporting entity level should be consistent with the reasons in the government-wide entity GPFFR. Further, classification as consolidation entities or disclosure organizations would be consistent in government-wide and component reporting entity GPFFRs. The Board believes a single set of principles for inclusion and classification presented from the government-wide perspective provides for the desired consistency. This is appropriate and necessary because the government-wide reporting entity is the only federal reporting entity that is an independent economic entity.

A56. Nonetheless, implementation of these principles will involve the component reporting entities because the government-wide report is a consolidation of the reports provided by component reporting entities. Therefore, component reporting entities must identify and include in their GPFFR all consolidation entities and disclosure organizations for which they are accountable so that both the component reporting entity GPFFR and government-wide GPFFR are complete.

A57. The Board believes that component reporting entities should identify consolidation entities and disclosure organizations administratively assigned to the component reporting entity. Standards that are based on organization and accountability provide a more realistic view of how component reporting entities become accountable for organizations and how component entity boundaries are likely to be determined. The result will be component reporting entity GPFFRs that include all organizations for which the component reporting entity management (for example, appointed officials) are expected to be accountable.

A58. Administrative assignments to component entities are typically made in policy documents such as laws, budget documents, regulations, or strategic plans. Ultimately, component reporting entities would identify and include in their GPFFR all consolidation entities and disclosure organizations for which they are accountable so that both the component reporting entity and government-wide GPFFRs would be complete.

A59. Administrative assignments can be identified by evaluating the following three areas:

- a. Scope of the Budget Process
- b. Accountability Established Within a Component Entity
- c. Misleading to Exclude and/or Misleading to Include

A60. Component reporting entities should develop processes to ensure they identify and assess any organizations (1) within the scope of their budget process, (2) for which accountability is established within their component reporting entity, or (3) which are misleading to exclude. Central agencies are anticipated to determine if there is a need for coordinated guidance to be developed to ensure government-wide consistency.

A61. Although there may be a one-time review to ensure completeness and consistency, the Board believes this method is reasonably consistent with current practice. Further, a coordinated effort from the central agencies could promote a process to ensure the component reporting entities are performing the necessary procedures to capture the material organizations from their perspectives and also for consideration at the government-wide level. The effective date considered this and allowed sufficient time for a coordination of efforts.

GPFFR Consolidation and Disclosure

A62. As noted above, decisions about the government-wide GPFFR require determining what organizations are to be included in the reports and identifying appropriate means to present relevant information about organizations. The final determination of the presentation of financial information through consolidation or disclosure is based upon the results of two assessments—first if the organization is included and second, if those included organizations are classified as consolidation entities or disclosure organizations.

A63. The Flowchart at Appendix B is a useful tool in applying the principles established. It is helpful in the assessment and applying the standards in order. It includes paragraph references to underlying principles and major decision points.

Consolidation Entities

A64. The Statement provides that consolidation entities should apply SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. In addition, it provides for the consolidation of the financial statements of consolidation entities so citizens may assess the financial position and the cost of operations of the federal government. Consolidation of financial information regarding the activities financed by taxes and other non-exchange revenue, resources, and obligations where governance rests with the Congress and/or the President ensures that the reporting objectives of SFFAC 1 are met.

A65. Existing guidance may also require additional information—either through disclosures or required supplementary information—regarding consolidation entities. While the term “disclosure organizations” is used to refer to organizations included in GPFFRs through disclosures, readers should not infer that disclosures would not also be provided regarding consolidation entities and related activities and transactions consistent with existing standards.

Consolidation of FASB-based and FASAB-based Information

A66. The Board has considered the potential ramifications when some federal entities follow GAAP for nongovernmental entities promulgated by the private sector Financial Accounting Standards Board (FASB GAAP) and their information is consolidated with information based on FASAB standards. For example, federal government corporations, the U.S. Postal Service, certain component reporting entities of the U.S. Department of the Treasury, and some other organizations in the executive and legislative branches have historically applied FASB GAAP and continue to do so. SFFAS 34 recognizes that “general purpose financial reports prepared in conformity with accounting standards issued by the FASB also may be regarded as in conformity with GAAP for those entities that have in the past issued such reports.” SFFAS 34 also provides that a federal reporting entity preparing audited financial statements for the first time may adopt FASB standards in the rare case that the needs of its primary users would be best met through the application of FASB standards. The acceptance of these practices raises the question of whether the information prepared under FASB standards may be consolidated with information prepared under FASAB standards in consolidated reports prepared by other component reporting entities and in the consolidated government-wide reporting entity.

A67. The Board has considered such issues on several occasions and provided concepts as follows:

The reporting entities of which the components [preparing reports under FASB or regulatory accounting standards] are a part can issue consolidated, consolidating, or combining statements that include the components’ financial information prepared in accordance with the other accounting standards. They need to be sensitive, however, to differences resulting from applying different accounting standards that could be material to the users of the reporting entity’s financial statements. If these differences are material, the standards recommended by FASAB and issued by OMB and GAO should be applied. The components would need to provide any additional disclosures recommended by FASAB and included in the OMB issued standards that would not be required by the other standards.⁶¹ (SFFAC 2, *Entity and Display*, par. 78 (excerpt from section on “Financial Reporting For An Organizational Entity”))

A68. The Board determined in SFFAS 34 that FASB-based statements are acceptable in certain circumstances. While there are significant differences between FASB and FASAB standards, both standards result in accrual-basis information and disclosures that aid users in understanding the information. Converting FASB-based information to FASAB-based information for consolidated financial reports of larger organizations may not be justifiable since conversion may not aid users.

⁶¹ In October 1999, FASAB was recognized as the Rule 203 standards-setting body for the federal government. As such, FASAB now issues the standards, rather than issuing recommendations to OMB and GAO for issuance of the standards.

A69. Users may be confused by the presentation of different amounts for a component in its own financial report and in the consolidated financial reports of larger organizations; particularly when both amounts would be in accordance with GAAP for federal entities per SFFAS 34. In addition, conversion imposes a cost and it is not clear that the cost is justifiable based on benefits to the user. Therefore, this Statement proposes that amounts derived for component reporting entities in compliance with SFFAS 34 be consolidated without adjustment.

A70. However, if this leads to consolidation in a single line item of amounts measured differently due to differences between FASB and FASAB principles, then one would anticipate disclosures of the different accounting policies and the related amounts to aid the reader in understanding the information provided. The Board considered adopting requirements for such disclosures but believes that existing requirements and long-standing professional practices are sufficient.

Disclosure Organizations

A71. The Board believes consolidation of disclosure organizations would not result in information meeting the basic qualitative characteristics of information in financial reports because it would not provide the most relevant, understandable, or consistent information. The Board believes consolidation of disclosure organizations may obscure the boundaries of the risks and rewards intended to be assumed or gained. Further, assets that are not available for purposes other than the specific business operation of the non-consolidated organization might be commingled with federal assets, and liabilities not fully guaranteed by the federal government might be added to federal liabilities. Instead, financial balances and amounts for organizations having the characteristics of disclosure organizations should be kept separate from balances and amounts for those organizations having the characteristics of consolidation entities to prevent distortions to the consolidated financial statements.

A72. The Board believes SFFAC 1 recognizes the challenges that may arise in applying traditional approaches to financial reporting. SFFAC 1 par. 49 states "...Federal accounting and financial reporting are shaped by, and need to respond to, the unique characteristics and environment of the federal government." SFFAC 1 par. 105 further explains "reports must accurately reflect the distinctive nature of the federal government and must provide information useful to the people, their elected representatives, and federal executives..." SFFAC 1 also provides the qualitative characteristics of information in financial reports, by identifying these basic characteristics: understandability, reliability, relevance, timeliness, consistency, and comparability.⁶²

A73. The Statement provides flexibility in identifying needed information regarding disclosure organizations because the range of disclosure organizations is broad and different information may need to be disclosed to meet the reporting objectives. Providing this flexibility allows the preparer to present information judged most necessary to meet reporting objectives while also providing an understanding of the potential effect of the relationship on the consolidation entity's financial statements.

⁶² SFFAC 1, par. 156.

Factors in Determining Disclosures

- A74. Because of the flexibility needed regarding disclosures, preparers are provided a list of factors to assist in determining what disclosures to include. Materiality is an overarching consideration in financial reporting. Preparers should consider both qualitative and quantitative materiality in determining disclosure organization presentation and disclosure. Beyond materiality, the factors provided in the Statement assist in determining the nature and extent of information regarding a disclosure organization to be provided.
- A75. The factors are to be considered in the aggregate; no individual weight should be assigned or interpreted. The assessment of the appropriate disclosures should be made after considering all the factors.

Disclosure Requirements

- A76. The Board recognizes that although the Statement provides flexibility in meeting the disclosure objectives, there is a wide variety of information listed as examples that may be disclosed to meet the intended objectives and there are not requirements for how information must be aggregated. Qualitative and quantitative factors are considered in determining whether information regarding a disclosure organization is presented separately due to its significance or aggregated with the information regarding other disclosure organizations. If information is aggregated, aggregation may be based on disclosure organization type, class, investment type, or a particular event deemed significant to the reporting entity. For example, one reporting entity may determine it appropriate to aggregate by investment types, such as equity or loan, another by disclosure organization type, such as receiverships, and yet another by class, such as museum.
- A77. Further, disclosures should be integrated so that concise, meaningful and transparent information is provided. Integration is accomplished by providing a single comprehensive note regarding the disclosure. Care should be taken to ensure the objectives are met, without producing unintended consequences. Preparers should keep in mind there are associated costs and potential audit implications with any information included in a GPFFR. Incorporating by reference or including summary financial statements or summary financial information generally would result in an auditor being required to gain audit assurance on that information and thereby may result in additional audit costs.
- A78. The Board believes any financial information about disclosure organizations in the reporting entity's GPFFR should be based on accrual basis standards specific to the type of organization while minimizing additional costs on the disclosure organization. There will be instances where information about disclosure organizations is produced for reporting periods that differ from the reporting entity's reporting period. To minimize additional costs, the Board agreed that if disclosure organizations have a different reporting period than the reporting entity's GPFFR, disclosure of information from a reporting period ending within the reporting entity's reporting period is acceptable. The Board performed outreach on this issue to the audit community and to the federal entity task force. Generally, the feedback supported this approach.
- A79. However, due to the fact there could be a large time lag, there should be a provision for disclosing significant changes in the information as a result of events occurring after the issuance of the disclosure organization's audited financial statements and before the issuance of the reporting entity's audited financial statements for a later fiscal year-end. The

Board notes this would only be necessary if a disclosure organization's summarized financial statements or summarized financial information were presented. Otherwise normal transactions would be captured throughout the year so this would be a somewhat narrowed focus.

A80. The Board is especially concerned with the interpretation by the users and preparers regarding the requirements for disclosure organizations and ultimately how they would affect the display and disclosures. The Board believed this would be an important consideration during deliberations and invited the assistance of the Department of the Treasury and a potential included organization in preparing a draft Illustration of a disclosure based on the draft requirements.

A81. Although the Board believed some enhancement of the draft standards was in order to encourage concise and transparent disclosures, the Board agreed the inclusion principles were appropriate. Further, the flexibility provided within the disclosure requirements, along with the factors to consider, were preferable to prescribing information required regarding specific disclosure organizations.⁶³ The Board noted the need to emphasize the aggregation of information, referencing other disclosures when possible, additional focus on risk and other enhancements to the draft disclosures. This need arose because of the complexity of the relationships being described, transactions affecting multiple assets and liabilities being reported, and the desirability of an integrated set of disclosures. The Board subsequently modified the draft disclosure requirements to emphasize integration of disclosures.

Related Parties

A82. The Board determined it should define "related parties" and address them within this Statement for several reasons. Related party reporting is such a fundamental notion within GAAP and the auditing standards that addressing how related party concepts apply in the federal domain is important. Absent clear related party standards in the federal domain, the Board believes the private sector concepts would be applied by default.

A83. Because of the extent of the federal government's relationships – whether already established or implied – "related parties" concepts may result in numerous relationships requiring disclosure. Therefore, the Board proposes disclosure of related party relationships of such significance to the reporting entity that it would be misleading to exclude information about them. For clarity of intent, the standards rely heavily on listing parties to be included and excluded. In addition, the proposal provides room for judgment because one cannot anticipate all types of relationships the federal government may have or might have in the future that should be reported. The related parties category is needed to provide for disclosure of those organizations that are not included under the inclusion principles but where there is an existing relationship of such significance that it would be misleading to exclude.

⁶³ As discussed in paragraph A37 about the Federal Reserve System, the magnitude of its role and transactions led the Board to propose certain minimum disclosures about the central banking system in paragraph 77 of the Statement. However, these are minimum disclosures and depending on the circumstances, some of the listed information may need to be disclosed due to other requirements. The disclosures should be integrated so that concise, meaningful and transparent information is provided and Information is not repetitive

A84. Component reporting entities of a single controlling entity are generally subject to related party reporting requirements in other standard-setting domains. The Board discussed whether jointly controlled component reporting entities should disclose information about their relationships. Presently, component reporting entities are required by OMB guidance to state in the management's discussion and analysis section that: "The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity." In addition, existing standards require recognition of inter-entity costs to ensure that cost information is not misstated as a result of relationships between component reporting entities. While members noted that readers may need additional contextual information to understand what these complex relationships imply about component reporting entity information, they preferred that OMB explore options for additional guidance through Circular A-136, *Financial Reporting Requirements*, so that it is integrated with existing disclosure requirements. Addressing additional disclosures in this Statement would likely expand its scope into areas adequately addressed in established practice.

Proposed Amendments to SFFAC 2, Entity and Display

A85. The Statement proposes amendments to SFFAC 2, *Entity and Display*. The Statement provides a description of the change to SFFAC 2 and an explanation as to why the change is being made. Most of the conforming changes are rescissions that result from movement of criteria for determining what organizations are required to be included in the federal reporting entity's GPFFR from a concepts statement to standards statement.

A86. Paragraphs 54—77 and 79 – 112 of SFFAC address concepts outside the scope of this Statement and are not amended.

A87. In addition, no changes are proposed to paragraphs 11-37 of SFFAC 2 because the Board believes these paragraphs provide the conceptual underpinning for understanding the structure of the federal government and how this relates to reporting entities for general purpose federal financial reporting. Although there may be some small differences in terminology in those paragraphs, the Board did not believe they were significant enough to warrant amendments.

A88. Paragraphs 47-50 of SFFAC 2 identify certain organizations or types of organizations (the Federal Reserve System, Government Sponsored Enterprises, and Bailout Entities) that could be included in the government-wide reporting entity based on the SFFAC 2 concepts but that should not be included. This Statement establishes principles to ensure users of GPFFRs are provided comprehensive financial information while recognizing the complexity of the federal government and its relationships with varied organizations. The principles can be applied to the organizations previously excluded and conclusions reached to include the organizations—either as consolidation entities or disclosure organizations—or to continue to exclude the organizations. SFFAC 2 is being amended to ensure that concepts provide a framework for standards-setting but do not themselves establish standards by listing specific exclusions.

Alternative View

A89. Individual members sometimes choose to express an alternative view when they disagree with the Board's majority position on one or more points in a Statement. The alternative view discusses the precise point or points of disagreement with the majority position and

the reasons therefore. The ideas, opinions, and statements presented in the alternative view are those of the individual member. However, the individual member's view may contain general or other statements that may not conflict with the majority position, and in fact may be shared by other members. The following material was prepared by Mr. Steinberg and is presented as an alternative view.

A90. Mr. Steinberg believes that in the case of receiverships, conservatorships, and interventions, which Statement of Federal Financial Accounting Concepts (SFFAC) 2 *Entity and Display* determined to be “bail-out entities,” there is a conflict with the Concepts statement. He also believes that using the ownership and control principles to explicitly equate the receiverships, conservatorships, and interventions with the other disclosure organizations gives the impression that the receiverships, conservatorships, and interventions are part of the federal government.

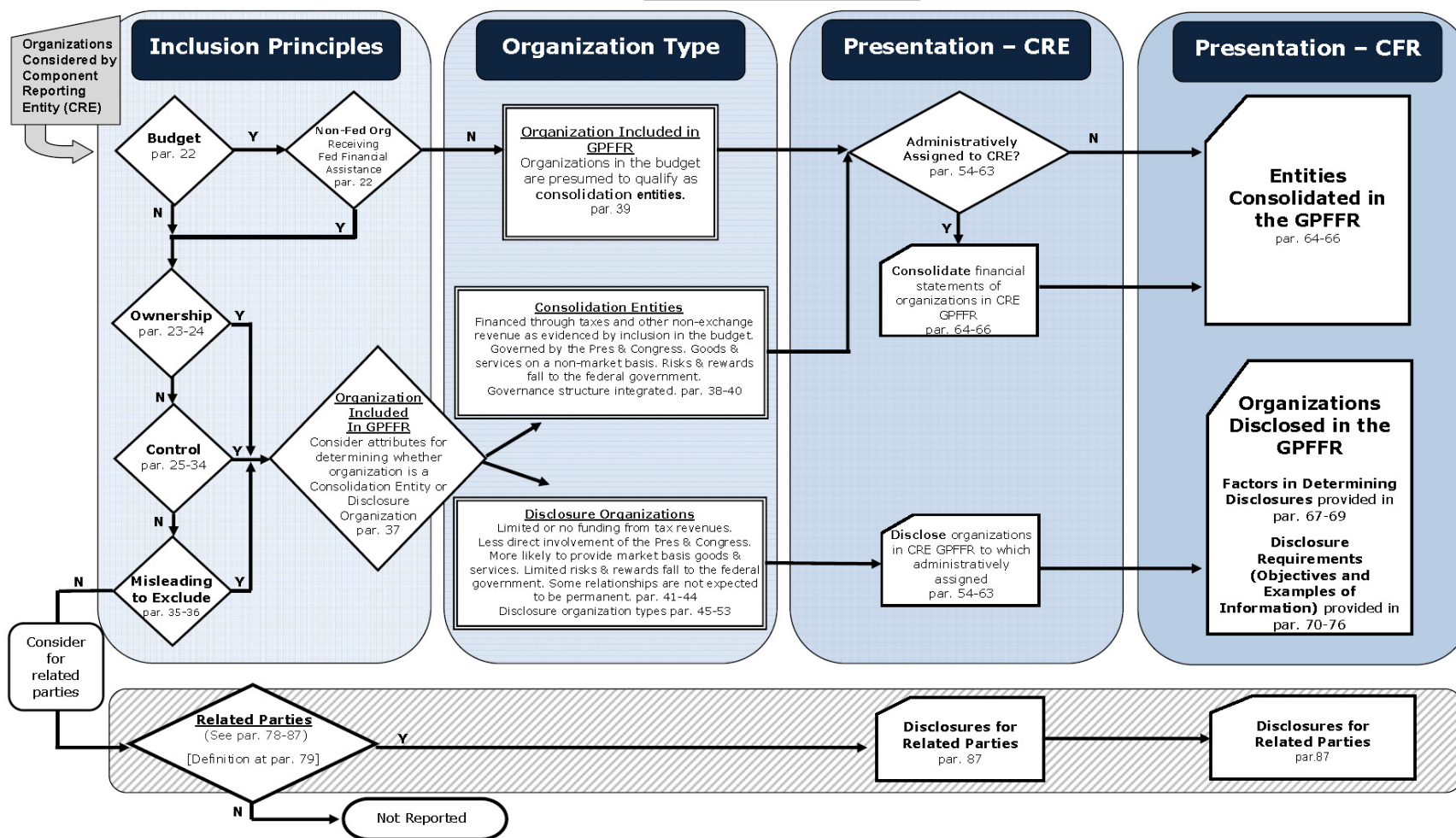
A91. The reason Mr. Steinberg does not believe receiverships, conservatorships, and interventions should be equated with other disclosure organizations is actually presented in the proposed Statement. They represent less than permanent arrangements resulting from Federal government actions to avoid adverse impacts on the nation's economy, commerce, national security, etc. (paragraphs 49, 50, 51, A53). Permanence of a relationship is a fundamental concept when defining parts of an organization. Furthermore, these organizations were established in the private sector, and they carry out activities not intended to be performed by the federal government (paragraphs A48, A50). Equating them with the other disclosure organizations could be viewed as a broadening of the reach of the federal government into the private sector.

A92. Mr. Steinberg points out that eliminating receiverships, conservatorships, and interventions as a defined class of disclosure organization within the proposed standard does not mean there should or would not be disclosure of the financial risks and expectations of benefits associated with these organizations. There are extensive disclosures now, required by both existing accounting standards and the GAAP hierarchy. These disclosures would continue.

A93. Moreover, not all interventions entail ownership or control. An example is an intervention using loan guarantees. Mr. Steinberg believes that a single standard that address all types of interventions and the manner in which they should be reported would be significantly more effective than the proposed standard which addresses only interventions in which there is temporary ownership and/or control. He points out that the Board has started a Risk Assumed project that is likely to encompass interventions. The project could ensure that the disclosures for interventions would address not only the types of disclosures expected for all disclosure organizations in this proposed standard, but also the additional disclosures appropriate for interventions. Examples of the latter are key transactions, financial assistance provided by the central banking system, costs incurred to date, the extent of contingent liabilities associated with the interventions, etc.

APPENDIX B: FLOWCHART

FLOW CHART (Appendix B)



APPENDIX C: ILLUSTRATIONS

Preamble

These illustrations demonstrate how the provisions of the standards could be applied to organizations given simplified hypothetical circumstances. They are for illustrative purposes only and are nonauthoritative. They do not:

1. represent actual organizations.
2. provide a thorough analysis of all the facts and circumstances that are needed to reach a conclusion in practice.
3. indicate a preferred method of analyzing facts and circumstances.
4. substitute for the application of professional judgment to actual facts and circumstances.

These illustrations follow the sequence presented in the decision flowchart in Appendix B. All tentative conclusions are based primarily on the hypothetical circumstances presented. In most illustrations, the tentative conclusions refer to consideration of other factors by management and the auditor. This reference is included to emphasize that, in practice, consideration of all relevant facts and circumstances would be needed to reach conclusions. The reader should assume that the general reference to “other factors” means that such factors, in aggregate, supported the conclusions implied by the necessarily limited assumed facts and circumstances presented in each illustration.

Application of the proposed standards to actual organizations requires consideration of the circumstances specific to each organization and the exercise of professional judgment. Although the limited assumed facts and circumstances presented in the illustrations may be similar to situations at a particular reporting entity, they should not be used in practice as a substitute for a complete and thorough consideration of all of the relevant facts and circumstances, which may lead to a conclusion different from the tentative conclusions in these illustrations. For example, the illustrations make certain assumptions that, in practice, require judgment of the specific facts and circumstances to make appropriate determinations.

All of the illustrations discuss administrative assignments to component reporting entities where there is only one component reporting entity relationship described. In reality, more than one component reporting entity may have a relationship with the illustrative organization. In such cases, additional information would need to be considered to determine whether other administrative assignments exist.

ABC Department

(In the Budget—Consolidation Entity)

Assumed Facts and Circumstances

Congress established ABC Department (ABC), a federal organization, to promote entrepreneurship and innovation as a means to address national economic and environmental challenges. Provisions that govern ABC are generally prescribed in legislation and ABC accomplishes its mission through the activities of various bureaus, grants to research institutions, and contracts with universities and not-for-profit organizations.

The executive leadership of ABC consists of a secretary, deputy secretary, and three assistant secretaries. The President nominates and the Senate confirms each of these officials. These officials serve at the pleasure of the President. ABC is subject to all laws and regulations applicable to executive branch agencies.

ABC relies on appropriated public funds to conduct its mission and is listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account.” The President and the Congress consider ABC’s requests for resources and determine the amount that should be budgeted to provide services. Furthermore, ABC is not considered to be a non-federal organization receiving federal financial assistance.

Tentative Conclusions

Based on the assumed facts and circumstances, management determined and the auditor concurred that ABC should be included in the government-wide GPFFR because it (1) meets the first of the three inclusion principles (being listed in the budget) and (2) is not a non-federal organization receiving federal financial assistance.

Classification as a Consolidation Entity or Disclosure Organization

Further, because it is listed in the budget, ABC is presumed to qualify as a consolidation entity assuming no information to the contrary. In this example, management determined and the auditor concurred that there were no facts contradicting the assumption that ABC is a consolidation entity. As a consolidation entity, ABC’s financial statements should be consolidated in the government-wide GPFFR.

Administrative Assignments

The assumed facts and circumstances do not indicate ABC should be consolidated with another component reporting entity. Further consideration of ABC’s relationships with other consolidation entities would be needed to determine if ABC has been administratively assigned to another component reporting entity. Further consideration would also be needed to identify any consolidation entities or disclosure organizations administratively assigned to ABC.

Epsilon Corporation

(In the Budget – Consolidation Entity)

Assumed Facts and Circumstances

The Congress and the President established Epsilon Corporation as an independent government corporation to insure consumer funds placed in trust with certain types of institutions. Federal legislation established provisions that govern Epsilon's activities. Epsilon is governed by a seven member board of directors and each board member is appointed by the President and confirmed by the Senate. The Congress monitors Epsilon's activities by conducting hearings on Epsilon's programs and requesting Government Accountability Office (GAO) and Office of Inspector General (OIG) audits.

Epsilon is listed in the in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account.” Epsilon receives its funding based on legislation permitting it to receive and spend premiums from the institutions it insures. Legislation limits how Epsilon can invest proceeds from premiums and, to help ensure that Epsilon remains financially viable, legislation requires Epsilon to have a reserve fund. The board of directors determines the level of the reserve fund. If Epsilon encounters a shortfall, the organization may borrow a limited amount from the U.S. Department of the Treasury, but any additional funding requirements must be obtained from premium assessments.

Epsilon is required to periodically report to the Congress and the President on matters such as:

- Program performance results
- Financial position, results of operations, and cash flows
- Adequacy of internal controls and systems

Furthermore, Epsilon is not considered to be a non-federal organization receiving federal financial assistance.

Tentative Conclusions

Based on the assumed facts and circumstances, management determined and the auditor concurred that Epsilon Corporation should be included in the government-wide GPFFR because it meets the first of the three inclusion principles (being listed in the budget) and is not a non-federal organization receiving federal financial assistance.

Classification as a Consolidation Entity or Disclosure Organization

Further, because it is listed in the budget, Epsilon is presumed to qualify as a consolidation entity assuming no information to the contrary. In this example, management determined and the auditor concurred that there were no facts rebutting or contradicting the assumption that Epsilon is a consolidation entity. As a consolidation entity, Epsilon's financial statements should be consolidated in the government-wide GPFFR.

Administrative Assignments

There is no information included in the assumed facts and circumstances indicating that Epsilon should be consolidated with another component reporting entity. Further consideration of Epsilon's relationships with other consolidation entities would be needed to determine if Epsilon has been administratively assigned to another component reporting entity or has had consolidation entities administratively assigned to it. Also, further consideration would be needed to identify any disclosure organizations administratively assigned to Epsilon for which disclosures are needed.

Sigma Association

(Control based on Persuasive Indicator - Disclosure Organization (Financially Independent))

Assumed Facts and Circumstances

The Congress and the President established Sigma Association (Sigma) as a not-for-profit, non-taxpayer funded organization to market innovative U.S. agricultural technology worldwide and to respond to any claims of damage arising from new technology. The fundamental purpose of the corporation is specified in legislation and its mission statement is “to open new markets for U.S. agricultural technology through a cooperative marketing strategy and risk-sharing approach for market participants.”

Sigma is governed by a ten-member board of directors. Five members are appointed by the President and confirmed by the Senate. Four members are elected by industry members. The Secretary of Agriculture (or his/her designee) serves as a voting ex-officio member of the board. No more than three of the appointed members may be from the same political party. Board members serve seven-year terms and can only be removed for cause (meaning they may not be removed for policy decisions). Also, Congress monitors Sigma’s activities by conducting hearings on Sigma’s programs and requesting GAO audits.

Sigma is financed by fees imposed on industry members. Sigma’s board of directors must establish an annual budget and legislation limits how Sigma can invest proceeds from fees and, to help ensure that Sigma remains financially viable, legislation requires Sigma to have a reserve fund. The board of directors determines the level of the reserve fund after considering input from industry members. If Sigma encounters a shortfall, it may borrow a limited amount from the U.S. Department of the Treasury (Treasury), but any additional funding requirements must be obtained from future fee assessments on industry members.

Tentative Conclusions

Based on the assumed facts and circumstances, and other considerations, management determined and the auditor concurred that Sigma should be included in the government-wide GPFFR because Sigma meets the third inclusion principle (control with expected benefits or risk of loss). Indicators that the federal government can control Sigma are that the Congress and/or the President (1) established its fundamental purpose and mission through legislation and (2) appoint a majority of the members of its board of directors (its governing body). Each of these facts individually would be sufficient to indicate control such that Sigma would be included.

Classification as a Consolidation Entity or Disclosure Organization

For this illustration, management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustrations, Sigma should be reported as a disclosure organization because it is a financially independent organization. Management and the auditor considered the assumed facts and circumstances presented below in the aggregate, weighed them against other considerations, and used professional judgment.

Evidence suggesting that it is a disclosure organization includes:

1. Tax revenue is not appropriated for ongoing operations.

2. The corporation is relatively financially independent because it is primarily funded from a source other than appropriations. Its budget and fees are not subject to Congressional or Presidential approval.
3. Having seven-year terms for directors who are not subject to removal for policy decisions indicate a higher degree of autonomy than executive branch appointees. This governance structure vests greater decision-making authority with the board while insulating it from political influence. As a result, Congressional and Presidential oversight is less direct since they are not involved in decisions such as the level of reserves needed.
4. While Sigma is permitted to borrow from the Treasury, such borrowing is limited. This means risks to the federal government are limited. Instead, Sigma is expected to maintain its operations and meet its liabilities with revenues received from sources outside of the federal government.

Evidence suggesting that Sigma may be a consolidation entity includes:

1. The President and the Senate, who appoint and confirm, respectively, members of the board of directors as well as establish organizational authorities in legislation, have a governance role.
2. Sigma provides a service that is not available from market participants. Its fees are adjusted to recover losses rather than to respond to market influences. Hence, its fees are not market-based.

Administrative Assignment

Because each disclosure organization must be reported by at least one consolidation entity, management considered whether Sigma has been administratively assigned to the Department of Agriculture. Evidence suggesting administrative assignment to the Department of Agriculture includes that the secretary serves as an ex-officio member of the board.

As a result, management determined and the auditor concurred that the Department of Agriculture should disclose information regarding Sigma in its GPFFR. If Sigma is also administratively assigned to other component reporting entities, then those component reporting entities should also consider the need to disclose information in their GPFFRs.

Scholars University

(Not Included)

Assumed Facts and Circumstances

The Congress and the President chartered Scholars University as a small, private, independent, not-for-profit educational institution and legislation describes the mission of the university. The legislation also indicates that the university is not an instrumentality of the federal government and that the federal government does not assume any liabilities of the university.

Scholars University is governed by a 29-member board of trustees. The Secretary of Education is an ex-officio member of the board and the remaining members are elected by the board for three-year terms. The board controls and directs the university's affairs such as determining the university's tuition and fee structure, adding or removing colleges within the university, and establishing new research institutions.

To support its mission, Scholars University receives most of its revenue from student tuitions and fees, and private contributions. The university receives appropriations to support some of its academic programs. The university is listed in the in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “*Federal Programs by Agency and Account*” under a Department of Education program because an amount is appropriated for Scholars University each year. Although the appropriations discuss limitations on how the funds may be used, the university generally has discretion over how it chooses to allocate funds for its academic programs and construction activities.

Tentative Conclusions

Based on the assumed facts and circumstances and other information, management determined and the auditor concurred that Scholars University should not be included in the government-wide GPFFR. Although listed in the Budget, management asserts that Scholars University is a non-federal organization receiving federal financial assistance in the form of a grant. Any non-federal organization listed in the budget should be assessed against the other two principles. So, management must determine if the other inclusion principles are met or if it would be misleading to exclude the university.

The initial analysis is summarized below:

- **Ownership** – The Congress and the President chartered Scholars University as a private, independent organization. There is no evidence that the federal government has an ownership interest in the university.
- **Control** – Based on the assumptions presented, the persuasive indicators of control have not been met. While the federal government chartered Scholars University, the standards provide that further indicators of control must be present to conclude that the organization is controlled. The remaining persuasive indicators—appointing or removing a majority of the governing board members, establishing financial and operating policies, and dissolving the university and having access to its assets—are not met. The available facts and circumstances suggest that Scholars is not controlled. [Note, however, for brevity this illustration does not present an analysis of indicators of control that in the

aggregate may reveal that Scholars is controlled. Such an analysis may be needed in practice.]

- Misleading to exclude – Scholars University is a small not-for-profit that is listed in the Budget solely as a program within the Department of Education. Management determined and the auditors concurred that it is both quantitatively and qualitatively immaterial. Also, there were no other facts and circumstances that would suggest that Scholars University should be included in the GPFFR. As a result, it would not be misleading to exclude.

Based on the assumed facts and circumstances and other considerations, management determined and the auditor concurred that Scholars University should not be included in the government-wide GPFFR.

Education Research Institute (ERI)

(Control based on Persuasive Indicator – Consolidation Entity)

Assumed Facts and Circumstances

The purpose of the Education Research Institute (ERI) is to assist state and local officials in making informed decisions regarding effective education methods. ERI was established by the Congress and the President through a public law specifying the organization's:

- status as a tax exempt not-for-profit,
- purpose and duties,
- governance structure,
- sources of financing, and
- reporting requirements.

The public law establishing ERI requires reauthorization of its operations every five years. If the Congress and the President do not authorize continued operation, ERI must cease operations and distribute its net assets to a successor organization designated by the federal government. If ERI is unable to satisfy its liabilities prior to dissolution, the federal government will assume its liabilities.

ERI is governed by a seven-member board of directors; five of whom are voting. Two members are specific federal officials within the Department of Education who serve part-time and do not have voting rights. The remaining five serve full-time, are appointed by the Association of Local School Boards, and serve six-year terms. One of these five members is elected by the board to serve as chairperson.

The legislation creating ERI designates funding of \$1 per elementary school student per year to be made available from the general fund of the U.S. Treasury to the ERI trust fund. An annual transfer to ERI is not listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account” but is included in the Department of Education’s Congressional Budget Justification. The board of directors is authorized to establish an annual budget not to exceed the amounts available in the trust fund. ERI may fund up to 25% of its annual budget through donations but may not use federal funds to solicit donations.

The Department of Education approves the ERI annual budget. The department also reports information related to ERI activities in its annual performance report and Congressional Budget Justification.

ERI must provide annually an audited financial report to the Department of Education and relevant Congressional committees.

Tentative Conclusions

Based on the assumed facts and circumstances and other considerations, management determined and the auditor concurred that ERI should be included in the government-wide

GPFFR because the third inclusion principle (control) is met. A persuasive indicator of control exists because the federal government can unilaterally dissolve the organization and have access to its assets and responsibility for its liabilities.

Classification as a Consolidation Entity or Disclosure Organization

For this illustration, management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustrations, ERI should be reported as a consolidation entity. In arriving at this conclusion, management and the auditor considered the assumed facts and circumstances presented below in the aggregate and, finding no other facts that in the aggregate contradict these, used professional judgment to determine that ERI is a consolidation entity.

Evidence suggesting that ERI is a consolidation entity includes:

1. It is primarily financed by taxes.
2. Federal government has assumed the risks associated with ERI's liabilities.
3. The purpose of ERI is to assist state and local officials by providing consultation services on a non-market basis.
4. ERI's annual budget is approved by the Department of Education and the Department also provides information related to ERI activities in its annual performance report and Congressional Budget Justification. These activities show that elected officials, acting with and through politically appointed officials, make decisions regarding ERI's budget.

Evidence suggesting that ERI is a disclosure organization includes:

1. A majority of the members of the board of directors is appointed by non-federal officials.
2. ERI is able to access donations to sustain some of its operations.

Administrative Assignment

The Department of Education should consider whether or not ERI is administratively assigned to it. Evidence that indicates ERI is administratively assigned includes Education's participation in ERI's budgetary process and inclusion of information regarding ERI in its own Congressional Budget Justification. Having considered the above information and other available evidence, the Department of Education determined and its auditor concurred that it should consolidate ERI's financial statements in its GPFFR.

Mediation Corporation

(Control based on Indicators in the Aggregate –Disclosure Organization)

Assumed Facts and Circumstances

Mediation Corporation (Mediation) was established as a 501(c)(3) non-member not-for-profit organization through a public law specifying the organization's:

- status and operating location,
- purpose and duties,
- governance structure,
- sources of financing, and
- reporting requirements.

The purpose of Mediation is to ensure that low-income individuals have access to mediation services to resolve non-criminal legal disputes. An assigned duty is to develop and maintain a network of state and local government organizations to deliver services financed by grants. Network members may raise funds to finance delivery of services through taxes, donations, and other grants without limitation.

The governing board comprises 13 members including Mediation's executive secretary. The President nominates candidates to fill the board member positions. A panel of local government officials participating in the network selects new members of the governing board from among the nominees. No more than seven members may be affiliated with the same political party. The members elect their chairperson from among the members. The President appoints the executive secretary and the Senate confirms the appointment. The executive secretary's term is fifteen years during which the President may only remove the appointee for cause.

Mediation is financed by an annual appropriation, interest earnings, and grants from any public or private grant-making organization. Grants must not finance more than 20 percent of its annual budget. The U.S. Attorney General approves the annual budget. Any liabilities incurred by Mediation must be settled from its assets and are not backed by the full faith and credit of the U.S. Government.

An annual appropriation is provided in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled "Federal Programs by Agency and Account" for "Grants to the Mediation Corporation." The appropriation is made to the Department of Justice which transfers budget authority to Mediation. Mediation manages its cash balances similar to other not-for-profits and may retain any interest earned on unspent funds. In addition, it may apply for and receive grants from any grant making organization—public or private—subject to the 20 percent limitation.

The public law creating Mediation requires it to make annual audited financial reports publicly available. Mediation also files annual tax returns with the Internal Revenue Service. Furthermore, Mediation is considered to be a non-federal organization receiving federal financial assistance.

Tentative Conclusions

Although Mediation is listed in the Budget, it is a non-federal organization receiving federal financial assistance. To determine if Mediation should be included in the government-wide GPFFR, management considered the remaining inclusion principles—ownership and control. It is unclear, based on the assumed facts and circumstances, whether Mediation is owned by the federal government. Therefore, management must consider the control indicators to determine if the third inclusion principle is met. None of the persuasive indicators of control are present based on the assumed facts and circumstances so considerable professional judgment is required to determine whether – in the aggregate – the indicators provide evidence of control. The indicators suggesting federal government control over Mediation include:

1. The federal government provides significant input regarding selection of the organization's governing board members since a selection can only be made from among candidates identified by the President.
2. The President appoints a key executive – the executive secretary – and may remove him or her for cause.
3. Federal law restricts Mediation's capacity to generate revenues since only appropriations, interest earned, and grants may be used. In addition, only 20 percent of its annual needs may be met through grants.
4. The U.S. Attorney General approves the annual budget.
5. Federal law requires annual audited financial reports.
6. Federal law directs Mediation to work through a network of government agencies to provide services.

Based on the assumed facts and circumstances and other considerations, and using professional judgment, management determined and the auditor concurred that Mediation should be included in the government-wide GPFFR.

Classification as a Consolidation Entity or Disclosure Organization

For this illustration, management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustrations, Mediation should be reported as a disclosure organization. In arriving at this conclusion, management and the auditor considered the assumed facts and circumstances presented below in the aggregate and, finding no other facts that in the aggregate contradict these, used professional judgment to determine that Mediation is a disclosure organization.

Evidence suggesting that Mediation is a consolidation entity includes:

1. It is primarily funded by taxes.
2. Elected officials determine Mediation's budget, because at least 80 percent of its funding is appropriated to Justice. In addition, an appointed federal official, the U.S. Attorney General, approves Mediation's annual budget.

Evidence suggesting that Mediation is a disclosure organization includes:

1. Members of its governing body are selected by non-federal officials, serve longer terms than political appointees, must include members from different political parties, and may only be removed for cause. These conditions insulate the governing body from political influence.
2. Mediation has some access to non-federal funding through grants and its network of service providers is free to access non-federal funding for service delivery (subject to the 20 percent limitation).
3. Federal government has not assumed risks related to Mediation's liabilities.

Administrative Assignments

The Department of Justice should consider whether or not Mediation is administratively assigned to it. Evidence that indicates it is administratively assigned includes the Department of Justice's participation in Mediation's budgetary process. After considering the above and other factors, and using professional judgment, management at the Department of Justice determined and the auditor concurred that disclosures regarding Mediation should be presented in its GPFFR.

Bicycle America, Inc. (Scenario A)

(Not Included)

Assumed Facts and Circumstances

Individual bicycle shop owners determined that a nation-wide network of shops and trails was needed to encourage greater reliance on bicycles for transportation and invested in a new corporation, Bicycle America (BA). BA's mission was to create a coast-to-coast network and ensure wide access to bicycling. Shares in the venture are held by local bicycle shops in all major cities.

BA is governed by a board of directors. The board controls and directs the organization's affairs and interests. Board members are elected by the shareholders to serve three-year terms.

Until recently, BA was able to finance its operations from user fees. A recent lawsuit led to serious financial challenges and cash was unavailable to meet pressing needs. Absent a cash inflow, BA was considering closing the trails. Due to exceptional citizen reliance on the trails for transportation and recreation, the federal government intervened and enacted legislation to provide funding.

The federal government provided a short-term loan to BA. The federal financial intervention to preserve BA was not separately identified in the Budget, but was part of a larger federal program within the Department of Transportation.

The funding legislation also established a temporary advisory committee to monitor BA's financial condition and inform Congress of potential issues that may warrant additional actions. In addition, the advisory committee will develop a plan to aid BA in returning to financial solvency and refinancing the short-term loan.

Tentative Conclusions

Based on the assumed facts and circumstances and other considerations, management determined and the auditor concurred that BA should not be included in the government-wide GPFFR. Specifically, BA is not listed in the Budget. Further, based on the available information and other considerations, management determined and the auditor concurred BA does not meet either the remaining ownership or control inclusion principle because BA continues to be owned by common shareholders and governed by the existing board of directors. The advisory committee offers advice to the Congress and does not have authority to direct BA to act. Management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustration, it would not be misleading to exclude BA.

Bicycle America, Inc. (Scenario B)

(Ownership – Disclosure Organization (Intervention))

Assumed Facts and Circumstances

Same as above except that in addition to the actions in Scenario A above, the federal government received shares that carry 51 percent of the voting rights of BA common stock and the advisory committee will develop a plan to sell the shares.

Tentative Conclusions

Based on the changed assumptions and no information to the contrary, and using professional judgment, management determined and the auditor concurred that BA should be included in the government-wide GPFFR. When the federal government holds a majority ownership interest, albeit temporary, the owned organization should be included in the government-wide GPFFR.

Classification as a Consolidation Entity or Disclosure Organization

The available facts and circumstances indicate that the federal government's involvement with BA is an intervention not expected to be permanent. Based on the assumed facts and circumstances and other considerations, management determined and the auditor concurred that BA should be reported as a disclosure organization because ownership resulted from an intervention. The initial determination would need to be evaluated periodically to determine if the intervention continues to be intended to be temporary.

Administrative Assignments

Department of Transportation was assigned responsibility for transferring funds to BA which indicates an administrative assignment. As a result, management determined and their auditor concurred that the department should disclose information regarding BA in its GPFFR. If BA is also administratively assigned to other component reporting entities, then those component reporting entities should also disclose information in their GPFFRs.

Chatham Laboratory

(Control based on Persuasive Indicator – Consolidation Entity (FFRDC))

Assumed Facts and Circumstances

Federal Department of ABC (ABC) organized Chatham Laboratory as a federally funded research and development center (FFRDC) to conduct specialized engineering research that supports ABC's mission related to infrastructure and leads to improved services. As specified in the agreement, ABC provides the physical capital and ongoing funding for the FFRDC and sets research goals for Chatham.

ABC selects a contractor to operate Chatham and conduct research consistent with the established goals. ABC is not involved in the day-to-day operations of Chatham. ABC routinely evaluates Chatham's performance and maintains a research office to review strategic plans, consider progress, and serve as a liaison to other federal institutions. ABC reports on Chatham's efforts in its own performance reports.

Chatham operations are funded entirely through appropriations provided to ABC. ABC identifies Chatham in its Congressional Budget Justification but Chatham is not specifically identified in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled "*Federal Programs by Agency and Account*." Instead, amounts for Chatham are included in a larger research program which makes payments to the contractor consistent with the terms of the contract. Chatham's contract operator must submit financial and performance reports to ABC periodically. All Chatham assets belong to the federal government and the results of Chatham research are the property of the federal government. In addition, ABC would be responsible for liabilities arising from use of the facilities to conduct research such as environmental cleanup liabilities. ABC is also responsible for employee benefits in the event Chatham operations are terminated.

Tentative Conclusions

Based on the assumptions and other considerations, management determined and the auditor concurred that Chatham should be included in the government-wide GPFFR. While contracting for the operation of Chatham, officials at ABC also act as the governing body by establishing the purpose and mission of Chatham. Further, ABC continues in this role through its involvement in Chatham's strategic planning and monitoring of performance. Establishing the purpose and mission of an organization is a persuasive indicator that control exists.

Classification as a Consolidation Entity or Disclosure Organization

For this illustration, management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustrations, Chatham should be reported as a consolidation entity. In arriving at this conclusion, management and the auditor considered the assumed facts and circumstances presented below in the aggregate and, finding no other facts that in the aggregate contradict these, used professional judgment to determine that Chatham is a consolidation entity.

Evidence suggesting that Chatham is a consolidation entity includes:

1. It is primarily financed by taxes.

2. The federal government has assumed the risks associated with Chatham's liabilities.
3. Chatham's annual budget is developed by ABC officials and information related to Chatham activities is provided in ABC's performance report and Congressional Budget Justification. This indicates that decision-making regarding the budget is exercised by elected officials through politically appointed officials and the budget process.

Evidence suggesting that Chatham is a disclosure organization includes:

1. Day-to-day operating decisions are made by a contractor.

After considering the above analysis and other factors, management determined and the auditor concurred that Chatham is a consolidation entity.

Administrative Assignment

ABC should consider whether or not Chatham is administratively assigned to it. In the example, evidence suggesting Chatham is administratively assigned includes ABC's role in Chatham's strategic planning, budgeting, and administration. Having considered the assumed facts and circumstances and other available evidence, the Department of ABC determined and its auditor concurred that it should consolidate Chatham's financial statements in its GPFFR.

Gotham Laboratory

(Not included – Economic Dependency Insufficient to Show Control)

Assumed Facts and Circumstances

The Department of XYZ (XYZ), a department within the executive branch of the federal government, contracted with Gotham Laboratory (Gotham) to conduct specialized engineering research that fulfills a federal mission related to infrastructure and leads to improved services of XYZ. As specified in the agreement, XYZ provides funding to Gotham and Gotham's management team plans, manages, and executes the assigned research program.

XYZ serves on a panel providing input on the appointment of the board of directors for Gotham. However, the board of directors elects new members and the board manages Gotham's research. Gotham also may engage in any outside research activities approved by its board of directors.

Gotham performs services for various federal and non-federal organizations but receives 90 percent of its funding from XYZ. XYZ receives appropriated funds to support the Gotham research program. The remaining 10 percent of Gotham funding is derived from contracts with other federal agencies and private industry as well as donations. Gotham's budget is not reviewed or approved by any federal officials. Gotham is subject to the usual federal contract oversight and reporting requirements.

Tentative Conclusions

Based on the assumptions and other considerations, management determined and the auditor concurred that Gotham should not be included in the government-wide GPFFR. Gotham is not listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “*Federal Programs by Agency and Account*.” Further, based on the assumed facts and circumstances and other considerations, Gotham does not meet the inclusion principles of either majority ownership or control with risk of loss or expectation of benefit. Although Gotham appears to be economically dependent on the federal government, it ultimately retains discretion as to whether to accept funding or do business with the federal government. Despite the influence resulting from this dependency, the federal government does not govern Gotham's financial and operating policies. Further, management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustration, it would not be misleading to exclude Gotham.

Andromeda Prime Power Systems

(Related Party- GSE)

Assumed Facts and Circumstances

The federal government created Andromeda Prime Power Systems (APPS) as a government sponsored enterprise (GSE) to facilitate commercial space travel. APPS controls interplanetary travel among a network of commercial space stations and is subject to federal regulations regarding safety and technology transfers to other nations.

APPS is governed by a nine-member board of directors elected by common stock shareholders. Board members serve three-year terms.

APPS issued common stock and received a federal government grant to finance its initial capital and startup costs. The APPS is under no obligation to return the grant funds but is expected to promote U.S. competitive interests in the emerging space travel industry.

During the reporting period, APPS' board approved a strategic plan to expand its systems to accommodate increased commercial demands and APPS issued bonds to finance the initiative. The interest rate required by lenders indicates that the market assumes the federal government has implicitly guaranteed the payment of principal and interest. In its regulatory capacity, the federal government required APPS to establish a capital reserve and created a five-member APPS Advisory Board to monitor and advise Congress on APPS' fiscal operations.

APPS derives its revenues from fees charged to commercial organizations and receives no ongoing federal support through the Budget.

Tentative Conclusions

Based on the assumptions and other considerations, management determined and the auditor concurred that APPS should not be reported in the government-wide GPFFR as a consolidation entity or disclosure organization. APPS is not listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “*Federal Programs by Agency and Account*” and the federal government does not have a majority ownership interest in the company.

Further, management conducted a thorough assessment of control indicators and determined the federal government does not exercise control of APPS. Regulation of APPS does not, by itself, establish control.

However, based on the assumptions and other considerations, management determined and the auditor concurred that APPS should be disclosed as a related party. Related parties generally include GSEs not meeting the inclusion principles, especially those organizations for which the relationship is of such significance that it would be misleading to exclude information about it.

U.S. Museum (Scenario A)

(In the Budget – Consolidation Entity)

Assumed Facts and Circumstances

The U.S. Museum (the Museum) was organized to bring history and lessons about the United States to individuals through educational outreach, teacher training, traveling exhibitions, and scholarship.

The Museum is an independent establishment of the federal government and is governed by a board of trustees, known as the Museum Council. The Council has 13 voting members and 2 nonvoting members. Of the voting members, 11 are appointed by the President and serve 10-year terms (appointments are staggered) and the other 2 are appointed from among members of Congress to serve during their term. The non-voting members are selected by the Council.

The Museum receives an annual appropriation as well as private donations. Annual appropriations account for approximately 90 percent of operations and activities, with the remaining 10 percent coming from donor activities and museum sales. The museum is listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “*Federal Programs by Agency and Account.*” All donations are considered to be available for use unless specifically restricted by the donor or by time. Furthermore, the Museum is not considered to be a non-federal organization receiving federal financial assistance.

Tentative Conclusions

Based on the assumptions and other considerations, management determined and the auditor concurred that the Museum should be included in the government-wide GPFFR because the Museum is listed in the Budget (the first inclusion principle). Further, the President and the Congress appoint the Museum Council which indicates the federal government controls the Museum (the third inclusion principle).

Classification as a Consolidation Entity or Disclosure Organization

Because it is listed in the budget, the Museum is presumed to qualify as a consolidation entity assuming no information to the contrary. In this example, management determined and the auditor concurred that there were no facts rebutting or contradicting the assumption that the Museum is a consolidation entity. As a consolidation entity, its financial statements should be consolidated in the government-wide GPFFR. The financial statements included should be for the entire organization and thus include the sources and uses for both the appropriations and the donated funds.

Administrative Assignment

Based on a review by management, no other component reporting entity has been assigned administrative responsibilities for the Museum. Therefore, the Museum is consolidated only directly into the government-wide GPFFR.

U.S. Museum (Scenario B)

(Control based on Persuasive Indicator –Disclosure Organization (Financially Independent))

Assumed Facts and Circumstances

The U.S. Museum (the Museum) was organized by volunteers to bring history and lessons about the United States to individuals through educational outreach, teacher training, traveling exhibitions, and scholarship. The Museum is intended to be a self supporting operation. Shortly after its founding, it entered into a cooperative relationship with the Department of Federal Museums, a department within the executive branch.

The Museum is incorporated as a not-for-profit organization governed by the Museum Council. The Council has 15 voting members referred to as trustees. The presidentially-appointed head of the Department of Federal Museums serves as the Council chairperson. Of the remaining voting trustees, nine are appointed by the President and five are selected and approved by the Council. Except for the chairperson, all trustees serve ten-year terms which are staggered. The Council selects a Board of Directors for the Museum and appoints the Chief Executive Officer.

The Museum is a public-private partnership which receives an annual appropriation as well as private donations, rental income, and sales revenue. No fees are charged for educational events or museum tours. Rental income from the Museum facilities is derived from rates competitive with other venues for similar events. Rental of the facilities is intended to support museum activities such that the museum can eventually be self supporting. Presently, annual appropriations account for approximately 15 percent of operations and activities, with the remaining 85 percent coming from donor activities, rental income, and museum sales. The museum is listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account.” The funding received from donations is restricted to use by the Museum and the trustees approve the annual budget including rental income and fundraising goals.

The Museum’s employees are not federal employees. The Museum is required to fully fund any deferred compensation programs and to advise its employees that the federal government has not guaranteed their deferred compensation.

Tentative Conclusions

Based on the assumed facts and circumstances and other consideration, management determined and the auditor concurred the Museum should be included in the government-wide GPFFR because it is controlled by the federal government. Although the Museum is listed in the Budget, it is a non-federal organization receiving federal financial assistance. An assessment of the remaining inclusion principles shows that the Museum is controlled by the federal government since a majority of the trustees are appointed by the President; a persuasive indicator of control.

Classification as a Consolidation Entity or Disclosure Organization

For this illustration, management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustrations, the Museum should be reported as a disclosure organization. In arriving at this conclusion, management and the auditor considered the assumed facts and circumstances

presented below in the aggregate and, finding no other facts that in the aggregate contradict these, used professional judgment to determine that the Museum is a disclosure organization.

Evidence suggesting that U. S. Museum is a consolidation entity includes:

1. Appointments to the Council are made by elected officials.
2. Museum services, educational events and tours, are provided on a non-market basis to the general public.

Evidence suggesting that U.S. Museum is a disclosure organization includes:

1. The Museum is a separate legal organization – a not-for-profit – and terms for a majority of Council members are ten-years. This insulates the organization from political influence. Further, day-to-day operations are governed by a board of directors whose members are not directly appointed by elected officials.
2. The Museum is intended to receive limited financing from taxes and market rates are charged for facility rentals.
3. The Museum is required to make explicit that any liability for deferred compensation of its employees is not guaranteed by the federal government. This indicates that limited risks are imposed on the federal government.

Disclosure organizations should be presented by the component reporting entity to which they are administratively assigned and, if material, by the government-wide entity.

Administrative Assignment

Management determined and the auditor concurred the Department of Federal Museums should present the Museum as a disclosure organization in its GPFFR because the department is assigned administrative responsibility for the Museum based on appointment of its head to serve as chairperson of the Council.

Firefighters' Housing Limited Partnership

(Owned and Controlled - Consolidation Entity)

Assumed Facts and Circumstances

Agency 123 has been authorized to establish pre-positioned housing and equipment storage facilities on federal land to ensure immediate and efficient deployment of firefighting resources in response to wildfires in remote areas. The enabling legislation allows Agency 123 to enter into a wide range of financial agreements with private-sector participants to provide housing and equipment storage for the firefighters.

The agency and a private developer formed a limited partnership—Firefighters' Housing Limited Partnership (FHLP)—to develop, operate, maintain, and own all housing and storage units and facilities within a designated area for 25 years. Agency 123 leased land to FHLP under a 25-year ground lease. At the end of the 25-year ground lease, the agency has the option to renew the partnership for another 25 years. If it does not renew, all structures and land revert back to Agency 123, in accordance with the agency's residual ownership interest. During the 25-year ground lease, Agency 123 will provide an annual payment to FHLP from its appropriated funds for management services, use of the housing by Agency 123 employees during the fire season, and equipment storage year-round.

The private sector partner is guaranteed a minimum payment from FHLP and has no ownership interest in FHLP properties. The private sector partner also is entitled to a share of profits from non-fire season vacation rentals of the housing so long as the facilities meet established condition requirements. Profits not distributed to the private sector partner are retained by FHLP and can be used for capital improvements including development of new housing in adjacent parks under similar terms.

As part of the partnership agreement, Agency 123 has significant authority to determine the policies governing FHLP's activities and to affect day-to-day decisions such as design and construction. Any debt incurred by FHLP must be authorized by the agency. Furthermore, capital and operating budgets require agency approval and financial transactions are monitored on a monthly basis by the agency's contract administration office. The partnership is required to produce audited financial statements annually.

Tentative Conclusions

Based on the assumed facts and circumstances and other considerations, management determined and the auditor concurred that FHLP should be included in the government-wide GPFFR. A substantial ownership interest is present via the agency's continuing ownership interest. In addition, several control indicators are met as summarized in the following analysis of available information.

1. Agency 123 may be able to direct the partnership regarding the establishment and subsequent revision of financial and operating policies through its review and approval of operating budgets, designs, and condition of the facilities. If so, this would be a persuasive indicator of control. Management should weigh the impact of its role in directing the FHLP's financial and operating policies and consider how much discretion falls to the private sector partner.

2. Other indicators in the aggregate may indicate control. Agency 123 has significant authority to:
 - a. direct the ongoing use of assets.
 - b. approve the budgets and business plans for FHLP.
 - c. require audits.
 - d. limit borrowing and investment by FHLP.

Classification as a Consolidation Entity or Disclosure Organization

For this illustration, management determined and the auditor concurred that, based on the assumed facts and circumstances as well as other considerations not described in the illustrations, FHLP should be reported as a consolidation entity. In arriving at this conclusion, management and the auditor considered the assumed facts and circumstances presented below in the aggregate and, finding no other facts that in the aggregate contradict these, used professional judgment to determine that FHLP is a consolidation entity.

Evidence suggesting that FHLP is a consolidation entity includes the following:

1. FHLP provides housing to firefighters as its primary function on a non-market basis.
2. It is financed by tax revenues supplemented by any retained profits from non-fire season rentals.
3. Decisions are made by organizational leaders at Agency 123 who are appointed by the President and confirmed by the Senate.
4. Funds transferred to FHLP will be approved through the usual budgetary process so that FHLP funding will be included in the budget approved by the Congress and the President.

Evidence suggesting that FHLP is a disclosure organization includes the following:

1. FHLP has a legal identity separate from Agency 123.
2. FHLP is authorized to provide vacation housing services to customers on a market basis and use the proceeds to first compensate the private sector partner and then reduce the cost of firefighter housing borne by the taxpayer.

As a consolidation entity, FHLP's financial statements should be consolidated by the component reporting entity to which it is administratively assigned.

Administrative Assignment

Management determined and the auditor concurred Agency 123 should consolidate FHLP's financial statements because it is assigned administrative responsibility for FHLP based on its inclusion of FHLP funding in its budget request and its coordination and monitoring of FHLP's plans and performance.

The Blue Mountain Observatory

(Control based on Indicators in the Aggregate – Disclosure Organization (FFRDC))

Assumed Facts and Circumstances

Agency XYZ created a federally funded research and development center (FFRDC), the Blue Mountain Observatory (BMO), to provide facilities and leadership needed to conduct scientific research in a wide range of fields, including the study of black holes. Agency XYZ is BMO's primary sponsor. University Cooperative (UC) is a non-profit membership corporation created by 50 universities conducting research that would benefit from use of BMO facilities. UC was created to seek the role of managing, operating, and maintaining BMO under a cooperative agreement with Agency XYZ. UC subsequently entered into a cooperative agreement with Agency XYZ.

UC is governed by a board of trustees appointed to represent each of the 50 member universities. UC trustees appoint an individual to serve as president of BMO. The trustees also oversee BMO operations including providing input on strategic plans, approving the annual program plan before its submission to Agency XYZ for approval, responding to Agency XYZ input, and monitoring financial activities including establishing investment policies. UC employs staff to perform all BMO activities and these individuals are referred to as 'BMO employees.' Member universities fund any non-BMO activities of UC.

The cooperative agreement between UC and Agency XYZ ensures close coordination between Agency XYZ and BMO employees. The agreement contains requirements necessary for Agency XYZ's oversight of both BMO's programs and UC's management activities, including the following provisions:

1. Provide input to a strategic plan developed by BMO employees in collaboration with UC trustees. The strategic plan sets the overall direction and priorities for BMO.
2. Agency XYZ must approve the annual program plan and budget for use of resources.
3. UC must provide to Agency XYZ an annual scientific report and audited financial statements.
4. Agency XYZ participates in developing a five-year strategic plan.
5. BMO and Agency XYZ must meet annually to review progress and ensure that scientific and facility priorities remain consistent with those of Agency XYZ.

UC works cooperatively with Agency XYZ to ensure the effective implementation of the strategic mission of BMO to the benefit of the research community. Mid-way through the current cooperative agreement, Agency XYZ will conduct comprehensive reviews of science, facilities, and management to inform future decisions regarding recompetition of the cooperative agreement for the facility. UC is under no obligation to continue in its role in managing, operating, and maintaining BMO.

In the most recent fiscal year, BMO received \$100 million in funding from Agency XYZ through its cooperative agreement with UC. Agency XYZ proposed the \$100 million in funding in its Congressional Budget Justification and described how the funds would be used to support the

research programs at BMO. In administering the funds provided by Agency XYZ for BMO programs, UC may:

1. expend funds to meet ongoing operational needs.
2. make annual cash contributions to employee benefits programs (accrued leave and pension plans).
3. make annual payments due under long-term leases.
4. construct or purchase new assets so long as all resulting property is titled to BMO.

In the event the cooperative agreement with UC is terminated, Agency XYZ would assume management responsibility for the facility. Further, Agency XYZ would seek appropriations for termination expenses such as post-retirement benefit liabilities for BMO employees. However, Agency XYZ would be obligated to pay termination benefits only if funds were appropriated for that purpose.

Tentative Conclusions

Based on the assumed facts and circumstances and other considerations, management determined and the auditor concurred that BMO should be included in the government-wide GPFFR. BMO is not listed in the *Budget of the United States Government: Analytical Perspectives—Supplemental Materials* schedule entitled “Federal Programs by Agency and Account” so other inclusion principles must be considered. BMO facilities are owned by the federal government and new assets are titled to the federal government. With respect to the control inclusion principle, Agency XYZ establishes the fundamental purpose and mission of BMO through its participation in strategic planning and the overall effort to ensure BMO goals are consistent with Agency XYZ research goals. This effort includes annual actions to approve BMO’s annual program plan and operating budget. These actions are persuasive indicators of control.

Classification as a Consolidation Entity or Disclosure Organization

Evidence suggesting that BMO is a consolidation entity includes the following:

1. BMO provides, as its primary function, research facilities and leadership to university members of UC on a non-market basis. It is financed by taxpayer funds supplemented by non-government donors.
2. Key operational decisions are made by organizational leaders at Agency XYZ who are appointed by the President and confirmed by the Senate.
3. Funds transferred to BMO will be approved through the usual budgetary process so that use of tax revenues to support BMO is ultimately decided by the Congress and the President.

Evidence suggesting that BMO is a disclosure organization includes the following:

1. BMO has a legal identity separate from Agency XYZ.

2. The governance structure ensures that universities have substantial input regarding BMO's strategic plans and annual program plan. The significant involvement of non-governmental organizations lessens political influence.
3. BMO's liabilities are not obligations of the U.S. government.
4. BMO is authorized to accept donations from non-government organizations.

Based on the assumed facts and circumstances and other information, management determined and the auditor concurred that BMO should be reported as a disclosure organization. As a disclosure organization, BMO should be presented by the component reporting entity to which it is administratively assigned.

Administrative Assignment

Management determined and the auditor concurred that Agency XYZ should disclose information about BMO because it is assigned administrative responsibility for BMO based on its inclusion of BMO funding in its budget request and its coordination and monitoring of BMO's plans and performance.

Table 1: Summary Application of Proposed Standard

NAME	IS THE ORGANIZATION INCLUDED IN THE GOVERNMENT-WIDE GPFFR?					CONSOLIDATION ENTITY OR DISCLOSURE ORGANIZATION	
	IN THE BUDGET	OWNED	CONTROL	MISLEADING TO EXCLUDE	IS THE ORGANIZATION INCLUDED?	A CONSOLIDATION ENTITY (CONSOLIDATED)	A DISCLOSURE ORGANIZATION (DISCLOSED)
ABC Department	Yes				Yes	Organizations listed in the Budget are presumed to be consolidation entities.	
Epsilon Corporation	Yes				Yes	Organizations listed in the Budget are presumed to be consolidation entities.	
Sigma Association	No	No	Yes. A majority of the governing board members is appointed by the President and confirmed by the Senate and they established its fundamental purpose and mission through legislation.		Yes		Financially independent organization
Scholars University	Yes but as a non-federal organization receiving federal financial assistance.	No	No. Scholars' board of trustees elects its respective board members. Scholars' board of trustees primarily directs the university's affairs and the university seeks sources of revenue to operate virtually in a self-sustaining manner.	Management and auditor agreement based on facts and circumstances it was not misleading to exclude.	No		
Education Research Institute	No	No	Yes, the federal government can unilaterally dissolve ERI and have access to its assets and responsibility for its liabilities.		Yes	The ERI Trust Fund is primarily funded through taxes, elected officials establish ERI's budget, services are provided on a non-market basis, and federal government assume risk.	

NAME	IS THE ORGANIZATION INCLUDED IN THE GOVERNMENT-WIDE GPFFR?					CONSOLIDATION ENTITY OR DISCLOSURE ORGANIZATION	
	IN THE BUDGET	OWNED	CONTROL	MISLEADING TO EXCLUDE	IS THE ORGANIZATION INCLUDED?	A CONSOLIDATION ENTITY (CONSOLIDATED)	A DISCLOSURE ORGANIZATION (DISCLOSED)
Mediation Corporation	Yes but as a non-federal organization receiving federal financial assistance. Therefore, must assess against other principles.	No	Yes. Considering the control indicators in the aggregate, the federal government controls Mediation. It provides significant input on the selection of governing board members, appoints a key executive, limits Mediation's capacity to generate revenue, approves the annual budget, requires audited financial statements, and directs Mediation to work with other governments.		Yes		Mediation's governing body is insulated from political influence and risks are not assumed by the federal government.
Bicycle America, Inc. (Scenario A)	No	No. BA is owned by shareholders.	No, governing board members are elected by shareholders rather than subject to political appointment	No, Management and auditor agreement based on facts and circumstances it was not misleading to exclude.	No. Advisory committee offers advice but does not have the authority to direct BA to act.		
Bicycle America, Inc. (Scenario B)	No	Yes, the federal government acquired 51% of the voting rights in BA.			Yes		Intervention intended to be temporary
Chatham Laboratory (FFRDC)	No	The assets and research results are owned.	Yes. The federal government establishes the purpose and mission of Chatham.		Yes	Yes, Chatham is primarily funded by taxes, and governance rests with the President and Congress.	

NAME	IS THE ORGANIZATION INCLUDED IN THE GOVERNMENT-WIDE GPFFR?					CONSOLIDATION ENTITY OR DISCLOSURE ORGANIZATION	
	IN THE BUDGET	OWNED	CONTROL	MISLEADING TO EXCLUDE	IS THE ORGANIZATION INCLUDED?	A CONSOLIDATION ENTITY (CONSOLIDATED)	A DISCLOSURE ORGANIZATION (DISCLOSED)
Gotham Laboratory	No	No	No	No, Management and auditor agreement based on facts and circumstances it was not material to exclude.	No. Although it may be economically dependent, Gotham has discretion as to whether to accept funding from the government.		
Andromeda Prime Power Systems (GSE)	No	No	No, APPS' governing body is elected by common shareholders. The APPS Advisory Board advises Congress and does not direct APPS' operations.		No, Management determined and the auditor concurred APPS should be disclosed as a related party.		
U.S. Museum (Scenario A)	Yes				Yes	Yes. The Museum is in the budget and primarily funded by taxes and governance rests with the President and Congress.	
U.S. Museum (Scenario B)	Yes but as a non-federal organization receiving federal financial assistance	No	Yes. The President appoints a majority of the governing body's members.		Yes		The museum is a financially independent organization.
Firefighters' Housing Limited	No	Ownership of property is	Yes. Agency 123 has significant authority to direct the limited partnership's activities and to		Yes	Yes. Taxes fund the housing and risks have	

NAME	IS THE ORGANIZATION INCLUDED IN THE GOVERNMENT-WIDE GPFFR?					CONSOLIDATION ENTITY OR DISCLOSURE ORGANIZATION	
	IN THE BUDGET	OWNED	CONTROL	MISLEADING TO EXCLUDE	IS THE ORGANIZATION INCLUDED?	A CONSOLIDATION ENTITY (CONSOLIDATED)	A DISCLOSURE ORGANIZATION (DISCLOSED)
Partnership		retained.	affect day-to-day activities such as in design and construction and the partnership's purpose is to carry out federal missions and objectives.			been assumed	
Blue Mountain Observatory (FFRDC)	No	Property is owned by the federal government.	Yes. The federal government establishes the purpose and mission of BMO.		Yes		BMO is a separate legal entity and UC plays a significant role in its governance without political influence.

APPENDIX D: ABBREVIATIONS

AICPA	American Institute of Certified Public Accountants
C.F.R.	Code of Federal Regulations
CFR	Consolidated Financial Report of the U.S. Government
CRE	Component Reporting Entity
CRS	Congressional Research Service
ED	Exposure Draft
FAR	Federal Acquisition Regulation
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FFRDC	Federally Funded Research and Development Center
FRS	Federal Reserve System
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GPFFR	General Purpose Federal Financial Report
OAI	Other Accompanying Information
OIG	Office of Inspector General
OMB	Office of Management and Budget
RSI	Required Supplementary Information
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
U.S.	United States
U.S.C.	United States Code

APPENDIX E: TASK FORCE MEMBERS

Owen Barwell, (formerly of) Department of Energy

Lieutenant Colonel Richard Brady, USMC DOD

Terry Bowie, (formerly of) NASA

James L. Chan, University of Illinois at Chicago

Naresh Chopra, Department of Labor

Wendy Calvin, DOT

Tom Daxon, Former Oklahoma State Auditor

Ann Davis, U.S. Department of Treasury

Lynda Downing, GAO

Abe Dymond, GAO

Joel Grover, U.S. Department of Treasury, OIG

Mark Hadley, CBO

Regina Kearney, OMB

Karen Kelbly, NCUA

Dan Kovlak, KPMG

Andrew Lewis, KPMG

Rick Loyd, Department of Energy

Ned Maguire, (formerly of) Office of the Dir. of National Intelligence, OIG

Sam Papenfuss, CBO

Reginald Royster, HUD

Fred Selby, U.S. Department of Treasury, OFS

Gary Solamon, (formerly of) Department of Commerce, Bureau of Economic Analysis

Sandy Van Booven, National Reconnaissance Office (CIA)

Denise Williams, U.S. Department of Treasury, FMS

Adrienne E. Young, (formerly of) National Science Foundation

APPENDIX F: GLOSSARY

Component Reporting Entity “Component reporting entity” is used broadly to refer to a reporting entity within a larger reporting entity.⁶⁴ Examples of component reporting entities include organizations such as executive departments, independent agencies, government corporations, legislative agencies, and federal courts. Component reporting entities would also include sub-components (those components included in the GPFFR of a larger reporting entity) that may themselves prepare GPFFRs. One example is a bureau that is within a larger department that prepares its own standalone GPFFR.

Conservatorship A conservatorship is the legal process in which a person or entity is appointed to establish control and oversight of a company to put it in a sound and solvent condition. In a conservatorship, the powers of the company’s directors, officers, and shareholders are transferred to the designated conservator.⁶⁵

Control with risk of loss or expectation of benefit Control with risk of loss or expectation of benefit is the power to impose will on and/or govern the financial and/or operating policies of another organization with the potential to be obligated to provide financial support or assume financial obligations or to obtain financial resources or non-financial benefits.⁶⁶

Disclosures Information in notes or narrative regarded as an integral part of the basic financial statement.

Federally Funded Research and Development Center Federally Funded Research and Development Center (FFRDC) is a government-funded entity that has a long-term contractual relationship with one or more federal agencies.⁶⁷ FFRDCs can be privately owned or government-owned, and they serve to meet the long-term research and development needs of federal agencies that could not otherwise be met as effectively in-house or through existing contractors. 49 Fed. Reg. at 14,464; 48 C.F.R. § 35.017(a). FFRDCs are established either specifically in statute or under the statutory authority of agencies to enter into contracts, which can be inherent or specific authority, and are used to perform research and development and related tasks.

General Purpose Federal Financial Reports General purpose federal financial reports (GPFFRs) is used throughout this Statement as a generic term to refer to the report that contains the reporting entity’s financial statements that are prepared pursuant to generally accepted accounting principles. In the federal government, the report for the U.S. government-wide reporting entity is known as the consolidated financial report of the U.S. Government

⁶⁴ The larger reporting entity could be the government-wide reporting entity or another component reporting entity.

⁶⁵ Federal Housing Finance Agency Fact Sheet, Questions and Answers on Conservatorship

⁶⁶ For example, a non-financial benefit would be one where the federal government benefits from a service being provided to it or on its behalf.

⁶⁷ The Office of Federal Procurement Policy (OFPP) and Federal Acquisition Regulation (FAR) policies for FFRDCs apply to executive agencies, which includes “an executive department, a military department, or any independent establishment within the meaning of 5 U.S.C. 101, 102, and 104(1), respectively, and any wholly owned Government corporation within the meaning of 31 U.S.C. § 9101.” 48 C.F.R. § 2.101; see also 5 U.S.C. § 403.

(CFR) and for component reporting entities it is usually included in the performance and accountability report, the agency financial report, or the annual management report.

Government Sponsored Enterprise Government Sponsored Enterprise (GSE) is created by Congress with its particular attributes defined in its enabling legislation and charter. Despite this diversity, there are at least four readily observable characteristics of GSEs: (1) private sector ownership, (2) limited competition, (3) activities limited by congressional charter, and (4) chartered privileges that create an inferred federal guarantee of obligations.⁶⁸

Receivership Receivership is the legal procedure for winding down the affairs of an insolvent institution.⁶⁹

Related Parties Organizations are considered to be related parties if the existing relationship or one party to the existing relationship has the ability to exercise significant influence over the other party in making financial and operating decisions.

Reporting Entity Reporting entities are organizations that issue a GPFFR because either there is a statutory or administrative requirement to prepare a GPFFR or they choose to prepare one. The term “reporting entity” may refer to either the government-wide reporting entity or a component reporting entity.

Statement of Federal Financial Accounting Concepts (SFFAC) 2 provides criteria for an entity to be a reporting entity.⁷⁰ The criteria focus on whether an entity’s:

- a. management is responsible for controlling and deploying resources, producing outputs and outcomes, and executing the budget or a portion thereof (assuming that the entity is included in the budget), and is held accountable for the entity’s performance.
- b. financial statements would provide a meaningful representation of operations and financial condition.
- c. financial information could be used by interested parties to help them make resource allocation and other decisions and hold the entity accountable.

⁶⁸ CRS Report for Congress *Government-Sponsored Enterprises (GSEs): An Institutional Overview*

⁶⁹ *Managing the Crisis: The FDIC and RTC Experience*, Appendix B - List of Abbreviations and Glossary of Terms; available online at <http://www.fdic.gov/bank/historical/managing/>; last accessed October 11, 2012.

⁷⁰ SFFAC 2, par. 29-37, provides a discussion on Identifying the Reporting Entity for General Purpose Financial Reporting.

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