



February 16, 2011

Memorandum

To: Members of the Board
From: Wendy M. Payne, Executive Director *Wendy M. Payne*
Subj: **Strategic Directions Review – Tab D¹**

MEETING OBJECTIVES

The Board will begin strategic discussions regarding its goals. At the meeting, the discussion will address where we are and how that might influence the technical agenda discussion scheduled later in the meeting. The general questions to be addressed are:

1. What key events and trends are most likely to affect FASAB in the next three to five years?
2. What opportunities and challenges may arise as a result of the key events and trends in the next three to five years?
3. Based on the foregoing:
 - a. What might need to be considered in setting technical agenda priorities?
 - b. Are revisions to the 2006 strategic directions needed?

With the exception of the final question, I don't envision a comprehensive board answer that requires approval. Rather, I envision a general listing with prioritization as needed to support the later discussion of technical agenda setting. Resources will be considered after the technical agenda setting session and should not influence preliminary discussions of three to five year priorities.

BRIEFING MATERIAL

This memo provides the Board with background information relevant to the above questions to be discussed at the Board meeting.

A Brief Discussion of Trends

FASAB Mandates

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.

- The Memorandum of Understanding - Duties
- Mission Statement
 - Mission
 - How the Mission is Accomplished
- AICPA Criteria for a Rule 203 Body

A Review of Actions and Processes

- Information on what we've done in each category of the "How the Mission is Accomplished" section of the Mission Statement
- Seven Steps of Due Process including Data on Experience with Each Step
- Resource Profile
 - Budget
 - Members and Staff
 - Resources Provided to Constituents

Results of 2008 FASAB Situational Audit

Attachment 1 - an excerpt from the GAO 2010-2015 Strategic Plan regarding trends shaping the US and its place in the world

Attachment 2 - the Executive Summary of the 2010, 2009 and 2008 AGA Annual CFO Survey

Attachment 3 - the Strategic Directions Report completed in November 2006

BACKGROUND

Review of the Board's Strategic Directions will inform the Board's consideration of technical agenda options as well as needed resources. The discussion of technical agenda options follows this topic on the agenda. The Steering Committee will schedule time to discuss resource needs at a subsequent meeting.

The Board established primary and secondary near-term objectives through its Strategic Directions Report. The report considered:

- the Mission of FASAB,
- the Current Language in Concepts Statements,
- the Comparative Advantages as a GAAP Standard-Setter,
- the Evolution of Federal Financial Management and New Laws and Administrative Directives,
- the Results from Roundtable Meetings on each Objective, and
- Other Factors such as Other Reports Fulfilling the Objectives and the Contribution of Current Standards.

At that time, the Board focused on the reporting objectives established in Statement of Federal Financial Accounting Concepts (SFFAC) 1 and how these objectives relate to technical agenda setting (e.g., should our technical agenda focus greater attention on certain objectives rather than others?). The Board concluded that the operating performance and stewardship objectives were primary near-term objectives for the Board. Near-term was defined as approximately five years and the report was published November 2006.

The goal of the Strategic Directions report was not a complete strategic plan as currently described in management literature. However, it did include consideration of the environment as

well as the comparative advantage of the Board and may be useful background information as you consider the upcoming strategic discussions. In addition, as noted above in the meeting objectives, the Board may wish to update its strategic directions since the five-year period it envisioned ends in November 2011.

The background information and discussion below is intended for your consideration in preparing for the meeting. The questions presented under objectives on page 1 will frame our discussion. Feel free to identify other information, resources or trends that you believe members should consider before the meeting and I will share these with the members.

A Brief Discussion of Trends

There are several types of trends to consider from varied perspectives. For example, there are increasing amounts of transactional data – such as relating to individual grants – available on the web. From the perspective of users, preparers and auditors this will be viewed as creating different opportunities and challenges.

A comprehensive consideration of relevant trends is not feasible. In addition, reaching consensus on a list of relevant trends, or the importance of individual trends, is not necessary. Instead, I list some key trends below and have attached selected resources for your consideration. No doubt each of you would arrive at a different list or describe the trends differently – please feel free to share any key trends that you want fellow members to think about before the meeting via e-mail.

Macro-trends

1. The growing ability to connect people and information timely and at customized levels of detail. (see GAO, Strategic Plan - attachment 2)
2. Fiscal sustainability issues at the national and state level driving information needs for various stakeholders.
3. Increasingly complex relationships between organizations addressing public policy issues. (e.g., use of public-private partnerships, entrepreneurial business models, economic stabilization activities, implied assumption of risk)
4. Movement to new public management tools provides new flexibilities to executives (and/or contractors) and increases the internal and external need for accountability information. (e.g., performance based arrangements mean principals must have sufficient information to monitor agents' performance)
5. More sources of risk arising from more complex relationships as well as more sophisticated approaches to risk management

Trends in standard-setting

6. Principle-based standards preferred to rules-based standards
 - a. Generally, principle-based standards require more judgment to apply and to audit. In addition, greater diversity in the results may result. In the context of accounting for components of a single entity, such impacts may be viewed through a different lens than used by other standard-setters.
 - b. Some standard-setters provide objective-based requirements and this leads to greater reliance on preparer and auditor judgment. For example,

a recent IASB ED said: “if the disclosures provided in accordance with...do not meet the objective [as stated], an entity shall disclose whatever additional information is necessary to meet the objective.”²

- c. Some have called for standard-setters to create a judgment framework – “a set of principles, guidelines or good faith thought process that enable decision-makers to consider a situation holistically and drive more consistent decision-making.”³
7. Preference for integrated reporting by bringing together financial, sustainability, social, and governance information in a clear, concise, consistent, and comparable format.⁴
8. Other standard-setters have substituted the qualitative characteristic “faithful representation” (inclusive of these features – complete, neutral, and free from error) for “reliability” and consider it a fundamental characteristic. In the revised concepts, verifiability is considered an enhancing qualitative characteristic along with comparability, timeliness and understandability.⁵ (FASAB decided not to revise its qualitative characteristics in connection with the conceptual framework project.)
9. Requirements for fair value information have increased over time.
10. Disclosures are more complex and address:
 - a. Significant accounting policies
 - b. Components of line items
 - c. Factual information about the entity
 - d. Judgments and reasons
 - e. Assumptions, models, inputs
 - f. Sources of estimation uncertainty/sensitivity analysis
 - g. Descriptions of internal processes
 - h. Disclosure of the fair value of an amount recognized using a different measurement basis
 - i. Objective-based disclosures⁶

Initial List of Trends in Federal Financial Management⁷ (members are particularly encouraged to supplement this list)

11. Emphasis on cost savings/avoidance and, in some cases, concurrent interest in legislative requirements. Areas of emphasis include:
 - a. Improper Payments
 - b. Property
 - c. Benchmarking
 - d. Focus on program results

² International Auditing and Assurances Standards Board. *The Evolving Nature of Financial Reporting: Disclosure and its Audit Implications*. January 2011.

³ SEC. *Final Report of the Advisory Committee on Improvements to Financial Reporting to the US Securities and Exchange Commission*. August 2008.

⁴ International Auditing and Assurances Standards Board. *Proposed IAASB Strategy and Work Program for 2012-2014*. January 2011

⁵ IASB. *The Conceptual Framework for Financial Reporting*. September 2010.

⁶ IAASB. *Evolving Nature of Financial Reporting: Disclosure and its Audit Implications*. January 2011.

⁷ This list excludes systems trends – see relevant AGA White Paper presented with the front material.

- e. Internal operating costs to support financial management
- 12. Transparency initiatives are increasing:
 - a. availability of discrete data via the Web
 - b. competition for resources within preparer and auditor offices
 - c. communication between stakeholders (e.g., preparer, program and recipient staffs such as grant recipients)
 - d. quantity of information for users but also cost to interpret and integrate information
- 13. Focus on meeting needs of users particularly through summary or popular reports and electronic reporting
- 14. Challenge of integrating and condensing information
- 15. Human capital challenges

The AGA Annual CFO Survey documents the thoughts of participating CFOs regarding priorities and challenges. The report may reveal trends you would find relevant. Attachment 2 provides the 2010, 2009 and 2008 executive summaries of survey results published by AGA. If you have not read the full report, it may be helpful to do so. The reports can be found using the following links. If you would like a hard copy, please let me know and we will send one.

<http://www.agacgfm.org/research/downloads/cfosurvey2010.pdf>

<http://www.agacgfm.org/research/downloads/2009AGACFOSurvey.pdf>

<http://www.agacgfm.org/research/downloads/cfosurvey2008.pdf>

REFERENCE MATERIAL AND ANALYSIS

FASAB Mandates

The Board is a federal advisory committee created by the Department of the Treasury, the Office of Management and Budget (OMB) and the Government Accountability Office (GAO). The Board's operations are governed by both the Federal Advisory Committee Act (FACA) and the memorandum of understanding (MOU) between the sponsoring organizations. The MOU established duties and these serve as the Board's high-level or strategic mandates. The MOU, FACA and Rules of Procedure provide operational mandates that are omitted from this paper.

The Mission Statement was developed as the Board was beginning its actual operations in 1991. It was developed by the sponsors and provided to the initial members of the Board. It has not been altered over the years and retains wording that predates the Board's recognition as the Rule 203 (GAAP) standard setting body.

The expectations established in the MOU and the Mission Statement present all mandates established by our sponsors. In addition to these mandates, the profession – through the AICPA – established the expectation that GAAP standard-setting bodies would meet certain criteria. These mandates are presented below.

Duties Established in the MOU

D. Duties. The Board will consider accounting concepts and standards. The Board will not set or propose budget concepts, standards, and principles. In considering accounting concepts and standards, consideration will be given to the budgetary information needs of executive agencies and the needs of users of federal financial information. Board recommendations on accounting concepts or standards will be submitted to the Comptroller General, the Secretary of the Treasury, and the Director of the Office of Management and Budget.

Mission Statement

The General Accounting Office, the Department of the Treasury, and the Office of Management and Budget established the Joint Financial Management Improvement Program (JFMIP), to conduct a continuous program for improving accounting and financial reporting in the federal government. To complement the JFMIP, the Comptroller General, the Secretary of the Treasury, and the Director of the Office of Management and Budget (the JFMIP principals) established the Federal Accounting Standards Advisory Board (FASAB) to consider and recommend accounting standards and principles for the federal government.

Mission Statement

The mission of the FASAB is to recommend accounting standards to the JFMIP principals after considering the financial and budgetary information needs of congressional oversight groups, executive agencies, and the needs of other users of federal financial information.

Accounting and financial reporting standards are essential for public accountability and for an efficient and effective functioning of our democratic system of government. Thus, federal accounting standards and financial reporting play a major role in fulfilling the government's duty to be publicly accountable and can be used to assess (1) the government's accountability and its efficiency and effectiveness, and (2) the economic, political, and social consequences of the allocation and various uses of federal resources.

Accounting standards should:

- Result in federal agencies providing users of financial reports information that is understandable, relevant, and reliable about the financial position, activities, and results of operations of the United States government and its component units; and
- Foster the improvement of accounting systems and effective internal controls that will help provide reasonable assurance to users that governmental activities can be conducted economically, efficiently, and effectively, and in compliance with applicable laws and regulations.

How the mission is accomplished:

To accomplish its mission, the FASAB acts to:

- Determine the primary users of federal financial information and their needs;
- Recommend accounting standards and principles that improve the usefulness of financial reports based on the needs of users and on the primary characteristics of understandability, relevance, and reliability;
- Provide advice to central financial agencies on implementing the standards;
- Improve the common understanding of information contained in financial reports;
- Recommend standards and principles only when the expected benefits exceed the perceived costs;
- Review the effects of current standards and recommend amendments or replace standards when appropriate;
- Use a thoughtful, open, neutral, and fair deliberative process and consider the accountability and decision-making needs of users; and
- Develop rules of procedures designed to permit timely, thorough, and open study of financial accounting and reporting issues and to encourage broad public participation in all phases of the accounting standard-setting process.

The FASAB recognizes that general acceptance of its recommendations is enhanced by demonstrating that the comments received in due process are considered carefully. The Board is authorized, however, to recommend interim standards to be used in federal financial statements for fiscal years ending before October 1, 1991, without first publishing an exposure draft of such recommendations.

AICPA Criteria for a Rule 203 Body

The AICPA recognized FASAB as a Rule 203 standard setting body in 1999. This recognition is subject review every five years. The criteria used in the initial and periodic sunset reviews are presented below.

AICPA Criteria for Assessing a GAAP Body

1. **Independence-** The body should be independent from the undue influence of its constituency.
2. ***Due Process and Standards*** – *The body should follow a due process that is documented and open to all relevant aspects or alternatives. The body’s aim should be to produce standards that are timely and that provide for full, fair, and comparable disclosure.*
3. **Domain and Authority-** The body should have a unique constituency not served by another existing Rule 203 standard-setting body. Its standards should be generally accepted by its constituencies.

4. **Human and Financial Resources-** The body should have sufficient funds to support its work. Its members and staff should be highly knowledgeable in all relevant areas.
5. **Comprehensiveness and Consistency-** The body should approach its processes comprehensively and follow concepts consistent with those of existing Rule 203 standard-setting bodies for analogous circumstances.

Adopted by the Council of the American Institute of CPAs as a basis for evaluating FASAB in 1999

A Review of Actions and Processes

- Information on what we've done in each category of the "How the Mission is Accomplished" section of the Mission Statement

To accomplish its mission, the FASAB acts to:	PAST	PRESENT
<ul style="list-style-type: none"> ▪ Determine the primary users of federal financial information and their needs; 	SFFAC 1 and 4 identify users and reporting objectives (overarching "needs").	SFFAC 1 and 4 serve as a framework when considering standards.
<ul style="list-style-type: none"> ▪ Recommend accounting standards and principles that improve the usefulness of financial reports based on the needs of users and on the primary characteristics of understandability, relevance, and reliability; 	Information needs and qualitative characteristics are considered in the context of meeting reporting objectives.	Information needs and qualitative characteristics are considered in the context of meeting reporting objectives.

<ul style="list-style-type: none"> Provide advice to central financial agencies on implementing the standards; 	<p>Staff served on each JFMIP systems requirements task force, various OMB initiatives including Form and Content updates, SGL IRC liaison, and developed training for Treasury's CFAFM as well as reviewing GAO/PCIE FAM.</p>	<p>Support AAPC, consult with SGL as standards are developed and aid in updating the SGL for new standards, and consult when requested. (Additional implementation support is provided by staff directly to the community through non-authoritative support and Staff Implementation Guides.)</p>
<ul style="list-style-type: none"> Improve the common understanding of information contained in financial reports; 	<p>Assisted in developing early GAO guide to the financial reports.</p>	<p>Include a plain language summary with each proposal and final Statement. Chairman provides a semi-annual article for the AGA Journal. Support professional conferences and authors of textbooks.</p>
<ul style="list-style-type: none"> Recommend standards and principles only when the expected benefits exceed the perceived costs; 	<p>Staff research addressed the relative cost (complexity) of alternative solutions, task force input and Board consideration of options with cost being a factor.</p>	<p>Specific reminders to readers to consider the cost/benefit when responding, staff research addresses the relative cost (complexity) of alternative solutions, field testing with agencies volunteers and task force members and Board consideration of cost in weighing options.</p>
<ul style="list-style-type: none"> Review the effects of current standards and recommend amendments or replace standards when appropriate; 	<p>Standards revised based on specific implementation problems or feedback on usefulness.</p>	<p>Standards revised based on specific implementation problems or feedback on usefulness. Evaluation of existing standards is preceded based on members' priorities among the existing standards.</p>

<ul style="list-style-type: none"> ▪ Use a thoughtful, open, neutral, and fair deliberative process and consider the accountability and decision-making needs of users; and 	<p>The Board was restructured in 2003 to address independence concerns. An appointments panel supports selection of non-federal members.</p>	
<ul style="list-style-type: none"> ▪ Develop rules of procedures designed to permit timely, thorough, and open study of financial accounting and reporting issues and to encourage broad public participation in all phases of the accounting standard-setting process. 	<p>Initial rules updated in 2004 and again in 2010. Continuing open process and solicitation of comments.</p>	<p>Outreach efforts include task forces, consultation with agency staff including participation by relevant experts in Board deliberations, extensive outreach when an exposure draft is issued, hearings as needed on EDs, and input solicited on technical agenda.</p>

- Seven Steps of Due Process including Data on Experience with Each Step

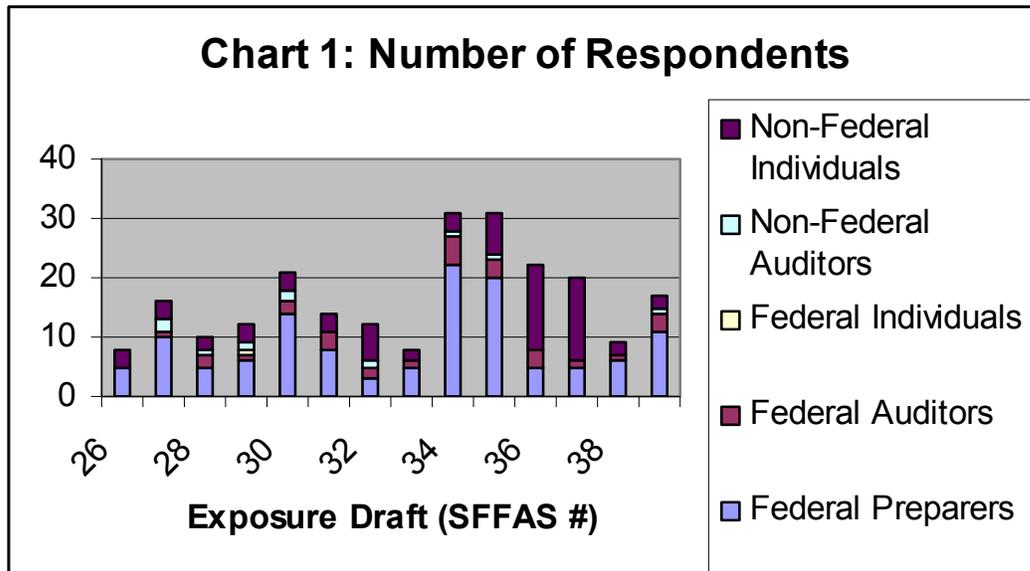
The seven steps we following in due process are:

1. Identification of accounting issues and technical agenda decisions
 - Technical agenda setting is conducted in open session periodically.
 - Comments are often solicited from the public in written form and/or through a hearing. Most recently, staff conducted roundtable sessions to solicit input.
 - Members prioritize projects. Projects not immediately added to the active agenda are considered research projects by staff and we actively monitor developments relevant to these projects.
 - High priority projects are accommodated as needed.
2. Preliminary deliberations
 - Staff research is conducted in advance of preliminary deliberations. If warranted a task force supports staff research. (Presently, five task forces are supporting staff research. Projects not supported by a task force – natural resources and application of FASB GAAP -- are supported by a network of individual contacts at effected agencies.)
 - Deliberations are conducted in open session of the board.
 - Educational sessions and preparatory discussions may be held in closed meetings but this is not our general practice.
 - Staff communication with members (via e-mail or phone) occurs between meetings and any resulting records are maintained in the public file.
3. Preparation of initial documents (issues papers and/or discussion memorandums)
4. Release of documents (e.g., exposure drafts) to the public, public hearings when necessary, and consideration of comments

- Extensive outreach is conducted when an exposure draft is released. Press releases are provided to relevant publications, the FASAB listserv, past respondents on similar issues, professional associations, and standing groups within the federal community (e.g., the CFO Council).
- Public hearings have been held for 43% of the request for comment publications issued since 2001 and 43% issued since 2004.
- The average number of responses received on exposure drafts issued since 2001 is 20 and since 2004 is 16. (See chart 1 on the next page for details regarding responses from 2004 to 2010.)
- Public records are available upon request to interested individuals (including recordings of each meeting).

5. Further deliberations and consideration of comments
6. Approval when at least a two-thirds majority vote to approve a final statement
7. Submission of proposed Statement to the Principals for ninety day review (forty five days for Interpretations)

Publication of final Statement or Interpretation follows completion of the above steps.



Resource Profile

- Budget

FASAB's budget is funded by its sponsors. Generally, from 2000 – 2010 a core group of ten staff members with occasional was funded. As of FY2011 core staff number nine with future funding for contractor support eliminated. In the past, federal staff from other agencies have been detailed to support short term research efforts or a project of particular interest to the home agency. Travel funds have supported six meetings per year, recruitment of non-federal board members with an appointments panel, public speaking events, staff training and limited attendance of meetings of other standard setters and/or the OECD.

- Members and Staff

Board members comprise six non-federal members appointed based on recommendations of an appointments panel. Currently all of the non-federal members are CPAs. Prior experience includes:

- independent public accounting firm partner with federal clients (3)
- former CFO (1)
- academic & PhD(1)
- former federal financial management executive (2)
- former sponsoring organization experience (2)

Currently the three federal members bring substantial experience in budgetary decision making, auditing, government financial management and internal decision making, and legal matters. Their educational and certification accomplishments include an MPA, a JD, two CPAs, and two CGFMs.

The professional staff includes:

- 7 individuals who are CPAs,
- 7 individuals who have undergraduate accounting degrees,
- 4 individuals who are Certified Government Financial Managers, and
- 4 individuals holding graduate degrees.

Staff members have held positions in (1) inspectors general offices, (2) federal CFO offices in both civilian and defense agencies, (3) financial planning and analysis, (4) entities applying FASB and regulatory accounting practices, (5) program offices, and (6) systems development and implementation.

- Resources Provided to Constituents

In addition to establishing GAAP, constituents receive the following from FASAB:

1. Access to all publications via the website,
2. An annually updated volume of pronouncements as amended,
3. A newsletter following each meeting,
4. Announcements via a listserv including press releases, meeting agendas, and invitations to participate in task forces,
5. Access to all briefing material related to each project and a summary of tentative decisions by major project via the website (<http://www.fasab.gov/activeprojects.html>),
6. A technical inquiry submission form available on the website,
7. Staff respond to direct inquiries on a routine basis, and
8. Staff liaisons participate in group meetings such standing committee meetings (FSAN and SGL IRC).

Results of 2008 Situational Audit

In February 2008, the Board decided a full strategic planning exercise was not warranted but that an identification of strengths, weaknesses, opportunities and threats (SWOT) analysis would inform technical agenda setting. The results of the effort were reported in the minutes as shown below:

- **2008 Minutes**

Mr. Reid led the discussion and explained that a situation audit would be helpful to the Board. The objective was to develop lists of strengths, weaknesses, opportunities and threats. Given the lists, the members would be asked to prioritize the list. The members offered additions to each list and subsequently offered their individual prioritization. The resulting lists are shown below.

Strengths

Quality of people - collegiality and influential

Small set of entities involved and affected allows bold moves - help with implementation (well defined population)

Credibility with those outside of Government through Rule 203 status

Dedicated people focused on improving financial reporting

Listening to respondents and explaining positions taken in final pronouncements

Weaknesses

Accrual process overshadowed by budget

Don't have decisions resting on reports and clearly demonstrated relevance to decision making

Purpose seems to be to improve the information used by internal users but there is lack of clarity regarding this goal (e.g., Who are we serving – internal or external users?)

Lack of budget and limited meetings

Identify approaches to maximize federal agency/mission effectiveness

Getting timely responses and better interaction

Opportunities

Realign and prioritize our work (are we spending too much time on things others could do? Tier 1 issues should get most of our time)

Decide what action our users take through end product – identify who users are and what their information needs really are based on their decisions

Open opportunity to restructure/reformat model - nontraditional ways to convey info; extend beyond traditional

Work more closely with agencies to be more effective as a board

Do things differently - and be in front regarding readability and connection to mission effectiveness. Leadership in standard setting and thinking outside the box.

Improve stakeholders' understanding of financial matters

Threats

Declining organizational capacity in federal financial management - can they maintain current efforts and add new initiatives

Consequences of a veto

Declining interest and understanding in Congress; Lower priority in Congress; interest lies outside our mission

Will future administrations be as committed as current and past administrations

Rule 203 recertification issues

Changes in the audit community have led to more intense audit environment – is the target precision level right? Risk aversion may compromise intent of standard; government context different than corporate context - are audit standards being driven in the wrong direction

The Board concluded that this list would be helpful in considering potential projects by serving as a supplement to the criteria established for ranking projects.

If you have questions or comments before the meeting, please contact me at 202 512-7357 or paynew@fasab.gov.