FASAB

Federal Accounting Standards Advisory Board

December 3, 2008

Memorandum

To: Members of the Board

From: Melissa Loughan, Assistant Director

Wendy M. Payne

Through: Wendy M. Payne, Executive Director

Subj: Federal Entity—Educational Session on the Federal Reserve—**Tab E** [1]

MEETING OBJECTIVES

The primary objective for the December Board meeting is to provide an educational session on the Federal Reserve and other English speaking nation central bank systems so that the Board members have a better understanding of the Federal Reserve to determine whether to reconsider the exclusion of the Federal Reserve from the federal reporting entity provided in SFFAC 2, *Entity and Display*.

BRIEFING MATERIAL

This briefing packet contains the following sections and appendices:

- **Attachment 1-Information on the Federal Reserve with Appendices of Board of Governors Financial Statements and the Combined Financials Statements for the Federal Reserve Banks**
- **Attachment 2- Summary of Other Central Banks**
- **Attachment 3- Project Background**

NEXT STEPS

The Board should determine if they wish to reconsider the exclusion of the Federal Reserve from the federal reporting entity. Staff would like to note that we had planned to have a Federal Reserve representative participate in the meeting by providing an overview of the relationship between the Federal Reserve and the Treasury Department and to answer Board member questions. However, due to scheduling conflicts, the representative could not make the December meeting. The Board may wish to consider having the representative brief the Board at a future meeting.

[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.

BACKGROUND

At the October 2008 Board meeting, staff recommended that the Board revisit the issue of whether the Federal Reserve System should be included or excluded in the Federal Reporting Entity. Currently the Federal Reserve is excluded from the federal reporting entity. Specifically par. 47 of SFFAC 2 provides the exclusion as follows:

> In establishing and monitoring monetary policy, the Federal Reserve System, i.e., the Board of Governors of the Federal Reserve System and the Federal Reserve Banks, could be considered as functioning consistent with the indicative criteria presented in paragraph 44. However, in the United States, the 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. Payments made to or collections received from the Federal Reserve System would be reported in the financial statements of the Federal Government. Certain other disclosures might also be appropriate in the financial statement for the entire government.

The Board agreed that an educational session on the Federal Reserve would be helpful.

STAFF COMMENTS

The accompanying materials provide a summary of facts regarding the Federal Reserve and other central banks. The fact sheet about the Federal Reserve is a bit more detailed and includes the most recent financial statements for the Board of Governors and the Combined Financials Statements for the Federal Reserve Banks as appendices to the paper. Staff included information about the creation of the central bank, ownership of the central bank, the roles and responsibilities of the central bank, structure of the central bank, and the government's relationship with the central bank. In addition, the summaries include a discussion of what's included in the government-wide financial statements and a brief discussion of the central banks financial statements.

Staff notes the roles and responsibilities of each of the central banks are generally consistent. Staff also notes that financial statements are prepared for each of the central banks. Staff also notes that all of the central banks are somewhat accountable to the government to some degree in a variety of ways. Staff also found that the structures of the central banks are somewhat similar in the fact there is typically one person that is primarily held accountable for the Banks, such as the Chairman or Governor. In addition, there is typically a governing Board that is responsible for governance, whether it is the Board of Governors, Board of Directors, or Reserve Bank Board.

Considering the main question the Board must consider is whether to reconsider the exclusion that presently exists in SFFAC 2 that specifically excludes the Federal Reserve from the federal reporting entity. Staff wanted to provide a brief summary of how the English speaking countries currently handle financial reporting of their respective central banks in the government-wide financial statements. The chart also details ownership of the central bank as this was the number one difference noted between the Federal Reserve and other central banks. As noted, this is a brief summary for purposes of the chart, see the fact sheets for each of the banks for additional information.

Bank	Ownership	Government-wide F/S
Federal Reserve	12 regional Federal Reserve Banks (FRBs) are organized much like private corporations that issue shares of stock to member banks; FRBs are not operated for profit, and ownership of a certain amount of stock is, by law, a condition of membership in the System; stock may not be sold, traded, or pledged as security for a loan; and dividends are, by law, 6 percent per year	Not consolidated in the CFR; certain disclosures are provided in 2007 CFR: information in the Related Party Footnote states the FRBs owned $774.5 billion of Treasury securities held by the public and FRB earnings that exceed statutory amounts of surplus established for FRBs are paid to the Government and are recognized as nonexchange revenue. Note 16 Collection and Refunds of Federal Revenue discloses Federal Reserve earnings totaled $32.0 billion. The primary source of these earnings is from interest earned on Treasury securities held by the FRBs.
Reserve Bank of Australia	Owned 100% by the Australian Government	Consolidated in the Australian Government's financial statements.
Bank of Canada	Owned 100% by Government of Canada (note: Minister of Finance holds entire share capital issued on behalf of the Government)	Notes disclose that the Bank of Canada is considered an enterprise Crown corporation because it is able to raise substantial portions of their revenues through commercial business activity and are self-sustaining. The Government records it as investments under the modified equity method, whereby the cost of its equity is reduced by dividends received and adjusted to include the annual net profits and losses. The financial statements include summary combined financial statements of enterprise Crown corporations and related disclosures.
Reserve Bank of New Zealand	Owned 100% by the New Zealand Government	Consolidated in the Government of New Zealand's financial statements.
Bank of England	Owned 100% by the Government (note: Treasury Solicitor holds entire capital on behalf of the Government)	HM Treasury's consolidated statements reflect the shareholding in the Bank of England at net cost of investment. Notes disclose Treasury is the sole shareholder in the Bank and it pays Treasury, in lieu of dividend, an agreed sum each financial year, normally 50 per cent of its net operating surplus. The investment in the Bank is valued at the Bank's net asset value per its own accounts.

Staff notes the ownership of the Federal Reserve is much different when compared to other central banks researched. All of the other central banks were owned 100% by the government. In addition, treatment of the central banks in the consolidated government-wide financial statements differs among the countries, with two countries fully consolidating the central bank activities.

Staff would also like to note that the difference in ownership and structure with the FRBs could lead to looking at the issue of whether the Federal Reserve System in its entirety (including both the Board of Governors and the Federal Reserve Banks) should be part of the federal reporting entity or alternatively looking at each one individually may be more appropriate. For example, the Board may wish to consider whether the Board of Governors should be included in the federal reporting entity separately from whether the Federal Reserve Banks should be included in the federal reporting entity.

QUESTIONS FOR THE BOARD

Staff notes this educational session has provided a limited high-level overview of the Federal Reserve and a brief summary of other central banks. We had planned to have a Federal Reserve representative participate in the meeting by providing an overview of the relationship between the Federal Reserve and the Treasury Department and to answer Board member questions. However, due to scheduling conflicts, the representative could not make the December meeting.

Consistent with last meeting, staff recommends that the Board reconsider the specific Federal Reserve exclusion granted in SFFAC 2. Staff notes this reconsideration may lead to determining the Federal Reserve should be included in the federal reporting entity or alternatively, some other specific disclosures. If the Board agrees with reconsidering, staff would like to ask the Board:

Does the Board want to have the Federal Reserve representative brief the Board at a future meeting?

Is there additional information regarding the Federal Reserve or other central banks that the Board would like staff to research or obtain?

Does the Board wish to look at inclusion of the Board of Governors and the Federal Reserve Banks separately?

Would it be helpful to the Board if staff provides a comparison of the Federal Reserve entity against the existing criteria in SFFAC 2 as well as the proposed staff draft (note: detailed criteria have not been finalized in the staff draft as of this date) to determine assessment?

If you have any questions or comments prior to the meeting or would like to provide feedback prior to the meeting, please contact me by telephone at 202-512-5976 or by e-mail at loughanm@fasab.gov.

Attachments

Attachment 1-
Information on the Federal Reserve

The Federal Reserve

Note: The information contained in this summary on the Federal Reserve was prepared or includes excerpts from information gathered from The Federal Reserve System—Purposes and Functions, Ninth Edition June 2005 as well as details from the FAQs on the Federal Reserves website at http://www.federalreserve.gov/generalinfo/faq.

What is the Federal Reserve System?

The Federal Reserve System often referred to as the Federal Reserve or simply “the Fed” is the central bank of the United States.

How was the Federal Reserve created?

In 1913, Congress passed the Federal Reserve Act “to provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.”

Soon after the creation of the Federal Reserve, it became clear that the act had broader implications for national economic and financial policy. As time has passed, further legislation has clarified and supplemented the original purposes.

Who owns the Federal Reserve?

The Federal Reserve System is <u>not</u> "owned" by anyone or individual. It is not a private, profit-making institution. As noted, it is an independent entity within the government, having both public purposes and private aspects.

The twelve regional Federal Reserve Banks, which were established by Congress as the operating arms of the nation's central banking system, are organized much like private corporations--possibly leading to some confusion about "ownership."

The Federal Reserve Banks issue shares of stock to member banks. However, owning Reserve Bank stock is quite different from owning stock in a private company. The Reserve Banks are not operated for profit, and ownership of a certain amount of stock is, by law, a condition of membership in the System. The stock may not be sold, traded, or pledged as security for a loan; and dividends are, by law, 6 percent per year.

How is the Federal Reserve funded?

The Federal Reserve's income is derived primarily from the interest on U.S. government securities that it has acquired through open market operations. Other sources of income are the interest on foreign currency investments held by the System; fees received for services provided to depository institutions, such as check clearing, funds transfers, and automated clearinghouse operations; and interest on loans to depository institutions (the rate on which is the so-called discount rate). After paying its expenses, the Federal Reserve turns the rest of its earnings over to the U.S. Treasury. About 95 percent of the Reserve Banks' net earnings have been paid into the Treasury since the Federal Reserve System began operations in 1914.

What are the roles and responsibilities of the Federal Reserve?

Today, the Federal Reserve's roles and responsibilities fall into four general areas:

1. conducting the nation's monetary policy by influencing the monetary and credit conditions in the economy in pursuit of maximum employment, stable prices, and moderate long-term interest rates
2. supervising and regulating banking institutions to ensure the safety and soundness of the nation's banking and financial system and to protect the credit rights of consumers
3. maintaining the stability of the financial system and containing systemic risk that may arise in financial markets
4. providing financial services to depository institutions, the U.S. government, and foreign official institutions, including playing a major role in operating the nation's payments system

What is the structure of the Federal Reserve?

It is a federal system, composed of a central, governmental agency—the Board of Governors—in Washington, D.C., and twelve regional Federal Reserve Banks. The Board and the Reserve Banks share responsibility for supervising and regulating certain financial institutions and activities, for providing banking services to depository institutions and the federal government, and for ensuring that consumers receive adequate information and fair treatment in their business with the banking system.

The Federal Reserve implements monetary policy through its control over the federal funds rate—the rate at which depository institutions trade balances at the Federal Reserve. It exercises this control by influencing the demand for and supply of these balances through the following means:

- Open market operations—the purchase or sale of securities, primarily U.S. Treasury securities, in the open market to influence the level of balances that depository institutions hold at the Federal Reserve Banks
- Reserve requirements—requirements regarding the percentage of certain deposits that depository institutions must hold in reserve in the form of cash or in an account at a Federal Reserve Bank
- Contractual clearing balances—an amount that a depository institution agrees to hold at its Federal Reserve Bank in addition to any required reserve balance
- Discount window lending—extensions of credit to depository institutions made through the primary, secondary, or seasonal lending programs

Board of Governors

The Board of Governors of the Federal Reserve System is a federal government agency. The Board is composed of seven members, who are appointed by the President of the United States and confirmed by the U.S. Senate. The full term of a Board member is fourteen years, and the appointments are staggered so that one term expires on January 31 of each even-numbered year.

The Chairman and the Vice Chairman of the Board are also appointed by the President and confirmed by the Senate. The nominees to these posts must already be members of the Board or must be simultaneously appointed to the Board. The terms for these positions are four years. The Board of Governors is supported by a staff in Washington, D.C., numbering about 1,800 as of 2004.

The Board of Governors supervises and regulates the operations of the Federal Reserve Banks. The Board of Governors has sole authority over changes in reserve requirements, and it must approve any change in the discount rate initiated by a Federal Reserve Bank. The Board of Governors has broad oversight responsibility for the operations and activities of the Federal Reserve Banks and their Branches. This authority includes oversight of the Reserve Banks' services to banks and other depository institutions and of their examination and supervision of various banking institutions. Each Federal Reserve Bank must submit its annual budget to the Board of Governors for approval.

The Board also plays a major role in the supervision and regulation of the U.S. banking system. It has supervisory responsibilities for state-chartered banks that are members of the Federal Reserve System, bank holding companies (companies that control banks), the foreign activities of member banks, the U.S. activities of foreign banks, and Edge Act and agreement corporations (limited-purpose institutions that engage in a foreign banking business). The Board and, under delegated authority, the Federal Reserve Banks, supervise approximately 900 state member banks and 5,000 bank holding companies.

Some regulations issued by the Board apply to the entire banking industry, whereas others apply only to member banks, that is, state banks that have chosen to join the Federal Reserve System and national banks, which by law must be members of the System.

The Board has regular contact with members of the President's Council of Economic Advisers and other key economic officials. The Chairman also meets from time to time with the President of the United States and has regular meetings with the Secretary of the Treasury. The Chairman has formal responsibilities in the international arena as well. For example, he is the alternate U.S. member of the board of governors of the International Monetary Fund, a member of the board of the Bank for International Settlements (BIS), and a member, along with the heads of other relevant U.S. agencies and departments, of the National Advisory Council on International Monetary and Financial Policies. He is also a member of U.S. delegations to key international meetings, such as those of the finance ministers and central bank governors of the seven largest industrial countries—referred to as the Group of Seven, or G-7.

Federal Open Market Committee (FOMC)

The Federal Open Market Committee (FOMC) is the monetary policymaking body of the Federal Reserve System. It is responsible for formulation of a monetary policy designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments. The FOMC sets monetary policy by specifying the short-term objective for open market operations--purchases and sales of U.S. government and federal agency securities. Open market operations, the principal tool of monetary policy, affect the provision of reserves to depository institutions and, in turn, the cost and availability of money and credit in the U.S. economy. The FOMC also directs Federal Reserve operations in foreign currencies; such operations are coordinated with the U.S. Treasury, which has responsibility for formulating U.S. policies regarding the exchange value of the dollar.

The FOMC consists of twelve voting members: the seven members of the Board of Governors and five of the twelve Federal Reserve Bank presidents. The president of the Federal Reserve Bank of New York serves on a continuous basis; the presidents of the other Reserve Banks serve one-year terms on a rotating basis beginning on January 1 of each year. All of the Reserve Bank presidents, even those who are not currently voting members, attend FOMC meetings, participate in the discussions, and contribute to the assessment of the economy and of policy options.

Federal Reserve Banks

A network of twelve Federal Reserve Banks and their Branches (twenty-five as of 2004) carries out a variety of System functions, including operating a nationwide payments system, distributing the nation's currency and coin, supervising and regulating member banks and bank holding companies, and serving as banker for the U.S. Treasury. The twelve Reserve Banks are each responsible for a particular geographic area or district of the United States.

Congress chartered the Federal Reserve Banks for a public purpose and are operated in the public interest rather than for profit or to benefit any private group. The Reserve Banks are the operating arms of the central banking system, and they combine both public and private elements in their makeup and organization. As part of the Federal Reserve System, the Banks are subject to oversight by Congress. Besides carrying out functions for the System as a whole, such as administering nationwide banking and credit policies, each Reserve Bank acts as a depository for the banks in its own District and fulfills other District responsibilities.

Commercial banks that are members of the Federal Reserve System hold stock in the Reserve Bank in their region, but they do not exercise control over the Reserve Bank or the Federal Reserve System. Holding stock in a regional Reserve Bank does not carry with it the kind of control and financial interest that holding publicly traded stock affords, and the stock may not be sold or traded. Member banks do, however, receive a fixed 6 percent dividend annually on their stock and elect six of the nine members of the Reserve Bank's board of directors.

Although they are set up like private corporations and member banks hold their stock, the Federal Reserve Banks owe their existence to an act of Congress and have a mandate to serve the public. Therefore, they are not really "private" companies.

Each Reserve Bank has its own board of nine directors chosen from outside the Bank as provided by law. The boards of the Reserve Banks are intended to represent a cross-section of banking, commercial, agricultural, industrial, and public interests within the Federal Reserve District. Three directors, designated Class A directors, represent commercial banks that are members of the Federal Reserve System. Three Class B and three Class C directors represent the public. The member commercial banks in each District elect the Class A and Class B directors. The Board of Governors appoints the Class C directors to their posts. From the Class C directors, the Board of Governors selects one person as chairman and another as deputy chairman. No Class B or Class C director may be an officer, director, or employee of a bank or a bank holding company. No Class C director may own stock in a bank or a bank holding company. The directors in turn nominate a president and first vice president of the Reserve Bank, whose selection is subject to approval by the Board of Governors. Each Branch of a Reserve Bank has its own board of directors composed of at least three and no more than seven members. A majority of these directors are appointed by the Branch's Reserve Bank; the others are appointed by the Board of Governors.

Member Banks

The nation's commercial banks can be divided into three types according to which governmental body charters them and whether or not they are members of the Federal Reserve System. Those chartered by the federal government (through the Office of the Comptroller of the Currency in the Department of the Treasury) are national banks; by law, they are members of the Federal Reserve System. Banks chartered by the states are divided into those that are members of the Federal Reserve System (state member banks) and those that are not (state nonmember banks).

State banks are not required to join the Federal Reserve System, but they may elect to become members if they meet the standards set by the Board of Governors. As of March 2004, of the nation's approximately 7,700 commercial banks approximately 2,900 were members of the Federal Reserve System.

Member banks must subscribe to stock in their regional Federal Reserve Bank in an amount equal to 6 percent of their capital and surplus, half of which must be paid in while the other half is subject to call by the Board of Governors. The holding of this stock, however, does not carry with it the control and financial interest conveyed to holders of common stock in for-profit organizations. It is merely a legal obligation of Federal Reserve membership, and the stock may not be sold or pledged as collateral for loans. Member banks receive a 6 percent dividend annually on their stock, as specified by law, and vote for the Class A and Class B directors of the Reserve Bank. Stock in Federal Reserve Banks is not available for purchase by individuals or entities other than member banks.

Banks are often owned or controlled by another company. These companies are referred to as bank holding companies. The Federal Reserve has supervisory authority for all bank holding companies, regardless of whether the subsidiary bank of the holding company is a national bank, state member bank, or state nonmember bank.

What is the federal government's relationship or involvement with the Federal Reserve, especially as it relates to control characteristics?

As the nation's central bank, the Federal Reserve derives its authority from the U.S. Congress. It is considered an independent central bank because its decisions do not have to be ratified by the President or anyone else in the executive or legislative branch of government, it does not receive funding appropriated by Congress, and the terms of the members of the Board of Governors span multiple presidential and congressional terms.

However, the Federal Reserve's ultimate accountability is to Congress, which at any time can amend the Federal Reserve Act. The Federal Reserve is subject to oversight by Congress, which periodically reviews its activities and can alter its responsibilities by statute. Also, the Federal Reserve must work within the framework of the overall objectives of economic and financial policy established by the government. Therefore, the Federal Reserve can be more accurately described as "independent within the government."

As noted above, the Board of Governors are appointed by the President of the United States and confirmed by the U.S. Senate. Further, the Chairman and the Vice Chairman of the Board of Governors are also appointed by the President and confirmed by the Senate.

Congress chartered the Federal Reserve Banks for a public purpose. The Reserve Banks are the operating arms of the central banking system, and they combine both public and private elements in their makeup and organization. As part of the Federal Reserve System, the Banks are subject to oversight by Congress.

What is reported and /or consolidated in the US government's financial statements regarding the Federal Reserve?

The Federal Reserve is <u>not</u> consolidated in the Financial Report of the US Government.

Certain disclosures are provided in CFR: The reporting entity footnote states that the Federal Reserve System is excluded from the reporting entity because it is an independent entity that serves both public and private purposes. The 2007 CFR also discloses certain information in the Related Party Footnote about the Federal Reserve Banks (FRBs.) Specifically the footnote states the FRBs owned $774.5 billion of Treasury securities held by the public as of September 30, 2007 and FRB earnings that exceed statutory amounts of surplus established for FRBs are paid to the Government and are recognized as nonexchange revenue. Also, Note 16. Collection and Refunds of Federal Revenue discloses Federal Reserve earnings totaled $32.0 billion for the year ended September 30, 2007. The primary source of these earnings is from interest earned on Treasury securities held by the FRBs.

Are Financial Statements prepared for the Board of Governors?

Yes. The Board of Governors is audited annually by a major public accounting firm. In addition, the Government Accountability Office (GAO) generally exercises its authority to conduct a number of reviews each year to look at specific aspects of the Federal Reserve's activities. The audit report of the public accounting firm and a complete list of GAO reviews under way are available in the Board's Annual Report, which is sent to Congress during the second quarter of each calendar year. Monetary policy is exempt from audit by the GAO because it is monitored directly by Congress through written reports, including the semiannual Monetary Policy Report to the Congress, prepared by the Board of Governors.

The Board of Governors' financial statements are prepared in accordance with FASB GAAP. Note 1 discloses that the Board (unlike the Banks) was established as a federal agency and is required to report its operations to the Speaker of the House of Representatives. The Board of Governors is also required to order a financial audit of each Federal Reserve Bank. The note discloses the Board of Governors believes the best financial disclosure consistent with law is achieved by issuing separate financial statements for the Board and for the Reserve Banks.

<u>See Board of Governors F/S at Appendix 1 to this paper</u>

Are Financial Statements prepared for the Federal Reserve Banks?

Yes, the Board of Governors contracts with an accounting firm to conduct an audit of the Reserve Banks every year, and Board of Governors staff periodically reviews the operations of the Reserve Banks in key functional areas. The audited combined financial statements of the Reserve Banks are published in the Board's Annual Report.

The Federal Reserve Banks Combined Financial Statements explain the statements are prepared in accordance with accounting principles established by the Board of Governors of the Federal Reserve System, as set forth in the *Financial Accounting Manual for the Federal Reserve Banks*, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The "Capital Paid-In Note" also discloses that the Federal Reserve Act requires that each member bank subscribe to the capital stock of the Reserve Banks in an amount equal to 6 percent of the capital and surplus of the member bank. The shares are nonvoting with a par value of $100 and may not me transferred or pledged. The Note discloses that as a member bank's capital and surplus changes, it holdings of Reserve Bank stock must be adjusted. The note also states that currently, one-half of the subscriptions is paid-in and the remainder is subject to call and that a member bank is liable for Reserve Bank liabilities up to twice the par value of stock subscribed by it.

<u>See Federal Reserve Banks Combined F/S at Appendix 2 to this paper</u>

Appendix 1 to the Federal Reserve Staff Paper

Board of Governors' Financial Statements

Appendix 2 to the Federal Reserve Staff Paper

Federal Reserve Banks Combined Financial Statements

Attachment 2-
Summary of Other Central Banks

Summary of Other Central Banks

This attachment contains a shorter summary of facts regarding the following English speaking countries and their respective central bank:

Country	Central Bank
Australia	Reserve Bank of Australia
Canada	Bank of Canada
New Zealand	Reserve Bank of New Zealand
United Kingdom	Bank of England

Reserve Bank of Australia

Note: The information contained in this summary on the Reserve Bank of Australia was prepared and/or includes excerpts from information gathered on the Reserve Bank of Australia website at http://www.rba.gov.au/.

How was the Reserve Bank of Australia created?

The Reserve Bank of Australia (RBA) was established by the Reserve Bank Act 1959.

Who owns the Reserve Bank of Australia?

The Bank is wholly owned by the Australian Government, to which its profits accrue.

What are the roles and responsibilities of the Reserve Bank of Australia?

The Reserve Bank of Australia's (RBA) main responsibility is monetary policy. Policy decisions are made by the Reserve Bank Board, with the objective of achieving low and stable inflation over the medium term. Other major roles are maintaining financial system stability and promoting the safety and efficiency of the payments system. The Bank is an active participant in financial markets, manages Australia's foreign reserves, issues Australian currency notes and serves as banker to the Australian Government.

What is the structure of the Reserve Bank of Australia?

The RBA is a statutory authority which gives it specific powers and obligations. In terms of the Act, there are two Boards: the Reserve Bank Board and the Payments System Board.

Reserve Bank Board

The Reserve Bank Board's obligations are laid out in the Act, which is often referred to as the Bank's 'charter', says: It is the duty of the Reserve Bank Board, within the limits of its powers, to ensure that the monetary and banking policy of the Bank is directed to the greatest advantage of the people of Australia and that the powers of the Bank ... are exercised in such a manner …will best contribute to: the stability of the currency of Australia, the maintenance of full employment in Australia; and the economic prosperity and welfare of the people of Australia.

The Reserve Bank Board comprises nine members: three ex officio members – the Governor (who is Chairman), the Deputy Governor (who is Deputy Chairman) and the Secretary to the Treasury – and six external members, who are appointed by the Treasurer. The Governor and Deputy Governor are appointed for terms of up to seven years, and are eligible for reappointment. The external members are appointed for terms of up to five years.

Payments System Board

The Act says: It is the duty of the Payments System Board to ensure…the Bank's payments system policy is directed to the greatest advantage of the people of Australia; and the powers of the Bank …are exercised in a way that…will best contribute to: controlling risk in the financial system; promoting the efficiency of payments system; and promoting competition in the market for payment services, consistent with the overall stability of the financial system and the powers and functions of the Bank …are exercised in a way that…will best contribute to the overall stability of the financial system.

The membership of the Payments System Board is the Governor of the RBA (Chairman of the Payments System Board); one representative of the RBA (who is appointed by the Governor and who must be either a member of the Reserve Bank Board or a member of the RBA service; Deputy Chairman of the Payments System Board); one representative of the Australian Prudential Regulation Authority – APRA (who is appointed by APRA and who must be either an APRA member or an APRA staff member); and up to five other members (who are appointed by the Treasurer for a term of up to five years).

What is the government's relationship or involvement with the Reserve Bank of Australia, especially as it relates to control characteristics?

As an independent central bank with responsibility for monetary and financial system policies, the RBA is accountable to the Parliament for its actions. The Reserve Bank Act 1959 sets out the relationship between the Australian Government and the Reserve Bank Board. It confers substantial independence on the Board, but balances this with an obligation to inform the Government of its policies 'from time to time' and a requirement for Parliamentary accountability. The regular meetings of the Governor, Deputy Governor and senior officers with the Treasurer shortly after Board meetings serve to keep the Government informed.

The Act lays down procedures which are to be followed if there is a difference of opinion between the Australian Government and the Reserve Bank Board as to whether the monetary and banking policy of the Bank is 'directed to the greatest advantage of the people of Australia'. The Board is required to provide the Treasurer with a statement on the matter of difference and the Treasurer may then submit a recommendation to the Governor-General who, with the advice of the Federal Executive Council, may determine the policy to be adopted by the Bank. The Treasurer would then inform the Reserve Bank Board of the policy so determined and the Board would be obliged to implement it. The Treasurer would lay before each House of Parliament a copy of the order determining the policy which was to be implemented by the Bank, together with the statement provided to the Treasurer by the Reserve Bank Board and a statement by the Government on the matter on which opinions had differed. To date this procedure has not been used.

What is reported and /or consolidated in the government's financial statements regarding the Reserve Bank of Australia?

The Reserve Bank of Australia is consolidated in the government's financial statements. The Notes explain The Consolidated Financial Statements are prepared for the total Australian Government public sector, which comprises all Australian Government controlled entities in the three sectors of government — the general government sector, the public non-financial corporations sector and the public financial corporations sector (Includes Reserve Bank of Australia and other borrowing authorities.)

Are Financial Statements prepared for the Reserve Bank of Australia?

Yes. Note 1 discloses the Reserve Bank of Australia (RBA) reports its financial statements in accordance with the Reserve Bank Act 1959 and the Commonwealth Authorities and Companies (CAC) Act 1997. The note states the financial statements are prepared under Australian equivalents to International Financial Reporting Standards (AIFRS), other accounting standards and accounting interpretations issued by the Australian Accounting Standards Board, in accordance with the Finance Minister's Orders (FMOs) 2007-2008, which are issued pursuant to the CAC Act 1997. Note 1 states the RBA is classified as a for-profit public-sector entity for purposes of financial disclosure.

Note 3 DISTRIBUTION PAYABLE TO AUSTRALIAN GOVERNMENT states Section 30 of the Reserve Bank Act 1959 requires that the net profits of the Reserve Bank of Australia, less amounts set aside for contingencies or placed in the RBRF as determined by the Treasurer after consultation with the Board, shall be paid to the Australian Government.

Bank of Canada

Note: The information contained in this summary on the Bank of Canada was prepared and/or includes excerpts from information gathered on the Bank of Canada website at http://www.bank-banque-canada.ca/en/index.html.

How was the Bank of Canada created?

The Bank of Canada was created in the Bank of Canada Act of 1934 to promote the economic and financial welfare of Canada.

Who owns the Bank of Canada?

The Bank was founded in 1934 as a privately owned corporation. In 1938, the Bank became a Crown corporation belonging to the federal government. Since that time, the Minister of Finance has held the entire share capital issued by the Bank. Ultimately, the Bank is owned by the people of Canada.

What are the roles and responsibilities of the Bank of Canada?

The Bank of Canada is responsible for:

- Monetary Policy--The goal of monetary policy is to contribute to solid economic performance and rising living standards for Canadians by keeping inflation low, stable, and predictable.
- Bank Notes--The Bank of Canada designs and issues bank notes that Canadians can use with the highest confidence.
- Financial System--The Bank of Canada actively promotes safe, sound, and efficient financial systems, both within Canada and internationally, and conducts transactions in financial markets in support of these objectives.
- Funds Management--The Bank of Canada provides high-quality, effective, and efficient funds-management and central banking services for the federal government, the Bank, and other clients.

What is the structure of the Bank of Canada?

The Bank of Canada is a special type Crown corporation. The Bank has considerable autonomy to carry out its responsibilities.

<u>Governor</u>
Under the Bank of Canada Act, the Governor is solely accountable for monetary policy. However, in practice, the Governor shares this responsibility with the other members of the Governing Council: the Senior Deputy Governor and the four Deputy Governors.

<u>Governing Council</u>
The Governing Council is the policy-making body of the Bank. It consists of the Governor, Senior Deputy Governor, and four Deputy Governors. It is responsible for monetary policy, decisions aimed at promoting a sound and stable financial system, and the strategic direction of

the Bank. A central element of the accountability framework for monetary policy is the agreement between the Bank and the federal government on the inflation-control target.

Board of Directors

The Bank's Board is responsible for the governance of the Bank. The Board is composed of 12 Directors from outside the Bank, plus the Governor and the Senior Deputy Governor. The Deputy Minister of Finance sits on the Board as a non-voting member. The outside Directors come from across Canada and provide an important link to the various regions of the country. Directors are appointed for three-year terms by the Minister of Finance and may be reappointed at the end of their terms. The Board's responsibilities include reviewing and approving the Bank's corporate objectives, plans, and budget.

What is the government's relationship or involvement with the Bank of Canada, especially as it relates to control characteristics?

The Bank is not a government department and conducts its activities with considerable independence compared with most other federal institutions. For example:

- The Governor and Senior Deputy Governor are appointed by the Bank's Board of Directors (with the approval of Cabinet), not by the federal government.
- The Deputy Minister of Finance sits on the Board of Directors but has no vote.
- The Bank submits its expenditures to its Board of Directors. Federal government departments submit theirs to the Treasury Board.
- Bank employees are regulated by the Bank itself, not by federal public service agencies.
- The Bank's books are audited by external auditors appointed by Cabinet on the recommendation of the Minister of Finance, not by the Auditor General of Canada.

What is reported and /or consolidated in the government's financial statements regarding the Bank of Canada?

The notes disclose that the Bank of Canada is considered an enterprise Crown corporation because it is able to raise substantial portions of their revenues through commercial business activity and are self-sustaining. The notes disclose that for enterprise Crown corporations, the Government records these investments under the modified equity method, whereby the cost of its equity is reduced by dividends received and adjusted to include the annual net profits and losses of these corporations, after elimination adjustments of unrealized inter-organizational gains and losses. Further, the assets and liabilities are not included in these financial statements, except for their borrowings, which are recorded as liabilities of the Government when they are not expected to be repaid directly by these corporations. Where the Government has advanced funds to the corporations to support their direct lending activities, the amounts are recorded as loans and advances by the Government. The Government also reports any amounts receivable from or payable to these corporations. Other comprehensive income from enterprise Crown corporations is recorded directly to the Government's accumulated deficit and net debt. Under the modified equity basis of accounting, the corporations' accounts are not adjusted to the Government's basis of accounting. Most corporations follow Canadian generally accepted accounting principles used by private sector companies. The financial statements include summary combined financial statements of enterprise Crown corporations and related disclosures.

Are Financial Statements prepared for the Bank of Canada?

Yes. The financial statements disclose the annual net income earned on the Bank's assets, after operating expenses and allocations to its reserves, is paid each year to the Receiver General for Canada. Additionally, the Capital Note states the authorized capital of the Bank is $5.0 million divided into 100,000 shares with a par value of $50 each and the shares are fully paid and, in accordance with the Bank of Canada Act, have been issued to the Minister of Finance, who is holding them on behalf of the Government of Canada.

Reserve Bank of New Zealand

Note: The information contained in this summary on the Reserve Bank of New Zealand was prepared and/or includes excerpts from information gathered on the Reserve Bank of New Zealand website at http://www.rbnz.govt.nz/index.html.

How was the Reserve Bank of New Zealand created?

The Reserve Bank of New Zealand operates under the Reserve Bank of New Zealand Act 1989. This Act provides the Reserve Bank with its statutory powers and obligations. As a result, the Reserve Bank is not a conventional government department or state agency, although it is fully owned by the Government.

Who owns the Reserve Bank of New Zealand?

The Reserve Bank does not have shareholders. It is 100% "owned" by the New Zealand Government, with any extra revenue that the Reserve Bank makes going back into the Crown accounts.

What are the roles and responsibilities of the Reserve Bank of New Zealand?

The Reserve Bank of New Zealand's three main functions are:

- operating monetary policy to maintain price stability;
- promoting the maintenance of a sound and efficient financial system; and
- meeting the currency needs of the public.

To fulfill these functions, the Bank carries out a wide range of tasks, from operating monetary policy to monitoring and supervising the health of the financial system, maintaining foreign reserves, operating in the financial markets if necessary, and issuing currency as required. The Bank has the sole right to produce currency in New Zealand.

What is the structure of the Reserve Bank of New Zealand?

The Reserve Bank is not a government department, but is a body corporate with statutory independence whose finances are included in the Crown accounts.

<u>The Governor</u>
The powers of the Reserve Bank are exercised by its Governor, who is the chief executive officer. The Minister of Finance appoints the Governor on the recommendation of the Board of Directors for a five-year term. The Governor of the Reserve Bank is personally accountable to the Government for the Bank's performance, but in most areas the Governor has statutory independence as to how outcomes are achieved. There is no day-to-day ministerial involvement in, or responsibility for, most of the operations of the Reserve Bank. In terms of accountability, the Governor carries that burden alone.

The rules for the Governor's removal from office are designed to provide a buttress against a government attempting to intimidate a Governor. In essence, for a Governor to be dismissed the

Minister of Finance must have grounds for believing that the Governor's performance has been "inadequate" in achieving price stability or that the Bank has not adequately carried out its functions; or the two sides must have failed to negotiate a Policy Targets Agreement. Thus a Governor cannot be dismissed because, in achieving price stability, he or she has irritated the government of the day, or because the timing of his or her decisions has been politically inconvenient.

The Board of Directors

The Reserve Bank has a Board of Directors, appointed by the Government, but it is not a decision-making body. However, the Reserve Bank's Board of Directors is integral to the Bank's operational independence and democratic accountability. The Board has no executive authority over the Bank. Rather, the Board's primary purpose is to monitor the performance of the Bank and the Governor, and then to report to and advise the Minister of Finance. The Board annually prepares a written assessment of the Governor's and the Bank's performance, which is made public in the Bank's Annual Report.

If the Board believes that the Governor's performance has been inadequate, then it can recommend to the Minister of Finance that the Governor be dismissed. The Board also makes recommendations to the Minister of Finance on the appointment or reappointment of the Governor and advises on the Governor's remuneration. Non-executive Board members are appointed by the Government for five-year terms and the Chair of the Board must be a non-executive director. The only executive Board member is the Governor. The Board also has a generic duty to provide the Governor with advice, typically on governance issues

Banks

The Reserve Bank's role in the New Zealand financial system has developed over the years, and includes a requirement that banks must be registered with the Reserve Bank. Registered banks must meet certain criteria with regard to their financial position, and only organizations formally registered with the Reserve Bank are entitled to use the word 'bank' in their names.

What is the government's relationship or involvement with the Reserve Bank of New Zealand, especially as it relates to control characteristics?

The Reserve Bank of New Zealand has a high degree of autonomy in terms of how the Bank meets its objectives. The Governor makes the Bank's operational decisions and is accountable for them. [Previously, the Minister of Finance could direct the Reserve Bank to follow a particular policy.] The Minister of Finance can still change the objective of monetary policy via an override provision, but specific rules apply, including immediate publication.

There is no day-to-day ministerial involvement in, or responsibility for, most of the operations of the Reserve Bank. However, the Bank's activities are scrutinized by Parliament's Finance and Expenditure Select Committee. Accountability is enhanced by the Bank having a Board of Directors which monitors the performance of the Governor and the Bank, and reports to the Minister of Finance. The Board can recommend the Governor's dismissal and plays a key role in the appointment or reappointment of a Governor. The Board of Directors is appointed by the Government, but it is not a decision-making body. The Board's function is strictly to regularly review the Governor's and the Reserve Bank's performance, and to provide feedback to the Minister of Finance.

The Reserve Bank's operational independence is further enhanced by the way the Bank is funded. The Act allows for a five-year Funding Agreement with the Minister of Finance. The Funding Agreement specifies how much of the Bank's revenues can be retained by the Reserve Bank to meet its operating costs, with the remainder typically going to the Government. Having five-yearly Funding Agreements is intended to free the Bank from annual funding negotiations with the Government, as is required for government departments. In addition, there is a Policy Targets Agreement that is a written contract between the Minister of Finance and the Governor detailing the monetary policy outcomes that the Bank is required to achieve.

What is reported and /or consolidated in the government's financial statements regarding the Reserve Bank of New Zealand?

The Reserve Bank of New Zealand is consolidated in the Government of New Zealand's financial statements. The Notes state the financial statements are prepared for the government as a whole as and include: Ministers, Departments, Offices of Parliament, State-owned enterprises, Crown Entities, the Reserve Bank of New Zealand and the Public Trust Office. The financial statements refer to both core Crown and total Crown results. Core Crown includes Ministers, Departments, Offices of Parliament, the NZS Fund and the Reserve Bank of New Zealand but excludes state ‐ owned enterprises (SOEs) and Crown entities (CEs). Total Crown includes the core Crown, SOEs and CEs.

Are Financial Statements prepared for the Reserve Bank of New Zealand?

Yes. Note 1 Reporting Entity and Statutory Base states the consolidated financial statements of the Reserve Bank of New Zealand, a body corporate under the Reserve Bank of New Zealand Act 1989 (are prepared in accordance with part VI of the Reserve Bank Act and comply with Generally Accepted Accounting Practice in New Zealand. The Note also states the Bank's parent entity is the Government of New Zealand.

The Note also states that under NZ IAS 1 Presentation of Financial Statements, the Bank is classified as a Public Benefit Entity (PBE). A PBE is a reporting entity whose primary objective is to provide goods and services for the community or social benefits and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders."

The statements describe the Distribution to the Government as "$168 million to the Government in 2008 Notional surplus income (NSI) is the amount available for distribution to the Crown, calculated in accordance with a statutory formula. For 2008 the full amount of notional surplus income will be distributed."

Bank of England

Note: The information contained in this summary on the Bank of England was prepared and/or includes excerpts from information gathered on the Bank of England website at http://www.bankofengland.co.uk/about/index.htm .

How was the Bank of England created?

The Bank of England was established as a corporate body by Royal Charter under the Bank of England Act 1694. The Bank of England is the central bank of the United Kingdom and is sometimes known as the 'Old Lady' of Threadneedle Street. The Bank was nationalized on March 1, 1946, and gained independence in 1997.

Who owns the Bank of England?

The Bank of England is public sector institution, wholly-owned by the government, but accountable to Parliament. The entire capital of the Bank of England is held by the Treasury solicitor on behalf of HM Treasury.

What are the roles and responsibilities of the Bank of England?

The Bank of England exists to ensure monetary stability and to contribute to financial stability as follows:

- Core Purpose 1 - Monetary Stability--Monetary stability means stable prices and confidence in the currency. Stable prices are defined by the Government's inflation target, which the Bank seeks to meet through the decisions on interest rates taken by the Monetary Policy Committee, explaining those decisions transparently and implementing them effectively in the money markets.
- Core Purpose 2 - Financial Stability--Financial stability entails detecting and reducing threats to the financial system as a whole. Such threats are detected through the Bank's surveillance and market intelligence functions. They are reduced by strengthening infrastructure, and by financial and other operations.

What is the structure of the Bank of England?

The most recent legislation, the Bank of England Act 1998 established the arrangements for the Bank's current monetary policy responsibilities. Under Act, the Banking Supervision function was transferred to the newly formed Financial Services Authority. As a result responsibility for overall financial stability issues effectively spanned three separate legal entities – the Bank, the Financial Services Authority and HM Treasury. While there is no legislation that formally sets out the respective responsibilities of the three bodies on financial stability, a Memorandum of Understanding between the three parties was established.

The Act also provides for a Court of Directors, a Monetary Policy Committee, and a Committee of Non-executive Directors within Court.

The Court of Directors
Court consists of the Governor, two Deputy Governors and 16 Directors. The Directors are all non-executive. The Governors are appointed by the Crown for five years and the Directors for three years. Under the Act, the responsibilities of Court are to manage the Bank's affairs, other than the formulation of monetary policy, which is the responsibility of the Monetary Policy Committee. Court's responsibilities include determining the Bank's objectives and strategy, and ensuring the effective discharge of the Bank's functions and the most efficient use of the Bank's resources.

The Monetary Policy Committee (MPC)
The Act establishes the MPC as a Committee of the Bank, subject to the oversight of NedCo, and sets a framework for its operations. Under the Act, the Bank's objectives in relation to monetary policy are to maintain price stability and, subject to that, to support the Government's economic policies, including its objectives for growth and employment. At least once a year, the Government specifies the price stability target and its growth and employment objectives. The MPC must meet at least monthly; its members comprise the Governor and Deputy Governors, two of the Bank's Executive Directors and four members appointed by the Chancellor.

Committee of Court (NedCo)
The Act provides for a Committee of Court ('NedCo') consisting of all the Non-executive Directors, with a chairman designated by the Chancellor of the Exchequer. The chairman of NedCo is also Deputy Chairman of Court. NedCo has responsibilities for reviewing the Bank's performance in relation to its objectives and strategy, and monitoring the extent to which the Bank's financial management objectives are met. NedCo is also responsible for reviewing the procedures of the MPC, and in particular whether the Committee has collected the regional, sectoral and other information necessary for formulating monetary policy. Other functions of NedCo - in which it is supported by the Audit and Remuneration Committees - include reviewing the Bank's internal controls and determining the Governor's and Deputy Governors' remuneration and the terms and conditions of the service of the four members of the MPC appointed by the Chancellor. NedCo is required to make a report as part of the Bank's Annual Report.

What is the government’s relationship or involvement with the Bank of England, especially as it relates to control characteristics?

As a public organization, wholly-owned by Government, and with a significant public policy role, the Bank is accountable to Parliament. The Bank’s Annual Report and Accounts are laid before Parliament each year before they are made available publicly. The principal means of accountability for the Bank is via the House of Commons Treasury Committee. The Treasury Committee has no statutory power of veto on MPC appointments but it does report to Parliament on its assessments of appointees.

What is reported and /or consolidated in the government’s financial statements regarding the Bank of England?

HM Treasury's consolidated statements reflect their shareholding in the Bank (at net cost of investment). The Note Net cost of investment in the Bank of England discloses that Treasury is the sole shareholder in the Bank of England. The Bank pays the Treasury, in lieu of dividend, an agreed sum each financial year, normally 50 per cent of its net operating surplus. This is credited as income to the central Treasury budget but is then surrendered to the Consolidated Fund. The Treasury's investment in the Bank is valued in the Treasury's accounts and for the purpose of the cost of capital charge at the Bank's net asset value per its own accounts.

In addition, the Note ARMS-LENGTH BODIES--The Bank of England provides additional disclosures about the relationship between the Treasury and the Bank of England.

Are Financial Statements prepared for the Bank of England?

Yes. The Bank of England Notes to the Financial Statements discloses that The Bank of England Act of 1998, requires the Bank to pay to HMTreasury, in lieu of dividend on the Bank's capital, on the fifth day of April and October (or prior working day), a sum equal to 25% of the Bank's post-tax profit for the previous financial year or such other sum as the Bank and HMTreasury may agree. The overall effect is that the Bank and HMTreasury will normally share post-tax profits equally.

Attachment 3-
Project Background—Federal Entity

Project Background

October 2008

At the October Board meeting, staff presented a summary of the most recent Federal Entity Task Force meeting. In addition, staff provided a brief summary of the results of the Survey on Boundaries of the Federal Reporting Entities and the Federally Funded Research and Development Centers (FFRDC) Survey. The survey provided the following general observations (detailed analysis and results of the survey can be found in the October Board Materials):

- The results of the survey demonstrated that much of the CFO and IG community does not rely on the current Concepts statement and there is a need for the boundaries of the reporting entity to be addressed in a Standard.
- The survey provided an opportunity to gather information on the current staff proposal. Most of the respondents agreed with the three general principles and suggested this would be a more comprehensive approach.

Staff explained the federal entity task force met to discuss the results of the surveys and to determine next actions and recommendations. Based on the respondents agreeing with the general principles and approach, the task force agreed it would be best to move forward finalizing language in the proposed standard. The Board agreed with the recommendation.

The task force also recommended that either FASAB or JFMIP could write a letter directed to the appropriate committees encouraging legislation that would require all branches to report. The general consensus was that it is not within FASAB's purview to make such a recommendation. 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. Instead, the Board agreed that FASAB would take a stand on the issue in the proposed ED by defining the federal entity to include all branches.

The task force recommended the issue of whether the Federal Reserve System should be included or excluded from the federal reporting entity should be revisited. The Board agreed with this recommendation. Staff will provide an educational session at the next Board meeting by providing background materials on the Federal Reserve and determining how other countries treat central banking systems.

August 2008

Staff continued to analyze responses received on the Survey on Boundaries of the Federal Reporting Entities and the Federally Funded Research and Development Centers (FFRDC) Survey. Staff summarized the results of the surveys for consideration by the Federal Entity Task Force. The Federal Entity Task Force will meet on September 17, 2008 to discuss the results and next steps in the project. Staff will brief the Board at the next Board meeting.

June 2008

The Federal Entity project was not on the agenda for the June Board meeting. However, staff provided the Board with an update to explain the status and provide an opportunity for members to discuss any issues or questions during the Administrative session of the Board meeting.

Staff explained that the Survey on Boundaries of Federal Reporting Entities was distributed to the financial management community in mid-May. The survey seeks information on organizations considered questionable or unique when assessed in relation to the boundaries of the reporting entity and criteria used in the assessment. The survey also seeks feedback on certain aspects of SFFAC 2 as well as input on current proposals.

Staff also explained that staff developed and distributed a separate survey directly to (Federally Funded Research and Development Centers) FFRDCs on June 16, 2008. The survey seeks information to gain a better understanding of FFRDCs' perspective of how they view their relationship with the federal government. The survey seeks information on the relationship with the federal government, other organizations that may influence the FFRDC, and current financial reporting.

May 2008

FASAB sent out a survey to the Chief Financial Officers and Inspectors Generals. The survey (Survey on Boundaries of Federal Reporting Entities) will assist FASAB in the Federal Entity project. FASAB formed a task force with representatives from the financial management community to assist staff in developing the standards. The task force agreed it would be helpful to survey the community to determine organizations considered questionable or unique when assessed. The survey seeks information on those types of organizations, current financial reporting treatment, and criteria used to assess whether to include the organization in the reporting entity or not. The survey also seeks feedback on certain aspects of SFFAC 2 as well as input on current proposals.

April 2008

At the April 2008 Board meeting, staff provided the Board with an update on the project and the Federal Entity Task Force. The Federal Entity Task Force held its first meeting in late February. The summary of key points developed by the task force included:

- A survey of the community to identify organizations would be helpful
- Preference for a principles-based approach in the standard
- Proposed standard should address consolidation and other disclosures
- General principles stand alone
- All branches of the federal government should report
- Ownership is separate from control
- Control is key factor in assessing boundaries
- Exceptions and other organizations to be considered at future federal entity task force meetings
- Separate meeting with intelligence representatives to occur

The Board approved staff recommendations for next steps in the Federal Entity project. Specifically, staff will distribute a survey to the federal financial management community to obtain feedback and examples of 'questionable' organizations that have been considered in determining the boundaries of entities. The survey will also assess current treatment and criteria used. Staff will also send a separate survey directly to FFRDCs to gather information. Additionally, staff plans to work with Treasury, GAO and the task force to further research issues with the legislative and judicial branches and assess whether it is material to the CFS. Staff will also continue work with the task force on developing specific definitions, finalizing the principles and developing criteria for the boundaries of the reporting entity.

February 2008

FASAB formed the Federal Entity Task Force to assist in developing the proposed standards on the boundaries of the reporting entity and consolidation. The task force has approximately 20 members with representatives from various CFO and OIG organizations as well as OMB, GAO, and Treasury. The task force also has representatives from agencies that deal with hybrid organizations (such as FFRDCs) and intelligence agencies because of their unique nature. The first task force meeting is February 20, 2008. Staff will report back to the Board after meeting with the task force.

December 2007

At the December 2007 meeting, the Board discussed an updated outline paper on the boundaries of the federal reporting entity. The paper highlighted that all organizations within the three branches of the federal government are part of the federal reporting entity. In addition, the federal reporting entity includes all organizations that:

- the federal government is directly financially accountable for or owns;
- the federal government exercises control over; or
- the nature and significance of their relationships with the federal government are such that the exclusion would cause the government's financial statements to be misleading or incomplete.

The outline paper included specific, detailed criteria for each of the broad areas identified as well as an expanded introduction that included a discussion of component reporting entities. The Board members provided general comments on the paper. The Board approved staff's plan to form a task force to assist in developing the proposed standard on the boundaries of the reporting entity and consolidation.

Staff formed the task force and it includes members from the CFO, OIG, and IPA communities as well as specific representatives from agencies that deal with quasi government / hybrid organizations (such as FFRDCs), and intelligence agencies. It was agreed that staff (and the task force) would concentrate on the areas identified by Board members for consideration.

September 2007

Staff presented an issue paper at the September meeting that discussed general principles that will be relied upon in establishing the boundaries of the Federal Reporting Entity. Staff recommended the Federal Reporting Entity include entities, organizations, transactions, and activities for which:

- the federal government is financially accountable;
- the federal government exercises control over; and
- the nature and significance of their relationship with the federal government are such that the exclusion would cause the government's financial statements to be misleading or incomplete.

Staff also presented an outline of a proposed standard to assist with understanding how the general principles would be conveyed in a proposed standard. The general principles are consistent with the framework established in SFFAC 2 but will allow for an expansion of the detailed criteria that may go beyond what is in SFFAC 2 and resolve some of the outstanding issues.

The Board agreed with the general principles that will be relied upon in establishing the boundaries of the Federal Reporting Entity. Staff will move forward on developing detailed criteria for each.

July 2007

The Federal Entity project plan anticipated the project would result in both a proposed Concepts Statement and a Standards Statement and it would be important to delineate between what would be included in a Concepts versus Standards as we move forward. Staff prepared outline papers for each —a Proposed Concepts Statement on the Reporting Entity and a Proposed Standards Statement on the Reporting Entity and Consolidation which were included in the July briefing materials.

Originally, staff anticipated obtaining feedback on the outline paper for the proposed concepts paper at the July meeting. However, there was mixed feedback from Board members regarding the approach moving forward on the project. Specifically, some members were in favor of developing a proposed concept statement, while others believe the approach should be to go directly to developing a standard to address shortcomings in the entity area. Therefore, the July Board meeting was used to get the consensus of the Board on the direction for moving forward on the project. Staff presented three options to the Board and explained the options differ in how much conceptual work would be addressed in the project as follows:

OPTION 1

- *No Concepts Statement
- Focus on Developing Proposed Standards relating to Boundaries of the Federal Reporting Entity

*NO FOCUS ON REVISING SFFAC 2--SFFAC 2 would remain unless it is determined the proposed standards are not consistent with the concepts developed over 10 years ago. If so, portions of SFFAC 2 relating to entity would be amended accordingly.

OPTION 2

- *Brief Proposed Concepts Statement Communicating the Federal Reporting Entity is Broader than the U.S. Government Legal Entity (No discussion of organizational structure, defining levels, etc.)
- Focus on Developing Proposed Standards relating to Boundaries of the Federal Reporting Entity

*SOME FOCUS ON REVISING SFFAC 2. Focus on potential revisions to SFFAC 2 would be concurrent with developing proposed standards.

OPTION 3

- *Proposed Concepts Statement Communicating the Federal Reporting Entity is Broader than the U.S. Government Legal Entity and Communicating Organizational Structure of the U.S. Government, Definitions of Terms and Relationships, etc. (as presented in Outline Paper in July Board Materials)
- Develop Proposed Standards relating to Boundaries of the Federal Reporting Entity

* SFFAC 2 entity portion (par. 1-53) would be rescinded and replaced with the new Proposed Concepts on the Federal Reporting Entity.

Based on input from the Board, staff summarized that the best approach for moving forward on the Entity Project would be option 2 while including certain aspects of option 3. Specifically, staff will focus on developing proposed standards relating to the boundaries of the reporting entity and specific criteria for each. In addition, staff will concurrently work on amendments to SFFAC 2. Staff will also determine ways to include a discussion of key terms, organizational structure, etc. in the proposed amendments to SFFAC 2 and proposed standards.

March 2007

The March 2007 briefing paper discussed the issue area—Definition of entity / reporting entity. In assessing how entity / reporting entity should be defined for federal financial reporting purposes, staff considered the following questions:

- Does FASAB already define entity / reporting entity?
- Should there be a distinction between Entity and Reporting Entity?
- Is there a relationship between the reporting entity concept and the objectives of federal financial reporting? If so, should this be articulated?

- How do U.S. standard-setters and National and International standard-setters define Entity /Reporting Entity?
- Would a definition be best articulated in Concepts or Standards?

The issue paper is a first in a series of papers to consider several different aspects of the federal entity concept. Staff plans to devote the next several Board meetings to issue papers that will address the following:

- Characteristics of a Reporting Entity
- Boundaries of a Reporting Entity
- Kinds of "things" that could be included in an entity—the types of transactions, events and entities that may be encompassed within a reporting entity, e.g., other entities, activities, guarantees, functions, etc.
- Overall scope of the Federal Government Reporting Entity

The intent of assessing the definition of entity / reporting entity at the beginning of the project was to finalize terms and definitions to avoid future misunderstandings and misconceptions. Current FASAB standards and concepts utilize several different terms—such as entity, reporting entity, federal reporting entity, component entity, component reporting entity, Federal Government entity when referring to entity.

Currently, there has been a diverse approach to defining the term entity and reporting entity among other standard setters. For example, FASB and IASB do not define the terms, whereas GASB defines different levels for entity depending on the context, such as reporting unit, governmental unit, reporting entity and Financial Reporting entity.

Staff did not believe it was feasible to make a recommendation regarding a proposed definition for entity and reporting entity at this point because staff believed it would be helpful to assess the scope of the federal government as well as the characteristics of entities. Staff believes there is the potential of overlap between the definition of entity and the characteristics of an entity.

January 2007

Staff presented the Federal Entity Project Plan to the Board. Staff explained the project is part of the overall Conceptual Framework Project and is expected to last approximately three years. The project plan identifies issue areas that will be addressed in the project as well as milestone dates and included several appendices that contain pertinent excerpts from existing concepts, standards, and other reports that relate to the entity and consolidation issue from U.S., national and international standard setters that will be analyzed in greater detail throughout the project.

Staff obtained the Board's feedback on the scope of the project, overall approach of the project, and issue areas identified. Overall, the Board members agreed with the Federal Entity Project Plan. Board members agreed that there are a number of entity issues, including a lot of unique government relationships that will need to be considered. Board members suggested that staff consider the following:

- reporting financial activities for which an entity may be responsible
- "unit of analysis" issue as it relates to the kinds of "things" that would be included in an entity-other entities, activities, guarantees, functions, etc
- often by law or regulation, a certain activity is required to publish a financial statement
- federally funded research development centers

- public-private partnerships in other countries
- situations where the government is contracting out things that used to be a government function
- Boards, councils, etc. that are not considered part of the federal government because they are not in the Budget, yet the President appoints the members
- consider what type of “related party disclosures” should be to disclose information about unique relationships (not be part of the federal entity)
- implication of the language in the Accountability for Tax Dollars Act

Staff will move forward on the Federal Entity Project. Staff plans to focus on the “unit of analysis” issue as it relates to the kinds of “things” that would be included in an entity-other entities, activities, guarantees, functions, etc. Staff will also begin research on Issue 1: Definition of Entity / Reporting Entity.