

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
December 18-19, 2013
Room 7C13
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Wednesday, December 18, 2013

Administrative Matters

- **Attendance**

The following members were present throughout the meeting: Chairman Allen, Messrs. Dacey, Granof, McCall, Reger, Showalter, Smith, and Steinberg. Mr. Dong was present during most of the meeting and represented by Ms. Kearney during any absences. The executive director, Ms. Payne, and general counsel, Ms. Hamilton, were present throughout the meeting.

- **Approval of Minutes**

The minutes of the October meeting were approved at the meeting.

- **Clippings**

Mr. Allen welcomed and wished everyone happy holidays. He asked for comments on the clippings and a member mentioned the coverage of the DATA Act. Mr. Allen asked the federal members to update the Board on the Act.

Mr. Dong indicated that he could talk more specifically about what is being done on the question of transparency. Just as the Board recognizes the importance of talking to the end user regarding the utility of this information, the Government Accountability and Transparency Board, the GATB, has had more conversations with different user groups to gain a better sense of the specific requirements, what is working, and what is not working.

He noted that the issue of completeness has come up. Even though we have a lot of detail on USAspending.gov, specifically providing a lot of detail on contracts and grants for \$25,000 or above, it is only a subset of the complete spending picture. Some users refer to an earlier report that provided a complete picture of government spending but was discontinued. Now we provide a more in-depth picture of contracts and grants, but users want to be able to still see that complete picture.

Mr. Dong noted that the question of obligations versus expenditures was raised. Some wanted to provide expenditure data to the users of USAspending.gov. Conversations with some of the user groups have not raised that issue. Obligations seems to be a good proxy for spending as opposed to actually seeing the expenditure data. In a perfect world, Mr. Dong surmised that users would want to see it all and we need to have some more conversation in terms of utility relative to burden so we can balance the two. He expects more conversations with different user groups will sharpen the focus on transparency.

Mr. Reger added that the whole discussion about the DATA Act has been very helpful to accelerate an internal discussion that was already underway about data and about how to collect and how to relate databases. And the emerging Treasury focus is very concentrated on data-- definitions around data, terms, how it is being applied and how it relates among the myriad of systems. Whether the DATA Act passes or not, the process of moving the agenda along has already occurred.

Mr. Allen noted that this seemed to be a positive development and may further the Board's discussion of the ideal reporting model.

Mr. Reger suggested a picture - the federal government accounting process as a beautiful picture that was broken into a jigsaw picture a number of years ago because that was the only way to approach improvement. 24 agencies (or 35 reporting entities) developed their own accounting operations and there are many consistencies and inconsistencies. At the government-wide reporting level, where we try to put that puzzle back together and get that wonderful picture, we wind up with pieces that do not connect. What I think data does is help ensure consistency of those pieces. In some cases it may eliminate the need for as many pieces in the puzzle. This may bring it

much closer and faster back to the federal government picture. This may be as important if not maybe a little bit more important than an individual agency picture.

Mr. Allen asked if that is also the building block for disaggregation.

Mr. Reger said he did not know. It is certainly a building block for constructing a model where you would be able to do cost, budgetary and financial reporting with the same set of records and therefore not have to maintain multiple sets of records.

Mr. Steinberg agreed with Mr. Allen and said he would take it a step further. For various reasons, the DATA Act is important because there are people who want to see what monies are spent in different locations. Basically, the DATA Act is a report of the checkbook. Getting enough knowledge about how people are using checkbook data to inform the development of the kind of statements that we are supposedly focusing on, which are the general purpose statements that are there for demonstrating accountability to some degree, and hopefully to a bigger degree could be used by management, he thought is way down in the future. They are two different purposes.

Mr. Reger added that a lot of countries around the world, since the Board created financial statements have been following the U.S. lead, but now they want to know what to do next. Many of them have actually surpassed us because of some of our technical problems and have opinions and many of those are clean opinions. We are not there yet.

We bypassed the government-wide clean opinion and got to sustainability as well as some issues about risk that just are not dealt with in the other sector and the other process. We are also talking about usability for purposes other than accountability. Some want to know why we did not solve the first problem before we moved to the third. But in fact, we are continuing to move ahead in what I believe is the right direction.

Agenda Topics

- **Reporting Entity**

Ms. Loughan directed members to Tab A, Reporting Entity, and explained the topic was not on the agenda at the October board meeting. Instead, staff provided a brief update of the status. Ms. Loughan explained that in August, a public hearing was held and the Board also discussed the comment letters that were received to the exposure draft.

Ms. Loughan explained for this meeting, staff identified questions and recommendations on selected issues.

Ms. Loughan explained Question 1 on page 43 deals with issue one 'in the budget.' Ms. Loughan explained staff presented two alternatives. The first one is staff's recommendation--to modify language "in the budget" principle to address the issues--

and that language is on page 7 of the staff memo. Staff believes the In the Budget principle should be retained with the following revisions:

- Clarifying the meaning of “non-federal organization receiving federal financial assistance”
- Adding a footnote to reiterate that only the schedule listed in the standard should be used for these purposes
- Stating in the footnote that the organization does not have to be subject to the Single Audit Act
- Including additional language in the basis for conclusion as appropriate

Mr. Allen explained that he had brought up an issue and discussed it with staff yesterday. Ms. Loughan explained that there were a few changes, one or two from board members, but also one issue that came up from the Financial Accounting Foundation and it was on the screen for the Board to review.

Ms. Loughan briefly explained the proposed changes by noting the biggest change was to the footnote by adding a sentence to expand what other assistance means. The footnote proposed now reads:

“Federal financial assistance is assistance that non-federal organizations receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, or other assistance. This Statement adopts the definition established in the Single Audit Act Amendments of 1996 but an organization need not be subject to the requirements of the Single Audit Act in order to qualify as a non-federal organization receiving federal financial assistance. For purposes of this standard, ‘other assistance’ may include federally-authorized support fees which may not be considered public monies of the United States or subject to procedures to authorize or appropriate funds.”

Ms. Loughan explained she had discussions with FAF legal counsel. They believed that based on the changes that we suggested earlier, that it would not be clear that FASB would not be automatically consolidated because they do not actually receive federal financial assistance. They are listed in the budget, but based on legislation their monies are not considered federal financial assistance. In working with the FAF contact, this footnote would be clearer.

Mr. Steinberg asked if they would be excluded or would not. Ms. Loughan explained they would still have to go through the other tests. Mr. Granof asked how their money was classified. Ms. Loughan explained it is support fees through the Sarbanes-Oxley Act. They are listed as the standard setter ‘in the budget’, but FASB is not named exclusively.

Mr. Steinberg explained that in general, he supports what was done, but he had a few questions. Mr. Steinberg asked how the modification would result in PCAOB in relation to the SEC as a component reporting entity. Would PCAOB end up being part of the component entity or not? Ms. Loughan explained the SEC would still have to apply the other tests to arrive at an answer. Paragraph 57a is not met—instead, paragraph 57b and paragraphs 58-63 (addressing Accountability Established Within a Component Reporting Entity and Misleading to Exclude and/or Misleading to Include) should be considered in assessing SIPC, PCAOB and the Standard Setting Body. Paragraph 57a alone would not require SEC to include SIPC, PCAOB or the Standard Setting Body since none are listed in SEC's section of the Budget of the United States Government: Analytical Perspectives—Supplemental Materials schedule entitled "Federal Programs by Agency and Account."

Mr. Steinberg questioned whether they are 'in the budget.' Ms. Loughan explained PCAOB is listed in the budget, but they are not listed under SEC. They are listed individually and may be included in the government-wide budget. SEC would need to determine if the PCAOB is assigned to them.

Mr. Dacey noted that PCAOB is listed 'in the budget' but wondered if it would meet the revised definition of "non-federal organizations receiving federal financial assistance."

Mr. Steinberg noted the language states "neither of the next two principles." They have to go up against the next two principles.

Mr. Dacey explained he wants to clarify that "listed in the budget" document does not mean "in the budget" for our definition because they are two different things.

Mr. Steinberg explained one cannot just take part of the definition. If you take the full definition, they would end up being in based on majority ownership or controlled risk loss expectation benefit.

Mr. Dacey suggested that they would pass this test, but not the other. Mr. Reger agreed and said that was the intent, to fall to the second set of tests as opposed to just because they are in the budget and not excluded by these two provisions.

Ms. Payne suggested that if we treated B the same as we treated A and just drop "such as collegial institutions" (which a member has suggested to move to a footnote.) Ms. Payne suggested revising and making it clear that the other two tests are independent and anything that meets the other two tests would still be included.

Mr. Allen asked isn't that what it says? He explained that he believed that is the essence of what it says now.

Ms. Payne explained that Mr. Steinberg is concerned that it would not qualify as a non-federal organization receiving federal financial assistance the way it is worded. As worded, one had to not be owned or controlled in order to be considered not "in the budget" as well as being a nonprofit. Ms. Payne explained staff will word it differently

and say something about the next two tests still have to be applied. The flow is off and a break in the flow and a new paragraph that says notwithstanding the above, any entity meeting one of the next two principles must be included.

Mr. Steinberg explained he thought it was clearer, but it does not change the end result.

Ms. Payne explained it may be because in the PCAOB example, assuming it is controlled and is in the form of a nonprofit and it is in the budget, it would not have to be included based on 'in the budget principle.' This means that it isn't automatically part of a component entity as a consolidation entity. It allows these nonprofits to become disclosure organizations if they meet the characteristics.

Mr. Steinberg asked if there would be disclosures about PCAOB in the CFR if material, but not within the SEC. Ms. Payne explained it would still go through the process of determining assignments. For example, if you assumed PCAOB met the control and that it was administratively assigned to SEC, SEC would have it as a disclosure organization.

Mr. Showalter explained that part of the concern was the automatic consolidation and we were trying to fix automatic consolidation, not the disclosure.

Mr. Steinberg noted he had questions about other organizations, such as the Amtrak. Ms. Loughan explained for an organization (other than the central bank and minimum disclosures) the proposed standard does not specify reporting or disposition for any organization. Therefore, the proposed standard would not provide any specific language regarding Amtrak.

Mr. Steinberg explained he understood that we are not going to address any other specific entities. However, he questions if the Department of Transportation will understand what they are supposed to do with Amtrak? Staff noted the Department of Transportation did not submit a response and staff cannot really speculate about whether they will understand or not understand. There will be a joint effort among the central agencies to ensure some consistency and implementation.

Ms. Payne explained there will be an opportunity to provide implementation guidance, but we did not envision getting to a level of certainty that every single organization is treated the way the members expect it to be treated before we issued an exposure draft. Mr. Reger agreed and stated otherwise, we would go to our alternative and just make a list, which we have been trying to avoid.

Mr. Allen asked members if they were prepared to vote on whether they support the modifications to the 'in the budget' issue?

Mr. Dong requested that the Board review the footnote and compare it to the language in paragraph 38. He suggested the footnote seems to be broader in terms of looking at federal financial assistance, but then looks at the question of other assistance. Paragraph 38 seems a little bit narrower to focus on federal financial assistance, but

then the footnote gets into the whole concept of other assistance.

Staff explained the sentence that was added is modifying this definition from the Single Audit Act, but perhaps the order could be switched. Staff was clarifying two things--that an organization did not need to be subject to the Single Audit Act in order to meet this exception, and the second is defining other assistance.

Mr. Dong confirmed that other assistance is within that umbrella of federal financial assistance.

Mr. Dacey explained his basic concern was about separately defining non-federal entity and federal financial assistance. Currently – the note bridges the terms by ending the sentence with the whole clause--non-federal organization receiving federal financial assistance. He suggested defining each separately. Non-federal entity would be the two types of entities-- a state, local, or territorial government or component thereof, and a not-for-profit organization. Then we would separately define federal financial assistance. He suggested modifying it to say that it extends to other federal financial assistance besides single audit organizations.

Mr. Allen asked if it changes the concept that we are considering. Mr. Dacey explained he was not changing the concept.

Mr. Allen asked if the Board could vote on the concept or staff's general proposed language, but rely on members working with staff on the specific wording.

Mr. Dacey noted he had a question about the concept and whether the Board was reasonably comfortable that those two categories listed are a complete group of non-federal entities that the Board would consider excluding if they also received federal financial assistance?

Mr. Allen explained he was very pleased with staff's research and that it did not show this was the tip of the iceberg, that there aren't many other organizations out there.

Mr. Dacey raised clarity concerns regarding:

1. Reference to "collegial institution"
2. Whether corporations other than not-for-profit corporations may be listed
3. If referencing 'support fees' in the footnote may be too narrow – perhaps there are other terms for similar fees

On the terminology for fees, Mr. Showalter suggested it could be described as basically the agencies are allowed to collect fees directly from their users, but it goes through a budget process. Mr. Reger noted there are others like that, such as the FCC. Mr. Dacey explained the Board should be careful how far it goes because there are a lot of fees that come in from outside. Ms. Payne noted that this has to be combined with the non-profit form of the entities.

Mr. Steinberg noted that B in the revised wording refers to a 'not-for-profit organization or corporation.' Is corporation supposed to be not-for-profit or any corporations? Mr. Reger asked why we need corporation?

Ms. Loughan explained that originally staff had not-for-profit organization, but based on advice from counsel, we added or corporation to be clearer. The Board discussed the fact that there were not-for-profit corporations, but they were still organizations. There was some concern that some readers will read that to mean a for-profit corporation. One suggested listing it as "a not-for-profit organization or a not-for-profit corporation."

Mr. Granof explained his concern is a broader one, and that is what a not-for-profit is. Not-for-profits is a broad category and includes a huge sector of the economy. It goes anywhere from a cemetery association to country clubs to organizations, which are essentially profit based. They operate just like profit organizations. He wondered whether we are going to include things in there that we do not want.

Ms. Payne appreciated the concern, but explained in the context in which we are using the term, these are things that are listed "in the budget" for which we want to find a pathway that they get special consideration. She suggested that most not-for-profits end up being corporations because an individual would want to separate themselves. She asked counsel if the broader term 'organization' is better or is 'corporation' sufficient?

The Board briefly discussed various types of organizations such as co-ops, PTA association, and booster clubs. The Board discussed for legal liability purposes, for most listed, you are an individual, a partnership or a corporation. That is three structures for organizations.

Mr. Showalter noted that the point staff made earlier was we can think of all types of not-for-profit organizations, but they have to be "in the budget" to begin with for this. Mr. Granof explained his concern is that there might be something in there that we capture that we do not want.

Mr. Dacey noted the staff review of the budget and that during implementation any anomalies could be brought to the Board for guidance. Otherwise, we may spend too much time trying to define it.

Mr. Allen suggested that staff work with legal counsel on the proper words for not-for profit, corporation, organization, etc.

Mr. Smith asked what are we accomplishing by adding not-for-profit corporation to the language. Mr. Reger explained that we believe there is money being dispersed to them (through the budget) and do not believe they should be included in the financial report. Mr. Smith asked if they are a not-for-profit organization, once you get that filtered, what do we believe we missed from that filter that we then need the not-for-profit corporation?

Mr. Dacey noted his concern was to be inclusive. Most probably corporations will know

they fit in that definition.

Mr. Smith explained that if it is a corporation -- almost any not-for-profit that is in the budget is probably going to be a corporation because it is doubtful that the federal government is going to be funding some organization that does not even have legal structure. Any organization that is getting funding is going to identify themselves as a not-for-profit organization and it seems like that filter would already capture that.

Mr. Steinberg explained this goes all the way back to the concept statement to rule out including such things as Gallaudet University and Howard University mentioned in the budget.

Mr. Dong asked if the not-for-profit corporation is really adding anything or just creating more confusion.

Mr. Dacey explained he believes it isn't creating more confusion, but adds clarity. The reason he supports it is because they may or may not think of themselves in that manner.

Ms. Payne suggested if we switch it around and think about who might argue they are a not-for-profit organization that we would not want to use this? For example, is GAO a not-for-profit organization in addition to being a federal government agency? The question being do we see any harm in being broader and not any benefit in being more specific by saying 'corporation.'

Mr. Showalter suggested the GASB defined not-for-profit organizations in some of their work about ten years ago when they were getting into this area on service efforts and accomplishments and we may want to look at that.

Ms. Payne suggested that staff will do additional work around the terminology and the precision of the wording. If this is the path that the board wants to go down, we can work out words between now and the March meeting.

Mr. Allen agreed and suggested the Board vote on the principle and address wording later.

Mr. Dacey asked for clarification about what the Board is voting on and if we would have a separate discussion on whether it is a separate principle or part of control? The wording is basically the same under either option. He wondered if we should vote just on this concept and then we talk about whether it is a separate inclusion principle or part of the control principle.

Ms. Loughan explained the alternative recommendation was to include "in the budget" with control. Ms. Loughan noted she understood Mr. Dacey's point because the wording is basically the same; it is the placement under control. Based on the feedback staff received thus far, four members had supported the staff's recommendation. However, staff noted they had not heard from the other members.

Ms. Payne explained that the best use of the Board's time would be to determine if members want it to be placed 'in the budget' or if members want 'in the budget' to be moved into the control principle. This would be a vote for option 1A or 1B.

Mr. Allen explained that it appears we are combining those into a singular vote. Ms. Payne explained 1B was presented as an alternative. If we got a no answer on revising 'in the budget,' we assumed you would want to go onto B and talk about revising the control to include 'in the budget'. If we could have a discussion about which approach you would prefer--keep 'in the budget' as a separate principle, but provide a pathway for these non-profits and perhaps state and local governments to be considered differently or would you like to see the 'in the budget' principle be part of the control principle and an assessment of control.

Mr. Dacey explained he was undecided and wanted to explore the alternative before the vote. One of his concerns about putting it under 'control' is that there may be a less certain outcome, maybe not in practice, but conceptually. If we are saying it is an indicator of control, almost a presumptive indicator --there would be a possibility to rebut that. Mr. Dacey noted there were comments from people that said it really is not a separate category and it is really a proxy for control and therefore you should put it as part of control. Mr. Smith explained he did not see the comments strong enough to say let's take that off the table and we really do not care about 'in the budget' except for 'control.'

Mr. Dacey noted in staff's option B it is listed as the first item or a subset with the other indicators. Another option would be to have its own category under control, not as one of the sub-points. Clarity of the overall context would be the goal. Right now, it is under paragraph 40 and we have an intro into A and then B, C, and D and they follow. He asked if staff gave consideration to whether or not it would be almost a separate point outside of paragraph 40, but underneath the control.

Ms. Loughan asked if he meant it would not be a persuasive indicator, but a different, higher or third tier level. She asked if he envisioned something higher than persuasive.

Mr. Dacey said yes and explained he could envision something similar to what we have, along the same authority as under 1A, but it is under the principle of control. He explained his concern that 'in the budget' is not much of a principle and that is consistent with some of the respondent views.

The Board briefly discussed this model but had difficulty seeing the difference from 'in the budget.'

Mr. Allen explained he supports 1A. Mr. Smith explained that he thought that the budget was a very important piece that the federal government was trying to do and he still thinks that that is important.

Mr. Showalter acknowledged 'in the budget' was for ease of operation. We did not want people to have to go through all the other criteria and he did not want to lose that

concept. He explained he supports 1A but is intrigued by Mr. Dacey's proposal. In other words, if theoretically it bothers us that budget really isn't a principle and control really is, then he would be interested in having a discussion.

Ms. Payne noted at least one respondent said ownership is a form of control. So, if we are reconsidering basic principles, she asked should the Board consider putting everything under the control umbrella.

Mr. Reger noted the question began with stuff that should be excluded and all our tests are directed to start with the budget and then take things out. Mr. Showalter agreed and said he would like to keep that simplicity too. Mr. Dacey noted that you have all these other controls so we are not limited to the budget anymore and we are going to add things in too.

Mr. Allen reminded the members that we were also dealing with that in terms of where we would present information and that was a key difference we saw 'in the budget' versus the other indicators of control.

Mr. Showalter stated with that said, he is really a 1A type and he likes the simplicity because it is easy to understand.

Mr. Dong asked for clarification as to whether it would serve as a filter in either scenario.

Ms. Payne explained that 'in the budget' captures approximately 97 percent of what needs to be captured as a principle. Having a lot of discussions with these peripheral or strange arrangements that end up being codified in law, the organizations in these arrangements do not want to be told they are controlled. Just as we heard from the judicial branch, they do not want to be thought of as controlled.

Ms. Payne explained in the political realm, many things are created that are to be insulated from political influence. So, once you start using that word 'control' everybody gets their back up and they do not want to be assessed as being controlled. Therefore, 'in the budget' prevents a lot of debate.

Mr. McCall explained he believes that 'in the budget' provides a good anchor point and he prefers to keep it as a principle.

Mr. Dacey explained that he did not think it is principle based but he can accept it.

Mr. Granof asked for him to clarify what he meant by not principle based. Mr. Dacey noted that OMB decides what to put 'in the budget' and it appears to be a unilateral decision. Mr. Dong noted there is a disciplined process involved.

Mr. Dacey explained he believes that a standard being dependent upon any one party's decision somewhat takes it outside of a principle-based theory. Mr. Dacey noted he could support the current approach, but wanted to voice his concern.

Mr. Granof explained that it is a good starting point since it captures so much. He

believes whether unilateral or not, the remaining principles will still capture the outliers.

Mr. Smith also noted that when you make a decision to put it in the budget' or not, isn't it funding and the federal government is going to fund it with tax dollars. Mr. Smith explained if we are taking tax dollars and we are funding that organization that is one indication that that organization probably should be in the reporting entity. However, if you could go and take items and say I am going to give them tax dollars, but yet I can take them out of the budget that means something different. If this year you just say well I will take them out of the budget, they are still going to get funded just like they always did. I guess I was not thinking of that concept when I was thinking of the budget. I thought if you are going to get tax dollars other than some agency providing assistance, it had to be 'in the budget.'

Mr. Dacey suggested that he clarify what he meant. For example, suppose that the government's investment in General Motors was specifically listed "in the budget." The issue is that there could be a situation where there is an entity put "in the budget" that would be captured by this. It would not fall through. Again, you would have to consider the control and the ownership.

Mr. Allen suggested that if the Board is to keep within our time frame, let's have a basic decision on A or B and decide whether or not there is enough support. Mr. Allen noted that Mr. Dong had stated he was comfortable with A.

Mr. Dacey explained he could join the majority and support A.

Mr. Smith noted he was supportive of A, but he was a little more uncomfortable now because it sounds like A may not be the starting point of capturing everything, but he was still supportive of A.

Mr. Allen explained he thought it captured more than anything else would or that we could think of.

Mr. Showalter stated he was supportive of A and believed it is simplistic and easily implemented.

Mr. Granof also supported A.

Mr. McCall explained he supported A because it captures most of what we are looking at.

Mr. Steinberg and Mr. Reger also supported A.

Mr. Allen stated he supported A.

The Board unanimously agreed to retain the 'in the budget' as the first inclusion principle and generally agreed with the staff proposed recommendations subject to the changes suggested in the meeting. Staff will provide the Board with final wording for approval at the March meeting.

Ms. Loughan directed the Board to the next issue on page 12, “misleading to exclude.” While staff recognized the desire by the community for criteria for the “Misleading to Exclude” principle, it appears most respondents agree with the “misleading to exclude” notion because it provides a safe haven for rare but significant cases not adequately covered by the principles. Further, staff does not believe there would be harm or unintended consequences by maintaining the “Misleading to Exclude” principle absent additional criteria. When discussing in August, it appears the value may be of even more importance during the implementation stage of this proposed standard. Therefore, staff suggested retaining the principle and adding clarifying language to the basis for conclusion. Staff asked if there were any questions.

Mr. Dacey explained that he was concerned about the lack of any criteria in paragraph 34, 35, and 36 of what “misleading to exclude” means. He realized there will be an implementation period and something may come up to clarify this. He explained that he does not want to have major issues during the audit.

Mr. Steinberg explained that he believed that is the exact reason it is there and that there are no criteria. He would recommend adding language that says because there are no specific criteria and there could be situations where it would be ‘misleading to exclude’. The other suggestion may be to mention in the BfC the fact that GASB had this same problem 25 years ago. In 25 years, there was only one or two situations that they were able to identify that fell into ‘misleading to exclude.’

Mr. Steinberg and Mr. Allen did not object to the “misleading to exclude” and felt that adding words to further strengthen it may help. Such words should be in the body of the standard.

Mr. Dacey did not think the current paragraph was neutral and objective and asked whether the provision would be removed if there are no issues in the implementation period.

Mr. Allen explained he sees it as a safety net for the auditor and preparer.

Ms. Loughan explained that the basis for conclusion leaves it open and says if adjustments are needed there would be amendments to the standards after the implementation period.

Mr. Dacey noted that the Board should consider if it wants to have the provision in perpetuity. He explained there may be an entity identified during implementation that should be included but does not meet the other criteria, and the standard may need to be revised to address it, but then would this principle remain. He sought clarity regarding whether this is an implementation issue or something we want to leave in the standard post-implementation.

Mr. Allen explained principally based, we would say yes because things may change in the future as you just pointed out. Unless there are any other questions, I’d like to call a vote on this proposed wording or any suggestions to improve the wording. And as far as

the Board can tell, Mr. Dacey agrees, this should remain during the implementation.

Mr. Dacey explained he still had mixed thoughts because it depends on whether it will be long term. He explained further that if during implementation, there is an entity that may meet this threshold, he has concerns about no criteria whatsoever to make a judgment. He explained that the standards should be reasonably able to be applied consistently.

Mr. Steinberg explained that he understood, but he believes he was focusing on the wrong thing. By definition, there are no criteria. Instead, I would be perplexed because there probably are sufficient uncertainties in the document that exists now that this thing will end up picking some things up that you and Mr. Reger are going to disagree on and it is not because we do not have criteria. The work may be on the other principles.

Mr. Dacey explained he understood but it just makes it a very hard argument from a consistent, neutral application standpoint. We might want to come back to the Board in a year and say let's work on clarifying some of the principles and consider eliminating "misleading to exclude." Mr. Dacey explained he wanted the Board's views as to whether it was a long-term clause depending on what happens during implementation.

Mr. Steinberg noted he do not think we will ever get rid of 'misleading to exclude.'

Mr. Allen called for a vote on the second issue of "misleading to exclude" and whether members generally accepted staff's proposed language?

Mr. Reger stated yes.

Mr. Steinberg stated he agreed. He also noted he would not object if there was time to help address some of Mr. Dacey's concerns or if there is not time and prefer leave it as is, I am okay.

Messrs. McCall, Granof, Showalter, Smith, Dacey, Dong also noted agreement.

Mr. Allen also noted agreement but if possible add additional language in the basis to address Mr. Dacey's concerns

The Board unanimously agreed to retain the 'Misleading to Exclude' principle and generally agreed with the staff proposed recommendations to the basis for conclusion.

(Break)

Ms. Loughan directed members to page 15-16 of the staff memo for issue three--judicial and legislative branches. Staff noted at least three Board members and several respondents noted concern with how the standard addresses the applicability of the standards to judicial and legislative branches of government. This issue had been deliberated by the Board on several occasions—and while the task force had suggested more aggressive action to encourage reporting by other branches-- the Board's conclusion was that all branches should report, but that the Board does not lobby for

changes. Ms. Loughan noted page 16 of the binder materials presents proposed changes.

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

Ms. Loughan also provided background that most respondents said we should be ensuring the standard covered these branches or addressing them specifically. Only one responded said they should not be included and that was from an organization in the judicial branch.

Mr. Allen thought the tone of the basis for conclusion should be that even though you are not required now to do it, there is a presumption that Treasury (through gathering data) for the federal government financial statements would include those branches even though they are not required by law to prepare statements.

Mr. Dacey explained that he believes it to mean that FASAB GAAP would be the appropriate GAAP for these entities to use because they are a federal entity because they are 'in the budget.' That is the logic chain that is similar to SFFAC 2. They are part of the federal government because they were 'in the budget' and, therefore, they have always been consolidated.

Mr. Dacey explained that he thought the basis for conclusion laid it out fairly well. He explained the footnote in the standard wasn't as clear. It starts off with the footnote that says the AICPA designated FASAB is the source of GAAP for federal reporting. We say therefore, it would be the appropriate accounting standards. He thought the explanation was that they follow our standards because they are 'in the budget.'

The Board discussed several additional areas related to this issue. Several members had suggestion for improving and streamlining the language in the basis for conclusions. Their discussion centered on the fact that some of the legislative branch is required by statute or other administrative requirements to report and others may voluntarily do so. The Board discussed FASAB's authority and the meaning of a GAAP audit opinion. The board also discussed what Treasury is doing for those entities not preparing financial statements and that information is included on a cash basis given the materiality of those organizations.

The Board discussed the language of the footnote and the basis for conclusion language. Ms. Hamilton, FASAB counsel, provided clarification about the authority of the Board, and the statutes that come from the three sponsors. She explained that the board has some ability over the judicial branch and none over the legislative branch. The Board does not have authority to say you have to adopt it or no enforcement to make them do it.

With the ample discussion about the issue, the Board continued deliberations and worked on modifying the staff proposed wording for the footnote and basis for

conclusion to address the judicial and legislative issue. The Board agreed with the language and suggested staff consider ways to tie that back to SFFAS 34. The language agreed upon at the meeting was:

Scope and Applicability

38. This Statement applies to federal reporting entities that prepare general purpose federal financial reports (GPFRRs) in conformance with generally accepted accounting principles (GAAP)¹ as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. Paragraph 66 of this Statement also applies to federal reporting entities that prepare GPFRRs in conformance with GAAP as provided by paragraphs 9 through 12 of SFFAS 34.

Basis for Conclusion

Application to Legislative and Judicial Branches

Although the legislative and judicial branches (and most organizations within those branches) may not be required to prepare financial statements, based on the '*In the Budget*' principle, those organizations would be reported upon in the government-wide report. FASAB GAAP would be the appropriate accounting standards for those entities within the judicial and legislative branches that prepare GAAP-based financial statements. **(add references to SFFAS 34 and explanation)**

Ms. Loughan explained the Board could move to issue number 4, terms for disclosure organization. Staff explained the board requested staff revisit the term. While agreeing with the concept of distinguishing between "consolidation entities" and "disclosure organizations", two respondents (AGA FMSB and SEC-CFO) found the terms somewhat confusing as written in the exposure draft. For example, the AGA FMSB noted that it may cause confusion because the general term 'disclosure' is associated with a wide variety of issues, yet as used in the exposure draft, it is now associated with the accounting for a very specific purpose. Both respondents expressed concern with using different terms --"entity" "organization" -- as it leads to confusion when reading the document.

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

¹ The AICPA has designated the FASAB as the source of GAAP for federal reporting entities. Because entities within the executive, legislative, and judicial branches are in the budget, FASAB GAAP are the appropriate accounting standards for them.

entity' and 'disclosure organization.' The recommendation was non-consolidation entities.

Mr. Dacey asked if staff could recall the concerns expressed with accountable entities. Ms. Loughan explained with accountable, we actually had that originally part of 'non-core accountable entities' and we agreed to drop the term accountable. Staff believed it was Mr. Steinberg that requested that accountable be dropped from the non-core association. He had concern with the accountable notion.

Mr. Dacey asked if some of the reasons were that these entities were not accountable per se or that the term would tie it too closely to the government. Ms. Loughan agreed.

Mr. Steinberg added that we went away from core and non-core because that tends to be a political judgment about what is core to the government's responsibility.

Mr. Granof explained that he liked consolidated and non-consolidated because it is completely non-judgmental. Every other proposal makes some judgments about or implies some judgments about importance, core and non-core.

Mr. Dacey explained that he did not see this becoming a term we are going to see in the footnotes. Mr. Showalter stated he disagreed.

Mr. Dacey agreed it may but is not required. In any case, his concern with non-consolidation is it is a broad term. He preferred to keep the terms from the exposure draft - disclosure and consolidation because these describe what we are doing with the entity.

Mr. Granof stated that except every entity is subject to disclosure.

Mr. Allen stated he supported Mr. Dacey.

Mr. Showalter explained he was supporting non-consolidated but, if you go to paragraph 70, the exposure draft is talking about disclosures. While he likes Mr. Granof's point about it being non-judgmental, he believes it would be unrealistic to think the term won't be used.

Mr. Allen asked what would non-consolidated mean. He explained he prefers to leave it the way it is or go back to where we started, core or non-core. When I say define non-consolidated entity, a non-consolidated entity is one that you disclose rather than one you consolidate. That is where we are at now.

Mr. Granof explained he understood but a consolidated entity you also disclose.

Mr. Showalter noted previously we called one an entity and one an organization. He believed that also confused people.

Mr. Reger explained that we did not like core/non-core because it left the implication that somebody was not core. When you say non-consolidating, some people may feel

the same way. Although it is more of an accounting term than core/non-core, it implies the same connotation.

Mr. Granof explained that we cannot help it if they feel they are less important because they are not consolidated.

Mr. Reger stated he would vote for not changing, he doesn't like the non-word.

Mr. Dong agreed and stated he dislikes defining something based on what it is not.

Mr. Showalter reiterated we need to get the second word (entities) aligned because that created confusion.

Mr. McCall explained there are things he doesn't particularly like about the current term- you could have disclosures for a consolidation entity. He explained in the exposure draft, we talk about the Federal Reserve and there are certain disclosures that should be made. He believes some people may have thought that meant it was a disclosure organization as opposed to continuing to wait to see if it is a consolidation or disclosure. But he stated he could go with either set of terms; there are negatives on both sides.

Mr. Steinberg suggested preceding paragraph 67 with a reason for the separation, the two different kinds of information needed and why. For example - having consolidation gives you things, but also masks things and disclosure gives you things and does not mask things. He would then end by saying that in order to make that distinction we will title one this and we will title one that. He explained that with a better introduction, people will have a better understanding of why we are using the terms consolidation and non-consolidation.

Mr. Allen explained he would not be opposed to suggestions or improvements to paragraph 67. Mr. Steinberg explained that he envisioned a paragraph preceding 67. Mr. Allen stated that he thought 67 tried to do that.

Mr. McCall stated that he liked Mr. Showalter's suggestion- consolidated entities and disclosure entities.

Mr. Smith explained that it is one of those things that we cannot come up with what is perfect. Therefore, consolidated entity and a disclosure entity really do spell out what we are going to do with them.

Mr. Allen asked if members would object to -- consolidated entities and disclosure entities.

Mr. Granof explained that as he indicated earlier, he prefers consolidated and non-consolidated entities.

Mr. McCall agreed with consolidated entities and disclosure entities.

Mr. Steinberg suggested he would go with whatever the majority wants, but suggested

he could put together some wording as he described above. Mr. Allen questioned the placement but the goal was to clarify or strengthen language in the proposal.

Mr. Reger explained he agreed with using one word (organizations or entity) and he does not like non-consolidated. I would go with consolidated something and disclosure something, but they ought to be the same word. Therefore, he agrees with the suggestion of consolidated entities and disclosure entities.

Mr. Allen agreed.

Mr. Dong noted he did not see deal breakers with either approach. However, he believes disclosure is a bit more descriptive and positive as opposed to saying what something is not.

Mr. Dacey stated his preference is consolidation entity and disclosure entity.

Mr. Smith explained as noted he before, he prefers consolidation entity and disclosure entity.

Mr. Showalter stated he now prefers consolidation entity and disclosure entity.

With a vote of 8-1, the Board agreed to the terms consolidation entity and disclosure entity.

Mr. Allen thanked Ms. Loughan and appreciated her efforts and closed the agenda topic for the day. It will resume on the second day of the meeting.

Conclusions:

- The Board unanimously agreed to retain the 'In the Budget' as the first inclusion principle and generally agreed with the staff proposed recommendations subject to the changes suggested in the meeting. Staff will provide the Board with revised wording for approval at the March meeting.
- The Board unanimously agreed to retain the 'Misleading to Exclude' principle and generally agreed with the staff proposed recommendations to the basis for conclusions.
- The Board modified and agreed with proposed wording for the footnote and basis for conclusion to address the judicial and legislative issue.
- With a vote of 8-1, the Board agreed to the terms consolidation entity and disclosure entity.

- **Risk Reporting Framework**

Ms. Payne explained that existing concepts statements support recognition and measurement decisions but do not address disclosures – particularly, disclosures about risk. Through collaboration among staff and Mr. Dacey, staff developed a risk disclosure framework.

Ms. Payne explained that the framework will be used by staff to ensure consistency across projects where there is risk. The framework will guide staff proposed disclosures regarding risk. Member input would be helpful before the framework is put to use but staff is not proposing to develop a formal concept statement.

Members briefly discussed application of the framework to transactions where the amount and timing are known and those events where amounts are not recognized. Some members wondered if the framework would be applied only in cases where amounts are not recognized. Ms. Payne explained that even where amounts are recognized there may be risk. She used the example of loan guarantees. Amounts are recognized when guarantees are issued and extensive disclosures are required. Comparing the required disclosures against the framework would test the consistency of the disclosures in that case against the general framework.

Mr. Allen noted that we already have some disclosures on risk. This is sort of merging a broader view as you have described it with the existing view on risk also.

Mr. Showalter noted that the framework focuses heavily on measurement uncertainty. This made it hard to apply and he suggested flipping A (qualitative and quantitative aspects) and B (uncertainty) under number two. This helps us focus on the question of what we are trying to report. The new A addresses the nature of the item you are trying to report on and because of that nature it creates measurement uncertainty. If you know what you are going to measure quantitatively or qualitatively, then you will not have the measurement uncertainty because it is coming out of what you are trying to measure the report on.

Some members thought an unpublished guide for staff would not warrant detailed editing.

Mr. Allen and Mr. Dacey noted that it could become part of the conceptual framework.

Mr. Allen asked why the framework begins with a reminder that the important disclosures ought to be in MD&A also. While it is a really important point, the placement seemed odd.

Ms. Payne agreed and recalled that she considered removing it altogether because the Board does not need that reminder in establishing disclosures. However, at times, in the risk assumed discussion she felt members worried that there is not presently something that would compel preparers to talk about the risks they are facing. MD&A does remind them to do that and calls on them to focus on the most important risks and be forward looking in their discussion. In the final framework, it could likely be omitted. In general, the risk assumed project is not the first time the Board has thought about risk and uncertainty. It is woven throughout the disclosures for credit reform accounting, pension accounting, social insurance and our long-term projections. The Board has a lot of material that deals with uncertainty and risk already. It's important to keep that in mind in the risk assumed project.

Mr. Showalter said, to that point, you may have argued as to why you want to leave it in. There is a balance between the various requirements as you are going through developing a new disclosure. Maybe it is not the first thing, but maybe it is the last thing.

Mr. Allen felt that we should avoid allowing someone to read one and conclude that as long as information is in MD&A, they do not also need disclosures. Disclosures really are a higher GAAP principle than MD&A is. We often get that confused because some of our most important information in federal financial reporting is actually in the MD&A.

Mr. Dacey noted its importance but thought it would be an introduction rather than a separate point. The framework focuses on disclosure in the notes. However, we have the MD&A and the MD&A may in fact include information that is not in the notes because it is more subjective.

Mr. Showalter noted it could be forward looking in MD&A.

Mr. Reger asked how a preparer might use this. Mr. Dacey did not envision preparers using it. Rather, it would be used by staff and the Board in developing standards.

Ms. Payne explained that FASB is working on a disclosure framework that has two components - one is a conceptual piece for the board to guide standard setting and the other is a guide for preparers. FASB is addressing the notion that disclosure is not really disclosure if the important information is buried in a mountain of information.

Mr. Dacey noted that FASB expects to issue their exposure draft in the first quarter of 2014. He thought their discussion had been interesting and noted one tentative point was information that is otherwise evident need not be repeated in disclosures.

Members briefly discussed the FASB effort and whether it would aid preparers in exercising judgment about disclosures so they can be more targeted—focusing on the most relevant information and omitting the less relevant.

Ms. Payne noted one trend in writing standards is to avoid checklists of disclosures. Rather, the objectives of the disclosures are provided and examples of information offered

Mr. Allen asked if it would be beneficial to have a project on disclosures? At GASB, he recalled they tried to take on "the burden of disclosures." In the end, GASB deleted one and a half and added seven or eight disclosures. However, in that process, what we found is the mentality of boilerplate and not applying any judgment. GASB found that by providing illustrated footnotes, many governments were able to almost cut in half the number of pages and still meet the objectives of the disclosures. He wondered if something like this is needed in the federal environment. With the checklist mentality, if there was anything we called for, it was there. There was hardly ever an application of materiality. While you could either argue that we made the burden harder, it did reduce the number of pages and some people at least were appreciative of that effort.

Mr. Steinberg agreed. He recalled the KPMG's state and local government practice guides had suggested formats, suggested footnotes. It made it so unbelievably easy for clients across the country to refer to those suggested footnotes to get the kinds of disclosure that the boards were looking for and not give you the kitchen sink. It is very effective.

Mr. Dacey thought it would be beneficial but preferred to wait to see FASB's proposal. FASB is field testing with some entities the preparer guidance for writing notes in a cohesive and abbreviated manner. It is always beneficial if you can shorten disclosure without losing needed information. But it is also a very qualitative exercise that takes a lot of thought and process. He suggested continuing to follow the FASB project.

Mr. Showalter noted the role of SEC comments. Preparers want to avoid receiving comments and this expands the disclosures.

Mr. Reger agreed, and added that does not really help the reader of the statements at all. He used TARP as an example. There was a six-page note the first year and that is now down to a paragraph. In some cases though, you have one person who really cares about a two-page item and it never gets reduced.

Mr. Reger asked about a government-wide initiative to reconsider risk. It started off as an expansion of the old credit reform reporting discussion. Each agency has come up with a risk committee and they are looking at various things and identifying risks. He thought this framework is the kind of thing that may be helpful to those people as they think broadly about things that just may not have been part of the discussion before because they did not fit the definition of accounting transaction. Such things may help mold our thinking in general about as things rise up, how do we start to identify those before. In some cases, they may never turn into accounting transactions, but they are worth recognition and acknowledgment. He noted he was not sure of its applicability currently, but thought it would probably become more applicable as time goes on.

Mr. Allen asked if that was an argument for some distribution rather than having this be an internal document.

Mr. Reger responded that it is an argument for some recognition that there is a level of expertise and some conclusions that ought to be shared with both the audit community and the compiler community for an early recognition system. One of the big challenges of preparing the government-wide report is not knowing everything that is going on and staying ahead of things happening. Waiting for agencies to send their stuff at the end of the year doesn't work. The past two years the process has expanded to the third and, in some cases, the second quarter to look at trying to gain a better understanding. The federal government is a pretty big organization and knowing what is developing is not always in an agency's best interest to share when they hope they can fix it before they generate statements. He thought this is another means of trying to do an analysis during the course of a year. He thought there was valuable information here and at the end of this the Board somehow finding a way to share this information with preparers and auditors is probably a good thing.

Mr. Showalter returned to the earlier question about trying to reduce the size of the disclosure a little bit in the federal reports. He asked if the Certificate of Excellence in Accountability Reporting program (run by Mr. Steinberg on behalf of the Association of Government Accountants) could help send the message to reduce disclosures.

Mr. Steinberg first noted the size of the reports is not in the financial statements. It is in the stuff around the financial statements. Secondly, in order to keep the process as easy as possible for the reviewers and also because it makes sense, we tell them that the financial statements have already been looked at to a far greater degree by the auditors who have far more insight than we do so that we really do not focus on the financial statements.

Mr. Steinberg noted that at Ms. Payne's request, reviewers are asked to look at the degree to which the agencies are effectively using the Internet to convey financial information.

Mr. Showalter recalled that the CEAR offers a series of awards in addition to the certificate. He wondered if concise reporting could be recognized. Mr. Steinberg noted that the remarks to agencies usually do point out well done – concise – disclosures.

Ms. Payne thanked the members for their comments via email and Mr. Dacey for his advice on earlier drafts. She indicated that the next time members see the framework will be in the context of applying it in a standards project.

Conclusions: The staff will apply the revised framework in developing proposals for the next meeting. An update on the FASB disclosure project will be provided after the exposure draft is issued.

- **Public-Private Partnerships**

Mr. Savini began this portion of the meeting by first briefly welcoming and introducing two accounting students from Virginia State University. Mr. Savini explained that as a member of the Virginia State Society of CPA's, he volunteers time to Project Shadow which takes fine young accounting students and places them with a mentor to assist them in career development. Afterwards, staff asked members to turn to TAB C, page 20.

Staff then briefly reviewed each of the four questions that were being asked and specifically noted that these questions related to the development of a P3 definition and related disclosure requirements for use in the federal space.

Q1 through Q3: P3 Definition - Addressing some member concerns

Although the Board settled this issue by agreeing at the October meeting that the definition should be broad primarily because of the difficulty in trying to develop a uniform federal definition, there were some concerns with that approach. To best

address those concerns, staff noted that he was asking members to (1) replace the middle paragraph using language from the alternate definition's middle paragraph and (2) agree to the inclusion of an introduction or a preamble to the definition that helps put the definition into a context that best suits the federal environment. In adopting an introduction or a preamble, staff would need member input in regards to what elements the Board would like to see included in the preamble.

Staff then asked members to turn to page 4 to review the first question. Staff noted that we are basically exchanging or swapping-out the middle paragraphs. This is because the original middle paragraph contained terms that some members found problematic such as referencing the Federal Acquisition Regulation (FAR). To help alleviate these concerns, staff proposed substituting the middle paragraph from the alternative definition. This change eliminates references to the FAR and emphasizes the sharing of risks and rewards which is the very essence of public-private partnerships. Also, substituting the middle paragraph from the alternative definition would provide some other features that federal P3s might contain. For example, federal P3s usually (1) cover significant portions of a project's economic life, (2) last more than five years, (3) rely on financing provided by the private partner, (4) convey or transfer real personal property, multi-sector skills, and/or expertise, and (5) involve the formation of a special purpose vehicle.

Staff reminded members that the modified definition will be accompanied by a preamble that will put even greater context around the P3 definition.

Q4: Adopting the TAB B Risk Disclosure Framework

Staff then reviewed the last question regarding P3-Centric disclosures noting that the TAB B risk disclosure framework would work very well for P3s. This is primarily due to the fact that the framework recognizes (1) that risks are unique to their underlying activities and (2) risks can be financial as well as non-financial. As a result, staff asked members if they would agree to the use of the framework in developing P3-Centric disclosures.

Mr. Reger began the discussion by referring to the second paragraph, specifically the financing arranged by the private partner. The preeminence of P3s to this point is that there is a private company who is putting up the capital, however, is it ever the other way around? Before the credit crunch, governments would see these arrangements. Illustrating this point, he referred to a Maryland economic development corporation that built hotels around the state in anticipation of casinos that did not come to fruition for 20 years. However as we see here, staff is being very specific to financial arrangements facilitated by the private partner. Additionally, Mr. Reger asked staff to provide an example how the partners come to share "multi-sector skill and expertise."

Addressing Mr. Reger's first question, Mr. Savini replied that although the current federal environment lends itself to these alternative financing schemes, there are P3s where the government does insert some seed money. However, in the vast majority of P3s we have seen, private financing is the key driver and that is primarily a result of

budget or funding issues. Staff noted that this middle paragraph is not intended to be all-inclusive and additional matters can be addressed in the preamble.

In reply to the second question concerning the sharing of “multi-sector skill and expertise,” staff noted that this is not new to the federal government. As an example, staff noted that during the 1990s, the federal government only had two naval propeller manufacturers, one on the East Coast and one on the West Coast. In order to dual-source capability and to create a market, what DoD often does and other agencies probably do as well, is to engage in mentoring programs. Specifically, military depots are actually partnering with private companies to teach the private partner how to, for example, weld military equipment. Take for example, Air Force One. The requirements for Air Force One not only revolve around redundancy, there are special techniques they use on that aircraft that go beyond the manufacturer’s specifications.

When the government possesses a certain expertise it may want to dual-source that capability and expand the market. These P3s are a way of teaching private companies how to do this so they can then bid on the jobs, increase overall efficiencies and help lower costs. Then you have another example where the expertise is flowing the other way. Some of you that were in military service might remember the old supply sergeant who not only had everything accounted for in the stock room, he also had inventory that was off-the-books. This is where his or her real value came from, having inventory that no one else had. Now, over time such practices have led to a build-up or stockpiling of inventory causing an increase in inventory holding costs. Staff pointed to Tinker Air Force Base where the air force has turned to companies like Boeing for their inventory logistics management systems. In such cases the government uses the private partner’s system to inventory, catalog, trace, ship out parts, etc. We are seeing a lot of this being done with the conveyance of these skills primarily at military depots. The risk in this type of P3 arrangement was noted by our AFSCME labor union task force representative--people want to know what the government is losing and/or what it might be gaining because government jobs are at risk. Illustrating this last point, staff brought up the Veteran’s Administration (VA) Cleveland Medical Center case. The Inspector General’s report provides examples of the many mistakes made by VA management that we can learn from. In that case there was a sharing of skills issue where the P3 agreement required the private contractor to establish a management position over a VA-staffed department, however, no one seemed to tell this to the department manager who literally had a rude awakening one day when the private manager showed up and introduced himself.

At this point Mr. Dacey noted that in October we talked about how a P3 typically involves some long-term asset, however we are now getting off into other language that is causing him some concern. For example, transferring skills can be accomplished by a training contract. Mr. Dacey further noted that there are some risks with any contract and that they are not limited to P3s. His concern with the language is that we are not differentiating between that risk contained in the training contract and the risk contained in the P3 arrangement. Admittedly, there might be similar risks in these types of skill-sharing arrangements that also exist in the more capital intensive P3s, however the lack of differentiating that risk is a concern.

Mr. Savini replied by noting that this concern can be dealt with in two ways. First, we can make this distinction or differentiation on the front-end in the preamble to the definition and second, we can handle it on the back-end by developing a list of disclosures specific to the P3 risks we believe are most appropriate for financial reporting. Staff emphasized the point that we should not spend resources trying to write a definition that other organizations have attempted to and ultimately opined that P3s are too complex and varied to develop a one-size-fits-all definition.

Mr. Allen stated his preference for calling this portion of the standard an Introduction and not a Preamble. In addition, the Chairman thought staff did a good job of explaining each of the areas because P3s may mean more to people who live in that world every day, but to the rest of us the concepts are harder to grasp. He noted his appreciation to staff for explaining these concepts.

Mr. Savini thanked the Chairman and acknowledged his preference and agreed to re-title this section as the Introduction.

Mr. Reger then noted that some of what is now included in the Introduction might end up in the body of the standard but it is too early to tell that now.

Mr. Allen raised a concern about the word legal in paragraph 6 and asked if staff was going to take that back to the task force for review. Turning to staff and Ms. Hamilton, the Chairman stated that FASAB has had previous discussions on standards as well as disclosures as it relates to legal being the basis for recognition. In practice, accounting standards are not guided by legality but by economic substance and this came up often in our social insurance discussions. In reality, one could argue that much of what we recognize in the financial statements has no legal basis for recognition per se but yet, we still recognize it because of economic substance.

Mr. Savini stated that in addition to the task force, staff would like to confer with Ms. Hamilton as well. For example, one of the P3 risks that we list that could lead to fiscal exposure is political pressures that could necessitate incurrence of a liability that would not otherwise be a legal responsibility. During our pre-briefs the Chairman wanted to know if we could drop the phrase 'legal responsibility' and use the word 'obligations.' However, because staff is not sure of all the ramifications such a change could cause, conferring with Ms. Hamilton and the task force who actually helped craft this language is advisable. Staff noted that the task force representatives who helped develop this language happen to be attorneys and procurement personnel so this might be such a nuanced term that if we switched it to obligations we could infer something that we do not intend to.

In direct relation to this point Mr. Dacey stated that the risk here is that there could be political pressure where the government basically, in vernacular of SFFAS 5, may have a government-acknowledged event that they would agree to take on a responsibility they did not otherwise have. Although he did not know if it is political pressure that would incur that liability, it is political pressure to accept responsibility for something an entity does not have a responsibility for. That is, the entity is basically agreeing to do

something they did not otherwise have a responsibility to do because of political pressure to deal with it. Take for example a natural disaster where the government acknowledges that it would provide benefits for some losses beyond what it had an obligation to pay.

Mr. Allen concurred stating that the federal government has sufficient history to support Mr. Dacey's point.

Mr. Dacey then went on to say that where an entity does not have the responsibility, but accepts that responsibility, although he did not know what the right words are, it might be better to stay away from terms like liability and legal and just talk about the risk. That is, at times there may be political pressure to accept responsibility for something that is not a current responsibility and that such events are basically outside any recognition criteria we might have or any treatment that prior experience might dictate.

At this point Mr. Allen turned to Mr. Granof and asked if there was wording arising from work done at the state or local government perspective because they can cut both ways. We have many local governments who have stepped in for conduit debt, where they have no legal liability to pay, but stepped in regardless. We also have experience where governments did not step in and entities went bankrupt. Mr. Dacey makes a valid point and the Chairman wondered if we can do this without getting involved in whether it is a legal obligation?

Mr. Granof replied that this is a difficult issue to deal with because the government can always assume responsibility.

Mr. Allen stated that this typifies political will where the government agrees to accept responsibility.

Mr. Granof went on to say that GASB has language with respect to special assessment debt where they say, for example, that the special assessment debt is your responsibility unless you are constitutionally prohibited from assuming the debt or you have given no indication that you will assume debt.

In reply, Mr. Dacey noted that part of this discussion gets into some of these long-term, capital intensive P3s where you may not have any legal obligation, but if there is non-performance on the other side, you may have to step in and do something. But it is almost more a non-performance issue that would trigger that recognition. If there were a significant risk of non-performance then you would probably want to disclose that. Mr. Dacey observed that such a risk may not be present in the beginning of a P3 arrangement and may only become evident much later into the project; e.g, three or four years after award/commencement.

Mr. Granof went on to add that this is especially true if there is evidence that you have stepped in on similar projects. The entity may not have any legal obligation, but you have given evidence one way or another that you would step in.

Summarizing, Mr. Allen stated that this is how GASB tried to address the issue. In other words, they tried to say you could do it this way unless you have had a history or evidence of doing it differently. It is a valid point to consider.

Mr. Savini replied that staff would work on this issue with the task force and Ms. Hamilton. Staff went on to state that paragraphs 1 through 7 were basically providing context and framing the corresponding definition that would follow. Once we get passed this point, staff intends showing members what the disclosures should look like following the new risk disclosure framework previously mentioned. However, staff noted that members should be prepared to see financial and non-financial disclosure items. We will have to tease some of this out carefully and staff asked members to keep an open mind that accounting is more than debits and credits. In staff's opinion, we have to look at the whole P3 arrangement or program and the suite of risks that are out there in order to help meet the Stewardship objective.

Turning to the Chairman, staff stated that members had addressed questions 1 and 2 and his sense was that the Board appeared to be in general agreement that we can proceed with the modified definition and incorporation of an introduction section. Noting nothing to the contrary, the Chairman asked staff to proceed to the 3rd question.

Mr. Savini introduced the 3rd question by asking members for their input concerning the content of what should be included in an introduction section. Staff briefly reviewed the proposed content in the following order: (1) explain the scope of P3s, (2) the general purpose of P3s, (3) their general nature, (4) the risks associated with P3s and (5) the importance of quantitative and qualitative information.

Staff emphasized the importance of quantitative and qualitative information by stating that entities often think of materiality in terms of the quantum, but it is rare where we talk about the qualitative or as some refer to it as the "The Washington Post smell test". Mr. Savini stated that he would like to emphasize in this project that materiality is not just a quantum measurement. For example, the VA is making a good argument now that it cannot meet the requirements of its disabled veterans, not solely on a mathematical basis, but explaining the qualitative reasons why it is struggling with its mission requirements.

Mr. Allen thought that this was a question more for those who prepare financial statements or who audit management assertions. That is, what would an auditor's comfort level be in terms of qualitative disclosures? To the extent that you identify these, how far does staff envision going with identifying those events that would be considered qualitatively? Qualitative really means an item is sensitive for some reason other than just having a pure financial impact. There are not really any definitions to help guide us here but we should ask what this means for a preparer or for an auditor.

Mr. Savini referred to the TARP disclosures prepared by Treasury noting that they did a good job not only showing the dollars involved, but also qualitatively explaining program details. In essence, the Treasury framed out why these dollars were invested and what

they were intended to cover or achieve. This is what staff is suggesting; qualitative information needs to follow the quantitative for proper context.

Mr. Allen noted that he would call that type of information 'context or background' to an event. His concern is that there are certain types of events or transactions that one would say are sensitive or qualitative without regard to the quantitative disclosure. Mr. Allen expressed reservation concerning this because it is easy to point out qualitative as well as quantitative, but the actual application of those concepts becomes much harder.

Mr. Showalter addressed the Chairman's concern by referring him to SEC Staff Accounting Bulletin 99 that helps public companies determine how to report qualitative material items. It is all about the non-financial aspects of materiality. Mr. Showalter noted that this was public company guidance addressing an SEC concern that companies were using a rule of thumb of five percent of net income as a way to gauge materiality. This SEC bulletin was issued to guide preparers and auditors on how to qualitatively make a materiality decision not based on a monetary basis. This guidance helps you figure out what is significant to the reader beyond just the numbers. He suggested that we may want to look at that guidance because it is applicable to both auditors and preparers.

At this point Mr. Dacey stated that the question on what is qualitatively material really depends on the nature of the item. For example, if you are talking about the nature of the P3 arrangement, it may in fact be qualitatively material. However, if you are talking about how well the contract is performing compared to what they expected, that is a qualitative judgment that may go beyond what needs to be covered in the standard. It is hard to put everything in one whole qualitative bucket. It depends upon the nature of that information.

Mr. Allen noted that staff will work with the community in developing the suggested disclosures and that members have been advised that both financial and non-financial disclosures will be presented. To that end, the SEC document that Mr. Showalter referred to might be helpful.

Mr. Showalter added that he believes it will be helpful and to note that this is what the SEC does in practice by taking these disclosures to the user. Naturally, if we are going to make a certain disclosure, we ought to understand what user we are speaking to. Staff may want to think about that as he and the task force consider disclosures.

Mr. Savini then referred to Attachment 1 where staff provides examples of qualitative and quantitative disclosures based on a review of best practices of different organizations. Staff noted that these are not recommendations and are based on identifying different user needs from the following sources: World Bank, UN, IMF, New York State Comptroller, and Congressional Appropriation language. Staff asked members to keep an open mind concerning the introduction of qualitative disclosures and then asked members to turn to page 23, and to consider Item 8, Rationale for project and for the PPP option and Item 11, Events of default and termination payments.

Mr. Dacey thought that Item 8 might be going beyond what auditors would be comfortable with. However, Item 11 or the events of default and termination payments is more factual and that is easier to audit. Whether that in fact was management's rationale for the project and PPP option is the harder question for an auditor to address.

Mr. Steinberg noted that this is done all the time inasmuch as auditors are supposed to look beyond the paper.

Mr. Dacey disagreed. That is, depending on how far you go in that spectrum, problems can arise if auditors need to support an assertion of management's intent.

At this point Mr. Savini asked Mr. Dacey what would impede an auditor from attesting to (1) management looking at a traditional procurement and doing a cost benefit analysis which they can presumably document to the auditor or (2) looking at a P3 justification and comparing management's justification to the entity's stated policy. All the auditor is saying is that they documented both of these and for example, management's reasons for selecting the P3 alternative. Couldn't an auditor attest to that?

Mr. Dacey replied by saying that this would depend on the situation.

Mr. Savini noted that the intent is not to ask the auditor to opine on whether or not it was the right choice but whether or not the rationale is sufficiently presented.

Mr. Dacey then asked what would happen if the auditor found that via a value for money analysis a P3 was found to be a better option than the one selected by management. While deferring to other auditors or colleagues on the Board, Mr. Dacey indicated that such a situation is a little more challenging to audit.

Mr. Steinberg then asked if in making that conclusion would not an auditor look at the thoroughness of the analysis? That is, if the analysis is clearly inadequate and lacking meaningful substance, then one could say that it is not an analysis. However, if they have gone through all of the steps that need to be done, it stands to reason that this can be attested to and that auditors probably do this quite often.

Responding to Mr. Steinberg's question Mr. Smith shared his thoughts by noting that the item which is being audited is the process wherein someone prepares an analysis, looks at it and then gets to a conclusion. This is different than a person disclosing how they got to say, the value of an asset and auditing that process. The difference causing concern here is how a person discloses the manner in which they got to a certain place. In the statements where an auditor can look at some of the assumptions and say that they are soft or that the assumptions might be a little bit misleading leading the auditor to the conclusion that management reached the decision it wanted. For example, if management said I looked at this contract and I went with a P3 arrangement because this was giving me the best savings, an auditor would have to go look at some of those assumptions and may not be comfortable with management's conclusion. That is, an auditor might look and say it would be the best if these (other) assumptions occurred in

order to support management's conclusion. However, if these assumptions are not feasible and/or may not occur, then management's conclusion is not the best option.

In seeking clarification, Mr. Reger asked if the scenario depicted by Mr. Smith where an auditor looks at management's conclusion is due to the fact that management has included the value of the asset in the financial statements. He stated that he was trying to figure out in a non-performance audit environment where you are just auditing the statements, how this discussion about audit attestation even occurs. Mr. Reger wondered if the discussion arises because management chose to record the value of the assets and then the auditor reviews why management chose to disclose what it did and how it determined the related value.

Mr. Smith responded by stating that the problem arises if you were trying to go through and audit some type of qualitative discussion concerning whether this was the best value.

Mr. Showalter noted that we do not want to put the auditor in a position of attesting to management's judgment.

Mr. Dacey stated that if it is the desire for P3s to disclose for example, information that suggests management's assessment of its value for money analysis or why did they choose a cost plus contract versus one that is fixed price, involving a whole set of managerial decisions, he would question even beyond any audit ability issues as to whether it is even appropriate to put these matters in the financial statements. Obviously, if they did not make a good choice, let's say they even made a very bad choice, are financial statements the right forum for that discussion?

Mr. Reger added that even if an entity entered into a really bad decision completely determined by a political whim, the reason is documented along with the accounting transactions associated with that decision. Apart from a compliance audit, Mr. Reger was not sure why this would be an issue for financial statement audits.

In reply to Mr. Reger's observation, Mr. Smith noted that no one is going to disclose that they made a bad decision for political reasons. Instead, assumptions that justify the decision will be documented and this is precisely where you are going to put the auditor in a difficult situation. Now, this situation could be eliminated or mitigated if this qualitative information was included in management's discussion and analysis or someplace where auditors did not have to opine. If so, getting back to the accounting is something the auditors could make sure is correct.

Mr. Steinberg ventured to say that when management discloses assumptions that are completely inaccurate or misleading, an auditor would take exception. However, if managements' assumptions are fairly reasonable, if it is within the realm of responsibility, then auditors should not be substituting their own judgment for management's as to the direction management wants to go.

In reply to Mr. Steinberg, Mr. Smith offered an example of a retail operation with employees that used an outdated inventory distribution system. In this example management says that a new IT vendor is going to be able to purchase goods at a 15 percent discount in exchange for savings that will accrue from a system that it will install that promises to hold the payroll cost down and by efficiencies gained by the new inventory distribution technology. Management asserts that the savings amount to the huge advantage of taking this P3 transaction compared to what the cost was if they were continuing to run the old technology. Now, this is the assumption. It is going to be tough for auditors to go through and attest whether those assumptions are correct or not.

Mr. Dacey stated that the other part of Mr. Smith's example is that we do not know what this P3 arrangement is conveying about risk; is the P3 really not that risky?

Directing his question to staff, Mr. Reger stated that one of his fundamental questions in reading all of the material, specific to the risk we talked about earlier, is how do we disclose an item that winds up in a P3 environment? When we initially started this project, he thought we were going to see P3s separately identified on the balance sheets; something he believes is wrong because P3s are going to get recorded wherever they are and whatever transactions relate to them. He sought clarification that the guidance being discussed is on what and how to disclose information.

Mr. Savini answered in the affirmative that we are only addressing disclosures at present. He added that what he found strange in the prior discussion was given his 16 years of auditing experience, if there is a requirement in a standard that requires a contractor to disclose and an auditor to confirm management's rationale, it is a simple yes or no question. No one is asking the auditors to do anything more than making sure the rationale is there. Whether it is good or bad, that is a value judgment and not within the scope of a financial statement audit. Auditing rationale is more of a performance or compliance audit issue. We should not conflate those things with financial statement audits. If one steps back for a minute we can see that we are not asking auditors to second guess management. That is not your role as an auditor to impose your judgment on management where the auditor steps into management's shoes. Auditors should second-guess management in a way, but not to the point where they take on management's roles or responsibilities. The financial statements are management's responsibility and its assertions, not the financial statement auditors. Staff believes what Mr. Steinberg has said is very important. All we are saying is that the rationale would be disclosed because there is risk in selecting a P3 over more traditional procurement methods. In these new alternative financing schemes where the consultants and the private contractors are the experts, the government is not always on equal footing. The answer here from other organizations that have looked at this closely is that we need to know what the rationale was to select this alternative financing vehicle.

Mr. Showalter asked if the intent is to subject that rationale to audit?

Although staff replied that because these are disclosures they are in fact subject to audit, it was emphasized that disclosure of rationale does not imply that the financial

statement auditor should challenge management or impose their judgment over management's.

Mr. Smith made the point that the risk associated with the P3 or their contingent liability associated with their arrangement is something he understood from an audit perspective. If management decides to over pay for a building, we do not have anywhere in the literature now that would go through and say that this was a good or bad decision because of what management decided to pay for this building. However, if the building is part of a P3 arrangement, we are over stepping the financial statements. Now we have to go and attest to almost the decision-making process for the P3 whereas if management would just go into an operating lease and over pay for per square foot, no one goes and evaluates that arrangement even if you are paying \$50 a square foot when you could have gotten space that was at \$30. He noted that he could understand if the public wants this information but maybe it does not belong in the financial statements.

Mr. Savini stated that Mr. Smith made a good point that such information may not be suitable for financial statement purposes. However, staff stated that whatever disclosures are recommended to the Board, it will be the Board's decision whether such disclosures belong in the financial statements. Mr. Savini expressed that his fundamental problem is that we are only asking for the rationale to be disclosed and that the financial statement auditor should not necessarily make a value judgment. It is a financial statement audit. Staff would concede this point if we were discussing a performance audit or some type of compliance audit, but not a financial statement audit. Staff asked how this differs from GASB requirements governing the reporting requirements over cash or investments. Preparers are supposed to indicate what the risks are so how do auditors audit those risk disclosures?

Mr. Dacey stated that auditors do not necessarily opine on the performance audit but they point out issues that do not necessarily come out to a bottom line. He has no problem concerning the risk side, but he does not see the rationale for disclosing the decision entering into the financial risks. It may be an operational risk that they made a poor choice and if you have financial risk, you will report them and disclose them as appropriate.

Mr. Savini replied that P3 financial risk warrants a different consideration because they are unlike the financial risk in traditional procurements where typically an agency cannot be financially committed for more than five years and where they typically have termination payment schedules that put a cap on their liability. However, this is generally not the case with P3s as some can be between 25 to 99 year leases.

In reply, Mr. Dacey stated that although he did not disagree with the foregoing, he did not know how disclosing rationale relates to risk. His point is that an entity needs to disclose the risk and recognize an appropriate amount.

Mr. Savini then replied that all staff would need to do to satisfy Mr. Dacey's concern is to just re-title this disclosure as a quantitative disclosure and move it from its qualitative column to the quantitative column.

Mr. Steinberg stated that he did not think it is the financial auditor's role to say whether the people made the right choice or the wrong choice, instead, it is the financial auditor's role to make sure that there are disclosures of what the choices are based on. If we are trying to be responsive to what people care about most in these P3 arrangements, it seems that whenever you read newspaper reports about P3s, what the reports will tend to talk about is why a government chose this approach rather than another. Why couldn't an auditor just look at the information to see that it is there? After all, it is information that an auditor would most certainly see during the conduct of their examination. Staff is suggesting that the disclosures should indicate what the alternatives were that entities chose from. There should not be a problem if the auditor says yes, those are the things they made the choice on without saying they made the right choice or not.

Mr. Dacey noted that he had a relevancy concern to which Mr. Steinberg responded by saying he thought such information was very relevant especially in light of what most newspaper articles are reporting.

Mr. Dacey then asked if we buy a building, should we then say did you consider a P3 as an option or leasing as an option. He noted that it seemed we are going down a road that is singling P3s out in a manner that is different from other management decisions.

Mr. Steinberg made the point that P3s tend to be a little bit more risky and thus the increased attention. As such, asking why an entity decided to enter into a more risky arrangement seems most appropriate.

Mr. Dacey stated if so, we can convey the risk.

Mr. Reger stated that this is not the auditor's discussion.

Mr. Allen made the point that staff did not intend for members to deliberate this matter at this time, rather, staff advised that members will see some suggested disclosures at the table and then we will carefully look at them. This has been a good discussion for staff to be careful in the rationale used to select disclosures. For example, how would we address disclosures on major milestones?

Mr. Savini acknowledged the Chairman's advice and made one final point by echoing what the citizen representative said to members at the October 2013 meeting. Simply stated, Mr. Checco said that disclosures should not be predicated solely upon what the auditor believes he or she can attest to. Disclosures are management's representation and represent their obligation to put this information in proper context. If we are not careful we can undermine management's ability to provide the rationale for what they did on behalf of the taxpayer. Staff believes that this is a very important stewardship concept.

Mr. Allen stated that we may have some discussion of saying for certain other reasons, such items are not a disclosure but may be supplemental information. For example, trend information is not given in a disclosure but somewhere else such as MD&A where the auditor is not giving an opinion. As such, the auditor is reading to make sure it is not factually misleading. There are several ways we can communicate this information that we can come back to. We need to have a discussion concerning where does this all fit. At this time the Chairman recognized Mr. McCall for the last comment on this matter.

Mr. McCall informed the Board concerning P3 financial statements he was currently reviewing at his university. He noted that the financials disclosed financial arrangements and leasing arrangements but not why they made the choice to enter into the P3.

Mr. Dong asked staff to turn to page 16 and specifically show where staff moved the elements of the second paragraph into the preamble. Staff then satisfactorily reviewed and illustrated the changes by pointing to the 3rd paragraph in the preamble.

Staff then proceeded to Question 4 on page 20 and asked the Board if they agreed with linking our P3 centric disclosures to the risk disclosure framework presented at TAB B.

Mr. Reger asked staff to explain how the framework would be used in developing disclosures.

Mr. Savini stated that he liked the fact that the framework provides staff with a sufficient amount of structure, but yet latitude in two areas with the first being that we are allowed to explore on behalf of the Board the non-financial or more the performance type issues that might arise and second, the fact that we have context to help guide us. Staff explained that the rubric in TAB B will help the task force go through and whittle away all those things that clearly fall outside the framework. Therefore, when staff comes back to the Board we can honestly say this is what we believe fits in the framework.

Mr. Reger noted that it seemed pretty harmless for the Board to approve the request and then Mr. Granof noted that the framework is fairly general.

Sensing what could be some apprehension, Mr. Savini stated that the Board has the ability to change course later and that they will retain ultimate control over what we do. Mr. Savini noted that regardless of his passion for the project, he respected the Board's authority, collective wisdom, and collegial nature.

Mr. Showalter noted that many of the risks are actually in the characteristics themselves. His advice was to think about disclosures in connection with the characteristics because that is really where the risks are. He hoped that his advice would be a major avenue when thinking about disclosures.

Mr. Savini agreed that making that connection is a good place to start.

Building upon Mr. Showalter's advice, Mr. Dacey then added that because we still have the structure with us, that we should start off with what a P3 is and go down to the risk

characteristics and then go down to decide if there are specific risks the Board wants to disclose. He admitted that he is still struggling with whether there is a quicker way to get to the risks we are trying to get at and the nature of the risks that are inherent in these P3 transactions. These risks also may be inherent in similar transactions that are not necessarily P3s.

Mr. Dacey noted that Mr. Showalter saw in the characteristics some of those risks. One example would be the special purpose vehicle (SPV). From a conceptual standpoint, there may be risks associated with SPVs. A benefit of the framework is that we may want to have disclosures about SPV'S that are not related to a P3. . However, trying to deal with those issues, what are the risks the Board is trying to get at, the nature of those risks? It might make it shorter to say if we have these kinds of contracts with these kinds of risks, here is what we would disclose.

Mr. Savini replied that staff found that many of those disclosures identified as best practices regarding user information needs could fall under our stewardship objective. Although it is true that some of these are not typically a financial type disclosure, we should keep in mind that P3s are something new. That is why staff asks the Board to keep an open mind.

Mr. McCall provided additional information concerning the P3 he was reviewing at his university in the context of some of the criteria presented at TAB C and inquired about two concerns he had. He first addressed the criterion concerning P3 agreements covering a significant portion of the economic life of the project. In short, Mr. McCall asks how can anyone assess risk today for an unknown set of conditions or circumstances that in his case, won't be known for 95 years. The university project provided a land lease of 95 years so that the P3 can build structures on the land. However, no one knows what is going to happen in the next 95 years or if the structures will even last that long; they will probably last 30 or 40 years. Moreover, the agreement says that at the end of 95 years whatever is on that piece of land comes back to the university. What is the risk in all of that? You have a piece of property you are building something on and eventually, you will get that back. If it is a slum 95 years from now, the agreement says you will clear the property off and return it to us as it was in its original state that it was given to you. Part of his concern of trying to say what is the risk is what is going to happen 95 years from now. What is going to be on that property 95 years from now, does anyone know?

Mr. McCall's second concern was financing arrangements by the private partner. In this case, the direct support organization, which is part of the university, loaned about half of the money needed to build this structure at a 1.0% interest rate for 30 years and a 1.29% interest rate for the first eight. The loan does not have to be paid back until the end of 30 years. Although this sounds like a very low interest rate at 1.0%, you should look back at what they earn as a foundation on this money. In the last two or three years, they have been earning between say 10.0% and 14.0% on their investments. You are loaning at one percent where you could have been earning 10 to 14 percent. Mr. McCall stated that as he begins to understand the issues, he is not sure if he identified all the risks that staff relates to partly because the risk disclosure framework

discusses gains. There may be some gains that come out of this university P3 that overshadow the risk that appears to be there now. Gains seem to throw another complexity into the analysis. And to complicate it further, the entity can buy the whole thing in seven years if they want to at the fair market value. One final point to think about is that the other partners in this financing arrangement are paid back first whereas the university is paid back last.

Mr. Savini replied that inherent risk exists because no one knows what condition the asset/land will be returned. Can you guarantee it will come back at the acceptable condition you are looking for? The mere fact that you do not know for sure means that you have risk. Another risk would be if the private partner that the university selected happens to be of dubious character or has questionable financial solvency and decide to default. What is the university going to have to do then? Mr. Savini noted that there are a lot of complexities in P3 deals. That is why staff believes transparency of the qualitative information is important.

Mr. McCall said that he can understand everything in the notes to the financial statements but not whether this was a good deal or a bad deal for the university. That is, what are the risks and what are the gains? That is a little harder to describe, but that is part of the job he has; focusing more in the performance area as opposed to the financials.

Mr. Reger stated that there are many complex questions around P3s and figuring out what we want to say about them other than the fact that they may exist is a challenge that staff must confront with the task force. For example, how do we think things through in terms of what we want to disclose. Furthermore, there are real issues over the long-term nature of some of these arrangements that you could have changes in circumstances that change what you said about the P3 in year X, and then be a 180 degrees difference in year Y. To illustrate this point, Mr. Reger reminded members how the pension obligations change and how they go from one extreme to the other and back again. Beyond disclosing that P3s exist, the difficulty is in disclosing those things a reader desires in enough detail but in a manner where we are not drawing all of the conclusions because any conclusion we draw at any point in the time spectrum is suspect at best. Disclosures can discuss the kinds of P3s an entity has and what they are, but as you get to what the disclosures should be around them, you might want to move to a preliminary discussion because what would you say at any one year about that transaction that you would feel comfortable about a year later? Mr. Reger summarized by saying that he was suggesting that members have a discussion about what they would say before deciding on specific disclosures should exist because there could be things that are identified that we would not know what to say.

From Mr. McCall's transaction, Mr. Allen found that even more critical than the risk is the understanding of what did the university really invest in and why? This is much more than explaining the loan activity. For example, there is imputed lost interest. There is an opportunity cost that should be used in valuing what the university put into the P3 as consideration.

Mr. Granof stated that even in light of his skepticism over certain disclosures, he believed that all of what Mr. McCall suggested should be disclosed. However, what if there are multiple P3s? How much disclosure can you have of each one of these especially if they have unique characteristics? That is what we have to deal with at some point.

Mr. Savini concurred with Mr. Granof's point and noted that staff and the task force have said we would look to an aggregated type of disclosure. We do not want disclosures on individual P3s. Most of the best practices we are seeing relate specifically to a P3 arrangement and we would need to tailor such disclosures accordingly.

Mr. Granof stated that aggregation seems appropriate if the arrangements are all the same because groups can obviously be combined. However, to the extent that you have many that are unique, we can envision a burdensome effort.

Concurring with Mr. Granof, Mr. Allen added that it would be difficult to group unique P3s.

Mr. Savini made the point that if they are that unique, they would probably be immaterial.

Mr. Granof replied that materiality is another issue and question to address.

Mr. McCall added one last interesting fact that the reason the university went into this P3 was because they could not get conventional financing to do the project.

Mr. Allen indicated that this last point was another risk factor that some members thought should be disclosed.

Mr. Allen wished Mr. McCall good luck on his assignment and noting no further questions, thanked staff and concluded this portion of the meeting.

- **Reporting Model**

Overview

At this stage of the reporting model project, the Board sought to better understand the information needs of users and identify possible voids in meeting those needs. Because the financial reporting objectives provide a framework for discussing users' needs, the Board began revisiting the four objectives of federal financial reporting – Budgetary Integrity, Operating Performance, Stewardship, and Systems and Control. Today's discussion focused on the Stewardship objective which concerns providing information to assist users in assessing the impact on the country of the government's operations and investments and how the government's and the nation's financial condition has changed and may change in the future.

The Board noted that the objective involves financial reporting versus financial statements and that many sources other than financial statements contribute to achieving the objective. For instance, information about the national economy may be found in the President's Budget and Management's Discussion and Analysis (MD&A) provides performance information. The Board believed that any discussion of the reporting model should include an explanation of the Board's role and what it has accomplished with respect to the objective. The Board also discussed the topic of tax expenditures and noted that although the topic is complex and information is being provided by other sources, the reporting model should include a description of tax expenditures and a separate project should be initiated to study the topic.

In addition, the Board acknowledged that users seek cost and other information arrayed in different ways or aggregated at different levels, such as government-wide, agency, or program. Therefore, the question is how the Board might play a role in helping users obtain the information that would assist them in their assessments. For the March 2014 meeting, the Board will discuss the Operating Performance objective which concerns assisting users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities. To facilitate the discussion, FASAB staff will provide pictorial presentations to illustrate how the existing model contributes to this objective. Details of the discussion follow.

Discussion

Mr. Simms noted that the objective of the meeting was to discuss what information users need versus what information is required of the existing model; whether there are needs that are not addressed (voids); and whether the identified voids should be addressed by the ideal model. Mr. Simms noted that the four objectives of financial reporting (Budgetary Integrity, Operating Performance, Stewardship, and Systems and Control) provide a framework for discussing users' needs. Because each objective is broad and would require substantial time to discuss collectively, this meeting focuses on the Stewardship objective.

Mr. Allen noted that the reporting model project is in the conceptual stage and the Board is not only determining the ideal model, but reevaluating the reporting objectives. Also, the Board could discuss whether the objective could be best addressed at the agency level or the government-wide level. For example, to answer whether financial position is deteriorating or improving may be best measured and addressed at the government-wide level rather than the agency level. It is difficult to get a sense of the financial position unless one considers the entity as a whole. As an analogy, state and local governments have funds and they assign each fund a position. Thus, the fund only has the position that has been assigned to it by the government-wide entity.

Mr. Allen also noted that the Board should evaluate where the objectives are being achieved. For instance, whether the government's financial position improved or deteriorated over the period, is addressed in a summary table in MD&A rather than the financial statements. In addition, Mr. Allen recalled an approach that GASB used when

they developed the reporting model for state and local governments. He noted that GASB asked each Board member to discuss what they believe should be the reporting model, given the conceptual framework that they developed for state and local governments.

Mr. Showalter noted that the Stewardship objective seems to require a significant amount of forward-looking information. He was interested in better understanding the objective's background.

Mr. Steinberg provided background information on the reporting objectives. He noted that a task force was organized to develop the objectives. The task force consisted of individuals from the Department of the Treasury (Treasury), Office of Management and Budget's (OMB), budget and economic concepts branches, and financial management leaders. They developed the Operating Performance objective which involves the cost of programs and the changes in cost, and the efficiency of managing assets and liabilities. Also, the task force believed there should be information on program performance. Additionally, the task force members from the budget function noted that budgetary information needed improvement and they wanted the information to be subjected to an audit. This led to the development of the Budgetary Integrity objective which requires information on the status, sources, and uses of budgetary resources and whether the information is consistent with accounting information. The Stewardship objective came about because individuals believed that the country is larger than the government and readers should understand that the government is taking care of those resources that may not be presented on the balance sheet, e.g. contributing to the country's well-being. However, at that time, the task force was not sure how to address this area. In addition, the task force added the Systems and Control objective to be explicit about the overall goal of the Chief Financial Officers, which was to provide better financial information. The Systems and Control objective concerns the adequacy of systems and controls to provide reliable information and safeguard assets.

Mr. Steinberg cautioned that the Stewardship objective mainly concerns the government-wide level and the Board has concluded that the reporting model project should be focused on the component level, providing better information to management. Also, a few years ago, the Board revisited the reporting objectives and determined that they remained valid. In addition, the Board's research has shown that individuals are interested in information on budget, cost, and performance, which is the focus of the Operating Performance objective rather than the Stewardship objective. Accordingly, Operating Performance should be the focus of the project.

Mr. Allen noted that the Board decided that the project would focus on developing an ideal model or a conceptual statement that would serve as a guide to the Board. Mr. Steinberg noted that the OMB establishes form and content requirements and can decide whether to adopt the concept in its form and content guidance.

Mr. Allen noted that reporting on whether financial position improved or deteriorated is one of the core issues that a financial statement should address about any organization. However, there is a challenge in providing this information and currently, one has to

look in several places of a financial report to determine the government's financial position.

Mr. Simms noted that, during the Board's October 2013 meeting, members noted that they would like to better understand what information users need or what questions users ask that might be addressed in an ideal model. Users ask questions that pertain to the government as whole and to component entities; therefore, staff decided to start the user needs discussion with the Stewardship objective because it encompasses users' questions about both the government-wide and component entity perspectives. Also, staff presented the results of the Board's earlier project on revisiting the reporting objectives.

Members discussed their views with respect to the Stewardship objective (including its sub-objectives) and views on the overall project.

- Mr. Reger noted that he was not sure how presenting information on whether government operations have contributed to the nation's current and future well-being (Sub-objective C) would be accomplished and whether it should be accomplished in the consolidated financial report for the U.S. government (CFR). It is not a current focus of the CFR, but from a historical perspective, information on the nation's current and future well-being seems to be a part of an OMB budget report. Also, Mr. Reger expressed concern about requiring information on the economics of the nation in the CFR. He noted that meeting the sub-objective requires the creation of another reporting model, outside of the current CFR.
- Mr. Dacey stated that the objectives concern financial reporting, not necessarily financial statements. It is important to consider what part of the objective that might be relevant to financial statements because it was not the intent that financial statements would fully satisfy the broad objective. The International Public Sector Accounting Standards Board (IPSASB) and other standards-setters have explained that financial statements are a subset of general purpose financial reporting and there may be information that is a part of financial reporting that is not related to the financial statements. Also, at times, the financial reports have included information about how policies have impacted the nation, such as reporting on the Recovery Act and there is reporting in budget documents that provide information that helps achieve the objective. In addition, Mr. Dacey expressed some concern that performance is a separate objective of financial reporting. It appears that performance is discussed in the Operating Performance and the Stewardship objectives (financial reporting should assist users in assessing the impact on the country of the government's operations and investments; and determine how the government's operations have contributed to the nation's current and future well-being).
- Mr. Smith believed that the reporting model should present a government's priorities and changes in priorities and the programs that are intended to accomplish them. Also, the model should show much of the spending involves

current costs versus how much is spent toward future benefits or investments in the future.

- Mr. Showalter noted that the Board should develop a picture of the various information sources that users can access. The Board has not articulated the purposes of government-wide versus agency reporting. Often Board members will ask whether a disclosure is a government-wide or an agency disclosure. So, the Board should first discuss the what – government-wide or agency, and then discuss how information can be provided - financial statements, MD&A, OMB reports, and detailed transactions. Although some areas will not be within the Board's purview, a picture is needed to show the information that is being presented to users. Mr. Showalter approached the reporting objectives as involving three inputs and a result. Budgetary Integrity, Operating Performance, and Systems and Control are inputs that lead to Stewardship, the result. Stewardship is what distinguishes the federal government from other entities.
- Mr. Granof noted the project scope should be narrowed. The Board should be realistic and focus on financial reporting and related tangential items. It would be difficult for the Board to define how to report on matters such as whether government operations contributed to the nation's well-being. Mr. Granof noted that he would like to see more information on programs but, realistically, that may not happen.
- Mr. McCall noted that he would like to see information on financial condition rather than financial position. Also, Stewardship should be a part of the management's discussion and analysis, while information on Budgetary Integrity seems to be an area that OMB would provide. Cost accounting and the cost of programs is important information but may be difficult for the Board to accomplish. A decision would need to be made, upfront, regarding what types of costs would need to be identified and captured in the accounting system. However, we do not always think about this matter on the front-end. Also, every agency should report on performance (mission, objectives, key performance measures, challenges, and accomplishments) but the financial report should reference this information, along with the budgetary information. The CFR could have a roll-up of a budget comparison statement, 10 or 15 government-wide performance measures, and links to the various agencies.
- Mr. Steinberg noted that agencies are providing information regarding whether government operations contributed to the nation's well-being. They present information on Stewardship Investments which includes the costs related to research and development, human capital, and non-federal physical property. Mr. Steinberg also noted that the Stewardship objective remains valid today. However, he noted that today's discussion of stewardship should be intended to solely raise some possibilities, confirm that they are not relevant at this time to a component's operating statement and move on. The desire to fold budget, cost, and performance information into the reporting model underscores that the

reporting model project is concerned with the component statements in contrast with the government-wide statements, and also that the need for updating the model is with the operating statement, not the balance sheet. In addition, Mr. Steinberg noted that the staff paper discusses information needs not being addressed by generally accepted accounting principles (GAAP) for the government-wide reporting model; however, at this time, the greatest need remains at the agency reporting model. Accordingly, the project should be focused on the agency reporting model.

- Ms. Kearney noted that she believes we are meeting the first two sub-objectives with the long-term projections, presentation of financial position, and other information. Although information is being presented to help meet the objective, we may not be able to get a full, accurate picture of how we impacted the economy. Also, there are sources other than financial statements that present aspects of sub-objective C; therefore, we do not necessarily need to present everything in the financial report. As an alternative, we could possibly look at referencing or pointing readers to other data sources in the report for their information if they are interested.
- Mr. Allen noted that he also believes we provide information that contributes to the objective, such as long-term projections. However, the information needs to be better communicated so that it is understandable. Mr. Allen noted that the Board has to decide what ought to be reported and how. The statement of long-term projections contributes to sub-objective B, whether future budgetary resource are likely to be sufficient to sustain public service and meet obligations as they come due. However, we do not communicate that information very well because, for example, amounts are presented as a percentage of Gross Domestic Product (GDP) but the percentages may not change from one year to the next. Also, the Stewardship sub-objectives require information on whether financial position improved or deteriorated and our concepts statement defines financial position as the difference between assets and liabilities. However, there are quite a few assets as well as obligations that are not presented on the balance sheet. Heritage assets and other items are presented elsewhere. In addition, while social insurance may not be called a liability, it is critical that the change in the commitment during the reporting period be captured in the operating statement. Because of these issues, we cannot define our balance sheet as being the statement that shows financial position.

Messrs. Showalter and Granof noted the need to define the project. Mr. Showalter suggested developing a picture of what the Board is trying to communicate at certain levels. Some questions might be addressed at the government-wide or agency levels or a mezzanine level might need to be created. Mr. Granof noted that the project needs to be narrowly defined. Also, Mr. Reger expressed that it is important for the Board to decide what it would like to express and be clear on the outcome because there are data initiatives in process.

Members discussed what level of detail or granularity is needed. With respect to providing information on the cost of programs, Mr. Reger noted that cost is accumulated in a hierarchical structure built around the agency and its sub-components, but there is a lack of consistency among programs. He noted that collecting budgetary data by Treasury Accounting Symbol (TAS) could provide a significant improvement in the amount of detailed information. A TAS is a unit of accountability and multiple programs could feed into one TAS. Also, multiple TASs could feed into a program. While there are about 150 entities combined for the CFR, there are somewhere between 8000 and 10,000 active TASs. In addition, presenting simply the cost of the largest programs would not provide meaningful information. Those who are aware of the federal government's activities would know what those programs are anyway.

Mr. Dacey asked, rhetorically, how much granularity on spending is needed? He noted that 81 percent is in five components and the remaining 19 percent involves 145 entities. Also, two agencies, Health and Human Services and Social Security, account for 45 percent.

Mr. Steinberg noted that different individuals have different interests. A user that is interested in exporting materials may want to know what is the total dollar spent on export administration and export support. However, the federal government does not spend very much on export support, export administration and so forth.

Mr. Reger noted that the government collects data by object and revenue class and agencies have defined their programs. However, there is not a way of identifying items across organizational structures because of the variety of systems used. If one wants to know the cost of say, the war in Afghanistan, you would need to know that those are costs you want to track before you start the initiative. Mr. Steinberg noted that agencies have defined over a thousand programs but this number of programs should not be presented in the financial statements. Instead, agencies could report on what they consider to be the most important programs. However, because of the lack of cost accounting systems, that would not occur in the near term.

Ms. Payne noted that staff planned to discuss the Operating Performance objective at the next meeting and, given the Board's discussions regarding cost information and how it should be arrayed, staff will plan to discuss both levels so that members could identify whether there is a role for a mezzanine and have more of a pictorial rather than narrative approach to the reporting model. Also, staff identified the following voids in achieving the Stewardship objective: tax expenditures, risk assumed; and reporting on how the government impacts the nation (sub-objective C). Based on the Board's strategic planning efforts, it appears that members would like to address tax expenditures and the Board is currently addressing risk assumed. However, it appears that members do not want to invest the resources it would take to do key performance indicators for a national government.

With respect to tax expenditures, members provided their views as follows:

- Mr. Steinberg would not address tax expenditures in the reporting model project but consider it for a future project. He noted that tax expenditures are very complex. The desire for the information in the reporting model has not yet been strongly vocalized and an attempt to include it would further delay the completion of the reporting model project. He also noted that tax expenditures are not being addressed by GAAP reporting. However, if and when they are reported, it would be to meet the operating performance objective even more than the Stewardship objective. Tax expenditures are a means to provide services or reduce revenue demands and thus, the information is needed in order that readers can evaluate the costs of the services.
- Mr. McCall noted that it should be a separate project, but there should be some description of it in the reporting model in general terms. If we include the description in the reporting model, we may see that as we start to look at it as a separate project, it really is not a project.
- Mr. Granof noted he would not address tax expenditures in the reporting model project but consider it for a future project. He noted that he would love to see a viable standard on tax expenditures, but it would be extraordinarily difficult to develop a meaningful definition. If the Board is willing to accept extant definitions, which are controversial, then there is hope for a project.
- Mr. Showalter noted that the project should be a separate project so that the Board can study it.
- Mr. Smith noted that the project should not be in the reporting model, but at least acknowledge it in the reporting model so that we say it is there. Also, there should be a project. He did not think that we should say something is so complicated or we do not think we can get our arms around it.
- Mr. Dacey noted that he would be in favor of providing some disclosure about the nature of tax expenditures in reports. He agreed that tax expenditures should not be a part of the reporting model project but expressed serious concerns about presenting the information in the financial statements for a variety of reasons, including the following:
 - The information might not be very auditable because of the way the information is derived, which is not from detail. About half of the numbers or the amounts that are in the estimate lack supporting detail. The information is several years old by the time it is published.
 - There may be differences of opinion regarding how to interpret the numbers. They do not represent an amount that if you eliminated that exemption, would be the effect on tax revenues.
- Ms. Kearney noted that if the Board was simply bringing in the concept of tax expenditures, she would not see harm in including it in the reporting model.

However, if the Board would like to develop standards for measurement and recognition in the financial statements, then we do not need a project on it because the topic is too complex and it would be misleading to include it in the financial report. We would want to be careful that we are not giving the perception that this is money that can easily be pulled back into the government. We could explain the concept of tax expenditures in the financial report and, by the way, if users want more information, they could be directed to other sources such as the budget. We should not develop a standard that requires presenting numbers that would be difficult to audit and misleading.

- Mr. Allen noted that it is a separate project. He noted that the information is important because it reflects the priorities of the government and the decisions made. He was thinking that the information would be presented in an unaudited schedule or a supplemental schedule that would not have to have any high level of audit association. The Citizen's Guide may also be a place for presenting unaudited amounts.
- Mr. Reger noted that he did not think it ought to be a project at all. He sees little value in reprinting information that already exists in another federal government document. The financial reports could direct users to the Congressional Budget Office documents and other sources.

Mr. Steinberg summarized that the reporting model project would include a description of the existence of tax expenditures and there would be a separate project that would go deeper into what should be reported.

Regarding sub-objective C of the Stewardship objective, Ms. Payne noted that it appeared that members were concerned about how to array cost information and how the Board might play a role in helping users obtain the information they needed. However, as a standards-setting body, the Board would not designate national performance indicators. Also, members did not say there was no need for national indicators or that it would be a violation to present national indicators, for example, in the MD&A or the Citizen's Guide. With respect to a write-up regarding the reporting model, the Board should explain its role and what has been accomplished versus what could be accomplished voluntarily.

Conclusion: The Board will discuss the Operating Performance objective of financial reporting at the March 2014 meeting and, in the Board discussion material, staff will provide pictorial representations to illustrate how the existing model achieves the objective.

- **Steering Committee Meeting**

The Steering Committee met to discuss the budget, support for the Accounting and Auditing Policy Committee, a request for comment on the European Commission's

proposed public sector accounting standards board structure, the schedule for Appointments Panel activities, and objectives for 2014.

Ms. Payne committed to providing a draft letter to the EC, following up on open AAPC appointments, scheduling the Appointments Panel meetings, and drafting objectives.

Adjournment

The Board meeting adjourned for the day at 4:30 PM.

Thursday, December 19, 2013

Agenda Topics

- **Leases**

Ms. Valentine, FASAB Project Director for the leases project, began the discussion by first introducing Ms. Deborah Beams, GASB Practice Fellow, who would be discussing the tentative decisions discussed by GASB on the leases project to date. Ms. Beams noted that she leads the GASB leases project and has recently completed the first year of her two-year rotation at GASB. She is an audit manager at the Dallas office of Grant Thornton.

Ms. Valentine noted to the Board that she will first give an overview of the responses to the 2012 federal lease questionnaire as provided in staff paper E-1 and then will discuss the staff questions surrounding the characteristics inherent in leases as outlined in staff paper E-2.

Ms. Valentine gave a brief overview of the 23 responses to the ten-question federal lease activities questionnaire sent to 27 federal entities. The purpose of the questionnaire was to gather the necessary data on the leasing activities and practices of federal entities – the input will assist FASAB in developing new lease standards for the federal government. Ms. Valentine made the following points in her overview:

- Federal agencies primarily serve as the lessee; however, three federal entities noted substantial lessor activities
- The list of leased items included facilities/office space, equipment, land, vehicles, and several other items.
- Five federal entities noted enhanced use lease (EUL) activities

Ms. Valentine concluded her summary of the questionnaire responses by noting that the responses highlight the need for comprehensive lease accounting standards for the federal government, especially now since FASB is actively working to modify its current

lease standards. She then asked the Board if they had any additional questions or comments on the questionnaire results.

Mr. Showalter asked staff if it appeared that the responses indicated that the FASB lease guidance is not adequate or is it more that coverage of the federal aspects of lease accounting are needed. Ms. Valentine noted that it was her belief that the community needs lease accounting guidance in the federal context.

Mr. Dacey asked staff for examples of federal-specific issues, because he believes that federal entities may be inconsistently applying the existing FASB standards, such as accounting for rent escalation clauses. Ms. Valentine noted that based on staff's research to date no federal-specific lease issues have been specifically identified. The input has been general but that question will be further addressed with the task force.

Mr. Dacey also stressed the importance of addressing intra-governmental leasing activities, which are frequently one-year leases that are cancelable for budget reasons. He noted that intra-governmental leasing could be a lot of trouble if the Board decides on different accounting treatment for the lessor and the lessee.

Mr. Granof asked staff if there was a sense that there is any demand from the user that many of the lease liabilities are not being reported on the balance sheet. Ms. Valentine noted that that was not a concern expressed to her specifically through lease inquiries or through the questionnaire responses. Chairman Allen noted that just because users do not ask for something does not mean there is not a problem.

Ms. Payne stated that she would not look for users saying federal lease liabilities are understated on the balance sheet. Rather, she would look for users asking can we look at the financial statements and tell what the cost of the asset is and what is the cost of financing the asset through a lease.

Mr. Dacey asked staff if she knew monetary values of real property lease commitments as opposed to personal property lease commitments. Ms. Valentine noted that she did not know those numbers, but would research the question and provide the Board an answer. Chairman Allen noted that it may be more difficult to identify the operating leases because of the entities' desires to treat leases as operating as opposed to capital. Ms. Payne noted in an article on the mock implementation of the proposed FASB lease standards by a Fortune 500 company, the entity stated that the proposal vastly improved their internal awareness of leases. She also asked Mr. Dong if the Federal Real Property Council has a database that would identify real property leases. Mr. Dong responded that the database did not include that element.

Ms. Valentine then turned the discussion over to Ms. Beams for a summary of the major tentative GASB decisions to date on their lease project.

Ms. Beams noted that the GASB has had four meetings with discussions on leases. Ms. Beams identified the following GASB major tentative decisions on leases:

- A single model for lease recognition as opposed to the current dual model
- The model is based on the notion that a lease is essentially financing the right to use an asset over a period of time
- Recognition of a lease asset and a lease liability for all leases
- Acknowledgement that there will be some exceptions
- The lease term will include any non-cancellable periods
- The liability measured as a present value calculation of the payments over the lease term
- The lease asset measured first based on the value of the liability plus certain initial direct costs or prepayments
- An exception for short-term leases of one year or less

Ms. Beams also stated that the current GASB plan is to issue an exposure draft on leases at the end of November 2014 and a final statement in late 2015.

Chairman Allen noted that it appears that GASB sees the liability as the recognition driver. Mr. Granof agreed with his assessment. Mr. Reger stated that from an accounting standpoint, the federal government should be reporting all material assets and liabilities.

Chairman Allen noted that since the budget guidance is driving the leasing decision, is it likely that the budget guidance will change with any new accounting guidance? Mr. Dong stated that it is not likely that budget guidance will change because the added recognition of liabilities and assets will not change the decision-making. Ms. Payne noted that since there has been significant feedback from the community about the current disconnect between lease accounting and lease budget scoring, it is important to communicate the point that the budget guidance is not likely to change with any change in the accounting.

Mr. Dacey asked that the Board consider the cost-benefit of having different lease accounting recognition and lease budget scoring. He also questioned whether financial reporting will change leasing decisions. Mr. Showalter stated that the financial reporting may highlight the significant amount of leasing going on in the federal government.

Chairman Allen asked Ms. Payne what were the plans for the lease project discussion during the Board's joint meeting with GASB in March. Ms. Payne noted that since GASB has already had several discussions on the topic we were envisioning a discussion that would include GASB sharing their thoughts on decisions that have significance in the federal arena. We also plan to reach out to members to ask for comments on certain GASB decisions prior to the March meeting.

Staff paper E-2 asked the following questions of the Board:

Question 1: Based on the [SFFAC 5] definition of an asset, does the Board believe that a federal entity's **right to use** a leased asset meets the definition of an asset to the entity?

Question 2: Based on the [SFFAC 5] definition of a liability, does the Board believe that a federal entity's **obligation to make lease payments** meets the definition of a liability to the entity?

Question 3: Based on the GASB staff paper, does the Board support the Type A and Type B consumption based distinction proposed by the FASB and the IASB?

Question 4: Does the Board believe there are other inherently different types of leases so that a different accounting treatment is needed?

Mr. Showalter clarified questions 1 & 2 by stating that the questions are really asking -- should the Board look at SFFAC 5 to answer the asset and liability questions.

Chairman Allen asked if the only difference between FASB's proposed Type A & Type B lease models were whether the interest was broken out or not. Mr. Showalter noted that there are also differences in how the interest expense is calculated. He also mentioned that there is still the process of classifying the lease as either Type A or as Type B. Ms. Payne noted that it would be helpful to know the annual interest expense for federal entities' leases on a comparable basis.

All of the members agreed to explore the single model approach as opposed to the dual-model approach. The following are some of the comments made during that discussion.

Mr. Steinberg noted that he liked the single model because it will be easier for agencies to have just one class of leases and he stated that it will shed some light on some unfavorable budget lease decisions. He also noted that the approach is practical and conceptual.

Mr. Granof stated that the single model was both a practical expedient and is conceptually sound.

Mr. McCall stated that he was open to the single model approach.

Mr. Reger stated that he was open to the single model approach. He reiterated his concerns about the articulation between the lessee and the lessor reporting. He also highlighted the issue of identifying the exceptions.

Chairman Allen stated that he was open to the single model approach. He also noted that implementation issues should be addressed as well.

Mr. Dacey reiterated his concerns that the Board consider the implications of intra-governmental lease arrangements. He highlighted the current two-year useful life criterion used to determine capitalization of general property, plant & equipment, as a possibility for lease balance sheet recognition. He expressed his concerns over the cost-benefit of keeping two sets of leasing records – one for budget purposes and the other for accounting purposes. He also is uncertain whether the information will be useful in the federal environment and would like to know the federal entities' perspectives on a potential change in lease accounting.

Mr. Smith stated that he was open to the single model approach. He also mentioned that there did not seem to be a compelling reason to change the current lease accounting except that there is no reason for leases to not be reported on the balance sheet and the fact that the other standard setters are moving away from the current approach to a more conceptual approach.

Mr. Showalter stated that he was open to the single model approach. He noted that the Board should be looking at providing decision useful information.

Mr. Dong agreed with the single model approach.

Ms. Payne noted that she would seek user views on the usefulness of the lease balance sheet recognition and the interest expense breakout. She plans to begin with congressional decision makers as well as OMB budget analysts.

Mr. Steinberg expressed his concerns about the lessor accounting primarily because of GSA's lack of adequate lease reporting and the significant intra-governmental leasing activities.

Chairman Allen asked Ms. Beams if GASB has looked into the issue of leases between organizations. Ms. Beams noted that there does not seem to be similar issues in the state & local government environment as there is in the federal environment.

Conclusions: The Board supported a single model approach. The following are the next steps for the project:

- Hold a task force meeting in late January 2014
- Prepare for the joint meeting with GASB in March 2014
- Continue to follow the progress in both GASB and FASB's lease projects
- Survey the user community on the usefulness of the lease balance sheet recognition and the interest expense breakout

- **Reporting Entity**

Ms. Loughan explained the Board will pick up with issue number 5 "temporary, which is page 20 in tab A. Staff explained while responding to certain questions in the exposure

draft several respondents brought up the issue of “temporary” including how it relates to the inclusion principles. Staff looked back over the project files and the Board minutes on this topic and developed a proposal for you. Staff explained the recommendation is on page 23 along with the proposed language.

Mr. Steinberg expressed concern with the approach overall. He explained his problem was that he looked at the comments from the Commerce, the Treasury, and the Greater Washington Society of CPAs as saying that something that is temporary or other than permanent should not be considered part of the entity. When they use temporary it applies not to how you disclose it, but, whether it is even in the entity. Mr. Steinberg clarified that in addressing temporary; he believes paragraph 22 and 25 should be modified to say if the relationship were other than temporary then it is not considered part of the entity.

Mr. Allen explained that is something we have considered and voted on a couple of times. It starts on page 20, quoting the minutes, then on page 22 it states, “All members, except Mr. Steinberg, voted the alternative view should not be considered further.”

Mr. Steinberg explained that he was not bringing up the alternative view. He was suggesting that temporary should not be considered part of the entity. There should be language saying that; not saying that temporary means that you don’t have to consolidate; you still have to disclose, it just isn’t part of the entity.

Mr. Allen explained that is why he believes it ties to the alternative view and he is trying to understand the difference between that and what Mr. Steinberg is saying now.

Mr. Steinberg explained that several people brought up that temporary relationships need to be addressed and they did not bring it up as part of the alternative view. The way we have addressed it is we have said if you are temporary, you do not report as consolidated, but you still disclose. He added he believes, if it is temporary, you are not part of the entity.

Mr. Reger asked Mr. Steinberg if he still believes we should deal with what disclosures would be required. Mr. Steinberg agreed there would be disclosures. Mr. Allen asked how that is different from the alternative view.

Mr. Steinberg explained it is separate from the alternative view but, of course, it will affect the alternative view. If you accept the basic postulate to exclude temporary from the entity, then there is no need for the alternative view because all of the things that are mentioned in the alternative view are temporary. He explained that once you say temporary means that you are not part of the entity then that is what we should be saying and not say temporary defines how you disclose information.

Mr. Allen explained the structure built in the standard relationships determine whether you are in the entity or not. Later on, the split determines how they will be presented. At this point, organizations that meet the initial criteria are in the reporting entity.

Mr. Steinberg explained the structure to get these things into the entity is one issue. However, he believes people believe temporary should not be part of the entity and that should be addressed.

Mr. Showalter noted that the Board deliberated this issue and decided not to go there, which was the point Mr. Allen was trying to make.

Ms. Payne noted that staff included the history of minutes surrounding the discussions of temporary in appendix I beginning on page 5. Ms. Payne asked Mr. Steinberg to phrase the question the way he would like it to be phrased and have a vote on it and that be the final vote on temporary.

Mr. Steinberg explained he did give a suggestion for paragraph 22 and 25 that would address temporary nature. (Ms. Payne brought language on the screen for the members to review.)

Mr. Allen clarified that in essence, he would basically take the organizations out. Mr. Steinberg noted that he has always been on that position, but for the first time he heard the respondents bring up the issue of temporary. Looking back to basic accounting textbooks, when something is temporary, it is not considered part of the entity.

Ms. Loughan explained that the comments included in the discussion were thorough and inclusive. It included those which agreed with the inclusion principles but suggested that we clarify certain aspects, such as whether it included organizations under temporary control. That is why we added a footnote up front in the introduction to the inclusion principles to clarify that this is assessed later. Ms. Loughan clarified that the comment did not say we should recognize temporary control as not included or not part of the entity, it simply said to clarify.

Ms. Payne suggested that Mr. Steinberg phrase a question for the Board to vote on regarding his concern. She asked if it was the proposal on the screen that he wanted the Board to consider. Mr. Steinberg agreed with the following language on the screen:

- Paragraph 22 should be modified to state “The Federal government (directly or through its components) may have an ownership interest in an organization *that is other than temporary in nature.*”
- Paragraph 25 should be modified to read “An organization that is controlled by the Federal government with risk of loss or expectation of benefit, *and the Federal government’s control of the organization is other than temporary in nature,* should be included in the government-wide GPFFR.”

Ms. Payne explained the effect would be that relationships other than temporary would be included, but organizations where the relationship is temporary would not be included.

Mr. Granof explained he did not understand how it differs from the alternative view.

Mr. Steinberg explained if you base the standard on what is normally considered in

accounting literature, then temporary things are not part of the entity. It would support the things mentioned in the alternative view to not be part of the entity, but that doesn't prevent disclosures.

Ms. Payne noted however, in the normal course with other standard setting bodies, temporary really means less than 12 months.

Ms. Payne requested that the Board get a vote on the proposal and then the Board stick with our rules where we do not revisit issues as it does take an incredible amount of time to revisit issues. Mr. Steinberg agreed but in his view, this is not recycling an issue as he believes the temporary is different from the alternative view.

Mr. Allen explained he was trying to differentiate. Ms. Payne acknowledged the previous vote was whether to revisit the alternative view. If we ask the question in regards to temporary as Mr. Steinberg has suggested, then we would not deliberate this again. The Board agreed it may take longer to sort out whether it is the same than it would to vote.

Ms. Payne explained the key question is would it result in a different treatment than the proposal in the body of the exposure draft and it would.

Mr. Steinberg added that can be clarified by adding whether they agree to add the proposed language (paragraphs 22 and 25 from the screen).

With exception of Mr. Steinberg, all members voted no to his suggested wording to address temporary in nature in paragraphs 22 and 25.

Staff explained that the Board still needs to review the language because some of the respondents did ask us to clarify how they should consider temporary. Ms. Loughan explained that we put language about temporary in the inclusion principles section directing them to the split between disclosure and consolidation by adding a footnote to paragraph 21. Staff explained we also added the fifth characteristic to the consolidation entities. Also, in paragraph 46 where we first talk about disclosure organizations we moved up the discussion of the fact that these are not expected to be permanent. That was first introduced earlier in the discussion of disclosure organizations. Staff noted consistent changes were made in the basis for conclusion.

Staff explained there was one small change recommended by Mr. Showalter. He suggested rewriting 40e. to say "Connected with the federal government in a way expected to be permanent in nature." This would avoid the need to define "relationship."

Mr. Showalter explained that he was concerned that we may need to come up with a definition of relationship or people may be debating what a relationship was.

Mr. Dacey noted concerns about 40e. He acknowledged its relevance for receiverships,

conservatorships, and intervention entities. His concern would be if the federal government creates an entity that is not expected to be permanent, such as one subject a sunset provision. He would not want to exclude that from consolidation by putting in an E to exclude anything that is temporary. He realized that E is just one of the factors to consider. How do we make sure we capture (and probably consolidate) something that we start up that is not permanent? One way would be to clarify the introduction to the disclosure entities that that is with respect to receiverships, conservatorships, and interventions and make it more of an absolute statement (the present language has a “may”).

Mr. Dacey explained he isn’t sure he would have 40E at all. Instead he would rather put something stronger in the disclosure entity section that says for these types of entities that are temporary and elaborate on them and be more absolute in our discussion regarding receiverships, conservatorships, interventions being temporary.

Mr. Granof asked for clarification about his concern about losing organizations that would be sunsetted out. Mr. Dacey provided the example of the federal government decides to set up an entity like TARP and it has a limited life. It also applies to receiverships, conservatorships and intervention activities. Mr. Dacey asked if the board wants to limit temporary to those types of things or keep it fairly broad?

Mr. Granof noted his concern was that we do not define permanent anywhere and thought it should be something like other than temporary. Mr. Dacey explained that there are situations when we have taken over an entity and we are either going to terminate it in an orderly way or we are going to divest ourselves. Mr. Dacey explained he wants to make those disclosure entities if they are receiverships, conservatorships, or intervention activities. He does not want this to apply to an entity that the government sets up temporarily. Other than temporary would not solve that because of these two types of situations where they are in the entity, but they are really needed to be consolidated.

Mr. Smith agreed with Mr. Dacey’s point if you had a temporary organization, the federal government’s relationship was the purpose of it, and you could almost exempt it out.

Mr. Dacey stated that if 40E is put in, the language will need to be clarified. He also believes we need to adjust the language that exists under disclosure entities for receivership, conservatorships, and interventions. Mr. Dacey explained that he fully supported the footnote language.

Mr. Allen questioned if the upfront reminder (footnote at the introduction) and not 40E would meet those who commented on the issue.

Ms. Loughan explained the only concern would be we may only be addressing half, as in describing it fully in the disclosure entity section when we are directing them to look for guidance. There is no guidance in the consolidation entity section.

Mr. Showalter asked Mr. Dacey if he was concerned about limiting the disclosure to only

those items in the list of receiverships.

Mr. Dacey explained that he believes there are two categories that encompass the situation where the government is taking control of an entity temporarily or not permanently. In one case we may be terminating it in an orderly way or may be ultimately divesting the government's interest. The other alternative is that we created it ourselves. Mr. Showalter stated that we may find something new we do not know about.

Mr. Dacey agreed and stated we could put right in the beginning of the disclosure entity discussion, a statement addressing entities that the government creates. He added the government can acquire control of an existing entity and one that we didn't start and then decide it is not one of those other categories.

Mr. Allen explained that brings it back and he explained he did not think there would be an objection to your proposed change in language, but obviously there has been. He asked Mr. Dacey what changes he suggested.

Mr. Dacey suggested moving something up to the beginning or in front of paragraph 43 and have a separate statement up there. He suggested it could say besides all of this if it meets these characteristics it would be a disclosure entity.

Ms. Loughan asked Mr. Dacey if the last sentence in paragraph 43, "Based on assessment of the following characteristics as a whole" helps with his concerns with 40E. Mr. Dacey explained that it helps because one is considering all five. He elaborated that if we are saying that it is not expected to be permanent, that is more of an absolute. Mr. Dacey noted the thought process for this type of situation was it end up in the disclosure category. His preference would be for it not to be a factor for consolidation entities. However, right after the paragraph one could make some sort of statement regarding temporary and disclosure entities. Ms. Payne clarified that rather than focusing on permanence we would focus on this category which does not generally include things that are temporary such as interventions other than permanent.

Mr. Allen questioned if there was a need for that. Mr. Allen suggested moving the footnote into the introduction language of the standards, so it is clear almost up front as we start this discussion because these are important entities. If you move the footnote discussion up into an introduction to the standard, we have already alerted people that that is the way we are going to be dealing with it. They are going to see this and then they are going to see disclosure entities and additional discussion. Mr. Allen asked members if anyone objected to moving the footnote included below into the introduction language.

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

Mr. Dacey suggested that there may be some alternative words we can look at by next

meeting.

Mr. Steinberg asked if the Board was okay with, “Connected with the federal government.” Do we know what connected means? [Staff note, this phrase is used in par. 40 E referenced in this issue discussion. This is relevant because the word “connection” is in the footnote under discussion and may also be valid in other final language.]

Mr. Dacey explained in receiverships we talk about no goal to maintain control or ownership. He said he did not know if that is narrow that we would say control or ownership is not expected to be permanent or what could be said on the budget part.

Mr. Steinberg suggested that connected is hard to get precise, but connected is fulfilling what is normally perceived as federal government responsibilities. Mr. Allen suggested staff look over the wording that is included in the disclosure entities.

Mr. Allen acknowledged that at this point the Board is leaving it to staff to come back with revised language. Mr. Dacey has expressed his views that he would not have 40e as a characteristic. Mr. Dacey also provided input about whether to add another paragraph or additional language to address his concerns. Mr. Allen explained that staff should also ensure the footnote language is moved to the introductory standards upfront and is clear since it is now part of the standard. Staff is requested to provide revised language at the next meeting based on this feedback.

Ms. Payne asked the Board which they would prefer for the March meeting--if the Board preferred to review the whole standards or go through individual changes in relevant sections as presented at this meeting. Ms. Loughan directed the Board to the remaining issues to be considered in the project at appendix 2.

Mr. Steinberg explained he thought it was easier to come to decisions on the individual issues first and it should make it easier staff to incorporate decisions. Ms. Loughan agreed and provided examples where some of the changes would have been incorporated that were not necessary. It was agreed the Board would not see a full draft until after most issues were addressed or perhaps the April meeting.

Ms. Loughan directed the Board to issue 6, FASB Based Information. Staff explained from the responses, this was the one that came in split and with 11 respondents that disagreed with the proposal. Ms. Loughan explained that even those that agreed with the proposal, there were some comments where they disagreed with a portion of the proposal so there are a few different sub-areas. Several respondents (including some of those that agreed with the overall requirement that FASB based information should be consolidated without conversion) believed the requirement for disclosure of intra-governmental amounts in conformity with FASAB standards is an “unnecessary condition.” The respondents recommended the continuation of the current practice to provide intra-governmental FASB to FASAB conversion information with the GFRS closing package. Ms. Loughan directed the Board to the proposed language on page 32 and explained the recommendation to drop the last sentence of paragraph 66. Any

required changes to that process should be instituted by Treasury with revisions to the TFM or further guidance in that manner.

Ms. Loughan explained that most of the respondents had recommended that the requirement be eliminated, since they are already disclosing that in the closing package. Based on staff's review and based on the testimony, it does not appear that there is any issue with that, unless Mr. Reger would like to add something.

Mr. Reger explained that his office has also been trying to get more specific information from Bureau of Fiscal Service regarding what is currently captured in the closing package, specifically around budget information for the FASB based entities that we are referring to. He agreed that it would seem logical to collect it in a closing package. Mr. Reger added that he thought this whole issue came because some thought there was need for authority coming from the Board. However, there is not really a lot of evidence supporting that and they seem to be compliant.

Mr. Allen stated he was fine with the change as long as Treasury and GAO were.

Mr. Reger explained he remained concerned about the eliminations. He explained they tend to be immaterial items in general and not significant. Since we have decided to accept other reporting standards' numbers for certain things and we will just strive to figure out the eliminations.

Mr. Allen agreed that to the extent the only use of this is to help you in your compiling, then that probably belongs more in a closing package.

Mr. Dacey explained most of the FASB-based entities are directly consolidated. They internally have to get whatever information they need and to report intragovernmental on a FASAB-basis. He did not recall any others that are not directly going into consolidated financial statements of federal government. He explained from that perspective, it is not as critical. The issues relate to the most material differences, such as those related to the Postal Service. They treat their pension as a multi-employer plan basing their cost on the payments they make. When you look the government-wide basis, it is not the right number, and it does not eliminate directly. The question is whether entities will comply and do what they are supposed to do with these reporting packages?

Mr. Showalter asked if Treasury provides the guidance on the closing package or how do they necessarily know what to put in the footnote.

Mr. Dong asked whether it is also redundant considering this is also addressed in A-136.

Mr. Reger confirmed that in fact it was added it to A-136 this year or last year to be consistent with what we were trying to accomplish.

Mr. Dong explained then it appears it is being captured in a couple of other places?

Mr. Allen asked if any members objected to taking it out? The Board unanimously agreed to drop the requirement for the intra-governmental note disclosure. Any required changes to that process should be instituted by Treasury with revisions to the TFM or further guidance in that manner.

Mr. Steinberg explained that taking it out will address the government-wide issue but there are a couple component situations, such as Ginnie Mae and HUD, Bureau of Engraving and Printing and Treasury. He suggested staff discuss the issues with Carole Banks and the people that prepared Treasury statements as opposed to government-wide statements. Then go to the HUD CFO to see how they address it. We may need to address how this gets taken care of when components of agencies are reporting on a FASAB-basis.

Mr. Reger explained this is occurring now and it is being worked out because Treasury is compiling, reporting, and getting a clean statement. Therefore, there is no negative about taking the requirement out of the standard.

Mr. Steinberg suggested that we find out how it is working and put in a paragraph so that they do not stray from that in future years. Mr. Reger explained he would be happy to assist staff in whatever is necessary.

Mr. Allen directed the Board to issue 7.

Ms. Loughan explained the last issue relates to the Central Bank. Staff explained there have been lengthy Board deliberations about the central bank (Federal Reserve System-FRS) including whether the proposed inclusion principles and attributes for determining consolidation entities and disclosure organizations could be applied to the FRS. In addition, the Board spent considerable time discussing what should be included in the basis for conclusion language that relates to this topic including reviewing specific language during meetings to most accurately explain the Board's position in the basis. Staff explained the binder materials summarized some of the comment letters and also the commenter letter from the Federal Reserve, and included an excerpt from the Board minutes that were applicable to this issue.

With this particular issue, staff did not have any recommendations as far as changes to the language. Instead, staff wanted to solicit some of the Board members' views on two issues. One, we wanted to find out what you believed to be concerns or comments regarding whether the criteria and principles could be applied to the Central Bank. And two, members were asked to consider the questions related to the Central Bank minimum disclosures and raise concerns.

Mr. Reger explained that Treasury's position would be that we do not need to apply these to the Central Bank.

Mr. Dacey asked if Mr. Reger was talking about the disclosures or the basic concept of the criteria. In other words, does our general discussion of 'in the report' and discussion of consolidation and disclosure apply appropriately to the Federal Reserve and the

other type of entities that we put in our question to respondents? Mr. Dacey noted he did not see a need for the separate identification of the Central Bank required disclosures.

Mr. Allen explained to him that would probably lead to a yes answer on 1A and then a detailed discussion on 1B.

Mr. Showalter explained both KPMG and a part of Treasury commented that they did not see the Central Bank included based on the criteria. He would like to understand how they reached that conclusion. He does not necessarily mean there needs to be anything addressed in here, rather he wonders if there was something that wasn't clear. He believes we should follow-up with them to find out why. Ms. Payne suggested that the question was asked at the public hearing, but she did not recall if they gave a definitive answer. Mr. Showalter stated as he recalled Treasury did not and he was not sure if KPMG did either.

Mr. Steinberg asked if they were they referring to a Treasury statement or the government-wide statement. Mr. Showalter explained the response is not clear.

Ms. Loughan noted Treasury had different responses in different places, but staff will follow up with them. For example, if you look at Treasury's 1D, they agree with 1D. Staff believes a key point may be their response to 2, they state they believe the Federal Reserve should be a related party. Treasury also submitted that revised flowchart that put 'misleading to exclude', after related party, so we can go back to them for more clarification.

Mr. Granof explained he was puzzled by that.

Mr. Showalter explained that is his point because that is different. Related party is not the same thing as a disclosure entity.

Mr. Allen explained if there are really two respondents that went through the exercise and determined the Central Bank wasn't included-- they don't fit either as a disclosure entity or consolidated entity, then of course minimum disclosures are necessary. He believes if our standard is sufficient to include important central banking information, then maybe the minimum disclosures are not near as necessary.

Mr. Dacey agreed that we should ask them for clarification. He noted that he has been involved in some discussions where some have argued that it is not part of the component unit Treasury. He has not heard an argument that it is not part of the consolidated financial statements.

Mr. Showalter recalled that KPMG particularly had problems with the organization of the standards. Their position may be that they did not understand.

The Board agreed staff would contact Treasury and KPMG for clarification about their comment letter response that indicated when applying the inclusion principles to the

Central Banking system, that a reporting entity could conclude that the Central Banking system would not be a consolidated entity or disclosure entity.

Mr. Allen suggested the Board provide for minimum disclosures.

Mr. Reger explained it still goes back to the over-arching question of what information we want disclosed and what information we can obtain. He explained that it is the forward-looking information that is problematic. He added the Federal Reserve publishes financial statements and update certain financial information quarterly that is on the web. He explained they have significant issues with certain market information. In addition, KPMG may have concerns about expressing an opinion on things other than that they garnish by the existing relationship between Treasury and the Federal Reserve Bank--meaning when you cross into things that are the purview of just the Federal Reserve then that is where there is issue.

Mr. Showalter asked Mr. Reger if he was referring to the information in relation to all of par. 77 or just par. 77C. Where does the forward-looking information requirement come from?

Mr. Reger explained that the background information, the connection of information, and the transactions back and forth between us as a party and them is currently documented and we can express it almost any way you want. However, par 77C is outside the purview of existing information that is furnished in any way other than directly from the Federal Reserve websites.

[Staff note, the language of Par 77c: A discussion of the significant financial actions, and changes in those actions, undertaken by the Central Banking system to achieve monetary and fiscal policy objectives, such as adjusting the discount rate, purchasing securities (for example, Treasury securities and mortgage backed securities), or undertaking Central Bank liquidity swaps]

Mr. Allen confirmed in this case, it does not matter whether you are talking about the agency level or the consolidated level, you would have the same concern. Mr. Reger confirmed and this is a big concern expressed by the preparer of the Treasury statements and the auditor of the Treasury statements.

Mr. Showalter asked if there was any part of 77C that Mr. Reger felt comfortable with. Mr. Reger said he would go back and look through 77C and see if in the next iteration there was anything.

Mr. Dacey explained an important point is we want something auditable. The information in the notes says the "The Federal Reserve said this," and essentially, "Federal Reserve reported this." Whether or not that is valuable information if our disclosure limit is what they told us their programs are doing and what they announced, there is no way to determine if that is a complete set of everything they have done. To make direct statements that the Federal Reserve is doing something would be a problem for the auditor and the preparer because of their ability to say whether it is accurate and all of the other things that are there.

Mr. Reger added that another concern is the Federal Reserve fiscal year ends on the calendar year. He explained as we come into September 30 for ours, for instance the current agency statements were published Monday; our statements are scheduled for February 27. If they included Federal Reserve information from their most recently approved financial package it would be for last December so that leads to concerns about the freshness of data especially when you are going to start talking about market. It is either going to be absolutely useless to the reader or it has got to be carried forward and updated until the most recent timeframe. Mr. Reger stated that he believes pointing people to their financial statements and website seems like a wonderful idea.

Mr. Allen explained he was not one who felt that we needed a great level of detail, but he did support the concept of the direction of 77C, and what they are trying to accomplish. He asked if it would be possible to move the information out of note disclosure and into MD&A. It seems like it is information similar to what we have in MD&A that relieves the auditors from the challenges. If one asks them to address a MD&A, you would think they could talk about their significant financial actions or changing in those, policy objectives or whatever it ends up being. Those ought to be reflecting the most current ones at the time, so the MD&A isn't necessarily linked as hard to one fiscal year or another fiscal year.

Mr. Reger explained that to the extent that we are describing programs and processes relating historically to the Federal Reserve, he believes it should be maintained and captured in a note disclosure for the reader. If you want to know the current effect of any of those policies or activities, he believes the best thing we do is refer the reader to the website of the Federal Reserve. He explained that they can include language about how those programs were created, what they are fundamentally set up to do, etc. He noted it is the current intent that is difficult.

Mr. Allen explained it is a very changing world and that if someone is to get value, the information should be as current as possible.

Mr. Reger commented it is very unlike any other disclosure because we tend to look at a historical trend or it is sustainability based on current law and activities. We do not discuss current activities other than in the last couple of years in a note that says events which had an effect on the financial representations for the period.

Mr. Dacey noted it is an indirect effect on the economy as a whole .

Mr. Allen explained that is why he does not see any need for those kinds of discussions in Treasury's financial statements, but he does see the need for those in the government-wide financial statements.

Mr. Reger reminded the Board of the discussion yesterday of whether the statements should represent financial information on the federal government, the economy and how the federal government is supporting changes in the economy, which was that third criteria from yesterday.

Mr. Steinberg explained he thought this sounds like we are taking a step backwards from the disclosures for the government-wide statement. You can refer them to other statements, but that does not make them part of the consolidated statement for the federal government. While he isn't saying that Treasury should consolidate the Federal Reserve, it should provide the fullest picture one can get and it shouldn't force the reader to look at some other document to find important information.

Mr. Steinberg explained he understood Mr. Dacey's audit concerns. However, he believes there are some procedures that could be done that would give you sufficient comfort, even if that footnote has to have some explanatory paragraph as to how the Federal Reserve is also part of stewardship.

Mr. McCall explained his concern has been are the criteria for consolidation and disclosure adequate. He noted that we had a response from the Federal Reserve System and they believed they were a disclosure entity, but they did not say how they either met disclosure or consolidation. He believes the decision is to be made by Treasury and GAO. Looking at paragraph A34, it talks about the majority of the board believes the proposed principles are sufficient to aid preparers and auditors, in assessing any organization, including the FRS. Mr. McCall explained in the next two paragraphs we say, if it is the disclosure entity, it is this way, and these are things that would be disclosed. If it is a consolidation entity, these are things that would be consolidated. That seems to me to say that we agree the criteria are adequate to make a decision but yet rational and reasonable people have looked at it two different ways. When we talk about paragraph 77, it addresses disclosure, but it still doesn't get back to is this a consolidation or a disclosure entity?

Mr. McCall explained that he would like Mr. Reger to confirm that enough clarification has been provided in our criteria so that a disclosure or consolidation entity decision can be made. He is just looking for some assurance that the criteria can be used for the Federal Reserve.

Mr. Allen stated he thought it was an important the discussion especially if there were people who had concern at the agency level. However, he suggested that we put off that discussion until we get more information from Treasury and their auditor as planned.

Mr. McCall asked if the Board believes the criteria are adequate to make a decision.

Mr. Allen confirmed the Board has said that they do feel that it is, but they asked staff to follow up on the two responses.

Mr. Showalter discussed that he compared paragraph 77 to paragraph 73. He asked Mr. Reger how comfortable he was with paragraph 73. He acknowledged par. 77 would be minimum requirements if the Central Bank somehow was not captured as a disclosure entity.

Mr. Reger then acknowledged that they had done a similar exercise as Mr. Showalter

and they could map the disclosure requirements. Mr. Reger stated he wanted to answer Mr. McCall's question and his opinion is that we believe that the Federal Reserve is a disclosure entity and it is already covered by what we disclosed. Mr. Reger elaborated that they have had discussions about how the FRB fits and it is more than clear enough that they would be a disclosure entity. The problem is you had the agency that they would report through and their auditors disagree and that is a little baffling. Therefore, at this point he agrees we should have staff have follow-on discussions with them. Mr. Reger explained as far as disclosures, there is concern on the level of detail and the intrinsic information required in paragraph 77C and how the auditor would get comfortable with that.

Mr. Granof asked in doing the crosswalk between paragraphs 77 and 73, where does 77C fit?

Mr. Showalter stated it fits into 73h but acknowledged all of this is subject to the reader. For example, he believes Mr. Granof may expect much more information for 77c than others. Mr. Granof agreed that he may not be satisfied but he would be content. Mr. Reger agreed that the hard part of implementing this portion is going to be agreement on the level of detail in paragraph 77C and because some might read 77C to be public information. He explained the issue is if you accept the interpretation that information that is currently available on other public sources is just summarized into financial information that we would publish here.

Mr. Granof stated that there is a lot of information that we provide that comes from another or better source, such as Social Security, for example, you are better off going to the Social Security Trustees Report. Mr. Reger agreed but it is summarized to provide the Social Security and the Affordable Care Act information and lots of other things in the government-wide statement. Mr. Reger explained that SFFAS 17 provides for certain information and descriptive information, some of which is taken from other publicly available documents like the Trustees Report and some that is not.

Mr. Reger explained he is comfortable with information about the confines of the audit period and a subsequent event note. Mr. Granof concurred and that he did not envision projections about monetary policy that would be unreasonable.

Mr. Dacey suggested that perhaps some have read paragraph 77C to be more comprehensive than simply here are the things the Federal Reserve reported they did last year. Mr. Granof noted it says a significant discussion that was undertaken and that is past-tense.

Mr. Dong noted he was a little unclear in terms of what the Board's position was related to paragraph 77C. Mr. Reger elaborated that it was not an issue of a description of things in paragraph 77C and he was not requesting that it be taken out. He just wanted to bring up the concern of those involved. He noted, in fact, if there was no paragraph 77C, there wouldn't be a need for minimum disclosure for the Central Bank.

Mr. Granof confirmed that he is saying paragraph 77 is redundant. Mr. Showalter and

Mr. Reger agreed it was redundant. However, Mr. Granof explained he had no problem with being redundant because it emphasizes certain things and it is a statement of the Board. He did not believe redundancy did harm.

Ms. Payne rebutted that there is a cost to redundancy. For example, the Board took certain precautions in SFFAS 17 to deal with the cost of redundancy. There is a note that explains the minimum things that you need to understand the statement itself and then RSI allows for a storytelling and there is a lot of information in RSI that does not need the robustness of the audit, like the cross-over point, the year that the trust fund is exhausted.

Ms. Payne asked the Board if they would like to consider the Central Banking system disclosure requirement as RSI as an option. Mr. Granof stated he did not have problem with that.

Mr. Dacey expressed concern and stated he did not believe it solves the problem. He believed whether you like par.77 or par.73 with exception of possibly par. 77C, it seems appropriate to include in the notes. He does not believe putting some information in another place will add that much value if we are only talking about the actions the Federal Reserve is taking to affect monetary policy. He has concerns about the fleeting nature of some of these decisions and how instantaneous they are, even 60 days after the fact or 75 may not be relevant anymore.

Mr. Allen suggested that he was open to the proposal of RSI but it appears Mr. Dacey may object to it and not like the idea of doing more of a story and not be as confined to a specific period of time and maybe make it more current.

Mr. Reger explained that describing it like that also scares him. If making it RSI allows it to be more descriptive that is fine, but if that allows for projections, that is a problem. Mr. Allen explained he did not mean for projections, he meant subsequent event discussions in RSI.

Mr. Dacey explained that he also believes par. 77 is redundant of 73 and unnecessary. However, he doesn't see the incremental value of putting something in RSI. He elaborated that we are still limited by whatever the Federal Reserve report is and we are constrained with here is what they said they did. He believes that is part of the issue.

Mr. Granof explained that does not trouble him because he is looking for the story of what happened. If you want a picture of what goes in the federal government that is critical--just like Social Security--and for the same reason, put the story in RSI. He explained he would be fine with the historical information because he is not looking for projections in RSI.

Mr. Smith asked if we put the requirement in RSI, might we have it disclosed at two places, and then it appears we have not accomplished anything. As he recalled we added par. 77 to ensure it was disclosed if by chance someone got to the point that the Central Bank was not in the reporting entity. If we put this in RSI, if a person got to the

conclusion that it really was in the entity then we have disclosed in both places.

Mr. Allen explained par. 77 could be clearer although he thought it was clear. Staff will review ways to make par. 77 clearer by beginning it with “If not otherwise disclosed,” or something like that.

He suggested the Board focus on resolving issue 77C. The Board compared it with the language in par. 73H and acknowledged that 77c called out more specific things because these were discussed and specific to the Central Bank. The concern with paragraph 77C is it focuses on things the Central Bank reports or says they have done and the fact this information or more current information may be more readily available. Mr. Dacey suggested that par. 77C be revised to focus on the “discussion of actions and changes in actions reported by the Central Bank” and that would provide a tie. Mr. Showalter acknowledged that as an auditor it removes the uncertainty of “Undertaken by the Central Bank.” because one doesn’t know there have been things undertaken that weren’t reported. Mr. Dacey agreed but asked if there was any objection to changing the word to report and believed staff should seek input on that from Treasury and their auditors to see if that makes a difference.

The Board agreed at this point there is no recommendation that par. 77C be eliminated but revised as the interpretation of that is broad, until after staff discusses some of the issues further with Treasury and their auditors.

Mr. Reger acknowledged it is important to get the feed back from Treasury and the auditor regarding their response. As of now, they are not sure the Central Bank is a disclosure entity, and then we probably need to have a discussion about whether the Central Bank should report through a component.

Ms. Payne agreed it may be beneficial for staff to have the meeting with Treasury and their auditor on these issues before the next meeting and provide a recommendation that will help support the Board’s decision in this area. The Board agreed with that approach.

Mr. Allen thanked staff for the work in the area.

Conclusion: After discussing the issues the following decisions were made:

- With exception of Mr. Steinberg, all members voted no to his suggestion to address temporary in nature in paragraphs 22 and 25 that would have resulted in temporary in nature not included in the entity or financial report.
- The Board generally agreed with the staff recommendations to address the ‘temporary’ issue. The Board provided substantial feedback on the proposed language; staff will provide the Board with revised wording for approval at the March meeting.

- The Board unanimously agreed to drop the requirement for the intra-governmental note disclosure. Any required changes to that process should be instituted by Treasury with revisions to the TFM or further guidance in that manner.
- The Board agreed staff would contact Treasury and KPMG for clarification about their comment letter response that indicated when applying the inclusion principles to the Central Banking system, a reporting entity could conclude that the Central Banking system would not be a consolidated entity or disclosure entity. Staff should also discuss other issues follow-up on other issues related to the central bank as needed to help finalize a recommendation to the Board on minimum disclosures for the March meeting.

(Luncheon recess)

- **Risk Assumed**

Mr. Allen welcomed Ms. Gilliam again to FASAB and to the Board table for the first time.

Ms. Gilliam thanked Mr. Allen and the Board and directed their attention to the Risk Assumed Project, Tab F. She indicated that the last time the Board met on Risk Assumed was in June 2013. As she was not working at FASAB at that time she has been catching up on the project. Per the Board's direction, Staff has interviewed the four federal insurance entities that report FASB GAAP in order to see what the impact and applicability of the FASB proposed accounting standards update for their insurance contracts exposure draft (ED) released on June 27, 2013, would have on these entities.

The four federal insurance entities interviewed were: the Federal Deposit Insurance Corporation (FDIC), Pension Benefit Guarantee Corporation (PBGC), Farm Credit System Insurance Corporation (FCSIC), and the Overseas Private Investment Corporation (OPIC).

Ms. Gilliam stated that staff spoke to most of them personally or to their auditors. Staff did not agree or disagree with the information, in that staff did not approach this as auditors. In particular, staff wanted to determine if the FASB proposed insurance contracts definition would work for other federal insurance entities that follow FASAB GAAP. Staff discovered that, except for one of the four entities interviewed – OPIC – that it really was not applicable to other federal insurance programs. Ms. Gilliam noted that staff determined this based on the Board's previous decision to develop standards for federal insurance programs and not federal insurance contracts.

Ms. Gilliam explained that staff is still in the research phase, and wanted to have a discussion at the December meeting to see if the Board agreed with the staff's interpretation of the information received and next steps. Staff recommends at this time

moving forward with the task force started in June 2012 to define federal insurance and non-loan guarantee programs.

Mr. Allen recommended that we open it up to the Board for general questions, comments, or observations.

Mr. Granof asked what the main objection is.

Ms. Gilliam directed the Board to the FASB proposed insurance contracts definition on page 5, Tab F. Staff's main objective was to review the FASB proposed insurance contracts definition with the federal insurance entities that currently report using FASB GAAP to determine if it would work in a FASB standard for federal insurance programs. Ms. Gilliam read the definition from page 5 of Tab F and explained that FASB was updating their standard to include all companies that service insurance contracts. Currently, the FASB standard only covers insurance companies.

Ms. Gilliam directed the Board to the FASB summary slide deck in Attachment 1, Tab F and explained that in April 2013, Jennifer Weiner gave an extensive education seminar on the FASB ED. The small slide deck is a very good summary that Ms. Weiner included with a webinar when FASB released this ED.

Ms. Gilliam explained that to meet staff's objective, we asked the four FASB GAAP federal insurance entities seven questions (Query Email: Attachment 2.A, Tab F), six of which we included on Page 5 of the memorandum, Tab F.

Ms. Gilliam directed the Board to page 15 of the Tab F memorandum for the staff's conclusions. Staff learned that federal insurance programs have unique characteristics based on regulations. Government insurance programs are the result of laws that were created for economic and social stability. For example, FDIC protects bank deposits. Everybody in this room that has a deposit with an FDIC bank is an implied beneficiary as assigned by the law, not assigned by a policy between them and the bank.

Ms. Gilliam further explained why FASB's insurance contracts definition does not map to federal insurance programs: what FASB calls a policyholder is not really how the staff understood a federal policyholder. The federal government has been defined by law the entity [i.e., FDIC] that is the real policyholder. FDIC is responsible to monitor banks to determine their solvency and to provide the benefit [deposit amount] to the depositors if a bank fails. The beneficiary is a group of individuals [i.e., depositors with deposits up to 250,000.00] as defined by law, not as designated by the policyholder.

Ms. Gilliam explained the other three entities interviewed and how all four are independent, relying on the collected premiums and not appropriations. However, they do have the authority to borrow if they get short-funded. She concluded that due to the regulatory nature of these programs and, in particular, FDIC, PBGC and FCSIC, that agency staff indicated they could not apply the FASB proposed definition to federal programs. Staff has not as yet researched the insurance programs that are appropriated.

Mr. Allen noted that we have programs, but that is not their primary focus. For example, Medicare and Social Security both have elements of insurance in them if you become incapacitated regardless of age. What is that element considered? Is that considered insurance? They call it insurance.

Ms. Payne explained that they do call it insurance. We have been focusing primarily on exchange contract type insurance where there is a premium paid. Social insurance, for better or for worse, we have classified as a non-exchange relationship. They have a payroll tax rather than a premium.

Mr. Steinberg asked if staff was going to ask these same questions to the ones that use FASAB GAAP, like flood insurance and Crop insurance.

Ms. Gilliam mentioned that staff has called a task force meeting for January and will present the FASB definition to them. But we will be working up a definition that is more suitable to the federal government to find a broad enough definition that covers current programs and any new ones that are created so that they will report within the standard.

Ms. Payne clarified that in order to use our time efficiently we will not ask all of the same questions because they do not follow FASB standards.

Mr. Steinberg noted that when we write the standard, it is going to encompass those insurance programs as well as these.

Mr. Dacey noted that the Board should understand how they are currently accounting for their premiums and losses and what recognition points they are using for the FASB based entities. GAO did some work on the fiscal exposure report on some of those programs.

Ms. Payne noted that that is the impression that we have gotten. They are following FASB statement 5. Mr. Allen noted that the entities that follow FASB say this new FASB guidance would not apply to us. Mr. Dacey explained that the FASAB based entities wouldn't be affected directly. It is only the ones using FASB GAAP, which are these four that would be potentially affected by this proposed standard. The question is that the three of them did not feel they met the requirements to be applicable to them under the new FASB statement.

Ms. Gilliam explained that is what the FASB reporters said. All of them follow FASB's contingency standard 5 except for one (FCSIC) did follow the insurance standard. However, FCSIC noted that if the FASB insurance standard gets updated they were probably going to move to FASB's contingency standard.

Mr. Allen noted that they would apply based on the type of transaction. Mr. Dacey explained that if they don't believe that this new insurance standard would apply to them, then they would have to look to other parts of GAAP which would probably lead them to their statement 5.

Mr. Steinberg and Mr. Dacey discussed whether FASB GAAP reporters would continue to follow FASB if this new standard was adopted. Most of them would likely continue to report under or change to FASB 5 – contingent liabilities, if necessary.

Mr. Steinberg noted entities that applied FASB standards before FASAB was established could adopt FASAB standards as GAAP. He pointed out that these entities do not because they say it is not cost beneficial to change to FASAB GAAP. These same entities will have to change their accounting because FASB GAAP is changing. Hence, they might consider which is more cost beneficial: the change to the new FASB GAAP or the change to the FASAB GAAP.

Mr. Allen asked whether a FASB entity could – through the GAAP hierarchy – look to other sources of guidance such as FASAB standards for guidance relevant to circumstances not addressed by the FASB.

Mr. Dacey noted that the GAAP hierarchy permits that approach. However, he thought FASB statement 5 on contingencies would likely apply to the arrangements in question. If so, the entity could not apply the hierarchy to reach FASAB standards for insurance.

Mr. Allen asked if there are there any comments or questions. To Ms. Gilliam he asked: were you looking for a general agreement with your question? You had a question - do you agree with the staff that we should not be following the same direction that the FASB is going on?

Ms. Gilliam noted that we did want to get a general agreement from the Board as to what direction we are going to take in that our conclusion is that it would be very difficult to apply the FASB standard in developing our standard. So we are going to move forward now with the task force to develop a general definition and specific characteristics.

Mr. Allen requested clarification on the question: The way you have it worded the Board would say no if they do not agree. However, they have it worded so we could have people give a general feeling about the direction of the staff. Ms. Gilliam clarified that the question is: is it suitable?

Mr. Dacey noted that we spoke to these entities because they are FASB-based entities and they said they do not think that would apply to them. He questioned whether that gives the answer to whether or not we should have our FASAB-based entities applying the same accounting recognition model that FASB is going to, which is the two different [Building Block Approach or Preferred Allocation Approach], depending on the nature of the insurance. He is concerned about answering today until staff has done more research.

Ms. Gilliam noted that we are going to keep our eyes on FASB's direction because they are currently reviewing comments received on the ED. Comments show that respondents are not satisfied since they do not feel like there is consistency between the two different measurement techniques. We have not touched that closely on the

measurement recognition yet and will see if there is not something that we can piggyback on from FASB.

Mr. Dacey noted that he wanted to make sure he understood the question and noted that it was okay if we are not going to say what they are doing is fine and we will just incorporate it.

Ms. Gilliam apologized for any confusion and noted that the definition specifically speaks to insurance contracts. What is an insurance contract? From what we discovered, it does not look like our programs can fit into the FASB definition. Do you agree that the FASB definition is not going to work for us and can we move forward?

Mr. Dacey noted that we need to explore that anyway. FASB is clearly going well beyond the borders of insurance companies to include things that were not covered under the existing insurance standards; whether to include all insurance contracts is part of the question the Board needs to resolve. Do we want to include in the insurance accounting a much broader definition or a narrower definition of what an insurance contract is?

Ms. Gilliam noted that we can take the FASB definition and definitely introduce it to the programs to see if they want to incorporate it if any of them have this type of insurance contract. I think we are not going to have an answer as to how broad or how narrow it is until we go out and do the research with the task force and look at those programs and the current definitions. I think we want it broad enough to capture anything new that is put into law to support the economic stability of the country.

Mr. Dacey noted his concern for going too broad with the definition.

Mr. Allen noted Mr. Dacey's concern and that staff should go forward and come up with our own definition which we can monitor. In the end we are going to write a risk assessment or a standard that could possibly go back and use in certain cases the accounting that FASB is proposing. At this point we have made a decision not to follow FASB accounting. It sounded quite complex when Ms. Weiner from FASB made that presentation for accounting, for example, the need to revalue it often would be a challenge.

Ms. Gilliam agreed and noted that staff will be monitoring FASB's updates so we do not want to get locked in until we see what direction FASB takes.

Mr. Allen noted that staff had three bullets for next steps and at some point we need to add another one to write a standard.

Ms. Gilliam agreed and noted that it will be added for the next memorandum. She clarified the next steps.

One of the bullets was to continue to monitor FASB for consistency and consolidation. The one I want to focus on with the task force is to develop a general definition and

specific characteristics of federal insurance and guarantee programs. Once we get the definition locked in, we will review the credit reform standards and start to look at measurement. We will then move into how we want to recognize and determine where it will be captured in the statements and/or disclosures.

Mr. Dacey noted that we should look at the FASAB-based entities and ones we believe to be insurance operations and how they are accounted for. He asked that we think about some of these other types of contracts that FASB was trying to sweep into their general coverage beyond traditional insurance products.

Ms. Gilliam agreed and noted that it would depend on whether our programs had those kinds of insurance contracts.

Mr. Dacey asked that before we write the definition we need to do some more research to understand what the (a) FASAB-based entities are doing and (b) whether or not there are contracts in the federal government like these additional contracts that FASB was intending to bring under the new standard.

Ms. Valentine asked if what Mr. Dacey meant is outside of the insurance program.

Mr. Dacey clarified that it could be outside of our traditional insurance programs. Again, clearly FASB was trying to bring in similar type of products than just normal insurance. We may have the same. He posed the following question to the Board: Do we want to look at that kind of thing or keep this fairly narrowly focused on insurance? Are we more focused on disclosures or recognition at this point ?

Ms. Gilliam noted that in running a task force to develop something like this, especially across a number of programs, everybody has their own flavor of what they are doing. We will poll them and find out like- Monica did this last June to discover what other programs or what other products that are providing? Our goal is to figure out all of the different types of insurance programs that could be included in our definition. We will ask how they define that program. Are there actual insurance contracts? That will be part of the task force, trying to drill down and get them tell us as much as they can about their products and then try and bring it back to something general that can be looked at from a whole government-wide point of view.

Mr. Allen noted that is a good approach. In response to Mr. Dacey, Mr. Allen noted that we never want to write a standard that is applicable only based on the definition of what somebody calls something. We always want to have a standard that captures the economic substance of something regardless of what they call it.

Ms. Gilliam confirmed that would be part of our research with the task force.

Mr. Allen asked the Board if there are any other comments or questions or feedback. He noted that he had not heard affirmative statements or any negative ones. Did anyone disagree with the direction the staff is taking? If not, then we will thank you for going forward. Mr. Smith, do you have a comment?

Mr. Smith asked that as we are doing our research if we could highlight for the Board some of the problems with the present accounting, the present model, where programs are going as it relates to the federal government.

Ms. Gilliam asked if Mr. Smith wanted staff to capture problems they are currently experiencing.

Mr. Smith noted he wants staff to capture the present model so as the Board is going through and trying to create something new, we would have a backdrop to say here are some of the present problems that we are trying to solve instead of trying to create something new because someone else is creating something new in order to know what we are trying to fix.

Mr. Allen asked if there were any other comments. If not, we thank everyone for being here and wish you a happy holiday and a safe flight home.

Adjournment

The meeting adjourned at 1:37 PM.