FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
September 27-28, 2006
Room 7C13
441 G Street NW
Washington, DC 20548

Wednesday, September 27, 2006

- **Attendance**

The following members were present throughout the meeting: Chairman Mosso, Messrs. Allen, Dacey, Farrell, Patton, Reid, Schumacher and Werfel, and Ms. Cohen. Mr. Marron attended Wednesday morning, September 27th. The executive director, Wendy Comes, and general counsel, Jeff Jacobson, were also present throughout the meeting.

- **Public Hearing**

The Board held a public hearing on its proposed concepts statement, *Definition and Recognition of Elements of Accrual-Basis Financial Statements.* The following individuals participated in the hearing with the members:

1. Sheila Weinberg and Richard Skiba of the Institute for Truth in Accounting
2. Andrew West and Anna D. Gowans Miller of the Association of Government Accountants' Financial Management Standards Board
3. Steve Goss, Chief Actuary, Social Security Administration
4. Joseph Cummings, Assistant Director, Office of Accountability Audits, Department of Labor, Office of Inspector General
5. Daniel L. Fletcher, Deputy CFO, Department of Interior on behalf of the CFO Council's Standardization Committee's FASAB Response Group

Transcripts of the hearing are available.

Agenda Topics

- **Elements**

Ms. Wardlow presented a summary of the comments received in thirty-one responses to the Exposure Draft (ED) of a proposed concepts statement, *Definition and Recognition of Elements of Accrual-Basis Financial Statements.* She said that staff would prepare papers for discussion at future meetings on some of the issues raised by the respondents. An example issue was the proposal by a few respondents that certain items, including gains and losses, appropriations, transfers, imputed costs, unexpended appropriations, and cumulative results of operations should be defined as separate elements of the financial statements. Ms. Wardlow presented a paper that reviewed the reasons for the Board's conclusions before issuing the ED that these items should not be considered conceptually separate elements and that how these items should be displayed in the financial statements is an issue for financial reporting standards. The Board reaffirmed its conclusions. Mr. Mosso suggested that a brief explanation of the Board's views be included in the basis for conclusions in the final concepts statement.

Conclusion: Staff will discuss other issues raised by the respondents in papers to be presented to the Board at future meetings.

- **Social Insurance**

The Board reviewed the latest draft of the social insurance preliminary views document (PV).

The Board discussed the possibility of a short unity statement. Some members said it would be helpful in a situation like this where the Board issues a controversial document for comment on which the members have differing views to issue a unity statement of some kind. The Board did not agree to issue a unity statement. However, the Board agreed that the press release should emphasize the areas of unity and reflect the Chairman's letter. The press release will identify significant conceptual differences between the two positions.

The Board discussed the Alternative View concept of a "statement of fiscal sustainability." The statement of fiscal sustainability is meant to be illustrative and merely a starting point for a larger dialogue with stakeholders, including the sustainability taskforce that FASAB plans on assembling, on the most appropriate form and content of the proposed statement. The social insurance project plan provides for the possibility of developing alternative displays. No members objected to including new displays in the PV.

The Board next discussed the accuracy of statements in the PV about the Alternative View not affecting amounts on the balance sheet, statement of net cost and SOSI in view of a second Alternative View concept regarding deferred revenue. Deferred revenue would change some aspects of those statements. The draft PV also contains a question about deferred revenue. Some members wanted more details on how deferred revenue would be accounted for.

Mr. Dacey explained that the question of how to account for receipts in excess of benefit payments came up during the many Alternative View discussions. The concept is to put such receipts in the period in which they are used – instead of the period when received. In effect, this would defer them to the appropriate period. The concept includes not only social insurance but other earmarked funds as well. The current concept under consideration would put such receipts in deferred revenue, which would be a liability account, and reduce revenue. Deferred revenue would reverse itself in the period of use.

The Board discussed whether deferred revenue concepts would be included in the PV. Mr. Werfel said it would identify an area for further study. Some members wanted it included in the PV only if serious input is sought on an integral part of the Alternative View. Other members thought it is important to get feedback on the concept during the preliminary view stage.

Chairman Mosso said there was unwritten agreement that the Primary View members would determine what their section said and Alternative View members would determine theirs. He did not want to bring this issue to a vote. He asked the Alternative View members to consider the other members' comments they had heard today and re-think the deferred revenue question to see if they could clarify it. He suggested letting Question 5 stand as it is subject to what the Alternative View people might submit.

Mr. Patton said the statement about the Alternative View not affecting the financial statements is not factual and needs to be corrected; and if it is not corrected, he reserved the right to point out the inaccuracy in a written statement.

Mr. Werfel asked for a clarifying vote regarding the inclusion of quotations in the document. The outcome of the poll the staff conducted during the interim between the July and September FASAB meetings did not produce a clear majority one way or the other. He noted that the document is a preliminary view and he opined that bringing in quotes now – whether in the basis for conclusions or otherwise – is premature. He said a better time to bring those views in would be at the exposure draft phase after the Board has had a chance to collect views. He said he was seeking clarity on the Board's position but, if the majority of the Board decided it was appropriate to keep them in, then he could live with that.

Chairman Mosso mentioned that the quotes originally had been included to illustrate some of the initial interest in the re-consideration of social insurance accounting.

The Board voted 6 to 3 in favor of retaining the quotes in the basis for conclusions. One member voted to review the quotes and keep some and delete others.

Mr. Dacey said he would work with staff to place quotes in the Alternative View as well.

Mr. Werfel asked for clarification regarding the number of days the Alternative View members would have to submit last minute changes to the Alternative View. He was told that 14 business days were allowed, and that Ms. Comes and Chairman Mosso would make a judgment on the substance of the changes. If the changes are substantive they would need to be reviewed by the full Board.

The Chairman indicated that a vote on the PV was in order. He asked the members to indicate whether they supported issuing the PV with the changes discussed today. He mentioned that the members would have another look at the PV before the document was issued. He said he believed the rules would allow the members to change their votes if they found something objectionable in the changes.

The Board voted 10 to 0 to release the PV. Mr. Patton announced his intention to write an alternative view if the changes to the PV were unsatisfactory. He asked whether he would have 14 days to write it and staff indicated a desire that he take less than that but deferred on a final procedural decision. Staff asked the members to sign and submit their ballots.

> **CONCLUSION:** The Board voted 10 to 0 to release the PV subject to the changes that had been discussed. The members will review the PV with changes before it is issued. Members can change their votes if the changes are objectionable.

- **Steering Committee Meeting**

The Steering Committee reviewed the FY2007 and FY2008 budgets. No changes were identified at the meeting.

Ms. Comes proposed devoting contract funding to the conceptual framework project. The Steering Committee agreed.

The Conflict of Interest Policy was adopted as presented.

The committee met in closed session to address personnel matters.

Adjournment

The meeting adjourned at 5 PM.

Thursday, September 28, 2006

Administrative Matters

- **Attendance**

The following members were present throughout the meeting: Chairman Mosso, Messrs. Allen, Dacey, Farrell, Patton, Reid, Schumacher and Werfel, and Ms. Cohen. Mr. Torregrosa attended for Mr. Marron. The executive director, Wendy Comes, and general counsel, Jeff Jacobson, were also present throughout the meeting.

- **Approval of Minutes**

The minutes of the prior meeting were approved electronically in advance of the meeting.

Agenda Topics

- **Fiduciary Activities**

Staff provided a recap of the status of SFFAS 31:

In April, a majority of the Board voted to issue the standard; it was submitted to the Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), the Comptroller General and the Director (Acting) of the Congressional Budget Office for the required 90-day review period, which ended July 25, 2006.[1] Prior to that date, the Secretary of the Treasury, the Director of the OMB and the Comptroller General amended the Memorandum of Understanding (MOU) governing the FASAB to allow the option of an additional 90-day review period in order to address unanticipated circumstances. Under the revised MOU, the review period for SFFAS 31 was extended for an additional 90 days to October 23, 2006.

Staff noted that the Board's briefing material included draft implementation guidance in the form of "Q&As" and presented two questions for the Board to discuss:

(1) Should any changes be made to the draft Q&A document, and
(2) What level of guidance should be issued (e.g., Interpretation, Staff Implementation Guidance).

In response to a question from Mr. Patton, staff noted that the proposed Q&As would not change any of the requirements in any FASAB standard, but would rather clarify questions of implementation. For example, although paragraph 8 of SFFAS 31 states that the fiduciary reporting requirements apply only to the financial statements of a Federal entity, and that the standard does not affect reporting in the Budget of the United States or special-purpose reports, SFFAS 31 does not provide examples of specific special-purpose reports that the standard does not apply to- for example, individual beneficiary statements. The Q&A document would provide examples.

Mr. Werfel indicated that guidance was needed to clarify the Board's intent for SFFAS 31. He said that in addition to the Q&A document, a letter was being drafted to indicate the Board's intent regarding implementation of the requirement for accrual accounting. He said that the letter being drafted would be from Chairman Mosso and co-signed by the Board members representing the OMB, the Government Accountability Office and the Department of the Treasury.

Mr. Werfel asked the Board to review the draft wording of the letter, and asked whether, if a majority of the Board agreed with its conclusions, the letter could state the Board's intent, rather than having additional Board members individually signing the letter.

Mr. Reid said that he thought that it might be helpful for the letter to indicate in some way that the implementation guidance applied to fiduciary reporting requirements in both SFFAS 7 and SFFAS 31. He noted that SFFAS 31 would not be effective until Fiscal Year (FY) 2009, and that the implementation guidance might be needed for fiscal years prior to FY 2009.

Mr. Farrell said that the letter should emphasize that accrual estimates be developed, as well as reported, on the aggregate level. Mr. Schumacher agreed.

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[1] If either the Director of OMB or the Comptroller General object to the standard, it would not be issued.

2. The amendment and extension of the review period for SFFAS 31 are attached.

Ms. Comes noted the draft wording “We believe that it is the Board’s intent” and asked if there could be a mechanism whereby the full Board might be comfortable expressing its views in a letter. FASAB General Counsel Mr. Jacobson suggested where the letter could be more clear that the Board’s view on accruals at the beneficiary ownership level applied only to the specific issue of the development and reporting of the Department of the Interior (DOI) fiduciary disclosure, and not to other areas.

Mr. Patton indicated that he felt some discomfort that the Board is being asked to solve what is essentially an individual agency’s audit problem that is not really in the Board’s domain. However, Mr. Farrell noted and the Board agreed that the Q&A document would apply to all agencies that engage in fiduciary activities.

Ms. Comes asked if the Board was comfortable with the letter expressing the Board’s view regarding the specific situation being addressed. Mr. Patton indicated that he would prefer for the Board to vote on the Q&A document, and for the FASAB Principals to sign the letter, rather than setting a precedent for all of the Board members signing letters. Mr. Dacey asked if the letter, in particular the last paragraph, summarized the Board’s intent accurately. Mr. Dacey asked if the letter stated, “This is the intent of the Board,” would any Board members have a problem with that? None of the Board members expressed an objection.

Mr. Farrell suggested that before the letter was signed, it should be previewed with the auditors to confirm that the letter adequately addresses their concerns. Mr. Werfel indicated agreement.

Mr. Werfel thanked the Board members for their approval of the letter.

Staff noted that the draft Q&A document addresses additional implementation questions that were mentioned by representatives of the DOI during discussions with FASAB staff.

After a brief discussion on the best venue for the draft Q&A document, the Board indicated that staff should develop the Q&A document as Staff Implementation Guidance. Mr. Farrell noted that Questions 2 and 8 should include language that was parallel to the language in the letter.

Staff asked if the Board thought that the questions on other issues were necessary and adequately addressed. Ms. Comes noted that staff was still waiting for feedback from the DOI.

Mr. Allen noted that the illustrative tables in Question 2 contained accruals that were totally insignificant on a quantitative basis, and suggested that either the accrual amounts should be increased, or that all the amounts in the table be deleted, since materiality is addressed in a separate question. The Board agreed that the illustrative tables could be deleted from the document.

> **Conclusion:** The draft Q&A document will be developed as Staff Implementation Guidance.

- **Application of the Liability Definition**

Staff opened the session by providing a brief look at the status of the project, including completed phases and planned future phases. Since the project began in March 2004, staff has presented a project plan, fact sheets on selected federal programs, and an analysis of potential obligating events for select federal programs. In addition, staff has convened a task force and circulated a survey on liability classifications to obtain feedback from the wider federal financial management community.

Staff explained that the results of the survey were the subject of this meeting. If the Board continues to approve of the direction the project is headed, staff would begin to develop obligating events by class and a revised standard on liabilities to conform to the newly proposed liability definition.

Mr. Allen questioned whether it would be more appropriate for the project to be shelved until feedback is received on the Social Insurance Preliminary Views document. He pointed out that the Social Insurance document describes the obligating event in detail without ever referring to the liability classification structure.

Mr. Reid questioned what the alternatives would be if the project was held until the Board considers feedback on the Elements Concepts Exposure Draft and the Social Insurance Preliminary Views document. Ms. Comes responded that there are several other projects that have been designated as priority such as the Appropriate Source of GAAP, which staff has been working on in its spare time. In addition, Ms. Comes suggested that staff could rework the approach to this project and make it more conventional by addressing clearer sub-classes such as asset retirement obligations, social programs other than social insurance, grants, or insurance. She opined that the global approach to applying the liability definition might not facilitate change well in the community. She said she would prefer to see a more conventional approach.

Ms. Comes provided an example of why staff does not think the broad approach works very well, citing the standards in SFFAS 5 on government-related events. Those broad standards have not resulted in federal entities recognizing liabilities for such things as asset retirement obligations. Therefore, it seems that more specific standards are required.

Mr. Farrell agreed that maybe it would be more helpful in facilitating change to look at transactions from the sub-class level (e.g., grants, insurance, etc.).

Mr. Reid said it might be more prudent to hold this project until we work through some of the other priorities. Mr. Allen said he did not see the pressing nature of this project when the Board has other more pressing agenda items to address, such as Federal Entity.

Mr. Reid stated that we might want to revisit the project approach because, as it stands, he would not raise it to the level of importance of some of the other projects the Board has on its agenda.

Mr. Mosso asked if the Board would be willing to take a different approach. He suggested that staff come back with a discussion of obligating events by sub-class rather than by the four classes.

Mr. Patton said he is concerned that the Board will end up discussing all the nuances among the various programs.

Mr. Dacey said that there is general agreement on some of the broad concepts but that does not mean the Board cannot fill in some of the subparts of the framework more clearly.

Ms. Comes said it might be feasible to leave the general standards of SFFAS 5 and the guidance on the four classes in place and pull out sub-classes one by one and provide specific guidance on recognition and measurement by sub-class, not by program.

Mr. Mosso asked if there were any comments on staff's recommendations.

Mr. Allen said he was not clear on what the feedback was leading towards. Mr. Dacey said it is positive that we have feedback from the community upfront as to what the categories are.

Mr. Torregrosa inquired whether the nature of transactions as voluntary or involuntary, which are not mentioned in the definitions, was an important characteristic. Ms. Comes said that there is some reference in the literature that says exchange/nonexchange transactions need not be characterized as voluntary or involuntary. She said staff would provide the literature to Mr. Torregrosa.

Mr. Patton pointed out that the revised definition of exchange allowed for any exchange, no matter how small the dollar amount, to be an exchange, while the revised definition of nonexchange only included transactions where the flow was one-way and there was $0 on the other side. He said that he did not believe the distinction was that clean and perhaps there should be another box for mixed exchange/nonexchange. If that were the case, these definitions for only $0 and non-$0 transactions would not work.

[Break]

Mr. Mosso returned from the break and asked if staff was ready to begin developing a discussion of obligating events by sub-class.

Mr. Reid said he sees a continuum of transactions where some are exchanges, some are nonexchanges, and some have attributes of both. He said he shares Mr. Allen's concerns and, given the broad scope of federal programs, he is not sure that the Board would be able to develop something that is much more helpful than the four classes that exist today. Mr. Reid said that preparers and auditors would need to exercise a certain amount of judgment as to where a program falls on the continuum of transactions, and when we get done, that is still going to be the case.

Mr. Dacey said it might be helpful to develop a discussion of the obligating events at the sub-class level and then see if they can fit under an umbrella for the class. If not, they may not belong in a class, but it is too early to make that decision. In other words, determine if an obligating event can be described in a reasonably consistent way for each of the sub-classes. Then see if those sub-classes can be raised to a higher level as a principle for the class, or break apart the class, whichever is more appropriate.

Mr. Mosso asked if the approach outlined by Mr. Dacey seemed workable to staff. Ms. Comes responded affirmatively. Mr. Mosso asked if any of the members objected to that approach. Mr. Allen asked if the silence of the Board meant that they had agreed to the approach. Mr. Mosso said yes and suggested that staff time their activity once they have something a little more concrete to apply to the groupings.

> **CONCLUSIONS:** Staff will begin developing obligating events by sub-class, as deemed appropriate by the developments in the related projects on Elements and Social Insurance.

- **Reporting Changes in Assumptions**

The staff presented a draft exposure draft (ED) addressing three issues: (1) the display of the effect of "actuarial gains and losses"[2] and note disclosure of the components of cost, (2) the selection of certain discount rates, and (3) actuarial valuation dates. The proposed standard would cover federal employee pensions, other retirement benefits (ORB), OPEB, including veterans' compensation, and social insurance, if applicable.

Mr. Patton agreed that prior service costs should be displayed separately on the statement of net cost, as the staff proposed, but for different reasons than for the effects of changes in assumptions. Mr. Patton said prior service costs did not belong in the standard because they were not actuarial gains or loses or changes in assumptions and did not relate to the discount rate or valuation dates.

Mr. Reid said he considered prior service costs to be period/operating costs because they related to decisions made in the period. He did not think they needed to be broken out in the same way as gains and losses from changes in assumptions. The preparer

[2] The ED defines "actuarial gains and losses" as "A change in the value of either the projected benefit obligation or the plan assets resulting from experience different from that assumed or from a change in an actuarial assumption. Past experience of the covered group is reflected in current costs through actuarial gains and losses."

could decide to break out a period/operating cost because it was material, but the standard would not need to address that situation.

Staff noted that the effect of prior service costs is similar to assumption changes. It is a non-recurring item that the user should know about. It is not like a routine operating cost.

Ms. Cohen said prior service costs were similar to assumption changes. A plan's features are like assumptions and when they change the effect is similar to assumption changes.

The Board decided to limit the display requirement to the effects of changes in assumptions. The standard will not address other expense components, i.e., service/normal cost, interest on the obligation and prior service cost, which will continue to be reported as they are currently. However, the Board agreed that the components should be broken out in the note disclosure as proposed in the draft ED. This would affect the title of the ED, which will now reflect the more limited scope of the reporting standard, i.e., changes in assumptions.

The Board discussed the proposed requirement for valuation dates, which would apply the approach in Interpretation 3 to OPEB and social insurance. The proposal calls for estimates of liability and expense in general purpose federal financial reports to be measured as of the end of the fiscal year (or other reporting period if applicable). The measurement would be based on an actuarial valuation, which may be performed as of an earlier date during the fiscal year, including the beginning of year, with adjustments for the effects of changes during the year in major factors such as the pay raise and cost of living adjustment.

Mr. Allen questioned the need for such adjustments or "roll forwards." He said that as long as the valuation is consistent from year to year a roll forward would be unnecessary.

Staff explained that there might be material changes between the assumptions at the valuation date and the assumptions at the end of the reporting period.

Mr. Dacey said there could be significant costs involved in rolling forward social insurance amounts. He said that the pros and cons of doing that need to be developed more.

Mr. Allen proposed a disclosure of significant events that may affect the estimate rather than a roll forward.

Staff noted that the actuaries and the Office of Personnel Management (OPM) and Military Retirement System (MRS) were already subject to a roll forward requirement per Interpretation 3 and, if social insurance were the problem, social insurance could be dropped from this standard. This standard addresses expense and liability and it remained to be seen whether the current standard in that regard, SFFAS 17, would be changed.

Several members opposed dropping social insurance from the proposal.

Mr. Reid suggested that the proposal address “actuarial determined liabilities” rather than social insurance or other specific programs per se; then, if social insurance becomes an actuarially determined liability, the standard would be applicable to it. The Chairman asked if this was acceptable to the other members and there were no objections.

The Board discussed the proposed discount rate standard, which followed existing standards for funded plans. For funded plans the discount rate would be “the investment yield for the plan, giving consideration to the nature and the mix of current and expected plan investments and the basis used to determine the actuarial value of assets.” With respect to unfunded plans where current FASAB standards require the use of the “other long-term assumptions such as the long-term federal government borrowing rate or “Treasury borrowing rate for securities of similar maturity to the period over which the payments are to be made,” a new standard was proposed. Some entities have interpreted the SFFAS 5 OPEB standard to require the use of a single-day U.S. Treasury rate as the discount rate. The single-day rate renders liability projections susceptible to more volatility than, for example, an average rate. The proposal requires a five-year average of such Treasury rates as a starting point for the Board’s discussion.

Some members were concerned that the proposal would affect actuarial opinions. If the Board specifies a discount rate then actuaries might not be able to opine on the valuation.

Mr. Patton said he was puzzled by the apparent contradiction between the rationale for selecting Government discount rates for the subject programs, which ties the discount rate to the Government’s borrowing cost, and the proposed standard that requires the long term investment yield.

The staff explained that the rationale would be based on whether or not the plan was funded. If the plan is funded the discount rate would be related to the plan’s return on assets.

Ms. Cohen said that a typical pension plan would invest in a mix of equities, fixed-income securities, real estate, etc., and its long-term rate of return would be an average of these. She said most plans use 8% but mostly the rate of return is much higher. She continued that, if a plan only invests in Treasury securities, then the long-term rate of return is totally meaningless.

Mr. Patton said that even if the plan only invests in debt securities, the discount rate is the settlement rate.

Mr. Allen said it was a valuable tool to delineate between when plans that are funded and plans that are not; for example, between pensions and OPEB. He noted that if a pension plan is fully funded a rate of return would be assumed, and contributions would be much less than if it were not funded. He said that, if a pension plan is not funded one has to take the current return as the discount rate, which would be lower than a rate of return on assets and, hence, a high contribution would be required.

Mr. Torregrosa noted that CBO's public policy prospective is different than an accounting or actuarial perspective. He said that CBO shares Mr. Patton's concerns about the use of the rate of return on plan assets. He said that, from a finance view, only in very select circumstances would the return on assets be the appropriate return for discounting the benefit payments. He added that, in the federal case where funding is "notional," whether a plan is funded has very little to do with the ability to pay benefits. He said CBO would not distinguish between plans based on funding. He said even in the case of the Railroad Retirement fund that invests in private sector securities CBO would not favor using the long-term rate of return on plan assets.

Mr. Reid noted that the issue with the Department of Veterans Affairs (VA) is that VA decided to use the spot rate for discounting and thus the rate changes every year for every maturity, which results in volatility. He said most of other plans use an average rate that is set for a number of periods. He noted that VA has no assets that could also be adjusted to market to offset the change in the liability.

Mr. Reid favored trusting the actuary's judgment. He said that there are groups of trained, professional actuaries certifying that the estimates are prepared in accordance with professional standards. He wanted to mandate that they use something that looks like a historical rate.

Mr. Reid said that the problem he was trying to solve is volatility. He wanted to give VA guidance so that they can stop changing the assumptions each year. He did not favor the 5-year average approach because it would require that the assumptions change each year. He favored a long-term rate that would change only under exceptional circumstances, e.g., after a 5-year review indicates it is necessary. Mr. Reid favored historical average rates for each maturity that would not change every year. Mr. Farrell agreed. Mr. Reid asked the staff to consult with the actuaries who are assisting regarding the language.

Mr. Patton opined that the discount rate is a borrowing rate and wanted the standard to reflect that. He advocated substitution of the borrowing rate language for the current long-term investment yield language.

Mr. Schumacher noted that, for the Government, the return on assets and the Government's borrowing cost may be the same.

Mr. Reid responded that these are notional investments with rates fixed on June 30th of each year that are good for a year. He said these securities all have the same rate of return, although the agency can buy new ones during the year at that rate; and they all mature at the end of the year and new ones are issued.

Ms. Cohen asked whether in that case they are always marked to market.

Mr. Reid said he believe that the rate is Treasury's aggregate, average borrowing rate for each maturity. He said there is a formula for building in short, medium, and long rates. He said primarily this approach eliminates market risk. Mr. Reid offered to provide the exact methodology.

Ms. Cohen made the point that if Treasury issues new rates annually for each security the rates would always be at market for each maturity.

Mr. Torregrosa said using the phrase "expected interest rate" is always going to make CBO more comfortable, irrespective of anything may be done in practice. He said the phrase is forward-looking and that in practice the rate is often backward-looking. He noted that the draft ED's wording in paragraph 24.B is backward-looking and therefore the CBO would object to it. He said he would agree with Mr. Patton not to link the language to the return on the entity's assets. He also said he understood Mr. Reid's concern about the possibility of doing harm regarding the actuarial opinions, and so he would keep this standard as limited as possible. He said he was puzzled as to why this had to be in a standard. He said it seemed like the Indian trust fund problem again where the Board tried to write something for one agency.

Mr. Reid responded that the guidance for using Treasury borrowing rates needed to be standardized.

Chairman Mosso noted that the use of annual averages would change the discount rate each year, and that the use of "expected rates" would allow for the possibility of the same rate being unchanged for several years.

Ms. Cohen asked staff to research the discount rate-setting function at Treasury and the method by which the special bonds are issued and "priced" and determine if it is really done every year. She said she thought that would make a big difference. She said one could still have a long-term expected average but with the understanding that you never have a long-term investment, if in fact the bonds are in essence called in every year and re-issued at a new interest rate.

The Board decided to require a discount rate that would reflect expected future Treasury borrowing rates giving consideration to historical experience rather than current market rates. The Board decided to specify that its intent is that the discount rate should not change frequently, e.g., due to market changes. The Board decided that the discount rate standard should address both funded and unfunded situations, and to model the standard on current usage at OPM and other agencies. The Board decided that the proposed standard should be in the context of the Treasury borrowing rate because that reflects the Government's cost, rather than in terms of the investment yield.

CONCLUSIONS:

Display and Disclosure – The Board decided to limit the display requirement to the effects of changes in assumptions. The Board agreed that the components should be broken out in the note disclosure as proposed in the draft ED.

Valuation Date – The Board approved the staff proposal regarding the valuation date.

Discount Rate – The Board decided to:

1. Require a discount rate that would reflect expected future Treasury borrowing rates giving consideration to historical experience rather than current market rates.
2. Specify that the discount rate should not change frequently.
3. Address both funded and unfunded situations.
4. Model the standard on current usage at OPM and other agencies.

Adjournment

The meeting adjourned at 2:00 PM.

Attachments: Amendment to the MOU and Extension of 90-Day Review Period for SFFAS 31.

FIRST AMENDMENT
TO
MEMORANDUM OF UNDERSTANDING
AMONG
THE GOVERNMENT ACCOUNTABILITY OFFICE,
THE DEPARTMENT OF THE TREASURY, AND
THE OFFICE OF MANAGEMENT AND BUDGET
ON
FEDERAL GOVERNMENT ACCOUNTING STANDARDS AND
A FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

WHEREAS, the Government Accountability Office ("GAO"), the Department of the Treasury ("Treasury"), and the Office of Management and Budget ("OMB") have previously entered into a Memorandum of Understanding ("MOU") dated May 7, 2003, establishing the procedures to be followed in setting Federal Government accounting standards and a Federal Accounting Standards Advisory Board; and

WHEREAS, GAO, Treasury, and OMB now desire to amend the provision of the MOU relating to the review time for Federal Accounting Standards Advisory Board proposed concepts and standards to allow for extensions of such review time; and

WHEREAS, GAO, Treasury, and OMB are willing to enter into this First Amendment to Memorandum of Understanding ("this First Amendment") to allow for extensions of the review time.

NOW, THEREFORE, GAO, Treasury, and OMB agree as follows:

1. **Definitions**.

Capitalized terms used and not defined in this First Amendment shall have the respective meanings given such terms in the MOU.

2. **Modification to Paragraph on Review Time for Federal Accounting Standards Advisory Board Proposed Concepts and Standards**.

The second paragraph of Section 4 of the MOU specifying the review time for Federal Accounting Standards Advisory Board proposed concepts and standards is hereby amended to read as follows:

> "When the Board has developed a proposed concept or standard, the Board shall submit it to the Comptroller General, the Director of OMB, the Secretary of the Treasury and the Director of CBO for their review. If, within 90 days after its submission, the Comptroller General or the Director of OMB, or both, objects to the concept or standard, then it shall not be issued and will be returned to the Board for further consideration; provided, however, that the

Comptroller General or the Director of OMB, may, in the event that unanticipated circumstances make it difficult for the Comptroller General or the Director of OMB to complete the 90 day review timely, extend the review time for one additional 90 day period. If the Comptroller General or the Director of OMB implements such an extension, they will notify the FASAB Chair. If neither the Comptroller General nor the Director of OMB objects to the concept or standard during the review time provided in this paragraph, including any extension of the review time, then it shall be issued and become a final concept or standard of the Board. Concepts and standards will be announced in *The Federal Register*."

3. **MOU Remains in Effect**.

Except as modified herein, the MOU shall remain in full force and effect.

4. **Effective Date of this First Amendment**.

This First Amendment shall not become effective until it has been executed by all of GAO, Treasury, and OMB. When the First Amendment has been so executed, it shall become effective as of the date of the last signature.

______________________________ ______________________
Henry M. Paulson, Jr. (date)
Secretary of the Treasury

______________________________ ______________________
Rob Portman (date)
Director, Office of Management and Budget

______________________________ 7/20/06
David M. Walker (date)
Comptroller General of the United States

7/20/06

Rob Portman
Director, Office of Management and Budget

(date)

7/24/06

Henry M. Paulson, Jr.
Secretary of the Treasury

(date)

NOTICE OF 90-DAY EXTENSION OF SFFAS 31 REVIEW:

Via – E-mail on July 25, 2006

Chairman Mosso:

Pursuant to the attached MOU amendment, OMB is initiating a 90 day extension of review for proposed Statement of Federal Financial Accounting Standards 31, Accounting for Fiduciary Activities.

The extended review period will be complete on or before October 23, 2006. Please let me know if you have any questions concerning this matter.

Regards,

Danny Werfel
Deputy Controller
Office of Federal Financial Management
Office of Management and Budget

(P) 202-395-3993