

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
August 20-21, 2008
Room 7C13
441 G Street NW
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Wednesday, August 20, 2008

Administrative Matters

- **Attendance**

The following members were present throughout the meeting: Chairman Allen, Messrs. Dacey, Farrell, Jackson, Patton, Reid, Schumacher, and Steinberg. Ms. Carrie Hug attended the meeting for OMB member, Danny Werfel. Mr. David Torregrosa represented CBO. The executive director, Ms. Payne, and general counsel, Mr. Dymond, were also present throughout the meeting.

- **Approval of Minutes**

The minutes were approved electronically in advance of the meeting.

- **Robert Murphy, CBO**

The Board paused for a moment of silence in remembrance of Bob Murphy, CBO general counsel and FASAB member, who passed away earlier in the month.

- **Domenic Savini, FASAB Staff member**

Ms. Payne introduced new staff member, Domenic Savini. Mr. Savini indicated that it was a privilege to serve the Board.

Agenda Topics

- **Fiscal Sustainability**

Assistant Direct Ms. Parlow noted that at the June 2008 meeting, the Board had indicated its intention to issue an exposure draft (ED) by the end of August 2008, which would allow a full 120 days of public comment before the public hearing planned for February 2009.

“Current Policy without Change”

The Board discussed which short/abbreviated term would be best to use to refer to the proposed guidance for policy assumptions. Among the terms considered were: “current levels of benefits, services and taxation,” “current policy without reform” and “current policy without change.” A majority voted to adopt the term “current policy without change.”

Fiscal Gap

The Board discussed proposed requirements for reporting fiscal gap.¹ A majority of members approved the flexible proposed requirements that would allow the preparer to report fiscal gap: (a) for either a specific debt-to-GDP level or a range of debt-to-GDP levels, and (b) either on the face of the basic financial statement or in a disclosure.

¹ **Fiscal Gap** - The fiscal gap is the change in spending and/or revenue that would be necessary to maintain public debt at or below a target percentage of GDP. The fiscal gap is the net present value of projected spending¹ minus projected receipts, adjusted by the decrease (or increase) in public debt required to maintain public debt at the target level for the stated projection period. The fiscal gap may be expressed as:

- (a) a summary amount in present value dollars,
- (b) a share of the present value of the GDP¹ for the projection period, and/or
- (c) a share of the present value of projected receipts or projected spending.

Several members believe that the illustrative graphs in the ED are not adequately reader-friendly understandable, but agreed to include them provided that a question was included in the ED that would prompt responses regarding the understandability of the illustrations.

Valuation Date

Ms. Parlow said that following the June 2008 meeting, staff representatives from the Treasury Department, OMB and GAO had noted that a proposed change- to remove a requirement that the valuation date may not be more than one year prior to the financial statement date- could have the unintended consequence of allowing stale data to be reported. They recommended that the requirement (“and no more than one year prior to the end of the current year”) be restored to the text of the ED.

Subsequent Events (Legislation)

Mr. Dacey had asked the Board to consider draft language addressing situations where the timing of legislation may not allow the preparer to prepare or the auditor to audit revised projections. The draft language requires that such changes should be disclosed, and, if feasible, the estimated effect on the projections. The Board approved the draft language for inclusion in the ED.

“Public Services”

The Board discussed whether to change the term “benefits and services” to “public services” and to add a definition for public services: “In this standard, all goods, benefits and services provided by the government. Federal public services include but are not limited to the provision of goods, cash (such as Social Security benefits), or other financial benefits (such as loan guarantees), as well as national defense, national security, transportation safety and national parks.” Both terms are used in SFFAC 1 regarding the stewardship objective. The Board decided that the term “public services” should be used throughout the ED.

Foreign Holding of U.S. Treasury Debt

Mr. Steinberg asked the Board to consider adding a reporting requirement for foreign holdings of U.S. Treasury Debt. He noted that potential risks/disadvantages included having the interest on the public debt going outside the U.S., potential limitations on foreign policy options and that foreign holders may have less tolerance for a high level of debt to GDP.

Ms. Dawn Simpson and Mr. Dean Carpenter, representatives from GAO, addressed the Board about the nature of the available data on foreign holdings based upon their audit of Treasury’s Bureau of Public Debt. They noted that the vast majority of Treasury securities are purchased by primary dealers, brokers, or financial institutions and are then held in a system at the Federal Reserve Bank. The GAO’s audit indicated that the data on foreign holdings is based upon surveys directed to brokers, dealers, and financial institutions rather than historical transaction data. Because of the survey process, the data is unverifiable and is generally not available until many months-

generally one year- after the period being reported on and is then updated to the reporting date based upon a model of the estimated cash flows.

Mr. Steinberg noted that the federal government is already reporting this information.²

Messrs. Farrell, Reid, and other members said that it is unclear how the information would relate to the objectives of fiscal sustainability reporting.

Although there was not a majority in favor of this proposal, it was agreed that the proposal would be discussed in the Basis for Conclusions of the ED and a question would be added to prompt public comment on this proposal.

Policy Alternatives

Mr. Steinberg also asked the Board to consider a proposal that if the projections indicate a significant fiscal gap, that there should be a requirement to include the identification, explanation, and fiscal impact of one or more policy alternatives as Required Supplementary Information (which would remain RSI and not be subject to the phased implementation requirements).

A majority decided not to adopt this proposal, but that it would be discussed in the Basis for Conclusions of the ED and a question would be added to prompt public comment on this proposal.

Inter-period/inter-generational equity

Mr. Dacey requested that the proposed requirement for additional information “that may be helpful to readers in assessing whether financial burdens without related benefits were passed on by current-year taxpayers to future-year taxpayers” should be reclassified from “other accompanying information” to an optional way of providing context to meet the disclosure requirement of providing some kind of context for the data. A majority of the Board agreed to make the re-classification.

Conclusions:

1. FASAB staff will make the edits to the ED as described above.
2. FASAB staff will provide a Ballot Draft to members as soon as possible after the August 2008 meeting.

- **Social Insurance**

The objective for the June meeting was to obtain comments from members on a draft exposure draft for additional social insurance reporting. To focus discussion, five specific questions were posed: (1) whether to amend SFFAS 15 and SFFAS 17, (2) whether members approved the

² The Treasury Department posts the report, *Report on Foreign Portfolio Holdings of U.S. Securities as of June 30, 2007*, issued by the Department of the Treasury, Federal Reserve Bank of New York, Board of Governors of the Federal Reserve System, at <http://www.treas.gov/tic/fpis.html>.

questions for respondents and/or had additional questions to ask, (3) whether members approved the draft statement of changes in social insurance amounts, (4) whether members approved the approach to sensitivity analysis, and (5) whether members approved the approach to summarizing the responses to the preliminary views document.

Mr. Fontenrose explained that the draft ED proposed the closed group measure as one of the key measures to be discussed in the financial statements section of the MD&A, on the balance sheet, SOSI, and statement of changes in social insurance amounts, and that that reflected the Board's decision in June.

Closed Group Measure

Ms. Hug said she was concerned that the Board did not clearly vote for the closed group measure at the prior meeting and may need more information on it. She suggested having actuaries address the Board to provide their views on the closed and open group measures. Ms. Hug mentioned the perception that some may have that the closed group measure indicates social insurance is going to be terminated. She asked that the members be poled for their views.

Mr. Allen asked Mr. Fontenrose to summarize why the Board chose the closed group measure and then Ms. Hug could make the argument why she believes the open group measure is better and then the Board could reconsider it.

Mr. Jackson asked whether Ms. Hug was making this argument only in terms of the MD&A highlights. Ms. Hug said, no.

Mr. Farrell referred the Board to the June minutes. Page 22 of the minutes shows what Mr. Werfel had said and Mr. Allen's response.

[From page 22 of the June minutes: [Mr. Werfel said] ..he personally favored the open group over the closed group but would support a single metric even if it were the closed group. The presentation needed to be simple in order to get a measure across.

Mr. Allen said he agrees that simplicity is a goal but so is credibility, which follows from showing how things fit together, from articulation. He said the Board chose the closed group measure for the statement of SOSI changes because it is more measurable and consistent than the open group. He said he would not object strongly to dropping the open group measure. However, the closed group measure is needed because it articulates with the statement of SOSI changes.]

Mr. Allen said he could not remember a formal vote but did recall a lengthy discussion at the June meeting. *[See pages 28-29 of June minutes for the Board's conclusions on staff Questions 2-5 of the June staff briefing memorandum.]* He asked the Mr. Fontenrose to summarize what had occurred in June.

Mr. Fontenrose explained that the Board's decision had been based on the notion that the closed group measure was a firmer number because it involved only the current participants and that it was less volatile than the open group measure. In addition, the closed group measure addressed the compromise nature of the proposal, because it is limited to current participants and therefore was more like a liability measure than an open group measure.

Mr. Jackson noted that arguably it would be harder to change the commitment to the current participants than to future participants.

Mr. Fontenrose noted that the Trustees' Report and the SSA Actuarial Note discusses all these measures, the open group, the closed group, the unfunded obligation, that these were familiar concepts. Mr. Fontenrose noted that the SSA actuaries may argue that the closed group measure should not be a line item on the balance sheet but that the Board could conclude that it was a legitimate disclosure.

Ms. Hug said she said did not think the Board disputed that the open group measure was more volatile or that the closed group measure was more a number you could provide, as much as the approach of the closed vs. the open group measure. She said she did not think that was clearly stated or voted on.

Mr. Allen asked Ms. Hug whether she would argue that the one measure to disclose should be the open group measure.

Ms. Hug answered affirmatively, although she did not favor putting any measure on the balance sheet.

Mr. Allen asked Mr. Dacey whether he thought the measure in the MD&A highlights ought to be different than the numbers on the basic statements.

Mr. Dacey answered in the negative. He said the Board had discussed having one number in the MD&A highlights and noted that GAO's position historically has been more supportive of the open group measure. He did not recall Board discussions and deliberations on promoting open or closed group. He thought the Board should have a clear deliberation regarding which of the measures to use. He said, absent the fact that he was not in favor of having it on the balance sheet, he accepted that, if you are going to put a measure on the balance sheet, then the Board needs to decide which one to put there.

Mr. Allen asked him whether he would argue that whatever measure is chosen, there ought to be consistency throughout the presentation, that is, for the MD&A highlights to the balance sheet to the SOSI and statement of changes.

Mr. Dacey said there ought to be some consistency, because the MD&A is drawn from the basic statements, although he was not as concerned with having two measures as some of the other members. He said that, if the Board was going to take the two measures that are on the current SOSI and decide to elevate one over the other in these other statements, that the Board ought to be clear that it is making that decision and why it was making it.

Mr. Allen said he thought he, Ms. Hug and Mr. Dacey had spoken and preferred one consistent number be applied, and that Ms. Hug and Mr. Dacey had preferred the open group measure and he preferred the closed measure. He proposed going around the table to hear the other members.

Mr. Dacey interjected that he preferred the open group measure at this point but again he did not think he had had enough information and study and deliberation to make a fully informed decision. He was basing his view upon GAO's historic position in favor of the open group measure.

Mr. Allen said, again, that may be a legitimate candidate for a question for respondents. He noted that usually the Board's default position is to have a question.

Mr. Dacey agreed. He said that at a minimum, there ought to be a question on it in the ED no matter what the Board decides.

Mr. Schumacher said that no matter which measure the Board chose it should be consistent throughout the presentation. He noted that both the closed and open group measures would be displayed on the SOSI. He thought the Board had selected the closed group measure because of the reasons stated earlier regarding that measure being a compromise and the most widely used measure and it would articulate with all of the statements. He said he would favor the closed group measure, knowing that the open group measure is disclosed in SOSI, which is a basic statement. He added that he would not be opposed to having a question asking the readers what they prefer.

Mr. Allen added that the question should focus on why they prefer a measure and which measure yields the best information.

Mr. Schumacher agreed. He said he preferred the closed group measure because it involves the current participants in the plan. It eliminates some of the estimation difficulties.

Mr. Patton noted that he preferred a liability on the balance sheet but, absent that, he agreed with Mr. Schumacher. However, he would be interested to hear the other side of the argument. He noted that Mr. Dacey had said the Board had not had enough deliberation. He invited Mr. Dacey to offer arguments.

Mr. Dacey said some of the reasons in support of the open group measure is that it provides information relevant to the sustainability of the programs. It involves all of the cash flows coming in and out during some time horizon. He said the programs take the revenues from future participants to pay the benefits for people currently working in a pay-as-you-go system. He added that there are pluses and minuses for each measure, which is the challenge.

Mr. Jackson said that, while he was a strong believer in the closed group measure as a compromise to the liability position, because it more closely approximates the liability, he would be moved in the direction of recording the open group amount, net of the present value of benefits to those who are current recipients, which would be a hard and fast liability. He views the latter amount as irrevocable. No one would assert that that amount does not rise to a sufficient level of probability to record a liability. The residual – the total open group measure less the present value of benefits owed to the current retirees – should be recorded as a commitment. The residual, he said, is not sustainable. Mr. Jackson noted that the process has been circuitous and in that vein he wanted to offer current-retiree liability as a compromise. He mentioned that the amount would be about \$6 trillion.

Mr. Schumacher asked if Mr. Jackson was saying the \$6 trillion was "due and payable."

Mr. Jackson said yes, absolutely. He added that no one in D.C. would propose not paying it.

Mr. Schumacher agreed.

Mr. Farrell said that he would not comment on Mr. Jackson's proposal. He favored the closed group measure for the reasons stated by Mr. Fontenrose and Messrs. Schumacher and Patton.

He said he did not think there was any worry that people would see the closed group measure presented in a highlights table and at the bottom of the balance sheet and some other disclosures and conclude that the Board wanted to terminate social insurance, or that that sends a signal that the program was going to end. He noted that closed group measures have been reported and discussed for a very long time. He said he did not think that just rearranging the measures and presenting them a little differently would cause that to happen.

Mr. Steinberg said he thought all of this discussion has been overtaken by events. He thought people were going to focus on the statement of sustainability, and therefore he would not put any lines on the balance sheet. However, if there had to be a line on the balance sheet, his guiding principle would be articulation. Since there is already a statement that shows the open group measure, that is what he would show.

Mr. Torregrosa said he agreed with much of what Messrs. Farrell and Steinberg had said, except regarding the position nothing should be displayed, because CBO had voted for display. Mr. Murphy had voted for the closed group measure and so Mr. Torregrosa said he would continue that vote; but he said he did not think it mattered whether the closed or open group measure was displayed because the numbers are not radically different.

Mr. Reid said he favored the closed group measure for completely different reasons. He said there is at least one group of people who feels that an arbitrary 75-year period [for an open group measure] is not necessarily the best idea [due to the cliff effect]. It may appear that you have corrected with problem simply by getting the 75-year number to be zero, but there may be situations in years 76, 77, 78, etc. where you have imbalances. It just so happens by coincidence that the [open group] infinite horizon numbers are somewhat closer to the closed group amount than the [75-year] open group number, which seems to indicate that the problem is not fixed if all you do is get the open group numbers to foot to zero; there could be additional deficiencies beyond that period. And because the closed group measure is more representative of the entire problem than the open group measure, he favored the closed group measure. He said he thought the Treasury analysts would like the idea of looking at the problem in its entirety and would say that an arbitrary line is probably not helpful.

The tally was:

Approve One Consistent Measure for MD&A and Statements	Which Measure?		Recognize a Liability for Current Participant + Residual Open Group
	Closed Group	Open Group	
TA	TA		
(unclear)		CH/OMB*	
BD		BD	
AS	AS		
JP	JP		
WJ	WJ		WJ
JF	JF		
HS		HS	
DT/CBO*	DT/CBO*		
BR	BR		

*denotes a substitute speaking in the absence of a member and, therefore, an unofficial position

MD&A Highlights

Mr. Allen asked the members if there were any more questions on the MD&A highlights proposal.

Mr. Dacey suggested that component entities' MD&A might explain key budgetary information. The proposal did not provide for that. It required information at the consolidated, CFR level, e.g., budget receipts, outlays, and deficit (surplus). Mr. Dacey said that there may be key measures from the statement of budget resources and/or the statement of financing that the component entities should discuss.

Mr. Fontenrose agreed that that might be a valuable additional requirement.

The Board then discussed whether the proposed standard would apply to non-social insurance entities. Mr. Dacey noted that the proposal would amend SFFAS 15 and therefore would apply to all entities.

Mr. Jackson questioned whether the proposal should apply to non-social insurance entities.

Mr. Fontenrose noted that in June the Board had discussed the defects in MD&A generally and had decided to use the social insurance vehicle to amend SFFAS 15 to try to correct that.

Ms. Hug said that she agreed that the component entities' MD&A could be more robust, but questioned whether the proposal would make them so.

Mr. Fontenrose explained that the proposed standard asked for more analysis than did SFFAS 15 and the hope was that that would be the result.

Ms. Hug asked whether the entire SFFAS 15 should be revisited.

Mr. Fontenrose responded that the provisions amending SFFAS 15 could be undertaken as project apart from the social insurance provisions, on a separate track. Then the social insurance standard would require certain things to be in the MD&A of social insurance entities without amending SFFAS 15 per se.

Mr. Jackson said he prefers separate projects because it is hard to comprehend the dual aspects in one standard.

Mr. Dacey noted that the proposal affected one section of SFFAS 15, the financial statement section. It required certain selected financial information to be discussed. Its effect on SFFAS 15 was limited. He mentioned that perhaps the front end of the proposal could be set up a bit differently to avoid confusion. Mr. Dacey said the question was whether this summary financial information would be helpful for all entities, and he said he would argue that it would be.

Mr. Allen said he had always read the proposal in terms of social insurance entities and not other entities. He had always thought it would apply only to social insurance entities. He said that if this were an attempt to comprehensively look at SFFAS 15, he did not know if he was adequately prepared.

Mr. Dacey said the proposal was not an attempt to re-write SFFAS 15 but rather to add a requirement to discuss selected financial information.

Mr. Steinberg added that, from his perspective as a reader of MD&A, that what is being attempted in paragraph 21 of the proposal is very badly needed. He said agencies do not do a good job of analyzing their financial statements and the proposal would be extremely helpful. However, he agreed with Mr. Allen that there are many parts of SFFAS 15 that could be made a lot better, e.g., the forward-looking information and what is meant by performance goals and results. He said he feared that as good as this is, many people would look at the statement and feel it addresses just social insurance entities. He concluded that an amendment of SFFAS 15 should not be part of the proposal.

The Board and the staff discussed possible approaches for the standard, e.g., changing the title to "omnibus," and having two parallel exposure drafts.

Ms. Payne noted that an MD&A exposure draft would be limited to the financial statement analysis section.

Mr. Steinberg asked why not address all the MD&A problems.

Ms. Payne responded that her sense of the discussions the Board has had about social insurance was that this is a compromise package, and that part of that compromise would be an MD&A containing a summary report that pulls all the pieces of information together. She said it was not that she thought the MD&A piece by itself rises to the top of the technical agenda, rather it is part of a package related to SI that is meaningful. If the MD&A piece of the compromise package is deferred until a comprehensive MD&A project is undertaken, she wonders if the SI package would be perceived as a successful compromise.

Mr. Allen said that he would argue that, if the Board wanted to amend SFFAS 15, it ought to go back and, as a separate project, take a more comprehensive look at it.

Mr. Dacey asked why the Board could not do both.

Mr. Allen said that the Board had basically spent its time on a social insurance project and reached a compromise that required some MD&A. He thought the proposal was just explaining the MD&A as it related to the compromise without realizing we were amending MD&A generally. He did not think the Board had spent the time to talk about that.

Mr. Farrell said that he, too, had just become aware that the standard would apply to more than the Social Security Administration, HHS, and the governmentwide entity, and so he missed that too; but he said this would appear to be a fairly good change to the MD&A requirements. He noted Mr. Steinberg's experience with inadequate MD&As. Although he did not think a wholesale revisit of SFFAS 15 would be good, the Board could make modest enhancements to SFFAS 15 for all agencies while the Board is at it. He favored keeping the MD&A amendments in the proposal and changing the titles to alert the other agencies that the scope of the standard involves more than social insurance.

Mr. Steinberg said the next question is whether the other sections of SFFAS 15 ought to be reviewed at the same time.

Mr. Farrell responded that they should not be reviewed.

Mr. Allen asked whether the members wanted this standard to apply to more than the social insurance agencies. If the answer is "yes," then he said the other question is: do the members want to go forward with this part of it or separate it and take a more comprehensive look at MD&A. He said Mr. Fontenrose has argued that the Board does want it to apply to more and it thought it could make some improvements to SFFAS 15 without spending the time to be more comprehensive.

Mr. Fontenrose added that he had thought members wanted to make some limited improvements to SFFAS 15, but he could limit the scope of the proposal to SFFAS 17 and social insurance agencies. The standard could require something in MD&A under the current SFFAS 15 standard.

Mr. Steinberg said he did not think the members had said there was a problem with MD&A that needed to be addressed. He thought they had said that the proposal would affect the SOSI and the MD&A and therefore in order to write this ED the Board had to amend both SFFAS 17 and SFFAS 15.

Mr. Allen agreed. He then framed a question for the members. He asked whether members believe the social insurance standard should go forward:

- (1) focusing solely on implications of social insurance reporting;
- (2) as written with social insurance reporting requirements and an MD&A amendment addressing financial statement analysis that would apply to all agencies. He said a second part of the second question is: or
- (3) do members want a separate project on MD&A. Mr. Allen asked Mr. Reid for his views.

Mr. Reid said, having actually used the MD&As and found that they came up considerably short of the mark, his view was similar to Mr. Steinberg's. He said he would have no problem making the standard universal. He said it was a step in the right direction. Perhaps more work in SFFAS 15 is needed but there is no reason not to start to put some pressure on agencies to improve their MD&As. He added that he was not worried about non-social insurance agencies missing this. He said he was sure their auditors would be reminding them.

Mr. Torregrosa said he too thought the standard would apply only to social insurance. He said he did not have a problem with the idea of doing it broadly but it seemed odd in this venue. He concluded that he would focus on social insurance.

Mr. Steinberg said if the Board goes forward with a broad MD&A requirement, the title of the standard would be “Accounting for Social Insurance, Revised and Revisions to the MD&A Financial Analysis.” He concluded that that would be too piecemeal. He said his preference would be 1, 3, and 2. Thus, his first choice would be for the social insurance standard to go forward focusing on implications of social insurance reporting. If that is not done, then his second choice would be a comprehensive MD&A project that addressed all the problems. Then, his third choice would be the standard, as written, with a limited MD&A requirement regarding financial statement analysis that would apply to all agencies.

Mr. Farrell said Mr. Steinberg’s third choice would be his first choice. He said he did not mind a piecemeal approach to some changes to the MD&A. He said the Board has a history of issuing new standards that have implications for previously issued standards. He added that a comprehensive review of SFFAS 15 would be the ultimate way to go, but considering staff resources and the Board’s agenda-setting, he said this was a good way of accomplishing something positive in federal reporting without worrying about when the Board might actually be able to issue a separate statement.

Mr. Jackson said his answer was #1. He preferred having the standard relate only to social insurance with the highlight material included in the MD&A and the rest goes to another day.

Mr. Patton agreed with Mr. Jackson. He noted that social insurance has been too monumental undertaking for the Board to dilute it with some partial little fix-ups. Having spent over nine years on social insurance while on the Board, he would like to focus.

Mr. Schumacher said he would like it to focus on social insurance and do the other piece as a separate project.

Mr. Dacey said the MD&A requirement ought to be universal. He questioned the logic of setting an MD&A requirement only of social insurance entities. He said it would be good information for all agencies. He did not see a reason for not incrementally adding an MD&A requirement.

Ms. Hug said she envisioned that the standard would amend SFFAS 15 with respect to financial statement analysis, and then the Board could go back at a later date to review SFFAS 15 more comprehensively.

Mr. Allen said he would focus just on the social insurance standard. He noted with respect to the Board’s agenda that no project got more than five votes. He said he did not think the Board had any burning issues out there that are demanding to be addressed; if the Board thought that MD&A was a priority, then it could very easily make it so. He poled the members.

The social insurance standard should go forward:		
(1) focusing solely on implications of social insurance reporting	(2) as written, with social insurance reporting requirements and an MD&A amendment addressing financial statement analysis only that would apply to all agencies.	A second part of the second question is: (3) or do members want a separate project on MD&A.

The social insurance standard should go forward:		
(1) focusing solely on implications of social insurance reporting	(2) as written, with social insurance reporting requirements and an MD&A amendment addressing financial statement analysis only that would apply to all agencies.	A second part of the second question is: (3) or do members want a separate project on MD&A.
	BR	
DT/CBO*		
HS		
	JF	
WJ		
JP		
AS		
	BD	
	CH/OMB*	
TA		

*denotes a substitute speaking in the absence of a member and, therefore, an unofficial position

Mr. Fontenrose asked if the members had any additional comments on the MD&A paragraphs of the exposure draft.

Mr. Schumacher asked if the term “below the line” would be changed.

Mr. Fontenrose noted that several members had commented that that term was unsatisfactory and he would be changing it.

Mr. Jackson asked what needed to be done to modify the document.

Mr. Fontenrose explained that paragraph 41, which amended SFFAS 15, would be removed; and that the social insurance entities would be instructed to include in their MD&A’s financial statement analysis section the “highlights” information required by paragraph 21.

Mr. Steinberg said that paragraph 21 needed to be modified to reflect that it is not covering the whole thing now that it is covering social insurance only.

Balance Sheet

Mr. Fontenrose asked if members had comments on the proposed line item on the balance sheet. There were no comments.

SOSI

Mr. Fontenrose asked if members had comments on the proposed summary section of the SOSI. He mentioned that a member had noted that the closed group measure was featured in the presentation and had expressed interest in having the SOSI summary section conclude with that measure, instead of having it displayed as a sub-total. The bottom line on the proposed summary section currently is the open group measure.

Mr. Patton said that the summary section seemed sufficiently clear now and making the closed group measure the bottom line would require some manipulations that could make it less clear. He preferred the summary as present in Appendix D.

Mr. Schumacher agreed.

No other comments were made.

Mr. Fontenrose concluded that the summary was acceptable as presented in Appendix D of the August briefing memorandum.

Statement of Changes in Social Insurance Amounts

Mr. Fontenrose noted with respect to the statement of changes in social insurance amounts that he was still developing several line items. He had requested assistance from the Social Security Administration's Office of the Actuary in breaking down the line item "changes in valuation period" and "changes in programmatic data."

Mr. Farrell questioned the word "reasons" in the first sentence in paragraph 33, which listed the components of the periodic change. He suggested that the list was of amounts rather than reasons.

Mr. Allen suggested saying they should be highlighted and explained or something like that. He said what analysts want to know is why things changed.

Mr. Steinberg offered three thoughts: first, he thought Mr. Farrell was right. The statement displays the amounts of the change. Second, the MD&A is supposed to provide the explanation of the changes, which the Board had just discussed. He suggested that the reasons for the change during the period is a good example of what to say in the MD&A. Third, he noted that some people look at the numbers and see the amount resulting, for example, from demographic changes, which could be significantly different from one year to the next. The explanation they give is that the number changed; he said one needs more than that; one has to know why they changed.

Mr. Reid interjected that he did not want to skip over putting the explanation in the statements. He said Treasury's view of the MD&A is that it summarizes what is in the report. The explanations – probably in a lot greater detail – should be associated with the schedule. He noted that, if all the changes are important, then they all should be discussed in the MD&A; but chances are they will not all be important. There will be one or two that will be the significant drivers, and that is what you focus on in the MD&A. But, he said that if you skip over the requirement that the explanation be back with the schedule you lose that.

Mr. Fontenrose suggested requiring footnote disclosure with the statement of changes in social insurance amounts explaining the changes.

Mr. Reid agreed.

Mr. Steinberg said that if the explanation is put on the statement or in the footnote they would require audit. He thought that that would greatly expand the scope of the audit.

Mr. Allen said that he did not understand some of the components of change on the statement but some of them he did. He said the users would need explanations.

Mr. Reid gave a preparer's perspective. He said the line items were examples. In practice the preparer would use line items that mean something for a particular period, that explain the reason for the change and then behind it – not on the face of the statement but immediately behind it or under it or around it or something – say “in this year the regulations were changed to be ...and the estimated impact of that is”

Mr. Allen agreed and questioned whether the standard captured that.

Mr. Fontenrose suggested changing the standard and instead of asking for specific line items give examples and ask the preparer to explain the major changes. He noted that there would be disclosure associated with that.

Mr. Reid agreed.

Mr. Steinberg summarized the discussion. He said there were probably two levels. The statement displays the categories of change from one year to the other; there would be a footnote; there would be something underneath the statement that would indicate what brought about that change; and the most significant changes would be explained in the MD&A.

Mr. Reid agreed.

Mr. Fontenrose asked for clarification regarding what Mr. Steinberg meant by an explanation beneath the statement.

Mr. Steinberg said he heard Mr. Reid say that way to disclose the reasons for changes that do not merit MD&A discussion would be to put a footnote on the statement and underneath it you would give the reason for the change.

Mr. Reid agreed. He said, mechanically, you need the numbers and you need some narrative to talk about the significance of the numbers right in the statement and then the MD&A simply summarizes whatever is important.

Mr. Steinberg noted that Mr. Reid had said narrative. Mr. Steinberg said what he would envision if you had a footnote would probably be no more than one sentence about the change.

Mr. Reid said that he was saying that there would be at least two or three of these categories that will be a trillion dollars, and you are probably going to say more than one sentence about a trillion dollars.

Mr. Allen asked if anyone objected to what Mr. Steinberg defined and what Mr. Reid is saying, that we ought to have explanations of changes and those that are most significant for the entity as a whole would flow up to MD&A. No one did.

Mr. Jackson asked where that would go in the standard.

Mr. Allen said it seemed like to him that you would almost need to add a paragraph, after you talk about the statement of changes in social insurance amounts, that would convey the

requirement. Regarding format, Mr. Allen said that the explanations could go on the bottom if there is room or if not somewhere else.

Mr. Fontenrose noted that the format and line items illustrated would be merely an example of the requirement.

Mr. Reid agreed and noted that that is typically the case.

A Liability-Type Number for the Notes

Mr. Fontenrose noted that the last component of the social insurance proposal was the note disclosure of a liability-type number. He mentioned that the proposal called for disclosing the Social Security Administration's accrued benefit obligation. He noted that question for respondents 5 dealt with this topic.

Mr. Allen said he had a general concern about the format for the questions for respondents. He said he had asked that the questions be modified to explain why the Board is doing something.

Mr. Patton said he thought that the references to the paragraphs in the basis for conclusions did that.

Mr. Allen said they did, if you go back and read all of that; but it seemed to him to be beneficial when you ask someone a question to explain up front why the Board set this up as a requirement.

Mr. Patton said it struck him as a very difficult thing to take a two paragraph basis for conclusions and crunch it down to a sentence that the members would agree to. But staff could try.

With respect to the references to specific basis-for-conclusions paragraphs shown in the questions for respondents, Mr. Reid suggested expanding it to say "for the rationale behind why the Board added the provision and is asking the question is in the basis for conclusions, see paragraphs whatever."

Mr. Allen responded that it would not take even a full sentence to say, for example, "as requested by financial statement users, the Board has added this and this."

Mr. Reid said he agreed with Mr. Patton. A short phrase may suffice for the accrued benefit obligation note disclosure but some of the other provisions would need more explanation.

Mr. Fontenrose said he would draft some additional introduction for the questions for respondents for the Board's consideration.

The Board discussed the proposal to disclose a liability-like number in the notes.

Mr. Allen noted that Mr. Reid had proposed this disclosure because of the requests he gets for the information.

Mr. Reid added that the proposal is also based on the preference from the Secretary and the number of questions the Board had in the social insurance hearing for this kind of information;

clearly 50 percent of the respondents at least said they were interested in this information. He said the objective was to be as transparent as possible.

Mr. Fontenrose said that the next question after deciding to disclose a liability-type number is: which number. He explained that he was proposing one from an Actuarial Note available publicly on the Social Security Administration's Web site.

Mr. Jackson said the accrued benefit obligation was, if he heard Ms. Hug clearly with respect to the closed group being a termination measure, a termination measure. It is what you have to pay to get out today. And so he was struck by the lack of objections. Mr. Jackson said the open group measure is not necessarily a termination measure. It considers revenues into the future and other things.

Mr. Fontenrose explained that the accrued benefit obligation is no different than a liability-type number.

With respect to Mr. Jackson's assertion that the closed group measure represents what it would cost if you shutdown the program today, Mr. Dacey added that that would be true if the Government decided to continue to pay benefits according to that formulae. He said benefits paid if the program were shut down would involve policy decisions.

Mr. Jackson said he had no problem disclosing the measure but was making this point due to an earlier concern about the closed group measure.

Ms. Hug said she did have concerns with the accrued benefit obligation disclosure and how it works for Medicare.

Mr. Fontenrose said it would work the same way as for post-employment health care liabilities for retirees. Assumptions would be required.

Mr. Jackson said he did not think the calculation for health care would be as clean as it would be for Social Security.

Mr. Dacey said he was okay with it as a disclosure, although he was not enamored with it. His concern was with how it would be presented and reported by Treasury. It needs to be surrounded by appropriate language to avoid misleading the reader. It is a formulae-based calculation. It does not represent necessarily what will be. It is based on certain assumptions that would have to be explained.

Mr. Jackson agreed.

Mr. Allen asked each member whether they approved the disclosure.

The members discussed whether to have a vote on the disclosure before it knew how the accrued benefit obligation would be done for Medicare.

Mr. Allen asked Ms. Hug whether she wanted to postpone a vote until she knew how the calculation would work for Medicare.

Ms. Hug responded that the vote could take place with or without that information.

Mr. Patton asked for a tentative vote.

Mr. Patton also asked whether there would be a final ballot on the social insurance ED at the next meeting.

Mr. Allen said he thought that the ED was planned to be released next month. He asked Ms. Payne about the schedule.

Ms. Payne said that a schedule had not been finalized.

Mr. Allen proceeded to take what he characterized as a tentative vote. He asked Ms. Hug for her views.

Ms. Hug said that currently she would vote no. She said she would be willing to reconsider the question based on additional information about how the accrued benefit obligation would be calculated for Medicare.

Mr. Dacey reiterated that he was okay with the disclosure. He said the staff needed to clarify how it would apply to health care. He said that, again, it gets back to how it is presented in the report; the number itself is okay as long as you explain it properly.

Mr. Schumacher said he agreed with Mr. Dacey. He said he did not have a problem disclosing the number as long as it is properly presented. He said he could use the education regarding how the medical piece would be done.

Mr. Patton answered affirmatively.

Mr. Jackson said he would like to leave “the ABO” out as it related to health care because he was just not comfortable that, given the outlay nature of the health care programs that we can deal with that number. He said he did not have a problem with it with respect to Social Security. He concluded that, if it would apply to all or none, he would leave it out; but if it applies only to Social Security, for the time being, leave it in.

Mr. Farrell said he agreed with Mr. Jackson.

Mr. Steinberg said, in the interests of education, he had no problem going ahead. He added, however, that there would be a number in the reports that is going to be “the ABO” and now we are talking about three numbers in the statements. He noted what Mr. Werfel had said about confusing people with more than one number.

Mr. Torregrosa said he agreed with Messrs. Jackson and Farrell.

Mr. Reid said he approved the disclosure as is.

Mr. Allen approved the disclosure and concluded that the vote was in favor of going forward and the staff should show how the accrued benefit obligation would be calculated for Medicare.

[The tally for and against disclosing the accrued benefit obligation is as follows:]

Approve the Disclosure	Disapprove the Disclosure
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SS	Medicare	SS	Medicare
		CH/OMB*	CH/OMB*
BD	BD		
AS	AS		
JP	JP		
WJ		WJ (if all or none)	WJ
JF		JF (if all or none)	JF
HS	HS		
DT/CBO*		DT/CBO* (if all or none)	DT/CBO*
BR	BR		
TA	TA		

*denotes a substitute speaking in the absence of a member and, therefore, an unofficial position

Mr. Jackson asked how long that would delay the standard.

Mr. Fontenrose explained that this was the first draft of the standard and the timing of future work was to depend on how the Board reacted. He said that, based on today's reaction, he could move rather rapidly, although getting the Medicare information to the Board would take some time. He said that that would necessitate a second draft of the ED in October, with a release possibly by December.

The Board discussed whether to eliminate the requirement to disclose the accrued benefit obligation to expedite the process.

Mr. Allen said if getting the information about Medicare meant delaying the release by two months, he would change his vote. Mr. Allen said he wanted it released in October. He directed staff to work with the Medicare calculation but not allow it to delay the release of the ED. He said he did not want to make it the main focus of the October meeting to vote on this issue again.

Mr. Jackson said that if this had to be delayed until the October meeting, then the Board should limit what is addressed at that meeting. He suggested making minimal changes in the standard. He mentioned addressing the accrued benefit obligation disclosure issue and the withdrawal of the amendments to SFFAS 15 and moving on.

Mr. Allen agreed. He asked Mr. Fontenrose if there was anything else to discuss.

Mr. Fontenrose said that if the members had any other comments, including any on the staff questions in the briefing memorandum.

Mr. Allen asked members if there were any issues. He mentioned the members could provide editorial comments to staff individually.

Mr. Dacey mentioned the questions for respondents and also had other questions which were more than editorial but not major. Mr. Dacey asked that a question be added on the sensitivity analyses provisions. There were no objections.

Ms. Hug questioned the provision in SFFAS 17, par. 27(1) that requires cash flow projections in nominal dollars. She said eliminating that would reduce the burden on the preparer and user.

Mr. Allen explained that if there was a valid argument to change a provision of SFFAS 17, now would be the time. Board members may suggest changes and SFFAS 17 has been opened for changes. He noted that there was a lot of criticism of the length and magnitude of what is reported.

Mr. Reid added that the criticism included the point that the information is available in the Trustees' Report.

Mr. Fontenrose added that the graph in nominal dollars is possibly the least useful of the three projections required by SFFAS 17. The projections as a percent of GDP and as a percent of taxable payroll are probably more useful than the nominal dollar projection because the latter become very large.

Mr. Allen said that something like the deletion of the nominal dollar projection may not be very controversial, but the Board would need some feedback from a Board member requesting that that be considered.

Ms. Hug said she would consider that.

Mr. Dacey mentioned paragraph 36 in the ED regarding the valuation date and asked staff to explain the intent.

Mr. Fontenrose explained that the paragraph is verbatim from SFFAS 17 except for the phrase "with projections to the end of the fiscal year taking into account major factors that affect the results that are known at the time of the projection." The latter is from SFFAS 5 and SFFAS 33 and requires a roll-forward to the end of the year.

Mr. Dacey said that was his question. He sees major issues with social insurance if things happen during the year but after the valuation date, the same things as were discussed with respect to fiscal sustainability. He asked whether the staff meant a roll-forward or something like a fiscal sustainability approach.

Mr. Fontenrose replied that the scope of social insurance was narrower than fiscal sustainability, which makes a roll-forward more feasible. He added, however, one of the Board member's staff had suggested a feasibility provision could be used here. Mr. Fontenrose noted that the feasibility standard would be a reasonable person standard rather than being solely within the preparer's discretion to decide what is feasible.

Mr. Dacey agreed. Mr. Dacey said that was what he had in mind because social insurance involved similar issues.

Mr. Allen asked if there were any objections to inserting the feasibility provision from fiscal sustainability. There were no objections.

Mr. Dacey then mentioned paragraph 38 that deals with sensitivity analysis. He supposed there is a presumption that readers know what sensitivity analysis is. However, he asked for more language to explain the objective of that analysis, to make it more objective driven.

Mr. Fontenrose said he would do that.

Mr. Patton said he had a question about materiality. He noticed that several recent EDs have a standard boilerplate paragraph now in that regard, as in paragraph 10 of the fiscal sustainability ED. He noted the box on materiality after paragraph 42 of the draft social insurance ED and the absence of the materiality paragraph. He said he thought the Board talked about it and decided the box was the answer.

Mr. Allen thanked Mr. Patton for pointing out the inconsistency and said that a separate, numbered paragraph probably was not needed, that it probably belonged in the box.

Mr. Patton said he just did not recall the origin of the numbered paragraph.

Ms. Payne said the numbered paragraph is in the standard template and has been discussed a number of times by the Board. She said there were no clear cut indicators whether it should be there or not. So, it is a normal part of the EDs but can be changed if the Board prefers.

Mr. Jackson said he preferred the numbered paragraph to the box because it is fleshed out a bit more. Otherwise you are continually redefining broadly what you mean by materiality.

Mr. Allen said that apparently, from what he heard Ms. Payne say, over the 17 years previous Boards concluded they want the paragraph rather than the box. He asked if that was what Ms. Payne was saying.

Ms. Payne said previous Boards have done it both ways but that the most recent decision was to show both the box and the paragraph.

Mr. Patton asked when this box first appeared. He thought it was recently.

She said she honestly did not know when the paragraph first appeared. She said materiality is a thorny issue that keeps coming up.

Mr. Patton said that is why if you say a little bit about it rather than just saying “don’t do it for immaterial items” you get yourself into trouble. He asked if the language in the numbered paragraph was from the AICPA or if the Board or staff created it or what.

Ms. Payne said that the Board’s first attempt to address materiality was in SFFAS 3, *Accounting for Inventory*. The Board had said a bit about materiality in the ED for SFFAS 3 and codified the material as the Board’s position on materiality, in the non-authoritative portion of SFFAS 3. She added that when the staff started doing the *Original Pronouncements* this was captured in the front part, preamble part, and it is still there probably largely as it was in SFFAS 3. But, she said, frankly whenever an ED is put out someone writes and says this is just too expensive to do, and get down to the nth degree. So, she said she thought that is how it ended up being emphasized in a paragraph in the EDs.

Mr. Patton asked Mr. Dacey whether there was any problem with or value added by the numbered paragraph from an audit materiality point of view.

Mr. Dacey said that it adds value from the standpoint of clarifying what materiality is. He said the provision was borrowed from FASB’s Concepts No. 2 and revised a little. He said he might mention it during the subsequent FASAB agenda-setting session that the Board ought to be

thinking about defining materiality. He noted that FASB is going in a different direction now and redefining materiality, and the FASAB needs to consider that .

Mr. Patton acknowledged this and indicated he would not object to the numbered paragraph being inserted.

Mr. Allen asked if there were any more issues.

Ms. Hug said that she had an issue with putting the assets in the summary section of the SOSI. She noted that several Board members voted not to do that in June.

Mr. Fontenrose said he took that vote to mean that assets should not be in the MD&A highlights or on the balance sheet. He said he was proposing the SOSI summary display to show the unfunded obligation. The term "unfunded obligation" is used in the Trustees' Report and SSA's Actuarial Note, and the summary display would tie-in to those concepts in the Trustee's Report.

Mr. Reid argued that total resources required is the gross number. He said certainly to the extent this is in the CFR, the assets are eliminated and do not appear outside a footnote. He said the gross number, before assets are subtracted, is the amount that has to be raised by the government. He said he would be cautious. He realized that social insurance entities' holdings of Treasury securities are full faith and credit obligations, but from a governmentwide perspective, those funds still need to be raised.

Mr. Dacey added that they are not assets of the consolidated entity.

Mr. Fontenrose said that participants are told that the excess payroll taxes are going to the program and this is the only place they would be shown the excess paid in.

The Board discussed the current CFR note disclosure of the assets. *[Staff Note: There is a note disclosure for the SOSI in the FY 2007 CFR, Note 22, that complies with the SFFAS 17 requirement to disclose "the fund balance." This note is not "on the face of the statement" but rather one of the many notes to the financial statements.*

The FY 2007 SOSI for the SSA entity displays the assets on the face of the SOSI, in a box labeled "additional information" where they are displayed and subtracted from the open group measure.]

Mr. Reid said the illustration in the draft ED showed a gross consolidated number and all of that had to be financed. He said the illustration did not strike him the right way.

Mr. Fontenrose asked whether there were any objections to displaying the assets on the component entity's SOSI.

Mr. Dacey said it would make more sense there and noted that at least one social insurance entity was displaying them on the face of its SOSI.

Mr. Jackson said that he did not object to the display at the component entity level because it is a call on Treasury, but he said he did not think it was an asset to pay benefits at the consolidated level.

CONCLUSION

- The Board voted for the closed group measure to be the one measure in the MD&A highlights, balance sheet, SOSI, and statement of changes in social insurance amounts. [Except that the SOSI will display both the closed and open group measures.]
- The Board voted in favor of focusing on SFFAS 17 for the proposed standard. SFFAS 17 will be amended to require the additional information, from social insurance entities only, including presenting an analysis of key financial statement amounts in the MD&A. SFFAS 15 will not be amended to apply the social insurance MD&A requirements generally to other federal entities. [*This is staff question #1 for members from the staff's August briefing memo.*]
- The Board decided that component entities' MD&A should explain key budgetary information. The proposal had required just information at the consolidated, CFR level, e.g., budget receipts, outlays, and deficit (surplus).
- The Board decided to add questions for respondents about the relative merits of the closed and open group measures, and about sensitivity analysis. [*This is staff question #2 for members from the staff's August briefing memo.*]
- With respect to the statement of changes in social insurance amounts, the Board decided that the proposed standard will require (1) disclosure – possibly in footnotes at the bottom of the statement (or wherever there is room on the face of the statement) -- explaining the reasons for the changes. The explanation of some changes is likely to require several sentences. The most significant changes also will be explained in the MD&A. The Board decided (2) the format and line items for the statement that are illustrated in the proposed standard would be merely an example of the requirement, i.e., no specific line item categories will be required. [*This is staff question #3 for members from the staff's August briefing memo.*]
- There were no objections or issues raised regarding the approach to sensitivity analysis. However, the Board decided that there should be more language to explain the objective of sensitivity analysis and to make it more objective driven; and, that there will be a question for respondents on that subject. [*This is staff question #4 for members from the staff's August briefing memo.*]
- There were no objections to the approach for summarizing the responses to the preliminary views document. [*This is staff question #5 for members from the staff's August briefing memo.*]
- The Board decided that the phrase “below the line” will be changed.
- The Board voted in favor of the accrued benefit obligation disclosure. Staff will show how the accrued benefit obligation would be calculated for Medicare.
- With respect to the valuation date, the Board decided that the feasibility provisions from the fiscal sustainability ED should be inserted.
- The Board decided to insert the materiality paragraph from the fiscal sustainability ED in the introductory section of this ED.
- The Board decided not to require assets as part in the summary section of the CFR SOSI. The Board did not object to requiring component entities to display assets on the face of their SOSI.

- **General PP&E**

Ms. Valentine opened the discussion by noting that the Board has received a ballot draft of the Estimating the Historical Cost of General Property, Plant, & Equipment -- Amending SFFAS 6 and 23 exposure draft. Ms. Valentine noted that the following changes had been made since the June Board meeting. At the June meeting members asked staff to make the following revisions to the draft ED:

- The phrase “cost effective” should be removed as the parenthetical explanation of “not practical” as it relates to entities using reasonable estimates to valuing the historical cost of G-PP&E. Both “cost effective” and “inadequate documentation” should be better explained in the standard so that the phrases are not subjective.
- The ED basis for conclusions should include a discussion on the Board’s reasons for including Q3 in the ED. [Q3. Do you believe that allowing the use of reasonable estimates to value existing G-PP&E assets should be open-ended or subject to a definitive end date (date-certain)? Please explain your preference.]

Chairman Allen recommended that question 3 & 4 in the Questions to Respondents be reversed because the revised numbering was a more logical progression. The Chairman then opened the discussion to the members for comments on the draft ED. Mr. Schumacher asked that the language on page 8 that states that the proposal would improve federal financial reporting be made consistent with the language on page 5 of the draft that talks about how this proposal does not alter financial reporting requirements.

Mr. Jackson stated that he was still not comfortable with any of the qualifiers such as “not practical” or “cost effectiveness” when allowing entities to use estimates to value general PP&E in place of historical cost transaction data. His concern was that entities may abuse the use of estimates by inappropriately justifying “not practical” and/or “not cost effective” as reasons for not using historical cost transaction data to value general PP&E. Chairman Allen noted that those qualifiers were added in an attempt to require entities to provide a justification for using estimates in place of historical cost transaction data. Mr. Jackson made the point that DoD cannot in some instances accumulate transaction-level data in a manner that would accurately value certain general PP&E assets. These qualifiers will only lead to more debate.

Mr. Reid agreed regarding the terms “not practical”, “not cost effective”, or any other qualifiers to define when estimates can be used in place of historical cost transaction data. He noted that entities should always have the option to use estimates to value historical cost transaction data. Mr. Reid also stated that the standard should stress that historical cost is the “preferred” method for valuing general PP&E, however estimates are allowable. He also asked for clarification in the ED language of the two instances when entities are allowed to use estimates.

Ms. Valentine informed the Board that Mr. Patton had submitted an alternative view to the ED for insertion in the basis for conclusions. Mr. Patton briefly stated his alternative view to the Board. Mr. Patton’s alternative view states the following:

“This Exposure Draft allows federal agencies to report reasonable estimates of the historical costs of existing General Property, Plant, and Equipment if obtaining historical costs based on original transactions is not practical. The Exposure Draft says that an agency may conclude that it is not practical to determine historical costs “because it is either not cost effective to do so or documentation is inadequate”.

Although the Exposure Draft encourages federal entities to develop systems to capture historical costs based on transaction data, (See Paragraph A13), the time period allowed for the use of reasonable estimates is open-ended.

Because the cost-effective aspect of “practical” is quite subjective and the quality of the systems designed to capture historical costs based on transaction data is within the control of federal agencies, I believe that a likely outcome if this Exposure Draft is adopted as a FASAB Standard is that some federal agencies will defer and delay the creation of systems for a considerable period of time, perhaps until another measurement approach is adopted for federal financial reporting. Although Paragraph A12 asserts that there are “appropriate disciplines surrounding the use of estimates”, the fact that no system exists to capture the actual historical acquisition cost of assets means that there would appear to be no objective basis upon which to compare the estimates made by an agency. Thus, any standard based on the criteria in this Exposure Draft is likely to be ineffective in improving federal financial reporting for the foreseeable future.

I encourage respondents to pay particular attention to Q3, Q4, and Q5 in the Questions for Respondents Section of this Exposure Draft.”

Chairman Allen asked the members to give their views on Mr. Patton’s alternative view and Mr. Jackson’s recommendations to remove the qualifiers defining when estimates are allowable.

Mr. Jackson noted that his recommended changes do not address Mr. Patton’s concerns with the “open-endedness” of the proposal. The standard should stress that the preferred valuation method is historical transaction data and competent systems to capture that data. Mr. Jackson also noted that removing the practical and cost effective qualifiers will help eliminate the debate between management and auditors as far as the justifications of such subjective criteria.

Mr. Dacey emphasized that estimates are widely used throughout the financial statements and that estimates should be characterized as a reasonable basis for historical cost data which is the basis for accounting.

Mr. Farrell noted that this proposal only solves half of the problem being addressed. Allowing estimates when entities are working towards implementing systems that can capture historical cost data would be beneficial; however what are the pitfalls if historical cost systems are never implemented. He also pointed out that system requirements are very complicated and lead to costly systems that take enormous amounts of time to fully implement.

Chairman Allen asked if there were any Department of Defense representatives in the audience that could address whether this proposal would be a practical and helpful approach towards improved financial reporting for the agency. Kevin Frisby, DoD OSCD FIAR office, informed the Board that the proposal provides a step in the right direction for DoD, although it does not resolve all of their issues with general PP&E. He mentioned that the agency’s component

entities were working through the many challenges associated with implementing the FISIO requirements. Mr. Frisbee stated that estimates were better than no amounts being reported.

Mr. Jackson further explained that software and ERP systems are available to DoD, however the problems are in the business processes that lead up to the data collection. Mr. Frisbee commented that DoD was also in the process of evaluating its business processes in the area of data collection.

Mr. Reid stated that the changes being proposed to SFFAS 23 par. 11 needed to be clearer in its intent to allow for the ongoing use of estimates beyond initial implementation.

Mr. Patton asked the members if the proposal allows the use of estimating into perpetuity how do you avoid the abuses associated with never complying with historical cost transaction data. Mr. Reid noted that the proposal must state that historical cost transaction data is the preferred method of valuation. Ms. Payne asked if there were any material weakness associated with the lack of entity systems that do not properly capture transaction data. Mr. Jackson noted that entities also have to comply with the existence and completeness assertions in addition to the accuracy assertion. He noted that this proposal only addresses the precision of the valuation.

Mr. Steinberg agreed that the changes proposed by Mr. Jackson and agreed with Mr. Patton that a date-certain should be added to the proposal. Mr. Farrell noted that if the completeness and existence assertion were being met then reasonable estimates of historical cost transaction data should be allowed. Mr. Patton questioned how reasonable estimates can be if there is no historical cost data to measure its comparability against. Mr. Jackson suggested that estimates could be attained from budget projections.

Mr. Jackson reminded the Board that the principal objective of SFFAS 6 is the cost of operations (i.e., depreciation) not the precision of the assets and that some imprecisions in the value of the assets has a minimal affect on the cost of operation. He also noted that if estimates are allowed then there is no need for a date-certain. Mr. Schumacher agreed that the “practical” and “cost effective” qualifiers should be removed, however a date-certain should be included. Mr. Dacey noted that the proposal should address the Board’s concerns as far as agencies reversing their valuation methods from historical cost transaction data to estimates and did not agree with including a date certain. Ms. Hug agreed with removing the qualifiers but not with including a date-certain. Chairman Allen also agreed with the open-ended proposal.

Mr. Patton asked that staff revise the respondent questions in light of the changes agreed to by the Board in addition to adding a question on his alternative view. Ms. Payne noted that staff would work towards making the necessary edits to the draft ED and send it out to the members for one last round of comments before a ballot draft is sent. She also reminded the Board that due to the capital asset nature of this proposal it would be subject to the Congressional 90-day review. It was also suggested decreasing the comment period from 90 days to 60 days would increase the likelihood that the standard would be effective prior to the start of the next fiscal year.

CONCLUSIONS: The Board agreed to remove the terms “not practical”, “not cost effective”, or any other qualifiers to define when estimates can be used in place of historical cost transaction data and that a date-certain not be imposed.

- **Steering Committee Meeting**

The Steering Committee reviewed the budget and draft newsletter announcement regarding upcoming recruitment of candidates for Board membership.

Members raised no issues regarding the budget.

Members suggested that the announcement solicit candidates with all types of experience generally considered relevant for Board membership.

Adjournment

The meeting adjourned at 5 PM.

Thursday, August 21, 2008

Agenda Topics

- **Omnibus AICPA ED – GAAP Hierarchy (Joint meeting with GASB)**

Mr. Allen welcomed the GASB board members and thanked them for coming to the meeting. Each of the members then briefly introduced themselves. Mr. Allen asked the directors of technical research who coordinated the joint meeting if they would like to comment on the project. Ms. Payne remarked that the AICPA Omnibus project was considered a good opportunity for GASB and FASAB to collaborate because both boards had been asked to move some of the literature from the auditing standards to the accounting standards. Mr. Bean agreed, noting that the two boards have a similar hierarchy and it was a great opportunity to work together and discuss issues together. The board was provided with a copy of a few changes that had been made to GASB's draft at a GASB meeting held the day before. Mr. Allen said it would be beneficial for FASAB members to understand where GASB is and why they have made the changes they have made.

Mr. Ken Schermann, GASB project staff, summarized that the GASB approach has been to extract the hierarchy from SAS 69 generally as it was written but GASB has taken a few steps to modernize the language to more appropriately reflect the current environment. Mr. Schermann stated that they have not made any substantive changes to any of the categories or the content of the categories that would constitute any reorganization or reconfiguration. He noted that GASB made a few more changes at the previous day's meeting. Most of the changes were editorial; the most notable change was the elimination of the standard transition guidance in the effective date and transition paragraph in the proposal based on the notion that everybody should have been applying the hierarchy as stated in SAS 69 going in and simply moving the hierarchy into the GASB literature should not cause any change in practice. The effective date is now effective immediately without providing any transition guidance.

Mr. Schermann indicated that the other changes would be considered more of a housekeeping nature (e.g., to clean up references).

Mr. Bean stated that perhaps the most notable change was the elimination of the reference to FASB and AICPA in the “level a” guidance (paragraph 3a of the draft GASB document). Mr. Schermann said that a footnote that references Rule 203 was added in place of specific references to the other standards-setters.³

Mr. Holder explained that the footnote that references Rule 203 was added to permit rare instances where the literal application of GASB standards may not result in fair presentation and thus, application of a standard from another Rule 203 authority may be more appropriate. He noted that, although the Financial Accounting Standards Board (FASB) has recently eliminated this ability from its standards, GASB felt there might be a circumstance where it is appropriate.

Mr. Patton said that on the surface, it would appear that moving the hierarchy from the auditing literature into the accounting literature would seem to be a fairly simple maneuver. However, the applicability of other standards is one example of an issue that was encountered along the way. Mr. Patton asked what other issues, if any, have they tackled and how were they resolved?

Mr. Schermann said that has been the only impediment encountered thus far.

Mr. Schermann said one other change that might be considered more than editorial was in paragraph 5 where they softened the implication that other accounting literature “should” be considered, stating that it “may” be considered instead.

The sentence in paragraph 5 previously stated “If the accounting treatment for a transaction or event is not specified by a pronouncement or established in practice as described in categories (a)–(d), a governmental entity should first consider accounting principles for similar transactions or events within categories (a)–(d) and then other accounting literature.” The new sentence in the most recent draft states “If the accounting treatment for a transaction or other event is not specified by a pronouncement or established in practice as described in categories (a)–(d), a governmental entity should consider accounting principles for similar transactions or other events within categories (a)–(d) and may consider other accounting literature.”

Mr. Dacey said he is concerned with the effect of the changes GASB made to paragraph 5 and how they may apply in the federal environment. While Mr. Dacey said he agrees with making the use of other literature optional instead of appearing to be required, he is particularly concerned that by removing the “first/then” ordering, federal entities may jump to other literature before adequately considering appropriate treatment from categories (a) – (d).

³ The footnote states “Category a standards are the subject of Rule 203 of the AICPA’s *Code of Professional Conduct* and this Statement does not affect the application of that rule.”

Mr. Holder said he did not believe the explicit ordering (first/then) was necessary because it is a hierarchy and reporting entities are required to following whatever applies to them in (a) – (d) in order first before going to other literature. Any deviation from the hierarchy would need to be justified by the reporting entity.

Mr. Dacey said there are some federal entities that might argue that the guidance in (a) – (d) does not “exactly” fit the scenario, so they will move to other literature without appropriately applying the guidance to similar scenarios.

Mr. Holder said he does not think the removal of the “first/then” language changes the meaning or the ordering; reporting entities are still required to follow the hierarchy. Mr. Attmore said he does not think leaving the “first/then” language in the way it was originally worded would adequately address Mr. Dacey’s concern.

Mr. Steinberg noted that perhaps what is actually needed to address Mr. Dacey’s concern is some language that speaks to the reporting entity’s need to analogize more before jumping to a lower level on the hierarchy.

Since the board members had no further comments or questions on the GAAP hierarchy, Ms. Payne introduced Mr. Ross Simms and Ms. Julia Ranagan, the FASAB staff members who worked on drafting the FASAB exposure draft (ED). Ms. Payne noted that Mr. Simms has been leading the effort to coordinate with GASB and prepare the ED while Ms. Ranagan has been working on the source of GAAP issue for some time. Mr. Allen asked Ms. Ranagan to provide a brief summary of the issue that FASAB needs to address in the ED regarding the current practice by certain federal entities of applying accounting standards issued by FASB.

Ms. Ranagan provided a brief background of the issue that has been extensively researched and deliberated through the Appropriate Source of GAAP project that was initiated in January 2006. Ms. Ranagan stated that, while a conclusion has not yet been reached through the source of GAAP project, staff believed it necessary to address the issue in the GAAP Hierarchy ED because there would be considerable concern from entities applying FASB standards if no mention were made in the ED.

Ms. Ranagan noted that there were two options presented in the ED to address this issue. Option A would allow the current practice to continue with the understanding that a full blown project would be initiated to identify major differences between FASB and FASAB GAAP and develop standards to address them. Option A would be an interim measure that would address the issue for purposes of issuing the GAAP Hierarchy ED.

Option B would (1) allow the current practice to continue, (2) provide criteria for newly created entities to follow based on the needs of the primary financial statement users, (3) require entities following FASB to provide FASAB information for consolidation, and (4) prevent agencies from switching from FASAB to FASB by requiring that once a particular source of GAAP is selected, it be followed from year to year for consistency purposes. Option B would not be followed up by a full-blown project but issues could be addressed as questions arise.

Mr. Jackson said he has two observations: (1) option A fails to recognize that entities created in the future would not have the option of selecting to follow FASB standards. He said this would lead to two entities, for example, that are subject to the Government Corporation Control Act and look similar in what they are doing but look dissimilar when one looks at their financial reports. He is concerned about a limitation to past entities. (2) Option B opens the door to allowing entities to select to apply FASB standards when it is not desirable. He said there is a desire by some federal entities to be considered as a commercial entity no matter how they were created. Mr. Jackson said he is in favor of Option B but he said he could see a gravitation of entities already following FASAB to begin applying FASB standards based on the criteria.

Mr. Allen said he would like to focus on the board member's preferences for addressing the issue rather than talking about it strictly in terms of option A or B.

Mr. Jackson said then that he favors option B but he would like some stronger language than what is in paragraph 13 that clarifies that there should not be a migration backwards for entities already following FASAB.

Mr. Allen reminded Mr. Jackson that option B would not delve into the issues unless questions arise and asked if that was Mr. Jackson's preference. Mr. Jackson said he is not preoccupied with having a project on it. He said there might be instances where FASAB may want to have some agencies provide additional disclosures (e.g., SFFAS 2 and credit reform) and FASAB can deal with that along the way. Mr. Jackson said he would not want to spend a lot of time on it when FASAB can develop criteria to guide most entities. He said he would probably add one or two more criteria to the list, such as whether an entity falls under the federal government's budgetary control.

Mr. Patton said it seems to him that option A is incomplete if it does not include criteria for newly created entities or existing agencies that want to consider changing. He said it would seem necessary to either adopt something like option B or do a project to come up with more robust criteria.

Ms. Ranagan responded that was the intent of option A – to bring the newsletter guidance into a standard with the understanding that a formal project would be undertaken to address newly created agencies, existing agencies, consolidation issues, etc.

Mr. Patton asked if staff thinks FASAB can reach a consensus on credible criteria to be applied without having a project. He said it seems that option B would be accomplished more casually while option A would be accomplished more rigorously.

Ms. Ranagan responded that A would be a much more rigorous course of action. Mr. Patton replied that he would prefer A because he would like to have the criteria much more thought out than to have FASAB address the issues on an ad hoc basis.

Ms. Payne reminded the board that the criteria provided by staff is based on more than two years of research that has included all of the entities that apply FASB GAAP, their

environment, and the kinds of users they have. The proposal by staff is more of a midpoint than a starting point.

Mr. Allen said he believes FASAB should undertake a project to determine those instances where FASAB really wants all federal entities to apply the same standards (e.g., pension accounting).

Mr. Reid said, from the perspective of someone who has to do consolidation, he would prefer some standardization. Mr. Allen said the board could include that as part of the technical agenda-setting discussion later in the afternoon.

Mr. Jackson said he has brought this up in prior sessions but he continues to believe that the board's primary focus should be the needs of the financial statement users and not the consolidation issues.

Mr. Reid said comparability of statements on the same basis of accounting is also important.

Mr. Patton asked Ms. Payne to clarify what she meant earlier when she characterized Ms. Ranagan's work on option B as being at the midpoint. Ms. Payne responded that there are two components to resolving the issue. One is whether certain entities, which would be labeled federal, under certain circumstances can continue to follow FASB GAAP. In February, staff came away with the message from the board that it would not force any entities currently following FASB GAAP to switch. Ms. Payne said that is what she would characterize as the end of issue one – the midpoint. The second part is the procedural question of how to support consolidation? Option B addresses that by codifying what appears in OMB Circular A-136 that requires agencies to provide information to support the consolidation.⁴ Ms. Payne noted that option B does not go into the detail of how Treasury would do the eliminations but that could be accomplished in a lower level project or in some other manner.

Mr. Steinberg repeated Mr. Jackson's concern that option A does not address the problem of what to do with newly created entities whereas option B provides guidance for such entities.

Mr. Patton responded that option A has the project attached that would solve the issue of what to do with newly created entities.

⁴[Staff Note: Similar language to the requirement in A-136 ("When the reporting entities, of which these components are a part, issue consolidated or consolidating statements that include such components, Generally Accepted Accounting Principles (GAAP) for Federal entities shall be applied to these components." See section I.3 of OMB Circular A-136) is also included in SFFAS 8, par. 40. However, that section of SFFAS 8 is in the introduction and background section rather than the accounting standards section, and as such does not have GAAP level authoritative standing. In addition, the "grandfather clause" provided in the Jan-Mar 2000 *FASAB News* newsletter guidance has the effect of making FASB standards "GAAP for federal entities" because FASAB has permitted it. The placement of the language in this proposed ED would provide GAAP level guidance that better reflects the current intent of the board.]

Mr. Allen said he would like to know the direction the members would like to go.

Mr. Steinberg said the title of the ED does not cover both issues that FASAB is attempting to address. Ms. Payne said the title might be modified depending on which option the board decided to take.

Mr. Steinberg asked why the only question for respondents is related to the hierarchy. Mr. Simms responded that the question was pulled from the GASB ED. Once an approach on the source of GAAP is selected, staff will add a related question.

Mr. Reid said he wanted to remind board members that there is no intellectual reason why most federal entities are applying FASB GAAP. He stated, for the most part, these entities are doing the same thing they have always done. Mr. Reid stated that he believes that the board is not preserving something that is the preferred way of doing something; the board is simply preserving what is.

Mr. Farrell asked if Mr. Reid felt the same way about the U.S. Postal Service and the Tennessee Valley Authority (TVA). Mr. Reid responded that TVA is probably a real exception but it is an exception because of the differences with utility accounting and not a FASB vs FASAB difference.

Mr. Jackson said he believes that option B does not preclude a project. He noted that option A absolutely requires one because it only deals with historical entities but option B could still be followed up by a project while addressing the other issues with newly created entities and the consolidation in the interim.

Mr. Jackson noted that the language in paragraph 12 could be modified such that an entity is required to provide the information needed by Treasury as disclosures in its standalone financial statements in order to comply with GAAP. It could be worded as such that if the entity does not provide the required "dual GAAP" disclosures, then it is not in compliance with GAAP.

Mr. Attmore asked if the board had deliberated on the impact of U.S. GAAP moving to International Financial Reporting Standards (IFRS). He said the question has become a matter of when and not if and wondered if the board had considered how that would impact its decisions.

Mr. Reid asked if that would imply that agencies following FASB GAAP would have to convert to IFRS? Mr. Bean responded that entities following SEC would have to convert. Mr. Attmore said the question becomes what happens to U.S. GAAP for non-listed companies? That is an unanswered question.

Mr. Reid questioned if there would be a vestige of FASB GAAP that is still there and people could look to or would it simply cease to exist and therefore become irrelevant under Rule 203, precluding the auditors from relying on it?

Mr. Allen said the vestige may be there but would FASB GAAP be maintained?

Mr. Attmore talked briefly about why he does not think it is appropriate for government entities to adopt IFRS because of the continuum of government structures and relationships that do not fit into a one size fits all model that corporation structures follow.

Mr. Patton stated that if he were a federal member, he might question allowing the federal government, which is sovereign, to follow off into international space for its financial reporting rules.

Mr. Reid inquired how GASB will handle the eventual demise of FASB. Mr. Bean responded that it will be an opportunity to revisit the issue of allowing proprietary activities to apply FASB standards and interpretations (GASBS 20, pars. 6 – 9) and depends a lot on what happens with the non-profits.

Mr. Bean agreed that some of the reasons FASB reporting continues to be applied is because of tradition and not user needs. He said the users want a consistent approach.

Mr. Jackson said whatever the board does should focus on user needs and if the board finds that the user needs do not justify the continuation of an old practice, that would make the case to move to FASAB standards.

Mr. Allen said that the user does not care what basis the financial statements are on. They have learned to use whatever information they have gotten and they want consistent information from year to year. However, that need for consistency can not be the driver for making the right decision between FASB and FASAB.

Mr. Dacey said he would prefer going towards option B because it at least provides a principle for going forward based on user needs whereas option A does not provide a principle basis for a standard. He said he would also like to explore the intragovernmental eliminations and not preclude further development of it. However, he agrees that the board should get something in this particular standard to address the issue at hand. Mr. Dacey went on to say that he would like to use the “acceptable/preferable” language in paragraph 13 to say that FASB is acceptable but FASAB is preferable so one could switch from FASB to FASAB if they choose to. It seems to him that the language in 13 would preclude such a change.

Mr. Torregrosa asked staff if paragraph 12 in option B could also be inserted in option A. Ms. Ranagan responded that it could.

Mr. Reid said that if agencies following FASB would have to spend money to convert to IFRS at some point down the road, the board should require conversion to FASAB at that point instead. All newly created entities should be required to apply FASAB and there should be a date certain for all others to convert.

Mr. Allen said he would like the board to pick up the discussion of this project after lunch.

Mr. Bean asked if any of the FASAB board members have strong objections to the changes made by the GASB during its meeting the previous day. Mr. Steinberg said he does not have a strong objection but he agrees with Mr. Dacey's suggestion that language be added to paragraph 5 to talk about requiring agencies to do a better job of analogizing to existing standards before jumping to the next level and thought maybe GASB might want to consider a similar change. Mr. Attmore said he believes that would be a substantive change and GASB has tried to avoid any substantive changes and just move the literature from one place to another. Mr. Attmore said he believes GASB may revisit it at some point in the future and determine if they really need all those levels and addressing some other issues such as that. There were no further comments.

- **Omnibus AICPA ED – GAAP Hierarchy (continued after lunch w/o GASB)**

Upon returning from lunch, Mr. Allen asked the board members to tell staff what they would like to see rather than framing their response in terms of either strictly option A or B. He said board members could refer to elements in A or B to help describe their view.

Mr. Allen said using the criteria from option B and allowing entities to assess themselves is a valuable starting point but not the end point. He would like to see a project on the application of GAAP other than FASAB and maybe even look at the issue of whether there really is a difference between government and business such that FASAB would arrive at where GASB is (GASBS 20, pars. 6 – 9). Lastly, he said he would look at what the information is yielding to determine if there are additional or different disclosures that should be required for federal entities applying FASB standards.

Mr. Patton asked Mr. Allen what his position is on existing entities – would they be required to apply the criteria in paragraph 11 to determine if they can continue using FASB GAAP for now. Mr. Allen said that he would say yes with a transition period. Mr. Patton said that option A says keep doing what you are doing until FASAB comes up with formal criteria. Mr. Allen said he is very open to either one of those but the main point he wants to make is that would be the initial step – whether FASAB tells them to keep doing what they are doing until it completes the project or ask them to complete an initial assessment themselves until it completes a project – that is the preliminary and what he feels least strongest about. What he feels strongest about is that all entities should be applying GAAP in the future based on the board making a conscious decision.

Ms. Hug said she did not feel like they had enough information from the community to make a decision between option A and B. She said she did not have enough information about the intellectual reasons the entities are following FASB GAAP to understand what the impact would be of requiring them to move to FASAB compared to staying with what they have. Ms. Hug said she believes staff needs to do a little bit more information gathering.

Ms. Ranagan said she personally believes that staff has provided a great deal of background information on the reasons why entities continue to follow FASB and the impact of moving to FASAB [see extensive research and comments from the affected agencies in the staff memos from the March 2007 board meeting (Tab G, particularly Tab 2); the May 2007 board meeting (Tab C, particularly the survey responses), and the February 2008 board meeting (Tab F, particularly the analysis of user needs section on pages 2 through 17.]. She said she agrees with Mr. Reid that a lot of the reasons stem from the resistance to change, but there have been other reasons cited. She provided examples of the extensive costs to convert; the concern that costs would be passed on to users for entities that are fully user fee funded; TVA's concern that it would have published financial information that conflicts with its formal SEC submission, which could be potentially damaging and would require constant explanations for the differences. Ms. Ranagan noted that she provided all of the detailed responses to the agency surveys in May 2007 that contained all of this information. She noted that perhaps 50 percent of the responses were related to the resistance to change but several of the respondents passionately felt that their users' needs were better met by following FASB standards.

Ms. Hug said she recalled the cost reasons but questioned whether there were some entities that felt the financial statements would not be presented fairly if they applied FASAB. Ms. Ranagan replied that one entity [Federal Prison Industries] argued that its income statement would not be properly stated because there is no comparable statement for the federal government. Ms. Ranagan noted that could be overcome through a project to modify the statements to present all of the information deemed important. Ms. Ranagan noted that same agency felt that manufacturing and production processes are not supported in the government reporting environment. [see other reasons in the staff papers cited above].

Mr. Jackson questioned whether entities subject to the Federal Financial Management Improvement Act (FFMIA) and are compliant with the standard general ledger at the transaction level (e.g., Bureau of Engraving and Printing) would already have all of the information needed to report FASAB. Mr. Reid said he suspects most of government is not compliant at the transaction level and relies heavily on crosswalks to report FACTS information because changing financial systems at the transaction level is a big deal.

Mr. Reid pointed out that user needs are not currently driving the choice between FASAB and FASB. Time and circumstances drove the choice initially. Mr. Reid said he would take the user needs language out of option B. In addition, he said he would add to paragraph 13 that if financial systems and reporting models based on FASB have to be modified in the future as the result of convergence with IFRS, FASAB GAAP becomes required. He said that if entities are going to make a change, then he wants the change to be FASAB and not some other accounting and reporting model. He also supports a project to resolve the issues with consolidation.

Mr. Allen said that he believes if the board makes a conscious decision that FASB is the right standard for an entity now, then conversion to IFRS would probably be the right

standard for them then. Mr. Farrell said the board has not made that decision, only a compromise to let them continue doing what they are doing.

Mr. Allen said he understands that and that is why he wants the board to make a conscious decision about which model each agency should follow.

Mr. Schumacher said he agrees that entities should not be permitted to convert to IFRS without further consideration of whether it is appropriate or not.

Mr. Torregrosa said CBO is happy with PBGC's current reporting and would be concerned how the reporting of securities would change under FASAB.

Mr. Farrell said he largely agrees with Mr. Reid's rationale. He noted that the way option B is currently written allows newly created federal entities to select FASB GAAP and he does not think they should be given that option. Messrs. Reid and Schumacher agreed. He said he believes no newly created entities should be allowed to apply FASB. The primary financial statements should be FASAB and the entity can provide additional information as needed to satisfy other requirements. He reiterated that entities should not be allowed to convert to international GAAP but should be required to convert to FASAB at that point.

Ms. Hug said they need to see the options reworded before they can make a decision.

Mr. McCoy Williams (sitting in for Mr. Dacey) said he would prefer option B because it is more principles-based. He would also support continuing with a project to address user needs.

Mr. Schumacher said he would agree with the position taken by Messrs. Farrell and Reid that while existing agencies are allowed to continue applying FASB, FASAB should not permit new entities to apply FASB.

Mr. Schumacher said he would also add that entities currently applying FASB should not be precluded from applying FASAB. There was general agreement from other members on that point.

Mr. Reid said FASAB should be able to include language in the standard that would encourage conversions to FASAB and provide coverage to satisfy the auditors.

Mr. Schumacher added that if FASB entities are going to convert to international standards, FASAB should not permit any entities to convert to international standards.

Mr. Patton said he does not understand that argument. If the entities have a good argument to stay with business accounting principles to begin with, why wouldn't they stay with business accounting principles?

Mr. Allen said he does not disagree with what Mr. Patton is saying. He believes that what Mr. Reid is saying is that there are a lot of entities that are doing FASB because they have always done it and it is not necessarily based on an intellectual reason. That

is why he thinks there needs to be a project to determine which ones are appropriate. Then, for those entities that are appropriately applying FASB, of course they should convert to international standards.

Mr. Dacey said he is not sure that there will be a substantive change with the conversion to IFRS. There will still be U.S. GAAP; it will just consist of different accounting standards.

Mr. Reid reiterated that his preference is for all entities to come to FASAB.

Mr. Jackson said he does not want to allow every newly created entity that comes running in the door to apply FASB but he would hate to have a situation where a newly created entity would clearly benefit from a different accounting and reporting model. He said he can't think of an example but he knows it can happen and it will happen. However, he said the board can always modify the accounting standards if they need to.

Mr. Jackson said the board could take paragraph 10 in option B and almost leave it like it is but insert some of the language from the first sentence in option A. In other words, provide some explanation as to why the board is doing what it is doing. He said the first sentence in paragraph 10 of option A could replace the last sentence in paragraph 10 of option B. Therefore, the last sentence of paragraph 10 in option B would read "Financial statements prepared in accordance with accounting standards published by the FASB also may be regarded as in accordance with GAAP for those federal entities that have in the past issued such financial statements."

Mr. Jackson said he would delete paragraph 11 because of the consensus that the board does not want to let any newly created entities apply FASB.

Mr. Jackson would then modify paragraph 12 to refer to standards published by FASB instead of "commercial accounting and reporting principles" because he does not like the word "commercial." He would also take out the word "larger" in the phrase "larger federal reporting entity" because the entity that is doing the consolidating is not always larger than the entity being consolidated. In addition, he would change the phrase "should be applied" to "are applicable" so the new paragraph 12 would read "When financial information of entities that prepare separately issued (stand-alone) general purpose financial reports through the application of accounting standards issued by the FASB is included in general purpose financial reports of another federal reporting entity (e.g., the consolidated financial report of the U.S. Government), any applicable standards issued by the FASAB that call for additional disclosure or supplemental information are applicable."

Mr. Allen said that Mr. Jackson raises a good point and paragraph 12 ought to be at the end of anything the board says on the issue. Mr. Jackson agreed.

Mr. Allen asked Mr. Jackson if he would convey that a project would be conducted to further address the issues created through the application of FASB standards. Mr. Jackson replied that he would include that in the introduction to the standard that this is a standard to recognize the principle sources of GAAP and there is a project underway

to further define the principle sources of GAAP for those entities in the federal reporting entity.

Mr. Jackson said he would also like to work in the language that FASAB is preferable in paragraph 13.

Mr. Steinberg said it seems to him that the hierarchy and the source of GAAP issue fit together very well in one standard. If the board can do it together, than that would be great. Mr. Steinberg said options A and B are not mutually exclusive. Option A allows entities to continue to apply FASB and implies that there should not be any newly created entities following FASB, but it does not say that. Option A also states that FASAB will provide additional guidance for consolidation issues. Option B implies that newly created entities can apply FASB, but it does not say that. Option B does not say that it will provide additional guidance but it requires entities to follow any additional FASAB requirements. Mr. Steinberg said he could not really choose one or the other so he wrote down the elements he would like to see:

1. If an entity is already on FASB, it can continue;
2. If an entity is converting, it can convert to FASAB unless it does not meet user needs (he would like to provide the “out” for particular situations – for example if Fannie Mae were to come back under the federal entity reporting umbrella and stay as an SEC registrant);
3. If it is a newly created entity, FASAB unless it does not meet user needs;
4. Additional FASAB disclosure requirements “are applicable”; and,
5. FASAB may apply additional guidance for the consolidation – leave the door open to deal with it at a later point, as needed.

Mr. Torregrosa said he generally agrees with Messrs. Jackson’s and Steinberg’s views as well as Mr. Patton’s view that business entities that currently apply FASB (and have a valid reason to) should not be precluded from adopting international standards when and if the time comes.

Mr. Jackson said his proposal would not preclude FASB entities from applying international standards because the board cannot currently presume one is preferable over the other.

Mr. Dacey added that he would like to see flexibility for the legislative and judicial entities to continue doing what they are doing because of the difficulties there that the board has talked about. He said that he would like to include that as another reason to permit the flexibility for newly created entities.

Mr. Farrell said when he discussed that issue, he felt that newly created entities should be required to provide information on a FASAB basis because Treasury needs it but they would be permitted to present additional information as needed.

Mr. Dacey responded that only one could be GAAP (FASAB or FASB) which is what presents the challenge.

Mr. Dacey added that the follow-on project should look at the separate reporting standards for government business enterprises (GBEs) at the international level and the split between GBEs and others and how that might be adopted in certain circumstances for the federal reporting entity. He noted that GBEs are similar in many respects to government corporations and the international standards apply to non-GBEs.

Mr. Jackson summarized that with the exception of the source of GAAP issue, there does not seem to be any objections to the rest of the standard. Mr. Allen agreed, stating that he anticipates that staff will go through the standard and synch up with the GASB standard as far as the changes that have been made to date. The only issue that remains is the interim guidance that needs to be provided for the entities currently applying FASB standards.

Ms. Ranagan said that she liked the changes previously proposed by Mr. Jackson and will listen to the tapes of the meeting and see if Mr. Jackson's suggestions are supported by the majority view of the board.

It was agreed that both the GAAP hierarchy and the interim provision for the source of GAAP issue would be issued in a single document.

Board Member (Acting)	Permit FASB	Approve Continuing Project	Criteria/ User Needs	Allow FASB for new entities	Allow IFRS convergence	Comments
Allen	Yes	Yes	Yes	Yes	Yes, if appropriate	
Dacey and (Williams)	Yes	Yes	Yes	Yes	Yes, if appropriate	<ul style="list-style-type: none"> - Option B more principles-based - Flexibility for legislative and judicial branches - Include Acceptable/ Preferable terminology⁵
Farrell	Yes	Yes	No	No	No	<ul style="list-style-type: none"> - Primary financial statements should be FASAB; entities can provide additional information to satisfy other requirements
(Hug)						<ul style="list-style-type: none"> - Not enough information to make a decision

⁵ i.e., FASB is acceptable but FASAB is the preferable method.

Jackson ⁶	Yes	Yes	No	No	Yes, if appropriate	<ul style="list-style-type: none"> – Require FASAB disclosures (“are applicable”) – Work in language that FASAB is preferable – Not allow switch from FASAB to FASB
Patton	Yes	Yes	Yes	Yes	Yes, if appropriate	
Reid	Yes – see comments	Yes	No	No	No	<ul style="list-style-type: none"> – No intellectual reason why most entities are applying FASB – Require FASAB and standardization for all federal entities with very limited exceptions – Include language to encourage FASAB and satisfy auditors – Include language to preclude conversion to IFRS
Schumacher	Yes	Yes	No	No	No, not until deemed appropriate	<ul style="list-style-type: none"> – Language should not preclude a switch from FASB to FASAB⁷
Steinberg	Yes	Yes	Yes	Yes		<ul style="list-style-type: none"> – Require FASAB disclosures (“are applicable”) – Include wording that FASAB may apply additional guidance for the consolidation
(Torregrosa)	Yes	Yes			Yes, if appropriate	<ul style="list-style-type: none"> – Agreed with Messrs. Jackson and Steinberg who did not agree on including criteria/permitting new users to

⁶ As indicated by the detailed minutes, Mr. Jackson’s initial viewpoints before lunch differed somewhat from his viewpoints stated later in the meeting. The later viewpoints were reflected in the chart.

⁷ There was general agreement from all board members on this point.

						apply FASB
Majority	Yes	Yes	Tie	Tie	Tie	

CONCLUSIONS / NEXT STEPS: FASAB staff will work with GASB staff to finalize the exposure drafts related to moving the hierarchy. In addition, staff will incorporate the board member’s recommended changes regarding the source of GAAP language into the draft exposure draft and reissue to the board for comment.

- **Measurement Attributes**

Mr. Allen asked GASB project manager Roberta Reese and Ms. Wardlow to begin the session. Ms. Reese explained that the purpose of the meeting was for the GASB and the FASAB to discuss, at a high level, measurement concepts appropriate to governmental financial reporting objectives. Each Board is working on a measurement project as part of its conceptual framework. The discussion would focus on two measurement attributes—historical cost and fair value—as broadly defined in the staff memo. Ms. Reese and Ms. Wardlow reviewed the scope and content of each Board’s measurement project, including the similarities and differences described in the staff memo. The memo also reproduced the financial reporting objectives set forth in each Board’s conceptual framework. Staff had selected objectives from each Board’s objectives statement concerning users’ need for information about (1) the costs of government programs and services and (2) whether a government’s financial position has improved or deteriorated as a result of a period’s operations. As a basis for discussion, the staff memo included questions concerning whether reporting specific elements or transactions at historical cost or fair value would better meet these reporting objectives.

The two pairs of reporting objectives and related questions for discussion were as follows. The specific pairs of objectives are in capital letters and bold face type.

Financial Reporting Objectives—PAIR I

GASB (par. 77): Financial reporting should assist in fulfilling government’s duty to be publicly accountable and should enable users to assess that accountability.

- a. Financial reporting should provide information to determine whether current-year revenues were sufficient to pay for current-year services. . . .
- b. Financial reporting should demonstrate whether resources were obtained and used in accordance with the entity’s legally adopted budget; it should also demonstrate compliance with other finance-related legal or contractual requirements.
- c. Financial reporting should provide information to assist users in assessing the service efforts, **COSTS**, and accomplishments **OF THE GOVERNMENTAL ENTITY**.

FASAB—Operating Performance (par. 14): Federal financial reporting should assist report 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. Federal financial reporting should provide information that helps the reader to determine

- the **COSTS OF PROVIDING SPECIFIC PROGRAMS AND ACTIVITIES** and the composition of, and changes in, these costs;
- the efforts and accomplishments associated with federal programs and the changes over time and in relation to costs; and
- the efficiency and effectiveness of the government’s management of its assets and liabilities.

Financial Reporting Objectives—PAIR II

GASB (par. 78) Financial reporting should assist users in evaluating the operating results of the governmental entity for the year.

- a. Financial reporting should provide information about sources and uses of financial resources. . . .
- b. Financial reporting should provide information about how the governmental entity financed its activities and met its cash requirements.
- c. Financial reporting should provide information necessary to determine **WHETHER THE ENTITY’S FINANCIAL POSITION IMPROVED OR DETERIORATED AS A RESULT OF THE YEAR’S OPERATIONS.**

FASAB—Stewardship (pars. 15, 16): Federal financial reporting should assist report users in assessing the impact on the country of the government’s operations and investments for the period and how, as a result, the government’s and the nation’s financial condition has changed and may change in the future. Federal financial reporting should provide information that helps the reader to determine **WHETHER**

- **THE GOVERNMENT’S FINANCIAL POSITION IMPROVED OR DETERIORATED OVER THE PERIOD,**
- future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due, and
- government operations have contributed to the nation’s current and future well-being.

Discussion Questions

1. From Pair I: USERS NEED INFORMATION ABOUT THE COST OF GOVERNMENT PROGRAMS.

- A. Conceptually, which measurement attribute—fair value or historical cost—better meets the objective of reporting the cost of a current service or program? That is, should the reported amount be:
- What taxpayers paid (X years ago in total or adjusted for depreciation or amortization) for the assets consumed? [*historical cost*]
 - What today's taxpayers would pay for the assets in the market? [*fair value*]

Example: Government X provides a commodity to citizens from its stockpiles. The commodity was acquired for \$20 but would cost today \$100. Which “cost” better aligns with the reporting objective?

- B. Would your answer change if the example were the use of a capital asset in providing services rather than a commodity?

2. From Pair II: USERS NEED INFORMATION ABOUT CHANGES IN A GOVERNMENT'S FINANCIAL POSITION.

- A. In what situations would users be more interested in (1) fair value or (2) historical cost of government assets and liabilities? When the government is [*Choose one measurement attribute for each question.*]:
- Considering the sale of excess assets? ____ historical cost ____ fair value
 - Reporting investments that management expects to hold to maturity? ____ historical cost ____ fair value
 - Providing education to a stable population of children in existing facilities? ____ historical cost ____ fair value
 - Issuing bonds? ____ historical cost ____ fair value
 - Maintaining highways? ____ historical cost ____ fair value
 - Auctioning rights to resources? ____ historical cost ____ fair value

- B. If you chose different attributes for different circumstances, why?

3. Financial reporting by both the Federal government and state and local governments uses a multiple-attribute model (different standards require different measurement attributes).

- Did discussions at this meeting lead you to believe that a single-attribute model would be preferable?

b. Would a single-attribute model be feasible?

Mr. Allen asked each member in turn to give his or her thoughts about the discussion questions in the memo, starting with the questions about cost. He said that members also should feel free to ask questions of other members or the staff. In response to questions from GASB member Marcia Taylor, Ms. Wardlow said the term “measurable” in the FASAB’s Concepts Statement 5 on elements and recognition includes reasonable estimates as well as the more precise concept of measurement. The basic recognition criteria in the statement are that, to qualify for recognition, an item needs to meet the definition of an element and be measurable or reasonably estimable.

GASB member Richard Tracy commented on the similarity between the two Boards’ financial reporting objectives but noted that the GASB does not have the FASAB’s systems and controls objective. He asked why that objective was included and whether the FASAB has issued many standards related to it. Mr. Steinberg explained the background and said that the FASAB’s MD&A standards include related disclosure requirements. Mr. Allen said when the FASAB reviewed objectives three years ago it decided to categorize as secondary those objectives that are outside the FASAB’s authority, such as systems and controls and budget integrity. Mr. Steinberg added that the FASAB objectives statement specifically states that financial statements are not the only way to meet the objectives; there are many other sources of information—for example, OMB requirements. Mr. Jackson said at least two of the elements of the systems and controls objective synchronize with the Federal Financial Management Integrity Act. In his view financial reporting is a much larger continuum than just a set of financial statements. For example, there are auditor’s reports on compliance and controls. Users can look at the totality of information available and draw conclusions about whether financial systems are sufficient to assure that transactions comply with budgetary laws and so forth. GASB chairman Robert Attmore and Mr. Steinberg briefly commented on the performance measurement objectives in the two Boards’ objectives statements.

Mr. Allen said he would like to go around the table twice to give each member the opportunity to comment on the two main discussion questions. GASB member William Holder began by saying the questions are relevant and important and some empirical information would be useful to answer them. That aside, the constraints on providing information, including cost, will play an enormous role in answering the questions in the long term. In a cost-free world, looking at the first example with the specificity implied by the metrics given, it would be very difficult to say that anything other than fair value, with recognition of the increase in value in the period when it occurs and the use of that value when it is provided to the citizenry, would be the most relevant method. But arriving at fair value numbers can be costly. In the real world, some assets’ values cannot be precisely estimated and at some point the degree of imprecision probably would diminish an estimate’s reliability. In his view, uncertainty generally is not a barrier to measurement and recognition, but there are some instances where the imprecision is simply too great to warrant inclusion of an estimate in financial statements. With regard to cost, a host of different cost measures can be relevant in different circumstances. In

general purpose external financial reporting, the closer you can get to fair value probably makes the most sense, at least conceptually, for many reasons.

Mr. Allen pointed out that the staff memo refers to fair value broadly. He asked whether there are any aspects of the fair value of an asset, such as replacement cost, that probably would be a lot easier to come up with than an intrinsic fair value at any point in time. He asked Mr. Holder whether replacement cost would be a substitute for what he would call fair value. Mr. Holder said for the example given replacement cost probably would be a very good surrogate for fair value because that is the amount at which the commodity would change hands—the amount it could be acquired for in a market purchase. There likely is something very close to a market price driving the \$100 number in the example. In part because of the work done by the FASB, his view is that market prices are probably the superior indicators of fair value when they are available.

Mr. Jackson commented that, in Mr. Holder's and Mr. Allen's conversation, fair value was considered to be replacement cost in some contexts. He asked the Boards to consider a situation where there is IT equipment that cost hundreds of millions of dollars, but replacement cost for something technologically far better is much lower. If we use fair value, assuming replacement cost is used as a surrogate, how do we recover our investment in the equipment? Mr. Holder agreed that was a good question and added that the inherent complexities in these issues are considerable. You have a perfectly serviceable system that will do what it was designed to do originally and will function and provide services for a period of time. He thinks the relevance of fair value once those costs are committed probably diminishes in many important respects, and opportunity cost or something that we have not traditionally measured may be relevant. You know that if you had just waited you could have gotten it for less, but you could not wait. There are many imponderables in trying to measure things. He thinks we will continue to have a mixed-attribute measurement model during his professional life, because it takes forever to sort through these issues meaningfully. To him, fair value is pretty important for the example given in the memo, but it is probably so much less important in Mr. Jackson's example that a historical cost measure would be appropriate.

Mr. Reid said paragraph 77b of the GASB's reporting objectives refers to demonstrating whether resources were obtained and used in accordance with the entity's legally adopted budget. The FASAB has not really touched on that objective but probably should because it is important. With regard to fair value, he has gone through a transition from the very private-sector orientation he had when he joined the Board with regard to property and depreciation, which at the time was not common in state and local government accounting. Since then he has had opportunities to talk to representatives of other governments that use fair value accounting and there is a lot of merit to it. One thing that is not included in the questions but probably should be is the whole notion of accountability. What is the value of property or resources that a manager is being held responsible for? What is it worth as opposed to what is the historical cost? For example, if today you were the manager responsible for the land acquired in the Louisiana Purchase, the \$6 million paid for it would probably not fairly represent your responsibility. Secondly, he thinks fair value gives an accountability measure that talks in terms of: If there is an exchange, how did we do relative to what we thought it was worth as opposed to what we thought we paid for it? He thinks this is

a much more important measure of what is happening if we are selling a piece of property that we bought for two cents an acre in the Louisiana Purchase. What is the appropriate level that citizens should be expecting to get back? That is a different way of looking at it than what we have in the example. The example relates to program operations but he is more concerned about holding people accountable and understanding how well they are doing as managers of assets and liabilities. Mr. Reid said the more experience he has the more fair value resonates with him, despite the fact that he is hanging on to historical cost because that was how he was trained and most of his early experience was in the private sector.

Mr. Torregrosa, representing CBO, said that very few people at CBO have an accounting background. When they looked most recently at Fannie Mae and Freddie Mac, they focused on fair value because it gave them the current situation. The mixed attributes on the official GAAP balance sheets in many cases were not useful when they were trying to assess what the cost of a potential intervention would be. Also, when they wrote their alternative view on natural resources, they advocated fair value. However, in discussions, the CBO director tries to avoid a framework of historical cost versus fair value. It is very situational and Mr. Torregrosa agrees with many of the comments made by Mr. Holder and Mr. Reid. He also thinks various factors are encouraging FASB's movement toward fair value. In response to a question from Mr. Allen, Mr. Torregrosa agreed that CBO's work is largely cash based with certain exceptions.

GASB member Jan Sylvis said one problem is that people use data for different reasons—some from a stewardship standpoint, some more from a commodity short-term perspective. She would use the term “velocity” and ask what is the velocity of our use of an asset under consideration? She thinks the higher the velocity is, the more one would want to move to fair value. If the issue is stewardship, one would want to slow down and use historical cost.

Mr. Steinberg said he does not think there is a single measure for the cost of all assets; it depends on what assets we are using. In government, the primary asset we use is people to provide services. Seventy percent of the cost of government is personnel costs, which would be measured at cost because they are fairly current. Concerning Question 1B on capital assets, he is greatly in favor of condition assessment. GASB has received some criticism on that, but it makes sense and will make even more sense as the government moves ahead with the status of roads, bridges, and so forth. He agreed with Mr. Tracy that he was referring to the preservation approach. He said we need something that reports condition and fair value does not do that.

Ms. Taylor said she would stay with historical cost for current services or programs. But, if a transaction is truly current, such as a government buying an asset and using it within days or months, she believes historical cost approximates fair value, with the exception of certain computer-type assets that Mr. Jackson mentioned. At the same time, she wonders whether it is cost-beneficial to require a finance director to use fair value for a left-over commodity such as salt, which cost \$42 when it was bought and will cost \$46 next year and could be material to his government. Would the Boards want to require such gyrations just to report on a pure fair value basis when the commodity will be consumed within a short period of time? Could it not stay at \$42? There are some

real practical, cost-benefit issues to consider. Ms. Taylor also referred to personnel costs, which Mr. Steinberg had raised. She said we can talk about human services and what they cost on a current basis, but if we enter that realm, are we then obliged to consider other human capital costs? The GASB when looking at its concepts statements has talked about excluding longer-term human capital costs. She is concerned about fair value and thinks a mixed-attribute model is probably appropriate. When a government's city hall cost \$100,000 and is worth \$5 million, there is definitely an argument for using replacement cost or fair value. Investments are another example. But, she tends to look more at what the asset is and what it will be used for, and to some extent the cost-benefit of imposing a pure fair value type system.

Mr. Farrell said he is used to historical cost and analyzing financial statements from that perspective. He believes fair value concepts make sense for particular classes of assets and liabilities, but he is not sure they should be reported in the financial statements or disclosed. Like Mr. Holder, he thinks in his professional life he never will see a full set of fair value financial statements. It will be a long, drawn-out process. We will take examples like the one in Question 1A and then ask whether the answer would be different if we looked at a different kind of asset or liability, and we will come up with different answers, depending on the situation. So he thinks he should be a listener rather than a leader on this issue.

Mr. Jackson said Mr. Farrell and Mr. Holder used the term "situational." He believes fair value accounting will be situational, but he thinks whatever we do we must be constantly aware of what the objective of fair value reporting is in a particular situation and how it will benefit managers and other users of financial statements. Often we talk about things without surrounding them with material that would help us make an informed decision. According to some federal laws, the principal purpose of financial reporting is to improve information for managers to make informed decisions. There is a preoccupation with improving the quality of information for managers. So, as we issue standards and talk about fair value accounting and situational circumstances, we really have to dig deep and figure out what this will do for the people who have to use the information to make government run better, or we will lose the battle.

Mr. Attmore asked whether FASAB sets standards for internal reporting in the federal government or just for general purpose external financial reporting? Mr. Jackson responded that the FASAB does not set standards for internal reporting per se. Mr. Steinberg interjected that it is one of FASAB's objectives. Mr. Jackson agreed that the objectives include budgetary reporting. But, there are no rules for internal reporting other than what an agency—for example, the Department of Defense—may set for its own internal purposes. There is a standard general ledger, but that is a chart of accounts for all agencies from which you can draw reporting schemes. He said he should correct his earlier comment and say that the FASAB does set standards for both internal and external reporting. The CFO Act was passed to improve information for managers, policy makers, and the Congress. Mr. Allen said it depends how you define internal and external reporting. FASAB has had some discussions that the consolidated government-wide report has a primary focus on the taxpayers and the agency financial statements are prepared under the same standards before consolidation, but they focus

more on managers and other decision makers. Mr. Steinberg clarified that FASAB's objectives focus on four user groups: citizenry, Congress and oversight, executive management, and program managers. Mr. Reid added that FASAB has cost accounting standards that mandate principles under which you cost things. Mr. Steinberg continued that another difference that Mr. Jackson alluded to is that there are two accounting systems in the federal government: budgetary accounting and financial accounting. Granted, state and local governments also have to stay within budgets, but budgetary accounting was all the federal government had for two hundred years. There are agencies that use budgetary accounting for management much more than they use financial accounting and that is something the FASAB has to be concerned with.

Mr. Holder said the current discussion could have huge cultural differences for the two Boards, because it never enters his mind, as a GASB Board member, to try to drive or directly influence the way individual state and local governments manage and organize themselves to deploy and manage resources through information flows. He understands that would be natural and desirable for those FASAB members who come from federal agency backgrounds, but GASB's focus is always on external financial reporting and that can drive some fundamental differences of philosophy and direction. Mr. Attmore said that was why he asked the question.

Mr. Jackson commented there is one thing that makes FASAB's job very difficult and maybe GASB experiences some of this too. When we move to require that something be accounted for using a particular measurement attribute, we must be mindful of the value to managers. One of the biggest obstacles to achieving the objectives of improving management and the quality of financial reporting to external parties occurs when you talk to people in responsible positions in some of the largest federal agencies. Take, for example, logisticians in a military environment like the Iraq war. When they control the whole infrastructure with property in the trillions of dollars and you talk to them about accounting issues such as valuation, they ask: What am I going to do with this information? What good is it to me? FASAB struggles with this, but we need to answer those questions if we are to bring about the changes necessary to achieve the objectives of the various laws that affect financial reporting. When we issue a standard, it is very difficult for anyone to implement it unless we can convince them that the standard will give them information that will improve their ability to manage their assets. Mr. Attmore said that GASB obviously focuses on decision utility and accountability as the key principles of all financial reporting, but GASB does not focus on managers as a user group, and that creates a different perspective for FASAB.

Mr. Patton said he had heard previous speakers mention situational aspects and mixed attributes, and the issue is which attribute is appropriate for which kind of situation. We will need to make those decisions. With respect to the cost of government, he thinks we should not follow the path of private enterprise because we are not looking at capital maintenance or projecting future cash flows or profitability. We are interested in other things. He believes there is a role for historical cost in terms of accountability and the costs of providing public services. However, if the government is holding an item and will sell it in some sort of marketplace, then having some sort of market focus where you do not want them giving away the resources might be appropriate, but he thinks those are limited cases for a government. Even if you try for some sort of fair value, he would

agree with Mr. Holder's comment about practicality, because even in private enterprise you find there is a lot of marking, not to market, but to the model of what the market might be, and there is a huge gap between the model and some sort of fair value. So the reliability of that information is likely to be suspect, particularly in a governmental setting.

With regard to human capital that someone mentioned, Mr. Patton recalled a special problem in federal reporting concerning accounting for real fixed assets and he asked whether there is not a Congressional limitation on accounting for fixed assets in contrast to human capital assets, such as investments in education. Ms. Payne responded that if FASAB passes a standard related to capital assets in the classic sense of tangible capital assets, not human capital, the law requires the standard to sit before Congress for ninety days. This requirement was included in the CFO Act because certain people on the Hill believed accountants would bias the reporting toward bricks and mortar as opposed to investments in people or intellectual capacity. Mr. Patton said FASAB may then have more incentive to take up the human capital issue. Ms. Payne said when FASAB did Statement 8 with stewardship reporting the Board had the incentive to give special attention to human capital and R&D spending as well as spending on non-federal physical property, so FASAB created a category for reporting trends in that area.

GASB member James Williams said he thought the Boards would end up with a mixed-attribute model for the reasons discussed, and he thinks it is legitimate for the Boards to identify what would be appropriate. He would start with historical cost, but there are circumstances where fair value reporting may be appropriate, particularly for the federal government with its legacy assets. GASB ran into a problem with the derivatives project that led to Statement 53. GASB Statement 31 on reporting investments at fair-value was developed because of problems with reporting investment pools at historical cost, but the GASB never has had a fair value standard on the debt side. So if you issue fixed-rate debt, even if the rates drop considerably no one knows and no one is held accountable. When the GASB tried to put things together with derivative instruments, with fair value on the investment side, the Board found there are some linkages that have to be considered. His answer to Question 1 in the staff memo would be fair value for 1A and historical cost for 1B. He thinks that is where we will end up and he hopes we can develop some guidance and concepts that can reasonably accommodate that solution, rather than focusing on whatever happened at the time.

Mr. Schumacher said he agreed and did not have much to add to what everyone has said. He comes from a historical cost background and like Mr. Farrell he is reluctant to move into the fair value arena. However, he works in the private sector and a lot more is happening there with fair value accounting than in government. He encounters derivative instruments and mark to market adjustments almost daily. He believes government really is different from the private sector and as a result he thinks we will end up with a mixed-attribute model. We will have to be very careful as we go into this and really look at what the purpose of the project is and what decision we are trying to get to, whether it is improving the financial statements or developing a specific discussion topic for a specific problem. He thinks the decisions will be on a one-on-one

basis for government, but we are generally moving toward fair value. He agreed with Mr. Williams's answers to Questions 1A and 1B, considering the options available.

Mr. Dacey said he has no problem with a mixed-attribute model, but we need to consider the value of particular pieces of information and what their effect is. With regard to previous comments about managers, FASAB considers managers to be a user group but he does not think the Board develops standards that have a different basis of accounting for that user group. He thinks the Board regards managers as a secondary user group that will develop appropriate systems and data flows to manage by, fed by some of the same information. He does not believe the Board is thinking in terms of providing certain information because it is needed by management rather than the other user groups. He thinks that will continue. However, we struggle regularly with how to get the agencies to develop the information internally. A project that we are talking about working on is trying to assess what information is being used by management that is not directly related to some of the financial systems we expect to support the financial statements. Is management using other information that might be relevant for financial reporting? He is interested in whether that project will identify information that is beyond traditional accounting.

Mr. Tracy said he, like Mr. Reid, is slowly moving toward recognizing the usefulness of fair value in many areas. He has little to add to previous comments on the situational nature of how we measure various assets and liabilities. We need to keep in mind that government is different and there are some considerations that keep us a little more on the historical cost side than on the fair value side. Some of that is associated with the preeminence of the budget and how information might be used to track budgetary changes over time and sometimes that may lead us to a more historical cost notion. Then there is the ongoing nature of government. Governments generally do not go away, so the measurement of wealth creation and other aspects of the importance of fair value may not be as important as they might be in the private sector. We have to think about users and our financial reporting objectives. Sometimes we cannot meet some of those objectives without focusing a little more on fair value, and some of them can be met better from a historical cost perspective, particularly if we think about budgeting.

Ms. Hug, representing Mr. Werfel, said since we are trying to look at the different users and different situations, we need to go with a mixed-attribute model. She also recommended the Board look at the definition of fair value. She would separate replacement or preservation cost from fair value. Replacement cost needs to be defined. Does it mean only what it would cost to replace an asset or also the cost of replacing the asset with the same functionality?

David Bean, GASB Director of Research and Technical Activities, said he thinks accountants are drawn to the relevance of fair value. However, Part I in the staff memo focuses on the cost of services. When you look at the liability side and the effect of liabilities on the cost of government services, given the going-concern nature of government pensions, what is the termination value of pension plans and should the change in their fair value from year to year drive the cost of government programs? One thing he has always envisioned in a pure world is to have a balance sheet or

statement of net assets on a fair value basis, but then to show operations; that is, a column that has the historical cost, so that people can determine what it actually costs or what did it cost to provide those government services versus what will it cost to maintain them given current values. That possibility could be explored. There are concerns, and they boil down to what is fair value? Certainly fair value has a lot of relevance, particularly if you are disposing of assets. In the federal government situation, you are talking about selling mineral rights, airways, and things like that, and historical cost has little relevance in that decision. Users of financial information want to know the fair value, but should that drive assessments of the cost of government services? That is a different question that has to be considered. Several people here today have questioned whether we—at least those of us round this table—will ever see the day when we have a pure fair value balance sheet. Given especially the GASB's view of interperiod equity, he hopes that does not become the primary driver of what GASB would call a statement of flows, because he thinks historical cost has more relevance in that area.

Mr. Attmore said he had only a few points to add to what had already been said. First, timing is important when you raise questions like this because at the acquisition date of a capital asset, fair value and historical cost are the same or very close. Second, what we are talking about is how those fair values change over time. Finally, we all know that if you take fair value changes into account and you have an asset that increases in fair value over time, you have to record the other side of the transaction somewhere. And we all know that people like to appropriate those gains and do something with them, and you cannot do so if it is an asset that is being held for service provision over a long period of time. When you think about the budget issues and so forth, you cannot spend those fair value gains.

Ms. Payne said Mr. Tracy's comment about wealth creation is very important. When the private sector converts cash into resources or incurs liabilities that later will be liquidated by cash, their hope is eventually to realize more cash from it. So, as you step up the fair value, your hope is that you will realize the fair value in cash. In governments, you are stepping up the fair value but you are not trying to realize it in cash, you are providing services. She thinks the most problematic issue is finding out how the gain relates to cost and how to reconcile that with spending taxpayer money.

Mr. Allen said his thinking has changed a lot over the years. What do we mean by cost? For many years he would have said it is historical cost, but he now wonders what the driver should be in financial reporting. He believes that intergenerational or interperiod equity is probably the highest level of reporting we can achieve. Whether it is the custodianship of an asset or the financial condition of a government, when something is turned over it ought to be done with an understanding of the usage not just of the historical cost, but what it will cost the recipients to maintain the asset. If it happens to be a water system, should a rate payer pay rates based on what the system cost forty years ago because that is historical cost and it is depreciated, or is there some responsibility to gradually update the rate? You see that all the time. You pay \$50 per month and the new rate is \$70 a month once the new system is put in because the costs are so different. He thinks the transition should be less abrupt. He does not think historical cost provides the information on intergenerational equity or interperiod equity

that he would like to provide. So, that leads him to some variation of historical cost but not something with unreasonable timing. In other words, he does not think something needs to be revalued each accounting period in order to have the most accurate information. But if you have an asset that you are required to replace to continue to maintain a service, he thinks some sort of fair value should be part of the equation so that interperiod equity can be measured. He agrees with Mr. Dacey that FASAB has broad responsibility, but the primary responsibility is financial reports for those outside an organization who are looking in. Yes, we should partner with OMB to provide people with better government, but our primary purpose is to provide information to those outside an organization. That responsibility more and more requires measures that go beyond historical cost because he thinks historical cost does not give the insight into an organization that is needed.

Mr. Allen said many people had commented on both questions in the staff paper and he would like to open up the discussion for any further comments. Mr. Steinberg said he thinks the key will be to identify and agree upon criteria for selecting attributes. He heard about ten criteria mentioned around the table, which means we probably will need to set priorities for the criteria. The criteria he heard included “use of asset,” “type of asset,” “life of asset,” “cost-benefit of the determination of the process,” “user needs,” “status of the asset,” “nature of the budget relationship,” “impact on the budget decision,” and “impact on interperiod equity.” Those are a lot of criteria, but they should guide us in selecting attributes. Mr. Bean commented and others agreed that Mr. Steinberg had only referred to the asset side and we must also look at the liability side. Mr. Allen said we also need to know, as Mr. Steinberg and others have said, that we do have fair-value reporting for the biggest part of government. If seventy percent of the cost of government is human resources, and as long as you are recording the promised benefits as they are accruing as opposed to when they are paid out, he would argue that . . . Mr. Steinberg intervened to say when he made his previous comment he was wondering what number we would put on a financial statement. The main financial statement he was thinking about was the operating statement, and for that it is cost because we are paying people today for what they did today. Mr. Allen agreed but added that, from an operating statement standpoint, if seventy percent of the cost is human resource related, both Boards have in their standards something that captures what we pay today as well as promised benefits that are accruing and are to be paid in the future. Mr. Attmore responded that Mr. Allen would say that is fair value.

Mr. Bean said once you get into the benefit side, how do you measure, for example, a pension liability? Is it the fair value at which you can liquidate that pension today? Do you look at it from a going-concern standpoint and include future salary progressions? There are a lot of considerations based on a fair value notion. He would not necessarily call for historical cost, but for more of a traditional approach to measuring those liabilities. What is the driver for selecting the appropriate attribute on the liability side? Mr. Allen said he shared Mr. Bean’s thoughts in that, because of the uniqueness of the government environment, you probably will arrive at a different position than you would in the private-sector environment. Mr. Reid said that, for the record, he tried to check off Medicare, social security, food stamps, and grants and he is not getting seventy percent of the cost of government. Mr. Allen said maybe it was the figure for state and local government rather than federal government outlays.

Mr. Patton said there is a concept in the accounting literature that refers to the hardness of the data—Yuji Ijiri’s work, for example. One difference between the government and private enterprise is that there is a lot of disputation in government as to what ought to be done, and as long as the disputation is equal, it is good to have hard data—which is more than objective data—that cannot be modified. He thinks one of the values of historical cost is that it is hard because it is based on visible transactions, whereas fair values, as he mentioned earlier, come too frequently from marking to some sort of estimated model rather than relying on an actual market.

Mr. Bean said there has been a big shift, at least in the IASB/FASB thinking. GASB has always looked at relevance and reliability as the two cornerstones or balancers of financial information, whereas the FASB has completely moved away from the reliability notion. They are focusing strictly on relevance and faithful representation, and reliability is placed somewhere under faithful representation. They do not believe that reliability is part of the equation any more. However, reliability is still embedded within GASB’s and FASAB’s objectives. We have not updated our qualitative characteristics and that is probably a discussion we will need to have in the future. In a government environment, should there still be those two balancers?

Mr. Tracy said that the overarching objective that both the GASB and the FASAB have is accountability. Accountability can go both ways: What did we spend, and how does that compare to past periods? And then, looking forward, can we continue to provide these services over, say, twenty or thirty years into the future? You can get some differences in cost measurement related to those kinds of questions.

Mr. Holder offered a comment in the spirit of helping everyone understand where GASB is coming from. He said everyone present is probably aware of the GASB’s recent concepts statement on elements that created elements called “deferred inflows” and “deferred outflows” of resources. One of the reasons GASB did that was in recognition of conflicting financial reporting objectives between a balance sheet, where you might want to hold somebody responsible for the fair value of the assets today, not the \$6 million that was paid for the Louisiana Purchase, but those changes in value might not realistically or reasonably be considered part of the cost of services and therefore an element of measuring interperiod equity. Some of the examples given in the staff memo are good examples of that—for example, “Reporting investments that management expects to hold to maturity.” It may be that if you have a ten-year bond that you expect to hold to maturity, you bought it for the yield, you bought it for the cash flow that will come in each year, and that will be a reasonable measure of revenue during that period of time. But the historical cost of that bond might be utterly irrelevant three days after you buy it to any possible decision that anybody would make. Therefore, it might make sense to recognize the cash you are receiving and intended to receive as the revenue over the ten-year period, while abandoning historical cost and using fair value for the balance sheet measurement. Certainly it could be the same way with issuing bonds as part of the cost of financing. There are many other examples, some of which are in the staff memo, that certainly could have an effect on accounting for deferred compensation like pensions and other postemployment benefits, where the number that results from a reasonable measure of providing cost-of-services data year by year that would be reported in the balance sheet does not mean very much. The fair value of the net

liability might be meaningful, but you do not want to impose fair value measurements into a cost-of-services/interperiod equity model. There are many other reasons that drove the GASB to include those measurements, but that is one way the GASB found to reconcile the conflicting measurement objectives that the Board encounters.

Mr. Steinberg said this is another place where FASAB consciously made a difference between state and local government and federal government reporting. Originally, when the FASAB was setting the standard for investments, the Board said that the FASB and state and local government have fair value, but he remembers that a colleague in the Treasury Department said federal agencies are not allowed to have investments. If they have excess cash they must turn it over to the Treasury, and people that gave it to the Treasury, such as the social security trust fund, gave it or lent it to the Treasury in a way that the Treasury would issue to them bonds that would mature on the day they needed the funds to start to pay the benefits, and those were non-marketable bonds. Then somebody said we have a few that are market based, and the Treasury said, even if they are market based, they are intended to be held to maturity. So the decision was, since we are not going to sell them—we cannot sell them—the simplest solution, which is what Ms. Taylor said, is to record them at cost. That is why FASAB and GASB have that difference. Mr. Attmore said he thought there were federal agencies that hold investments. Mr. Steinberg said there are very few.

Mr. Patton said one of the things that FASAB has done in reaction to dissatisfaction with the federal balance sheet is to create a sustainability reporting standard. He asked whether there is a GASB equivalent. Mr. Bean said no, but the GASB does have an economic condition project on its research agenda, with a look at sustainability as one of the primary objectives of the project. Mr. Williams said the GASB is very interested in what the FASAB does in this area. Mr. Bean added that the International Public Sector Accounting Standards Board also is very interested in what the FASAB is doing on sustainability reporting.

Ms. Wardlow asked how relevant fair value is if the entity's financial statements are not released until nine or ten months after the end of the year. Several GASB members agreed that is a problem. Mr. Allen and Mr. Reid said federal government financial statements are issued in forty-five days. Ms. Hug said the question is a good one because if the market is volatile, values can fluctuate very quickly and, in that sense, a fair value number at year end would not provide much information the next day. Mr. Attmore said volatility obviously is a huge issue when talking about fair value. What does volatility do to intergenerational or interperiod equity?

CONCLUSIONS: Being informational, the session did not include staff recommendations or Board decisions. Nevertheless, views expressed during the session are expected to contribute to future staff research and Board deliberations.

- **Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information**

Staff member, Ross Simms, began the discussion by presenting a summary of the comments received in response to the exposure draft (ED) *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*. The ED proposes amendments to SFFAC 2, *Entity and Display* that provide concepts for guiding the FASAB in distinguishing basic information, required supplementary information (RSI), and other accompanying information. Mr. Simms noted that respondents generally agreed with the proposed conceptual guidance. However, respondents noted a need to clarify some of the factors for distinguishing basic information and RSI. Mr. Simms proposed a final draft concepts statement in light of the responses. The proposal included explanations for the factors that may need clarification.

Mr. Patton noted that the explanations provided for two factors could be improved. These factors are:

1. Use of various types of financial data or financial transaction data
2. Extent to which the information is aggregated (lacking detail)

Regarding “Use of various types of financial data or financial transaction data,” Mr. Patton believed that the description presented in the proposed final draft should be clarified. In particular, the phrase “the higher the level” should be explained. The main idea of the factor was that if the information was produced by the transaction based information system or something equivalent to that, the information would be more reliable and thus a candidate for basic information. Mr. Jackson noted that the explanation could be re-worded to capture the idea that financial data derived from a financial system would more likely be basic information, while information subject to various estimations or not coming from the financial system would more likely be RSI. Members agreed that the language describing the factor could be revised.

Regarding “Extent to which the information is aggregated (lacking detail),” Mr. Patton believed that the point of the factor was that the greater the aggregation, the more likely that the information will need to be supported by the reliability that comes with audits of basic information. However, Mr. Reid noted that if one has to present significant detail, it is more likely that the detail will be presented as RSI. Mr. Steinberg provided an example of how this factor is being applied. He noted that agencies present an aggregated statement of budgetary resources as basic information and a schedule of budgetary resources, which shows each major budget account, as RSI. In addition, Mr. Allen believed that the cost of auditing the information should be considered in determining basic information versus RSI. Staff will revisit the language for explaining the factor.

Ms. Hug suggested revisions to paragraph 77 of SFFAC 2 to consider that not all statements are consolidated. She noted that in some instances it may not be desirable

to present consolidated statements such as the statements that present budgetary information. However, Ms. Payne noted that this notion was not a part of the exposure draft to amend SFFAC 2. It would be a new amendment that has not been exposed and the FASAB may not have deliberated whether the statement of budgetary resources should or should not be consolidated. Also, the existing concept is not causing a problem in practice. In practice, there is a non-consolidated statement of budgetary resources. The notion could be considered as part of the reporting model project. Mr. Jackson added that the existing concept states a condition rather than providing a standard.

CONCLUSIONS: Staff will incorporate Board members' comments and prepare a ballot draft for the October 2008 meeting.

- **Agenda Setting**

The Board discussed the need to address the appropriate source for GAAP and improve management's discussion and analysis. These issues were added by (1) including the appropriate source for GAAP as a separate project option and (2) including MD&A in the evaluation of existing standards project.

Mr. Allen polled the members for their rankings and the table below shows the results:

	BR	DT	HS	JF	WJ	JP	AS	BD	CH	TA	Tally
Asset impairment and deferred maintenance		1	3		1	2	3		3	3	2 ones, 1 two and 3 threes.
Evaluating existing standards – targeted approach*	2	3	2	2	2		2	2	1	2	1 one, 6 twos and 1 three.
Linking cost to performance (2)			1	3				3			1 one, 0 twos and 2 threes.
Asset retirement obligations (1 as second)					4						1 four.
Appropriate Source for GAAP – Use of FASB	1	2		1	3	1	1	1	2	1	5 ones, 2 twos and 1 threes.

*Sequence of Standards to be Evaluated:
 MD&A
 SFFAS 6
 SFFAS 4
 Disclosures

Grants

CONCLUSIONS: The Board agreed to the following top three priorities:

1. The appropriate source for GAAP
2. Evaluating existing standards
3. Asset impairment and deferred maintenance

Adjournment

The meeting adjourned at 3:30 PM.