



Federal Accounting Standards Advisory Board

November 26, 2008

Memorandum

To: Members of the Board

From: Melissa Loughan, Assistant Director

Domenic Savini, Assistant Director

Wendy M. Payne

Through: Wendy M. Payne, Executive Director

Subj: Economic Stabilization Activities (ESA)—Update and Briefing from Treasury on Accounting Methodology and Reporting in FY 2008 PAR—**Separate ESA Binder**¹

MEETING OBJECTIVES

The purpose of the December Board meeting is to provide an update on the activities related to economic stabilization activities (ESA) and Treasury's accounting and reporting in the FY 2008 Performance and Accountability Report (PAR) of ESA activities so that the Board has a better understanding of the financial reporting implications of the actions taken by the federal government. [ESA is the project name determined by staff to include the recent federal government activities related to Government Sponsored Enterprises (GSE)--Fannie Mae and Freddie Mac, the American International Group, Inc. (AIG), the Troubled Asset Relief Program (TARP), and most recently the CitiGroup.]

Treasury officials from both the Office of the Chief Financial Officer (CFO) and the Office of the Inspector General (IG) [with support from IPA firm (KPMG) that conducted the audit] will provide information to ensure the Board has an understanding of Treasury's accounting and reporting of FY 2008 ESA activities. The remarks will last approximately 60 minutes and they will allow time for questions the Board may have. See Staff Comments section below for listing of individuals from Treasury.

After the remarks and Q&A, staff envisions additional discussion by Board members to decide whether they wish to consider providing reporting guidance regarding any of the transactions/events related to the ESA.

¹ The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

BRIEFING MATERIALS

Due to the voluminous information related to ESA, staff prepared an ESA Briefing Binder. This Binder will be used throughout the project's discussion and at future Board meetings. Updates and additional materials will be provided as they come available and should be placed in the binders. This briefing binder contains the following sections and appendices (a detailed table of contents is provided as an attachment to the memo and placed in the front of the ESA Briefing Binder):

- **Tab A Department of the Treasury Materials** (This includes Treasury's FY 2008 PAR Management's Discussion and Analysis and Financial Statements, Position Papers, and available Transaction Information.)
- **Tab B Government Sponsored Enterprises (GSE)--Fannie Mae and Freddie Mac Materials**
- **Tab C American International Group, Inc. (AIG) Materials**
- **Tab D Troubled Asset Relief Program (TARP) Materials**
- **Tab E Citigroup Materials**
- **Tab F Other Materials** (This includes other reports that may be of interest.)
- **Tab G FASAB Standards** (Pertinent Excerpts)

NEXT STEPS

After Board members have determined whether they wish to provide reporting guidance regarding any of the transactions/events related to the ESA, staff will pursue a tentative sense of their top priorities. Board members should also consider which guidance vehicle would be best used. See Staff Comments section below for Listing of Guidance. In addition, due to timing constraints the Board should also consider if the goal is to issue guidance that would be available for the FY 2009 reporting cycle. If so, this may involve pulling staff from other active projects to ensure the guidance can be issued timely.

BACKGROUND

As you recall at the October 2008 Board meeting, Messrs. Reid and Werfel provided the Board an update on the ESA activities and preliminary plans for the fiscal year 2008 reporting in the consolidated financial report. Since the October Board meeting, there continue to be activities in this area which unfold almost on a daily basis. In addition, Treasury issued their FY 2008 PAR which includes the financial reporting of ESA activities and disclosures.

STAFF COMMENTS

As noted, the primary objective of the session is to provide an update on the activities related to ESA and Treasury's accounting and reporting in the FY 2008 Performance and Accountability Report (PAR) of ESA activities so that the Board has a better understanding of the financial reporting implications of the actions taken by the federal government. Staff notes the 2008 consolidated Financial Report of the United States Government (CFR) will be available after December 15, 2008. Staff anticipates this will be available by the meeting.

Staff observes the fact that events related to ESA are not only unfolding each day, but they seem to constantly change. Staff would like to note that we have not been privy to any additional or advance information and most of the information we have obtained has been when it has been made official.

Updates and additional materials will be provided to the Board as they come available. The materials should be placed in the ESA binders and the ESA Binder will be used throughout the project's discussion and at future Board meetings. The ESA Binder contains many materials for the Board's reference and staff does not anticipate a detailed discussion of all materials.

Treasury Presentation

The main focus of the December Board meeting will be on Treasury's remarks and questions the Board may have. The following individuals will be providing a presentation or participating on Treasury's FY 2008 accounting and reporting of ESA activities:

CFO Representatives

Al Runnels (Deputy Chief Financial Officer, Office of the Deputy Chief Financial Officer)
Jim Lingeback (Director, Office of Accounting and Internal Control)
Don Geiger (Acting Director, Accounting)

IG Representative

Joel Grover (Deputy Assistant IG for Financial Management and IT Audits)

KPMG Representatives

Dan Kovlak
Cathy Supernaw
Mark McFadden

Treasury Financial Statements and Position Papers

Board members may wish to review Tab A Department of the Treasury Materials of the ESA Binder. This includes Treasury's FY 2008 PAR Management's Discussion & Analysis and Financial Statements, Audit Report, and Position Papers. The FY 2008 Financial Notes to the Financial Statements are quite lengthy and staff would like to identify the following notes or pages that members may find useful:

Note 1 Summary of Significant Accounting Policies. Pg. 148 Section A. Reporting Entity discusses the economic initiatives and the General Fund. Pg. 154 Section Q. Use of Estimate discusses estimates and methodologies for valuations used related to the Mortgage Backed Securities (MBS) and Government Sponsored Enterprises (GSEs). Pg. 156 Section U. Credit Reform Accounting discusses credit reform accounting as well as the use of the General Fund.

Note 3 Loans, Interest Receivable and Credit Program Receivables-Mortgage Backed Securities. Pgs. 161-163 detail the GSE MBS Purchase Program and the GSE Credit Facility Program and provide disclosures in accordance with SFFAS 2 as amended.

Note 4 Due from the General Fund and Due to the General Fund. Pg. 164 details various assets and liabilities that the Treasury Department is responsible for managing on behalf of the US Government. Due to the General Fund is reported as an Intra-Governmental Liability on the Balance Sheet and it represents assets held for the General Fund. The note details that this includes the amounts for Investments in GSEs. Note: Investment in GSEs corresponds to the asset Investments in GSEs included on the Balance Sheet.

Note 5 Cash, Foreign Currency, and Other Monetary Assets. Pg. 167 Non-Entity discusses that in September 2008, BPD began issuing specific cash management bills to fund the Supplementary Financing Program to provide emergency cash to the Federal Reserve initiatives aimed at addressing the ongoing crisis in financial markets.

Note 7 Investments and Related Interest. Pg. 169 details the investments in GSE preferred stocks and warrants for common stock.

Note 13 Non-Entity Assets. Pg. 176 discusses non-entity assets are assets held by Treasury but are not available for use by the Treasury Department. The Investments in GSEs and the cash management bills provided to the Federal Reserve are included.

Note 17 Liabilities. Pg. 185 Liabilities with the Public includes the GSE Keepwell Payable for the Quarter Ended 9/30/08.

Note 19 Consolidated Statement of Net Cost. Pg. 188 discloses the cost of the GSE Keepwell agreement to ensure liquidity of Freddie Mac was included as an expense in the Statement of Net Cost.

Note 24 Special Programs with Government Sponsored Enterprises (GSE). Pgs. 205-207 provide detailed disclosures regarding the steps taken to maintain the financial stability of the GSEs. It discloses the specifics of the Senior Preferred Stock Purchase Agreements, GSE Credit Facility, and the GSE Mortgage-Backed Securities Purchase Program.

Note 26 Subsequent Events. Pg. 209 Section A. Emergency Economic Stabilization Act of 2008 (EESA) provides details about EESA and the Troubled Asset Relief Program (TARP). Pg. 210 Section C. American International Group (AIG) provides details about the agreements related to the AIG which includes Treasury purchasing AIG senior preferred stock through TARP.

Required Supplemental Information (Un-audited) Pg. 214 Liquidity Commitment to GSE describes the commitment to GSEs as essentially an insurance program. It discusses that the estimated contingent liability does not have sufficient reliability to be recorded as a liability.

Treasury position papers are included for the Board's reference. Although the position papers were written for specific FY 2008 activities, one might expect that Treasury would continue this same methodology for all related ESA events. For example, Treasury Position Paper 08-02 relates to the Fannie Mae and Freddie Mac mortgage backed securities (MBS) and concludes they should be subject to the Federal Credit Reform Act as amended and accounted and reported in accordance with the SFFAS 2 *Accounting for Direct Loans and Loan Guarantees*, one would expect the same methodology, accounting, and conclusions would be reached for TARP purchases of MBS.

FASAB Guidance Vehicles

After Board members have determined whether they wish to provide reporting guidance regarding any of the transactions/events related to the ESA, staff will pursue a tentative sense of their top priorities. Board members should also consider which guidance vehicle would be best used.

Staff notes the following methods available for providing guidance in order of priority sequence based on the GAAP hierarchy:

- FASAB Statement of Federal Financial Accounting Standards (level a)
- FASAB Interpretation (level a)
- FASAB Technical Bulletin (level b)
- Technical Releases of the Accounting and Auditing Policy Committee of the FASAB (level c)
- FASAB Staff Implementation Guidance (level d)

In addition, due to timing constraints the Board should also consider if the goal is to issue guidance that would be available for the FY 2009 reporting cycle. If so, this may involve pulling staff from other active projects to ensure the guidance can be issued timely. The Board should consider which projects would be delayed if it determines this project should be moved as a priority. For example, the Board may determine it would be best to delay the start of the recently approved projects on the agenda.

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If you have any questions or comments prior to the meeting or would like to provide feedback prior to the meeting, please contact Ms. Loughan by telephone at 202-512-5976 or by e-mail at loughanm@fasab.gov or Mr. Savini by telephone at 202-512-6841 or by email at savinid@fasab.gov.

Attachment

ECONOMIC STABILIZATION ACTIVITIES BACKGROUND MATERIAL & PERTINENT INFORMATION

A. Department of the Treasury

1. FY2008 Performance Accountability Report : Management's Discussion and Analysis, Financial Statements & Audit Report
2. Treasury Position Papers
3. Transaction Information - (through 11/25/08)
4. Treasury Tranche Reports to Congress (11/3/08 and 11/21/08)
5. Journal Entries –Requested

B. Government Sponsored Enterprises (GSE)--Fannie Mae and Freddie Mac

Fact sheets

1. FHFA Conservatorship Question and Answers
2. Treasury Senior Preferred Stock Purchase Agreement Fact sheet
3. GSE Mortgage Backed Securities Purchase Program Fact sheet
4. GSE Credit Facility Fact sheet
5. FAQs Treasury Senior Preferred Stock Purchase Agreement

Fannie Mae

6. Copy of Fannie Mae Executed Senior Stock Purchase Agreement
7. Fannie Mae Certificate
8. Fannie Mae Warrant to Purchase Common Stock
9. MD&A from SEC 10-Q for the quarterly period ended 30 September 2008.
<http://www.fanniemae.com/newsreleases/2008/4522.jhtml;jsessionid=5BSCNKD10TJ0HJ2FQSHSFGA?p=Media&s=News+Releases>

ECONOMIC STABILIZATION ACTIVITIES BACKGROUND MATERIAL & PERTINENT INFORMATION

B. Government Sponsored Enterprises (GSE)--Fannie Mae and Freddie Mac (Continued)

Freddie Mac

10. Copy of Freddie Mac Executed Senior Stock Purchase Agreement
11. Freddie Mac Certificate
12. Freddie Mac Warrant to Purchase Common Stock
13. MD&A from SEC 10-Q for the quarterly period ended 30 September 2008.
<http://ir.10kwizard.com/files.php?source=1372>

C. American International Group, Inc. (AIG)

1. TARP - AIG SSFI Investment; Senior Preferred Stock and Warrant. Summary of Senior Preferred Terms and Summary of Warrant Terms.
2. 10 March 2008 - Office of Thrift Supervision letter to AIG.
3. MD&A from SEC 10-Q for the quarterly period ended 30 September 2008.
<http://ir.aigcorporate.com/phoenix.zhtml?c=76115&p=irol-financialreports>

D. Troubled Asset Relief Program (TARP)

Fact sheets

1. TARP Capital Purchase Program: Senior Preferred Stock and Warrants
2. Application Guidelines for TARP Capital Purchase Program
3. Private Bank Program Q & A

ECONOMIC STABILIZATION ACTIVITIES BACKGROUND MATERIAL & PERTINENT INFORMATION

E. CitiGroup

Fact sheet

1. 23 November 2008 – Summary of Terms

F. Other

1. 25 November 2008 - Federal Reserve Board of Governor's Press Release: Creation of Term Asset-Backed Securities Loan Facility (TALF)
2. 25 November 2008 - Federal Reserve Board of Governor's Press Release: Initiation of a program to purchase of GSE direct obligations and MBS's
3. 5 November 2008 - Federal Reserve Bank of New York Press Release: Commercial Paper Funding Facility: FAQ's
4. CBO Study: Estimating the Value of Subsidies for Federal Loans and Loan Guarantees
5. [The Cost of the Savings and Loan Crisis: Truth and Consequences](#). Publisher: FDIC Banking Review, 2000 - Vol. 13, No. 2. Timothy Curry and Lynn Shibut

G. FASAB Standards (Pertinent Excerpts)

1. SFFAS 1 – Accounting for Selected Assets and Liabilities
2. SFFAS 2 -- Accounting for Direct Loans and Loan Guarantees
3. SFFAS 5 – Accounting for Liabilities of the Federal Government
4. SFFAC 2 – Entity and Display