



Federal Accounting Standards Advisory Board

April 6, 2018

Memorandum

To: Members of the Board

Ross Simms

From: Ross Simms, Assistant Director

Wendy M. Payne

Through: Wendy M. Payne, Executive Director

Subj: Required Supplementary Stewardship Information–**TAB G**¹

MEMBER ACTIONS REQUESTED:

- Review the materials and by April 17, 2018, answer the questions on page 10

OBJECTIVE

The objective is to discuss alternatives for improving the reporting of required supplementary information.

BRIEFING MATERIALS

The briefing material includes this memorandum.

BACKGROUND

Upon completing the development of Statement of Federal Financial Accounting Concepts (SFFAC) 8, *Federal Financial Reporting*, the Board began discussing the need to improve the content of financial reports. In May 2017, Board members reviewed financial reports and FASAB staff conducted roundtable discussions and noted several areas for improvement, including management's discussion and analysis (MD&A), required supplementary stewardship information (RSSI), other information, the overall reporting model, and certain financial statements and note disclosures. The Board was particularly concerned about the voluminous content of financial reports and, to address

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.

the concerns, the Board decided to use a two-phased approach. During the first phase, the Board will focus on areas that can be addressed in the near term and, in the second phase, consider areas to address over the long term.

The Board's near-term efforts involve MD&A and RSSI and, on July 20, 2017, staff engaged roundtable participants to discuss how the content of MD&A and RSSI might be improved. Although MD&A is intended to be concise, Board members and others noted MD&A is often broad and may overwhelm readers. In addition, with respect to RSSI, users can access the information from other sources, such as *Analytical Perspectives*, *Budget of the United States Government*, ("the Budget"). Related performance information may also be presented in agency performance reports.

In August 2017, staff prepared a draft exposure draft (ED) and suggested that the Board eliminate RSSI. The ED proposed rescinding Statement of Federal Financial Accounting Standards (SFFAS) 8, *Stewardship Reporting*, in its entirety and noted that users do not review the information provided in financial reports. Instead, they refer to the Budget. However, the Board discussed the history and complexities of RSSI and noted that the draft ED needed to include a comprehensive discussion of the rationale for rescinding RSSI.

In addition, staff suggested that the Board eliminate the reporting requirement that addresses the reporting entity's vital performance goals, objectives, and results in MD&A. As an alternative, the Board could require reporting entities to inform readers where to obtain the entity's annual performance report (APR).

Members noted that conditions have changed since FASAB developed the MD&A reporting standards. Component reporting entities currently issue separate financial and performance reports and issue the reports at different times. In addition, the Board's concepts acknowledge that information that users need may not reside in a single report. Consequently, the Board could develop an ED to amend the existing MD&A reporting standards, explain the rationale for the proposal, and obtain comments from users, preparers, and auditors.

During the October 2017 meeting, the Board continued discussions on improving RSSI and MD&A. Staff presented a proposal that would permit flexibility in reporting the remaining item of RSSI, stewardship investments, and eliminate the RSSI category. Staff also presented a proposal that would permit management to refer users to more detailed performance reports when preparing MD&A. The discretion in reporting RSSI and MD&A would be responsive to input from preparers and auditors regarding users' access to and preference for other sources of information. In addition, it was consistent with members' concerns regarding the voluminous content of financial reports.

However, given the discretion, Board members were concerned that financial reports would not present information needed to achieve the reporting objectives. Board members noted that financial report users need information on expenses that provide long-term benefits, such as investments in human capital, research and development,

and non-federal physical property. The information would help users assess the government's impact on the nation and the Board could consider how the reported information could be improved.

NEXT STEPS

The next steps for the project will be determined during the meeting.

MEMBER FEEDBACK

If you have any questions or comments, please contact me by telephone at (202) 512-2512 or by email at simmsr@fasab.gov with a cc to paynew@fasab.gov .

Alternatives for RSSI

Overview of RSSI

RSSI is comprised of stewardship investments. These investments are intended to maintain or increase the economic productive capacity of the nation and include expenses incurred for human capital, research and development, and nonfederal physical property.² The Board acknowledged that the definition of stewardship investments was “narrower” than other definitions of long-term investments.

For instance, some analysts may include immunization and pre-natal programs in the definition of human capital investment. However, the Board decided to exclude such programs because of the difficulty in measuring their economic benefits. In addition, the Board excluded expenses incurred to educate and train Federal employees because the expenses were not significant and it would not be cost effective to distinguish between Federal operational and educational expenses.³ Also, stewardship investments exclude Federal physical property. These investments may improve the efficiency of Federal government operations and provide jobs in the short run, but they may not improve the long-term productive capacity of the nation.⁴

The minimum reporting requirements for each stewardship investment component is as follows:

- a. Non-federal physical property. Annual investment⁵ including a description of federally-owned physical property transferred to state and local governments provided for the year ended on the balance sheet date as well as for each of the preceding four years. Reporting should be at a meaningful category or level. Reporting at the entity level should be more specific than at the government-wide level. Description of major programs involving federal investments in nonfederal physical property including a description of programs or policies under which non-cash assets are transferred to state and local governments.
- b. Human Capital. Annual investment provided for the year ended on the balance sheet date and for each of the preceding four years. Reporting should be at a meaningful category or level and reporting at the entity level should be more specific than at the government-wide level. Narrative description of major education and training programs.

² Statement of Federal Financial Accounting Standards (SFFAS) 8, *Supplementary Stewardship Reporting*, par. 25.

³ FASAB Staff Paper, *Stewardship Investment Reporting Issues*, October 21, 1999.

⁴ Government Accountability Office, *Transition Series: Investments*, December 1992. GAO/OCG-93-2TR.

⁵ The term annual investment refers to the full cost of the investment measured and accounted for in accordance with SFFAS 4, *Managerial Cost Accounting Standards and Concepts*.

- c. Research and Development. Annual investment provided for the year ended on the balance sheet date and for each of the preceding four years. Reporting should be at a meaningful category or level. Reporting at the entity level should be more specific than at the government-wide level. Narrative description of major research and development programs.

The Board believed that stewardship investments trends would help report users know the extent of the investments the government has made to provide long-term benefits for the nation.⁶

To support categorizing human capital and research and development expenses as investments, reporting entities needed to provide performance information on the programs reported. Reporting entities would consider the performance information in measuring human capital and research and development investments, but the performance information was not considered a reporting requirement.

Concerns Regarding RSSI

Component reporting entities noted that the stewardship investments information is not used.⁷ The budget process is the government's principal mechanism for Congress and the president to reach agreement on goals, allocate resources among competing needs, and assess the government's fiscal effect on economic stability and growth. In developing budget legislation, Congress decides on targets for spending and receipts, the deficit or surplus, and the limit on debt.⁸ Thus, targets are not explicitly set for the appropriate mix of investment and consumption spending. Without targets, users may not be able to assess whether the government's condition is on a sustainable course or needs to improve.

In addition, potential users can access another government source for information regarding long-term investments. The Budget of the U.S. Government ("the Budget") presents the government's investments in physical capital, education and training, and research and development to help users assess the government's impact on the economy. For each type of investment, the Budget provides several periods of aggregated and disaggregated data to help users identify changes in the government's investments, the percentage of investment spending relative to total spending, and the government's investments share of GDP. In particular, the historical tables of the Budget FY 2018 provide data showing the following:

- Total Investment Outlays for Physical Capital, Research and Development, and Education and Training: 1962— 2018

⁶ SFFAS 8, par. 12.

⁷ FASAB Staff Paper, *Federal Financial Reporting: Streamlining Management's Discussion and Analysis and Required Supplementary Stewardship Information-TAB I*, August 18, 2017.

⁸ Statement of Federal Financial Accounting Concepts (SFFAC) 8, *Federal Financial Reporting*, pars. 51 and 52.

- Major Public Physical Capital Investment Outlays in Current and Constant (FY 2009) Dollars: 1940—2018
- Major Public Physical Capital Investment Outlays in Percentage Terms: 1940—2018
- National Defense Outlays for Major Public Direct Physical Capital Investment: 1940—2018
- Nondefense Outlays for Major Public Direct Physical Capital Investment: 1940—2018
- Composition of Outlays for Grants for Major Public Physical Capital Investment: 1941—2018
- Summary of Outlays for the Conduct of Research and Development: 1949—2018 (In Current Dollars, as Percentages of Total Outlays, as Percentages of GDP, and in Constant (FY 2009) Dollars)
- Composition of Outlays for the Conduct of Research and Development: 1949—2018
- Composition of Outlays for the Conduct of Education and Training: 1962—2018

Both RSSI and the Budget provide information to address users’ information needs. Table 1: RSSI and the Budget Comparison summarize the user information needs RSSI and the Budget addresses. While the information presented in RSSI is accrual based and subject to some audit procedures, the Budget presents cash-based information. Also, although the Budget is not audited, the presentation permits users to access data that could be used to address more specific questions.

Users’ Needs	RSSI	the Budget
Scope of investment	Non-federal physical property, human capital (excluding federal education and training and social investments such as healthcare or social services), and research and development ⁹	Physical property (Federal and non-federal), education and training (excluding federal education and training and social investments such as healthcare or social services) , and research and development
Data to observe trends in investments	Provides 5 years of expense data	Provides over 50 years of actual spending data and estimates of future spending

⁹ Note that programs for which no outcome or output data is available would be excluded from human capital and R&D categories.

Users' Needs	RSSI	the Budget
Spending on consumption relative to investments	Users can compare investment expenses to net cost of operations	Provides spending on investments relative to total spending
Spending on defense versus non-defense investments	Reports expenses for non-defense investments not federally owned	Provides spending on defense versus non-defense investments
Spending on investments by budget function	Reporting entities have discretion in how to disaggregate investments	Provides spending on investments by function
Information on how physical and human capital investments were allocated (direct spending versus grants)	Provides a description of investment programs	Provides information on direct versus indirect spending
Information on budgetary and economic effects or outcomes	Not required	Provides spending data and relationship to GDP
Access to data	Not required	Provides access to historical data

Table 1: RSSI and the Budget Comparison

Consequently, there is a concern that multiple government sources intended to report on the government's investments could possibly confuse users regarding the appropriate source for accessing the information, require explanation of the differences in the definitions and measurement among the sources, and burden users with redundant information.

Moreover, potential users need granular data to perform research such as the macroeconomic and budgetary impact of investments. We also observed the need for granular data in other outreach efforts. For instance, during our roundtable discussions on credit reform financial reporting, participants noted that they needed data to analyze program level performance.

Alternative A: Present Stewardship Investment Information in Basic Information

The Board could require the reporting of stewardship investments in basic information. Presenting stewardship investments in the financial statements could enhance the visibility of the information, given its importance. For instance, reporting entities could present the information on the face of the Statement of Net Cost and/or present a graph of investment trends in the note disclosures. Also, the Board discussed improving the level of discipline applied in preparing and reporting stewardship investments and basic information would be subject to more audit procedures than RSSI.

However, the Board would need to address the following concerns prior to requiring the reporting of stewardship investments as basic information:

- How would the auditor determine whether the reported stewardship investments maintained or increased the economic productive capacity of the nation? Criteria would be needed to facilitate assessing the economic impact of the investment.
- How would the auditor determine that all stewardship investments have been identified and reported? Would the Board need to review the definitions to determine whether other types of spending qualify as stewardship investments? Are all stewardship investments that maintain or increase the economic productive capacity of the nation considered material or is the monetary amount of the investment the criterion?
- SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, requires the reporting of full cost by responsibility segment. Would a requirement to report stewardship investments as basic information create another approach for aggregating full costs, possibly confusing the reporting community and users?
- How would the auditor validate the output and outcomes of human capital and research and development investments? To support categorizing human capital and research and development expenses as investments, reporting entities need to provide performance information on the programs reported.
- How would the auditor ensure that all of the asset, liability, revenue, and expense data are reflected in the net cost of the stewardship investments?

In addition, requiring the reporting of stewardship investments as basic information would not address the lack of targets for long-term investments and would result in additional preparer burden. The stewardship investment project was initiated with the intent of reducing preparer burden. Also, concerns regarding (1) different government sources for investment information would remain and (2) different notions of “investment” may hinder progress given the visibility of a new classification on the statement of net cost.

Alternative B: Maintain the Existing Requirements

The Board could defer action at this time and maintain the existing RSSI reporting requirements. Stewardship investment information would continue being treated as required supplementary information and potential users would continue having access to the information in the government-wide and component reporting entity reports. However, the concerns regarding the lack of use and the multiple government sources of long-term investment information would not be addressed.

Alternative C: Rescind RSSI Requirements

The Board could rescind the RSSI reporting requirements. Roundtable participants suggested eliminating stewardship investments from the reporting model because the information was not used.¹⁰ Potential RSSI users access the Budget for several periods of granular investment data, trends, and information on the investment's share of the economy. Also, rescinding the RSSI requirements would address the concern regarding multiple government sources of similar information. Eliminating stewardship investments would reduce the risk of confusing potential users with multiple government sources using different definitions and bases of accounting.

In addition, users currently have access to a basic financial statement presenting prospective information about receipts and spending, the resulting debt, and how these amounts relate to the economy. Subsequent to the development of RSSI guidance, the Board's views on basic information evolved and the Board required the government-wide reporting entity to present long-term fiscal projections and information on the change in non-interest spending and/or receipts that would be necessary to maintain public debt at or below a target percentage of gross domestic product (GDP).¹¹ During an educational session on financial condition reporting, a participant noted that mandatory spending programs are over two-thirds of the budget and growing. Once debt exceeds 90 percent of GDP, negative effects start to occur.¹² Thus, considering that Congress sets targets for receipts, spending, and the debt, the government-wide reporting entity presentation provides meaningful information on the sustainability of current policies and informs budget decisions.

¹⁰ FASAB Staff Paper, *Federal Financial Reporting: Streamlining Management's Discussion and Analysis and Required Supplementary Stewardship Information – TAB I*, August 18, 2017.

¹¹ SFFAS 36, *Comprehensive Long-Term Projections for the U.S. Government*.

¹² FASAB Minutes December 17, 2015.

Question for the Board

1. Regarding the reporting of RSSI, which alternative should be pursued?
 - a. Present Stewardship Investment Information in Basic Information
 - b. Maintain the Existing Requirements
 - c. Rescind RSSI Requirements
 - d. Other (please specify)