FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
Board Meeting Minutes
April 27-28, 2016
Room 7C13
441 G Street, NW
Washington, D.C. 20548

Wednesday, April 27, 2016

Attendance

The following Federal Accounting Standards Advisory Board (FASAB or "the Board") members were present throughout the meeting: Mr. Showalter, Messrs. Dacey and Granof, Ms. Ho (who was represented during brief absences by Ms. Davis), and Messrs. McCall, Scott, and Smith. Ms. Bronner was present on April 27th. Mr. Reger was present on April 27th and represented by Ms. Kearney during brief absences and on April 28th. The executive director, Ms. Payne, and general counsel, Lisa Motley, were also present throughout the meeting.

Administrative Matters

- **Approval of Minutes**

The Board approved the February meeting minutes prior to the meeting.

- **Updates and Clippings**

In light of the 2015 consolidated financial report of the U.S. Government (CFR) issued in late February, the federal Board members provided highlights regarding the effort. Board members shared various insights:

- The biggest change for 2015 was moving the sustainability statements to the basic information category from required supplementary information (RSI). This led to bifurcation of the audit report between the accrual and fiscal sustainability statements. The Department of the Treasury (Treasury) added narrative to explain the types and nature of the two sets of statements. For the sustainability statements, the emphasis is that they are not predictions but are measurement tools to help understand what current policy will look like in the future if it continues. The statements also measure the change in policy needed to keep debt at current levels.

- The audit opinion has changed little since the previous year. However, Treasury continues to remediate the material weaknesses within its control.

- *Citizen's Guides* were provided to members. Some members noted that they use the *Citizen's Guide* in presentations and other outreach. Treasury indicated that the number of people aware of the guide is growing.

- Members previewed the upgraded website for the financial report. In addition to the upgraded website, ebook formats are provided. Some noted the challenge in locating the website as it is hosted on the Fiscal Service page rather than the main Treasury website.

Members commended the hard work of the teams from Treasury, the Office of Management and Budget (OMB), and the Government Accountability Office (GAO) involved in producing the report. Some indicated the importance of the information and its relevance to citizens. Mr. Showalter noted, despite the disclaimer of opinion, that the report is a major accomplishment. At international events, he is often reminded that the rest of the world looks to the U.S. government for leadership in financial reporting. He is not aware of another country that includes sustainability information.

Mr. Reger reported on efforts to address long-standing human capital concerns. The Chief Financial Officers (CFO) Council is seeking new authorities through legislation; these authorities would enhance recruiting efforts. Job descriptions are also being rewritten and reclassified. Continuing education requirements are being put in place for entry-level positions. For executive-level positions there will be a requirement for an advanced degree or certification. CFOs and Deputy CFOs will be required to assist with education and recruitment. In addition, there are agreements with three universities to develop additional educational programs in federal accounting to support these efforts.

Members discussed other options for outreach, such as universities across the nation and content specifications on the Certified Public Accountants exam. Some expressed dismay that the profession has not acknowledged the existence of federal generally accepted accounting principles (GAAP) and noted that many universities teach to the exam blueprint. Thus, omission of federal GAAP from the blueprint means students will not be made aware of federal GAAP.

Mr. Reger handed out the program for the 2016 Joint Financial Management Improvement's financial management conference. He noted the importance of the annual conference to the community. It will be held on May 9th.

<u>International Public Sector Accounting Standards Board (IPSASB) Update</u>

Mr. Dacey briefed the members on recent IPSASB topics including the following activities:

- Finalizing the annual improvements projects
- Starting a new project on heritage assets (including land)
- Continuing work on public sector specific financial instruments, including international monetary fund quota subscriptions and special drawing rights
- Evaluating responses to the social benefits consultation papers and drafting nonexchange expense consultation papers, including considering the need for consistency between the two projects
- Considering changes to revenue standards in light of the new standards from the International Accounting Standards Board and the Financial Accounting Standards Board
- Developing a background paper on emissions trading schemes

The first annual public sector standard setters forum was held in March and the second is planned for 2017. Mr. Showalter noted the differences in accounting practices around the world; many countries are addressing cash basis accounting for the first time. He also said many countries budget using accrual information.

Governmental Accounting Standards Board (GASB) Update

Mr. Granof briefed members on GASB's efforts, including the following activities:

- Holding public hearings on the fiduciary funds and lease proposals
- Reviewing the reporting model and developing an invitation to comment
- Assessing whether there is disclosure overload
- Beginning a new project on debt extinguishment

Members briefly discussed the financial challenges facing many governments as well as the fact that producing timely financial statements has been shown to lower interest rates. Lower interest rates may be an incentive for more governments to produce timely financial statements.

Agenda Topics

- **The DATA Act and Decision Framework**

Ms. Ho was joined by Mr. R. Scott Bell, Ms. Patricia Cappello, and Ms. Ann Davis from Treasury to present on the DATA Act and its decision framework.

Ms. Ho explained that financial information is not being viewed as a management tool. This is further complicated by there being two accounting bases—accrual and budgetary. While the budget drives the big decisions, the accrual basis information can provide users with a holistic view.

Ms. Ho's team has been developing tools to better inform policy decisions at the program level. The team presented four key points:

- The team has strived to identify the information gaps in the management function and to overcome those gaps. For example, budgetary and proprietary effects of decisions (and the resulting transactions that come out of those decisions) should be understood but generally are not. That is, the relationships between program and financial decisions are sometimes not understood.
- Management needs tools that consider both the budgetary and accrual accounting implications of decisions. Considering both the short-term and long-term implications is desirable.
- The tools developed to date focus on the key differences between budget and accrual information, as identified in the reconciliation of the deficit to the net operating cost.

- The decision tool identifies both the decision and accounting effects under the two accounting bases. Doing so may allow managers to consider short- and long-term effects of decisions in a holistic way.

The draft decision framework is presented below.

9

Environmental & Disposal Liabilities			
Decision Effects		Accounting Effects	
Outcomes	Impacts	Budgetary	Proprietary
The federal government administers programs to ensure the condition of the environment and the health of all Americans are protected from environmental hazards. Accounting differences (budgetary vs proprietary) for these activities are primarily attributable to the inclusion in the government's proprietary net cost of the of estimated future reliable and estimable costs associated with these activities. An agency is required to recognize a liability for environmental cleanup costs as a result of past transactions or events when a future outflow or other sacrifice of resources is probable and reasonably estimable. The cost to **completely** resolve a spill (or other kind of incident) is not apparent in budgetary accounting. Proprietary accounting requires accrual of the total cost expected to resolve a spill when it puts the associated liability on the balance sheet. The perpetual nature of the balance sheet also reminds a reader that a liability still exists, even years after the occurrence of an environmental incident. (Environmental and Disposal Liabilities: FY 2015: $412 billion; FY 2014: $369 billion).			
Some federal programs result in environmental contamination caused by the production, storage, and use of radioactive materials and hazardous chemicals, which result in contamination of soil, surface water, and groundwater.	The costs of protecting the condition of the environment and health of all Americans that may otherwise be adversely impacted by environmental hazards are accurately reflected.	Annual appropriations for clean up work that is to be performed in the current year.	Agencies required to recognize liability when future outflow or other sacrifice of resources as a result of past transactions or events is "probable" and "reasonably estimable."

During discussion, members were generally very supportive and had the following observations:

- Explicitly evaluating risk through the framework may be helpful. It might establish an expectation that risk assessments be documented. Consideration of systems and controls related to managing risk might be beyond the framework's scope but worth considering.

- Presenting the framework to OMB's resource management offices may generate useful feedback.

- The tool may help bridge the gulf between budget and financial information that many users have observed at state and local governments.

- The definition of *program* is clearly important to all decision makers.

- Often such tools evolve rapidly once put into use. Some members encouraged an early roll out that would allow users to influence how the tool is refined.

- The presidential transition affords an opportunity to introduce the tool to newly appointed CFOs.

Ms. Ho thanked the members for their suggestions. She then demonstrated a data visualization tool developed with the help of the Small Business Administration.

- **Tax Expenditures**

Mr. R. Alan Perry of GAO joined the Board to discuss the draft tax expenditures exposure draft (ED).

Mr. Showalter remarked on the international interest in tax expenditures at the international Public Sector Standard Setters Forum and the Organization for Economic Cooperation and Development's accruals symposium. As the first national standard setter to address federal tax expenditures, he anticipated significant interest in the ED.

It is anticipated that in the weeks following the meeting, a pre-ballot draft will be circulated for editorial review. Then a ballot draft will be circulated in May.

Mr. Perry thanked the task force and Board members for their input on the revised draft circulated in March. He noted that most edits to that draft were accepted. The disposition of the comments was documented in attachment 2 to the briefing memorandum. Staff identified three topics for discussion in the memorandum and welcomed Board members to raise other topics for discussion as well.

Mr. Perry directed members to discussion topic 1: addition of the stewardship objective in relevant sections, such as the executive summary and the basis for conclusions (BFC). He asked if members approved the addition of the stewardship objective in the ED as reflected in attachment 1.

One member noted that the stewardship objective seems less relevant to tax expenditures than other objectives. Another member noted the broad concept of *stewardship* seemed relevant but the specific notions—such as investment and government operation—were less clearly related. Staff explained that *investment* is a broad notion that includes human capital and infrastructure.

Mr. Perry noted that the overall intent of the objective should be considered rather than the specific examples provided in the sub-objectives. He further noted that the sub-objectives are worded to address typical transaction- and balance-based financial information, whereas tax expenditures relate to forgone transactions that never occurred.

One member asked whether the Board always identifies the objectives intended to be addressed; other members asked whether the ED should discuss all four objectives or only the most relevant. Staff noted that each proposal is linked to the conceptual framework, including the objectives. Members thought it would be helpful to discuss further whether a proposal's relationship to each of the four objectives should be required.

While some members thought the wording was fine, most members thought a stronger connection to federal financial reporting objectives would be helpful. If a stronger connection is made, members generally agreed that stewardship should remain in order to strengthen and clarify the BFC. Staff agreed to develop revisions to strengthen the connection in the next version.

Discussion topic 2 also related to how the proposal contributes to meeting a reporting objective regarding operating performance. Mr. Perry asked if members believe this proposed Statement addresses the objective to an extent such that it is appropriate to include in the ED. Mr. Perry noted that he received a few comments that the link to this objective seems tenuous.

A member noted that it remains troubling to refer to objectives that pertain to program-level information in a proposal that impacts only the CFR. Staff indicated that the overarching objective was clearly relevant. However, while users would gain a more complete understanding of how service efforts, costs, and accomplishments of the reporting entity have been financed, staff agreed that the program goals in the sub-objectives were not relevant. After some discussion, members agreed to remove the irrelevant sub-objectives. Members asked staff to review all the sub-objectives to determine which ones could be removed.

Mr. Perry noted that a member had raised the question which set off discussion topic 3. The member suggested replacing the word *encourage* with *recommend* [the presentation of a selection of the major tax expenditure estimates]. To this member, *recommend* was a stronger verb.

Mr. Perry agreed but explained that FASAB uses *encourage* in other existing standards and concepts. He suggested that—if the Board finds it appropriate to use the word *recommends*—it would be more appropriate to execute a technical amendment that simultaneously changes *encourages* to *recommends* at the same time that FASAB writes the technical amendment to change the term *other accompanying information* to *other information* (OI). Another member noted that the Board would need to confirm where *recommends* is currently used throughout existing concepts and statements in order to ensure consistency.

The federal Board members were asked whether *recommends* or *encourages* would produce different results. They indicated that the choice would not affect the outcome. However, one member suggested that the wording used by the Board should be discussed as a separate topic in the future.

While several members preferred *recommend*, members acknowledged the outcome would not change. The Board agreed to retain *encourages*.

Mr. Perry invited members to comment on two additional minor changes made to the draft ED. First, he explained that he revised the sequence of the questions for respondents. The original first question was a broad invitation to make suggestions. He felt that including the more specific questions first would be helpful to focus respondents' attention on the detailed provisions in the ED before they address the broad question at the end. Board members generally agreed with Mr. Perry's rationale and concurred with the resequencing.

Secondly, Mr. Perry revised the provision regarding OI. The description of the reference to an outside report needed to be consistent with the disclosure requirement, which refers to a report "such as" the Treasury report. Mr. Perry identified additional contextual information. He believed the reader would benefit from being informed regarding the level of assurance afforded the report, the completeness of the external report, and the explanatory text regarding each tax expenditure.

Some members thought this level of assurance may be confusing and difficult to implement. Others thought the detailed guidance was unnecessary and might imply the Board was suggesting the report should be audited in the future.

The Board agreed that the reader would benefit from the contextual information and decided to place the discussion of contextual information in the BFC rather than in the proposed standards.

Members offered additional editorial changes and discussed the next steps. Prior to submitting a pre-ballot draft to members, Mr. Perry will circulate the revised wording on the objectives to certain members for a preliminary review. Staff will provide a pre-ballot draft for review by all members. Changes to the pre-ballot should be editorial rather than technical. Once editorial concerns are satisfied, Mr. Perry will circulate a ballot.

> **Conclusions:** Mr. Perry will circulate drafts before the next meeting with the goal of balloting the final ED before the June meeting.

The meeting adjourned for lunch.

- **Risk Assumed-Insurance Programs**

Mr. Showalter opened the session on insurance programs by informing members that he requested staff to expedite this Statement in order to have it ready for ballot at the August 2016 meeting. He explained that this is the first phase of the risk assumed project, and there are other phases to address.

Robin Gilliam, assistant director, reminded members that FASAB released the ED for comment on December 30, 2015, with comments requested by March 29, 2016. She noted that staff received 18 comment letters, most of which were received very close to the due date. Due to the number that needed to be processed and the limited time frame, staff felt it prudent to analyze only the first two questions from the eight presented for comment, for purposes of the April meeting.

The first two questions elicited comments on the definitions and eliminations found in paragraphs 9 – 25.

Ms. Gilliam presented the following edits to the Board for discussion and all edits were approved:

- The *Insurance Program* (par. 9) definition was updated to remove “insurance or non-loan guarantee” from the definition.
- *Exclusions* (par. 10.e. f. & g.) were updated to remove “whose missions are not by statute to provide insurance.”
    - The 10.g. footnote was updated to include “and authorized indemnification clauses within other legally binding agreements.”
    - Exclusion 10.h. was added to exclude worker compensation-type programs.
- *Incurred But Not Reported* (par. 18) was updated to remove references to adverse events and insurance programs to maintain its generic meaning when used in other standards.
- *Insurance Claim* (par.19) was updated to include claims that are also statute-based and not just explicitly contract-based.
- *Insurance Contract* (par. 20) was updated to read *Insurance Arrangements* to include any by statute or explicit agreement.
    - “Risks shared with a third party” was added as par. 20.c.iv.
- *Cash Surrender Value* (par. 12) was updated to remove “insurance company.”
- *Recoveries* (par. 25) were updated to remove “recoupled or recovered.”

The Board agreed that no change was necessary to the *exchange transaction insurance programs other than life insurance* and *nonexchange insurance transaction programs* category definitions, despite the fact that the word *exchange* and *nonexchange* are used in those definitions. The Board agreed with staff’s analysis and recommendation that the intention was to define these categories in relation to the revenue standards—Statement of Federal Financial Accounting Standards (SFFAS) 7—and not to provide a new definition for *exchange* and *nonexchange revenue*.

Next Steps

I. Staff will update the definitions section of the proposed Statement with the above noted changes and present it to the Board for approval with the draft April 2016 meeting minutes.

II. Staff will analyze questions 3 – 8 and present recommendations to the Board at the June 2016 meeting.

III. Changes will be incorporated into the proposed Statement and presented for ballot at the August 2016 meeting.

IV. Ms. Payne noted that public hearing meetings may be held when moving from an ED to a Statement and asked if the Board wished to have a public hearing. **No Board member requested a public hearing**.

Mr. Showalter thanked Ms. Gilliam and the Board for helping to expedite this Statement and closed the session.

- **Leases**

Monica Valentine and Domenic Savini, assistant directors, presented to the Board one issue related to developing the ED of the proposed standards on non-intragovernmental lease accounting. The Board had previously directed staff to use the GASB proposal on leases as a platform for developing the federal standards on non-intragovernmental leases—GASB released the ED for comment in January 2016.

The objective of the session was to address the issue of service concession arrangements (SCAs) in the proposed lease standards. Staff noted GASB's Leases ED specifically excludes "contracts that meet the definition of a service concession arrangement in paragraph 4 of Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements." Currently FASAB standards are silent on SCAs.

After discussions with the task force, staff noted that several federal entities have SCAs and have asked for clarity, given that no specific guidance yet exists. Mr. Savini had also shared that SCAs, which are a subset of public-private partnerships (P3s), are fundamentally different than leases. Accordingly, staff's concern was whether the proposed lease definition [a contract or agreement that conveys the right to use a nonfinancial asset (the underlying asset) for a period of time in an exchange transaction] could inadvertently sweep in SCAs and obscure financial reporting.

Ms. Valentine asked the Board if it agreed with staff's recommendation to specifically exclude SCAs from the proposed lease standard and, if so, at what level of detail the lease standard should discuss SCAs. Mr. Showalter added the Board's intent is to address SCAs in the P3 recognition and measurement project.

Mr. Dacey asked staff why SCAs, a subset of P3s, were singled out as an exclusion and whether other non-SCA, lease-related P3s would have to apply the lease standard. Is the plan to exclude all P3s from the lease standard and wait for the P3 recognition and measurement standard to address those lease-related P3s? Mr. Savini highlighted that staff's intent was to be consistent with the other standard setters who have recognized that SCAs are fundamentally different from typical leases by specifically excluding SCAs. The Board could elect to broaden the exclusion to exclude all P3s, but staff was concerned that, due to the diverse types of P3s which exist, the Board would need to revisit the measurement and recognition guidance earlier than anticipated for each and every type of P3. Mr. Dacey pointed out GASB's accounting for SCAs is similar to its proposed accounting for leases.

Mr. Granof asked staff if the National Park Service (NPS) was receiving upfront revenues for its SCAs. Mr. Savini stated that NPS receives franchise fees over the course of the SCA agreement. Ms. Payne also noted there is no asset or liability recognized by NPS for the SCAs. Using NPS as an example, Mr. Smith added that because federal SCAs are structurally different from state and local government SCAs, there would be no need to link the accounting to GASB's SCA guidance. Mr. Granof opined that these SCAs have the appearance of operating leases.

Mr. Savini cautioned the Board from drawing any conclusions, because staff had not fully researched all federal SCAs. Therefore, it is too early to make any final decisions on their accounting. Mr. Granof added that FASAB should have a separate standard on SCAs, given the number of issues surrounding the topic. Mr. Savini noted that the P3 measurement and recognition project has been postponed by the Board until after assessments can be made about the effectiveness of the P3 disclosure standards. Ms. Payne opined that the project's postponement neither equates to special guidance for P3s nor waives any existing standards—the existing standards would have to be applied.

Mr. Smith suggested SCAs not be addressed in the lease standards because they are more closely tied to P3s, and the Board simply does not know enough about them right now. Mr. Smith did not want to hold up the lease project for this issue. Mr. Granof and Mr. Reger agreed with Mr. Smith's suggestion.

Mr. Dacey asked whether the Board should exclude all P3s—as defined in SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*. Ms. Valentine reminded the Board that *unbundled* leases are currently excluded from the P3 disclosure standard. Ms. Payne added under current guidance both *bundled* and *unbundled* leases would have to apply the lease standards. She also pointed out one important difference between FASAB's lease proposal and GASB's lease proposal: GASB has guidance in place to specifically address SCAs and FASAB does not. Additionally, a preparer can use the GAAP hierarchy to get to broad recognition and measurement guidance on P3s. Therefore, excluding all P3s from the lease standard would create a void for those P3s that have lease components.

> **Conclusion:** Because SCAs are not addressed in federal accounting standards, the Board agreed that specifically excluding SCAs from the lease standard would raise more questions. Because SCAs are expected to be addressed in the P3

recognition and measurement project, the Board agreed to remain silent on SCAs in the lease proposal but to include the Board's rationale in the BFC. The Board may also consider adding a question for respondents about SCAs in the ED.

- **Three-Year Plan**

Wendy Payne, executive director, introduced the three-year planning topic. The discussion will cover the potential objectives for the three highly rated projects identified at the February meeting, any additional projects members would like to consider, and the suggestion that a codification be provided.

The potential objectives will help inform the selection of projects to add to the Three-Year Plan. Ms. Payne requested that members rank the objectives (and not rank any objectives that should not be addressed in the project) so that staff can develop project plans for each of the three potential projects. Because members view different aspects of performance and electronic reporting as important, the ranking exercise will be helpful in establishing clear project plans. In response to member questions, Ms. Payne noted that some of the objectives might be met by guidance other than a standard. For example, IPSASB provides recommended practice guides.

Members discussed the various federal reports. A performance and accountability report (PAR) includes both performance reports and financial reports. An agency financial report (AFR) includes the financial report. Both PARs and AFRs provide a management's discussion and analysis (MD&A) that presents summary performance information. Preparers intended for PARs to result in an integrated report—that is, performance information that presents financial and nonfinancial information. However, the results have not been as intended and the reports are often quite long.

To address the need for integration through a smaller report, the summary of performance and financial information is required.

Regarding electronic reporting, Ms. Payne noted that the potential objectives are organized around the three approaches to electronic reporting identified in a recent Association of Government Accountants report. The first approach is starting with GAAP-based financial statements and drilling down. The second approach is defining data sets and making them available. The third approach is similar to USAspending.gov's, in that it is transaction based and users work with aggregations they select. Earlier feedback from members suggests that the second and third approaches would not be within the scope of a potential project.

Mr. Dacey noted that the schedule of spending conceptually would include amounts aggregated from the detailed data in USAspending.gov and would articulate with a financial statement that presents obligations incurred. He thought there was potential for FASAB to require some type of schedule, which could then be reconciled to the detailed data. It would build a bridge from the GAAP statements to the detailed data—which could be audited at the middle level of disaggregation.

Ms. Kearney added that OMB designed the schedule of spending to articulate with a component reporting entity's budget-based financial statement. Currently, it articulates with the statement of budgetary resources.

Mr. Dacey, in response to a comment that this was not revolutionary, noted a bridge could do two things: show how the data interact with each other and assist in auditing at a level closer to the transaction data but not at the transaction level.

Ms. Payne indicated that the feedback was very helpful and she would provide a revised set of potential objectives for discussion in June. She added that popular reporting had thus far not been rated highly by members.

Mr. Showalter noted that he could envision the popular report as an agency's public report. AFRs would still need to be audited but would not be used as a public report in the same way they are now. He thought that should be considered in future phases of the reporting model project. To do this, the Board should state the objectives of popular reporting, the content and the characteristics of the information, and the methods of presentation.

Some members noted the value of popular reports and the many stakeholders who would benefit. However, members noted that as guidance is provided, agencies could begin to focus more on complying with the guidelines than exercising judgment when preparing popular reports. The challenge for the Board would be determining the level of guidance needed without popular report preparation becoming a compliance exercise. Some reports are very good and others are not.

Ms. Payne noted the discussion was helpful. She asked if there were other topics the Board should consider for projects that were not in the Annual Report's Three-Year Plan.

Ms. Davis noted a desire to focus on foundational elements, such as the definition of *program*.

Mr. McCall suggested that a focus on sustainability and any projects that supported sustainability information would be useful to stakeholders.

Ms. Payne explained that some respondents requested a codification of the accounting standards. Presently, FASAB provides a handbook. It is a single volume structured around the pronouncements that FASAB issues. Each pronouncement is presented like a chapter in a book. There is Standard 1, Standard 2, Standard 3, and so on. Within each standard, there is an introduction, the authoritative text, the explanation, the BFC, and then illustrations. The authoritative text is presented as "amended" by later standards. The surrounding explanatory text is not altered.

The handbook is updated each year using software called Framemaker, which is designed for producing large-volume texts. GAO's support for Framemaker is likely to end in a few years because most GAO products do not require the program. Staff will be working with GAO specialists to convert the handbook into Microsoft Word.

The effort to do so suggests that it is a good time to evaluate alternatives for providing the standards to the community. Most standard setters provide standards by topic through a codification. Ms. Payne requested member feedback on preferences.

Members noted that a topical organization made sense to them. However, some members thought the current handbook was easy to use.

Members suggested that staff seek the views of those using the standards. Such feedback would aid in making the final decision.

Staff requested that members provide their ranking of the potential objectives by the end of the meeting. Members did so and the results were shared briefly. The results will be discussed further at the June meeting.

Adjournment

The members adjourned to another conference room for an educational session.

The Board meeting adjourned for the day at 3:30 p.m.

Thursday, April 28, 2016

Agenda Topics

- **Reporting Model**

The Board, led by Ross Simms, assistant director, discussed a draft ED. The ED provided concepts to assist the Board in developing reporting models for the government-wide and component reporting entities. The Board discussed some key terms used in the ED and agreed to replace the term *general purpose federal financial report* (GPFFR) with another term that reflects the focus of the ED. The ED focuses on financial statements and RSI, while the term GPFFR is broader and refers to financial statements, RSI, and OI. The Board also discussed changes to the draft ED to better describe the information that should be presented by the government-wide and component reporting entities, as well as the Board's role with respect to reporting performance information and summary level information. Details of the discussion follow.

Required Information

The Board agreed to replace the term GPFFR, which appears throughout the ED. GPFFR is a broad term which includes both information required by GAAP and OI. Members noted that the term *required information* could be used in lieu of GPFFR. The

Board addresses required information in Statement of Federal Financial Accounting Concepts (SFFAC) 6, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information* and refers to the information required by GAAP, the financial statements, and RSI. Financial statements and RSI are the focus of the ED.

Mr. Dacey expressed concern whether required information would be the best term to use because some may confuse the term with information mandated by OMB administrative directives. Instead of using required information, the Board could simply utilize the terms *financial statements* and *RSI*. Mr. Smith noted that the Board could ask ED respondents whether use of the term *required information* is clear.

The Board also discussed whether data made available through websites should be considered financial reporting. Mr. Dacey noted that the financial reporting objectives should guide decisions on what information should be considered financial reporting. Ms. Payne added that information in financial reports must possess basic characteristics, such as understandability, reliability, relevance, timeliness, consistency, and comparability. Members agreed that websites can provide GAAP and non-GAAP financial data. Not all financial data is aggregated into financial statements.

The Board agreed that figure 1 in the ED should be clarified. The figure shows that all “financial data” is directly affected by GAAP. However, members discussed that some financial data may not be directly affected by GAAP. Ms. Ho noted that preparers may aggregate some publically accessible data elements into financial statements, while other elements may not be aggregated. Board members believed that figure 1 should be revised to show that some financial data can be outside of the area labeled *financial reporting*.

Members discussed the relevance of distinguishing between information directly affected by GAAP, information indirectly affected by GAAP, and information not affected by GAAP. Ms. Kearney discussed that figure 1 shows a performance statement directly affected by GAAP, as well as performance plans not affected by GAAP. However, if the Board provides guidance for a performance statement, GAAP could affect performance plans. Mr. Dacey suggested that the Board reconsider the need to distinguish between information directly affected by GAAP, information indirectly affected by GAAP, and information not affected by GAAP. The ED focuses on financial statements and RSI. Messrs. McCall and Showalter noted that the distinctions are necessary to help clarify the Board’s role.

In addition, staff should add the sustainability statement to the list of financial statements in figure 1 and financial condition to the information discussed in MD&A.

<u>Paragraph 37 of the ED</u>

Paragraph 37 of the ED discusses information that the government-wide reporting entity should present, and Board members requested that subparagraph 37.e. be revised. Sub-paragraph 37.e. states:

> Information that helps users to understand the legislative processes for determining the level of resources to raise from taxes, how the budget resources will be used, and the different measures that may be used to control funds…

Members noted that helpful information for users to understand legislative processes is beyond the scope of financial statements. Ms. Ho noted that sub-paragraph 37.e. and other paragraphs in the ED, such as paragraph 12, appear to indicate that the budgetary basis is only useful for assessing legislative compliance. However, the budgetary basis is used for both cash and debt management and other purposes. Members discussed that the government-wide and component reporting entities should present different budgetary information. The government-wide reporting entity could present information on what the government expended during the period, while component entities could present information on the budget authority it received and how the budget authority was used.

Also, Mr. Dacey suggested revisiting sub-paragraph 37.f. and using the language surrounding sustainability in SFFAS 36, *Comprehensive Long-Term Projections for the U.S. Government*. The sub-paragraph appears to refer to a projection based on current law and policy. In addition, paragraph 37 should include a sub-paragraph for stewardship information, such as research and development and human capital.

Moreover, members noted the need to clarify sub-paragraph 37.c. The sub-paragraph discusses the need for information about the government's net results. It was not clear whether the sub-paragraph referred to nonfinancial or financial results for the reporting period or cumulative results. Also, a sub-paragraph may be necessary to discuss management's analysis of the information that the government-wide reporting entity presents. Members noted that the items listed in paragraph 37 should be consistent with the items discussed in SFFAC 3*, Management's Discussion and Analysis*.

<u>Paragraph 39 of the ED</u>

Paragraph 39 of the ED discusses information that the component reporting entity should present. Staff will revisit the paragraph considering the Board's comments on paragraph 37. Mr. Dacey noted that sub-paragraph 39.e. should discuss budgetary information for the component reporting entity.

Members discussed that sub-paragraph 39.f. should be clarified. The text should utilize the term *assets* instead of *resources*. However, some members noted that financial statements may not recognize all assets—as is the case with land.

<u>Paragraph 42 of the ED</u>

Paragraph 42 discusses disaggregating component entity funding and cost information. Board members noted that this paragraph should emphasize the importance of disaggregating information. The Board, in establishing standards, needs to consider the appropriate level of disaggregation that component reporting entities should use. Also, the paragraph should provide some principles that the Board could consider rather than specifying levels of disaggregation or providing examples.

<u>Paragraphs 43-47 of the ED</u>

Paragraphs 43-47 discuss concepts regarding both the government-wide and component reporting entities. The Board discussed the relevance of financial condition for component reporting entities. Mr. Granof noted that some component reporting entities are not subject to an appropriation, such as Amtrak and the U.S. Postal Service, and members agreed that the concepts should consider those component reporting entities. The ED should also discuss concepts regarding the sustainability of services in general, rather than specific services.

The Board agreed to remove paragraph 46. The paragraph appeared to be directed to preparers rather than the Board.

<u>Performance Results</u>

Paragraphs 48-54 of the ED discuss concepts regarding performance results. The Board agreed that the ED should refer to the discussion of performance information in existing concepts, such as SFFAC 1, *Objectives of Federal Financial Reporting*, and discuss FASAB's role with respect to performance information.

<u>Summary Level Information</u>

Paragraphs 55-59 of the ED discuss summary level information. The Board agreed that the section should include a discussion of FASAB's role with respect to summary level information.

Conclusion: Staff will present a revised draft ED during the June 2016 meeting.

- **DoD Guidance**

Mr. Showalter explained that the objective of the session was to have all members comfortable enough to sign and approve the ballot Statement, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35* and encouraged all members to voice any concerns prior to signing their ballots.

Melissa Batchelor, assistant director, explained that since the last meeting, staff had provided a pre-ballot draft Statement to the Board. Staff incorporated comments and a ballot draft was provided in the Board binders. Staff received minor comments on the ballot draft and provided a marked copy for all members to review during the session. In addition—for ease of review—staff had summarized the changes on a handout that would be easier to walk through. Ms. Batchelor also gave Board members an opportunity to review the changes directly in the proposed Statement.

Mr. Showalter suggested that Ms. Batchelor walk through all the changes, only stopping when a Board member objected or had questions.

Ms. Batchelor explained the changes made to the proposed Statement:

- Changed “certain” to “specific” in the summary and on pages 3, 22, 23, and 27
- Inserted the acronym “GAAP” in the summary
- Changed “line item” to “general PP&E” for clarity on pages 5, 7, and 10
- Changed “if” to “when” and also deleted “significant” so there would not be confusion with materiality on pages 9, 12, 19, and 30
- Added “to the related disclosure” on page 9
- Made a few minor updates to the BFC

Mr. Showalter asked for the Board’s agreement with the proposed changes. The Board unanimously approved all the changes.

Mr. Showalter asked if there were any other questions regarding the proposed Statement.

Mr. Dacey noted that staff had changed the language from *alternative valuation method* to *alternative methods* in the ballot draft. He asked if staff could explain this and if other Board members felt comfortable with the change.

Ms. Batchelor explained that the change to *alternative methods* was to bring consistency to the Statement. Staff noticed that the Statement used *alternative methods*, *alternatives*, and *alternative valuation methods* throughout. Staff chose to use *alternative methods*. Ms. Batchelor explained that the Statement used *alternative valuation method* to describe or refer to deemed cost, which is consistent with SFFAS 48.

Ms. Batchelor further explained that this proposed Statement introduces two other methods—prospective capitalization of internal use software and an exclusion of land and land rights. Ms. Batchelor explained that in the previous drafts there were inconsistencies in how these methods were referred to. Staff believed it most appropriate to be consistent with the Board’s use of *alternative valuation method* for deemed cost, as used in SFFAS 48, and introduce alternative methods for the various methods permitted (including deemed cost) in this proposed Statement.

Mr. Dacey explained that while he does not consider it critical, he does believe it could add some clarity to consider that the valuation can be recorded at zero. Ms. Batchelor pointed out that the proposed Statement allows an exclusion of land with a note disclosure.

Mr. Showalter asked if there were any Board member comments on this.

Mr. Smith explained that he does not view it as a valuation when the Board has gotten to the concept of zero. He does not feel strongly, but he would prefer not to have valuation there because he does not view it as a valuation.

No other members showed concern, so Mr. Showalter concluded the term would remain as presented by staff.

Mr. Showalter asked if any other members had question or comments. There were none, so he asked if the Board members were prepared to submit ballots on the Statement. The members submitted their ballots.

The Statement was approved unanimously by the Board.

Staff explained that the next steps would be to submit the Statement to the sponsors for their 90-day review period. In addition, the CFO Act includes a requirement that accounting standards addressing capital assets be reviewed by Congress for 45 days of session prior to its issuance. The 45-day period will run concurrently with the sponsor's 90-day review period. It is anticipated that the Statement will be issued before September 30, 2016.

Mr. Showalter thanked Ms. Batchelor for her work and for maintaining a strict timeline to meet milestones.

> **Conclusion:** The Board approved the proposed Statement, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35,* unanimously. FASAB will submit the document to the sponsors for their 90-day review period and concurrently submit it to Congress for 45 days of session, as required by the CFO Act for accounting standards addressing capital assets.

Adjournment

The Board meeting adjourned at 11:00 a.m.