FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
Board Meeting Minutes
April 25–26, 2018
Room 7C13
441 G Street, NW
Washington, D.C. 20548

For research purposes, please see the briefing materials at www.fasab.gov. Briefing materials for each session are organized by tab; references to these tabs in the minutes are hyperlinked.

Wednesday, April 25, 2018

The meeting began at 10:30 AM.

Attendance

The following Federal Accounting Standards Advisory Board (FASAB or "the Board") members were present throughout the meeting: Mr. Showalter (chairman), Mr. Bell, Ms. Bronner, Messrs. Dacey, Granof, Scott, and Smith. Ms. Kearney was present with the exception of brief absences during which she was represented by Ms. Johnson. Mr. McNamee was present with the exception of Wednesday morning. The executive director, Ms. Payne, and general counsel, Ms. 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**

Mr. Granof provided an update regarding the Governmental Accounting Standards Board (GASB). He noted the following activity:

- Consideration of generally supportive comments on changes that would lead to not capitalizing interest cost during construction of an asset
- Progress on new proposed standards for conduit debt for which liability recognition would be similar to recognition for financial guarantees
- Development of a final Statement on majority equity interests allowing use of the equity method of accounting
- Development of reporting model preliminary views on which he suggests members submit comments
- Consideration of public hearing comments on revenue and expense recognition
- Finalization of implementation guidance updates

Mr. Dacey provided an update regarding the International Public Sector Accounting Standards Board (IPSASB). He noted the following activity:

- Development of public-sector measurement guidance that would consider conformity with current concepts
- Deliberation regarding responses to the revenue and nonexchange expense as well as the social benefits consultation papers

Members noted that an educational session on the work of GASB and IPSASB regarding performance obligations and nonexchange expenses—including social benefits—would be interesting.

Mr. Showalter reported that he attended the 18th Annual Meeting of OECD Senior Financial Management and Reporting Officials in March. He presented on tax expenditures, which garnered interest among the attendees. He also reported that the IPSASB appreciated having FASAB's input on heritage items even though the Board did not take any specific positions.

Mr. Bell reported that the consolidated financial report of the U.S. Government had generated no more or less press coverage than in the past. He continues to provide copies of the executive summary to professors and others who promote its availability. Members discussed the related clippings and the general acceptance of projections as useful.

Ms. Kearney shared a video regarding the President's Management Agenda (PMA). She noted that the PMA has been recognized as being of high quality. The approach is from a customer service perspective. Members received a copy of the PMA, which details the administration's vision and tools.

Agenda Topics

- **Assigning Liabilities**

Ms. Melissa Batchelor, assistant director, explained the purpose of the session was to consider the issue of assigning liabilities and whether additional flexibilities or guidance should be provided in a generally accepted accounting principles (GAAP) level document. The materials were included in the briefing materials at tab A.

Staff explained the topic of "assigning liabilities" addresses the last issue area presented at the June 2017 meeting related to the Department of Defense (DoD) request for guidance regarding the need for certain flexibilities. To date, the Board has addressed DoD topics in the following documents:

- Technical Bulletin (TB) 2017-1, *Intragovernmental Exchange Transactions*
- TB 2017-2, *Assigning Assets to Component Reporting Entities*
- PROPOSED Statement of Federal Financial Accounting Standards (SFFAS) 55, *Amending Inter-entity Cost Provisions* (currently under sponsor review, anticipated to be issued May 31, 2018)

With the issuance of the recent pronouncements, staff did not believe the "assigning liability issue" should be addressed by providing broad flexibility as provided with assets. Instead, each specific example should be considered and assessed on a case-by-case basis. The staff paper provides three cases and indicates these are the only three cases raised despite extensive outreach. Staff believed the liability issue differed from that of assets, and, therefore, such broad flexibility proved harder to justify.

Staff noted the feedback from members varied. Some members agreed that additional guidance may be necessary in certain areas, some preferred a more general approach, and some believed DoD should be able to work through the issues.

As the Board began to discuss the staff questions, members focused on whether there was a more general premise or principle that could be established to address the issues instead of addressing each one separately. The Board noted concern that addressing the items individually may set precedence, and there may be additional issues in the future.

Members believed a general principle could result in inconsistencies in reporting, which DoD is currently working through. Therefore, there may need to be certain specificity as to direction or conditions provided in the general principle, so there is a clear path forward for conforming guidance.

The Board noted that throughout the federal government there are agencies that have expenses and payments that are on behalf of another agency; therefore, a model already exists that generally relates expenses to the agency paying for them. For agencies that use this model, it is possible that the agency decides what part of the agency is going to pay for something even if it does not necessarily relate to its mission.

The Board noted it was important to consider unintended consequences of all potential approaches.

Question 1 – Does the Board believe this issue needs further clarification within TB 2002-1, *Assigning to Component Entities Costs and Liabilities that Result from Legal Claims Against the Federal Government*, and that there is no need for other guidance? The Board agreed that TB 2002-1 would need to be updated (perhaps replaced or rescinded), and members requested staff to determine if there is a general liability principle that could be applied.

Question 2 – Does the Board agree that paragraph 91 of SFFAS 6, *Accounting for Property, Plant, and Equipment*, as amended, needs to be clarified through an Interpretation? While the Board agreed that guidance is needed in the environmental liabilities area, members requested staff determine if there is a general liability principle that could be applied.

Question 3 – Does the Board agree that this issue (Chemical Weapons Disposal Paper) should be resolved by applying the reporting entity criteria and no further action is necessary? The Board did not specifically discuss this question or issue.

Question 4 – Does the Board agree with the staff recommendations in questions 1-3 and that no further actions are required? Alternatively, if members disagree,

what alternatives do you prefer to address the issue? The Board requested staff determine if there is a general liability principle that could be applied.

> **Next steps:** The Board requested staff determine if there is a general liability principle that could be applied. In determining if a general principle can be developed, staff should consider unintended consequences, including effects on other agencies and consistency with current GAAP pronouncements. Staff was also directed to identify GAAP literature that may need to be updated as a result of any developed general liability principle.

The Board meeting adjourned for lunch.

- **Materiality**

Ms. Grace Wu, assistant director, requested the Board's input's on the updated materiality section at tab B. The Board's discussion focused on refining the language to make it more precise and clearer.

Question 1 – Does the Board agree on the updated changes? If not, do you have any suggested improvements? In response to this question, members discussed several points:

- The new materiality section could be an opportunity for the Board to make a statement on over-disclosure. Reporting should emphasize material information, not immaterial or irrelevant information.

- Materiality exists in terms of misstatements. Misstatements can result from omissions; therefore, the term 'misstatements' includes omissions and other errors. Standards do not require absolute perfection; instead, the standards allow for misstatements as long as they are not material.

- The Board decided not to address the quantitative consideration in the new materiality section because this is typically entity specific and audit based. In addition, other regulatory bodies have sufficient guidance on the topic.

- Under the current classified information proposal, financial accounting standards may be required that support the mandate to protect classified national security information. Some reference should be made in this new section about classified information and its impact, so the relationship is clear between the materiality section and those proposed standards.

> **Next steps**: Staff will update the materiality section based on the suggestions from the Board and draft the exposure draft (ED) on this topic.

- **Disclosures**

Ms. Wu presented to the Board the note disclosure (NODI) project's scope and input regarding potential principles from tab C. During the October 2017 meeting, the Board approved the NODI two-phased project plan. Currently, the project is in the first phase. The goal of phase one is to identify and develop principles for disclosure to be used by the Board and preparers to reduce repetition and improve relevance and consistency in NODIs. The NODI working group resumed its tasks after the year-end busy season in December 2017. Research is ongoing. The Board discussed and approved the NODI project's scope and some potential principles.

Question 1 – Does the Board agree with the idea of setting up a disclosure objective in the standards? Which project development method does the Board prefer? The current SFFASs do not have disclosure objectives; it is important to set up disclosure objectives for each Statement to help preparers stay focused and potentially use their judgment to remove unnecessary disclosure. The Board agreed to setting up a disclosure objective in the standards.

The International Accounting Standards Board (IASB) is exploring reorganizing the disclosure requirements to help entities exercise judgment about what specific information to communicate to the primary users of the financial statements. IASB discussed three potential development methods:

- Method A focused on the different types of information disclosed about an entity's assets, liabilities, equity, income and expenses.
- Method B focused on information about an entity's activities to better reflect the way users of financial statements assess prospects for future cash inflows and assess management stewardship.
- A hybrid included aspects of methods A and B.

Method B could be costly for entities to implement due to necessary changes to their internal systems or processes. It could also be costly for regulatory bodies to change their implementation guides. An approach under method A would require a set of benchmark questions when setting the disclosure standards. This method, combined with what FASB proposed, would improve the consistency among the standards without necessitating substantial change to the current structure and standards.

A user-focused method B may be an appropriate plan in the future; however, the current time consuming financial reporting process and the lack of a clear definition of the program (activity) makes it currently impractical. The Board concurred that method A, with a focus on disclosure principles, likely will provide a foundation to get to method B (or a hybrid method) in a few years, when the technology and environment are ready for the significant changes.

Question 2 – Does the Board agree that FASAB should now clarify the role and content for the NODI? While the current Statements of Federal Financial Accounting Concepts (SFFACs) describe the general process for identifying what information to include in basic information, there is no detailed elaboration in the concepts or standards in terms of how to accomplish the objective. Members agreed that the role and content principles, like what has been proposed by the IASB and FASB, would help the Board and preparers stay focused when setting or applying standards.

Question 3 – Does the Board agree with the NODI project's focus? If not, does the Board have any suggestions? There are many topics that could be potentially included in the scope of the project, so the Board prioritized the most urgent. The Board concurred that the project should concentrate on the disclosure principles. Members discussed how some non-FASAB information included in the disclosures would be helpful. FASAB can provide the guidance related to the formatting and location of disclosures through other methods, such as implementation guidance.

Question 4 – Does the Board think there is a need to set up a two tiered disclosure requirement for the standards? The Board did not favor the two-tiered approach. This proposal required summary and potential additional information for each disclosure. The Board believed that the principles developed would provide sufficient guidance, and adding two-tiered disclosure requirements might overcomplicate the matter.

> **Next steps:** Staff will take the Board's input and direction to the working group and perform further research.

- **Closed Session**

The Board met in closed session from 3:00 – 4:15 pm. The reason for the closure was that matters covered by 5 U.S.C. 552b(c)(1) were discussed. The discussion involved matters of national defense concern that have been classified by appropriate authorities pursuant to Executive Order. A determination has been made in writing by the U.S. Government Accountability Office, the U.S. Department of the Treasury, and the Office of Management and Budget, as required by section 10(d) of the Federal Advisory Committee Act, 5 U.S.C. App., that the portion of the meeting may be closed to the public in accordance with 5 U.S.C. 552b(c)(1).

Adjournment

The Board meeting adjourned for the day at 4:15 p.m.

Thursday, April 26, 2018

Agenda Topics

The meeting began at 9:00 AM.

- **Electronic Reporting Demonstration**

Mr. Ross Simms, assistant director, introduced the education session on electronic reporting. The materials for the session were provided in tab D of the briefing materials. Mr. Simms noted that since the February 2018 meeting, the project team focused on understanding the potential users of an electronic report and primarily focused on the citizen persona (user type). Team members from Deloitte & Touche LLP provided an overview of the exercise used to help develop the citizen persona and the results. Team members from Deloitte included Ms. Tasha Austin, Senior Manager; Ms. Tanya Bagheri, Business Technology Analyst; and Ms. Reem El Seed, Consultant. They noted that citizens are likely to ask where their tax dollars are going. They also discussed the importance of eliminating challenges to accessing that information, such as information overload. Citizens struggle with finding government financial reports; when they do locate the reports, they find them to be dense.

In addition, the team members noted that, at times, the user may not necessarily know what information they should review because so much information is presented. Consequently, the model could list questions that a potential user may want answered. The questions could be framed in layman's terms.

Next, the team members demonstrated wire frames of the Department of Transportation's information. The wire frames illustrated the possibilities for addressing the citizen persona and included a list of questions that users may wish to have answered, mouse overs to explain technical matters, data visualizations, and financial statements that allow a user to click on a line item and drill down to additional information. The Board offered the following observations:

- Potential users may need to be informed of the different bases used and the relationship between budget-based information and accrual-based information.
- The electronic reporting model could consider the types of questions users who do not have sophisticated financial literacy may have.
- The electronic reporting model should consider the appropriate level (component or government-wide) for providing information to users.
- The electronic reporting model could consider dividing the information presented by level of knowledge, such as novice, intermediate, and advanced. Thus, the model may need to accommodate users with different levels of expertise.

- Data visualizations presenting costs by state may be challenging for agencies. However, outlays by state may be more feasible.

- The electronic reporting model could consider how to present performance information. Users seek information on costs and outputs.

- The project team could consider discussing the possibilities for electronic reporting with the Securities and Exchange Commission.

The team members noted the model could be designed to guide users with different levels of expertise. A search feature and/or a chatbot could also assist users in answering questions, including those that may not be tied to traditional financial statements. A chatbot uses artificial intelligence to conduct a conversation with the user. Staff plans to reach out to users and learn more about their needs and the possibilities for electronic reporting.

- **Risk Assumed**

Ms. Robin Gilliam, assistant director, presented the findings from the nine round tables conducted over the past year from tab E. These round tables focused on direct loan / loan guarantee credit reform reporting that already exists. Three round tables were held with preparers from the Department of Education, Department of Housing and Urban Development, and the Small Business Administration. The remaining six round tables were held with users from the Government Accountability Office, Congressional Budget Office, Office of Management and Budget (OMB), think tanks, and research organizations, such as the American Enterprise Institute and Massachusetts Institute of Technology's Golub Center for Finance and Policy. These round tables were conducted as part of the gap analysis to determine the scope of the risk assumed (RA) project.

To develop the RA framework, Ms. Gilliam translated major concerns (gaps) from existing direct loan / loan guarantee reporting to programs. The following is a consolidated list of challenges identified during the round table interviews:

- Information is too dense and duplicative.

- Information is lacking to track program (loan) performance.

- Information does not report full program costs, specifically administrative expenses.

- Key risk factors that affect program performance are lacking.

- Qualitative discussions to illustrate key risk factors, assumptions, and uncertainties regarding estimates are inconsistent.

- Market cost information is lacking.

Question 1 – Prior to the tab F recommendation discussion, are there any questions concerning the round tables and staff findings? One member noted that round table participants were super users and not ordinary citizens. A number of members pointed out that some of the concerns, such as the lack of full program costs and market information, resulted from legislation that accounting standards mirror. One member also noted that the government does not sell investments, so the market cost information is not relevant.

Members also said that balancing information is a challenge. For example, how can the information be too dense but not provide enough information? Ms. Gilliam responded that the missing information is about financial performance. She believes agencies provide too much non-financial performance information. One member agreed that there needs to be better linkage between financial information and performance in management's discussion and analysis (MD&A). Ms. Gilliam agreed and noted that financial performance will need to be defined.

Ms. Gilliam also explained that the Board had directed staff to develop a framework for reporting on risk holistically. The gaps—resulting challenges—identified from the round table interviews provide this framework. Some of these issues can be addressed in MD&A, the NODIs, or both. She stated the primary purpose in updating the Board on the status of the RA project was to help set up the discussion on the MD&A improvements project. She then directed the Board to tab F to discuss recommended changes to MD&A from the RA and reporting model projects.

> **Next steps**: In developing the RA framework, Ms. Gilliam will work with Mr. Simms (project manager of the reporting model project) to deliver recommended MD&A updates for RA and present recommendations for reporting measurement uncertainty.

- **MD&A Improvements**

Mr. Simms and Ms. Gilliam explained to the Board that the reporting model and RA projects collaborated on proposing MD&A improvements in tab F.

Mr. Simms reviewed the Board's February recommendation to prepare implementation or best practice guidance. Due to the similar results from the separate projects' round tables, staff instead proposed developing a new Statement that would rescind SFFAC 3, *Management's Discussion and Analysis*, and SFFAS 15, *Management's Discussion and Analysis*. This proposal would provide an opportunity to clearly define MD&A's role and ensure that new standards support that role.

Question 1 – Does the Board agree to create a new MD&A Statement that rescinds SFFAC 3 and SFFAS 15? To understand the original purpose of MD&A, staff reviewed paragraph 26 from SFFAC 3: "MD&A should help those who read it to understand the entity's financial results and financial position and the entity's effect on the financial position and condition of the Government."

As a result, staff proposed a new, integrated structure based on agencies' statement of net cost "major program" breakout. This would include information from the four current sections—mission and organizational structure; performance goals, objectives, and results; financial statements; and systems, controls, and legal compliance—as well as RA information extracted from agency enterprise risk management (ERM) processes. This format would tell an integrated story about each major program.

Some members were concerned about defining "major programs"; however, utilizing agency ERM processes, which the Board approved in February 2018, could address this issue.

To keep the focus on financial reporting, staff recommended a link to agency performance report (APR) statistics instead of including that data in the MD&A. This would not only keep the focus on financial information, but also help reduce the size of the MD&A. One member noted, and others agreed, that the APR link could be addressed in OMB Circular A-136, *Financial Reporting Requirements* (A-136).

Some members requested information on the history of the MD&A concepts and standards.

Ms. Payne explained that the Board originally developed an MD&A concepts statement around the same time agencies began implementing the Government Performance and Results Act (GPRA). At that time, the Board believed that a concepts statement (SFFAC 3) and A-136 would provide enough guidance; however, feedback indicated that an agency could issue an agency financial report without an MD&A because OMB lacked the ability to make it required supplementary information. To address this issue, FASAB exposed the minimal pieces from SFFAC 3 as a proposed SFFAS (subsequently finalized as SFFAS 15).

Due to GPRA's influence and additional related legislation, agencies now present a great deal of performance data with little emphasis on major program financial performance.

One member asked how many standards were created just to amend others. Ms. Payne said that the first eight were core standards. Many subsequent Statements have amended those. She also noted that amendments are awkward and challenging for staff and preparers, and, therefore, she recommends rescinding and replacing going forward.

Another staff concern was the Certificate of Excellence in Accountability Reporting (CEAR) review process for the MD&A section; it often focuses on strict alignment with requirements. This means that reviewer ideas that do not align with a requirement may not be conveyed to the preparers. The CEAR appears to focus more on whether required information is presented versus effective integration of the information.

Members agreed that collaboration with the CEAR review process might improve reporting on financial performance in the MD&A.

Members wanted clarity on the RA piece in the MD&A.

Staff explained that paragraph 3 of SFFAS 15, which requires forward-looking information, was intended to cover RA:

> MD&A should include forward-looking information regarding the possible future effects of the most important existing, currently-known demands, risks, uncertainties, events, conditions and trends. MD&A may also include forward-looking information about the possible effects of anticipated future demands, events, conditions, and trends.[3] Forward-looking information may comprise a separate section of MD&A or may be incorporated with the sections listed above.
>
> [3] The word "anticipated" is used in a broad, generic sense in this document. In this context the term may encompass both "probable" losses arising from events that have occurred, which should be recognized on the face of the basic or "principal" financial statements, as well as "reasonably possible" losses arising from events that have occurred, which should be disclosed in notes to those statements. "Anticipated" may include the effects of future events that are deemed probable, for which a financial forecast would be appropriate. The term may also encompass hypothetical future trends or events that are not necessarily deemed probable, for which financial projections may be appropriate. Such information about the possible effects of anticipated future demands, events, conditions and trends, if presented, should include the term or label "projected" or "projection," and the key hypothetical underlying assumptions should be explained. As with other information presented in MD&A, no examination of this information by the auditor is now routinely included within the scope of an audit of a federal entity's financial statements; however, preparers and auditors may find useful background information in the AICPA's Statements on Standards for Attestation Engagements Nos. 1 and 4, codified as section 200, "Financial Forecasts and Projections," of the AICPA's *Codification of Statements on Standards for Attestation Engagements.*

Ms. Gilliam proposed including the RA information within the story of each major program instead of as a separate section.

Some members were concerned that MD&A should not be the only location for RA information. RA also potentially affects the notes, particularly the measurement uncertainty. Ms. Gilliam agreed, noting that MD&A is only one piece of the framework for reporting RA. She explained that Mr. Domenic Savini, assistant director, is helping to research how to report measurement uncertainty, which staff will present at a future meeting.

Some members agreed that a new Statement would provide clarity on the financial information agencies should report in only one place. Some members supported a new Statement to help change the mindset of preparers in what is expected for financial performance reporting. Members agreed a new Statement should include current principles without creating a new checklist.

Other members were interested in adjusting SFFAS 15 to retain the principles and history.

Members agreed that changes to form and content as addressed in A-136 could address a number of issues, such as including the APR link and changing the presentation to integrated sections; however, staff pointed out that the four sections cannot be changed until updated in the accounting standards.

> **Next steps:** Prior to the June 2018 Board meeting, staff will meet and collaborate with OMB on updates to A-136. Staff will draft proposed changes that identify what would remain from SFFAC 3 and SFFAS 15 and what would be new.

- **Required Supplementary Stewardship Information**

Mr. Simms requested the Board's input on alternatives for improving required supplementary stewardship information (RSSI). He noted that the RSSI "category" is not understood by the financial reporting community; however, the only component of the category, stewardship investments, provides important information about the government's long-term investments. Various analysts seek information on the government's long-term investments. To do so, they consult the data provided in the Budget of the U.S. Government rather than the aggregated RSSI. For additional background information on the RSSI project, Mr. Simms referred Board members to tab G of the briefing materials.

Question 1 – Regarding the reporting of RSSI, which alternative should be pursued? The Board agreed to eliminate the RSSI category and present stewardship investments in MD&A. The Board believed that stewardship investments provide important information and should be presented in financial reports. In developing guidance, staff could consider the approach used for presenting tax expenditures.

> **Next steps**: Staff will develop guidance to present stewardship investment information in MD&A.

The Board meeting adjourned for lunch.

- **Classified Activities**

Ms. Monica Valentine, assistant director, presented to the Board the briefing materials from tab H. She first reminded the Board that being an open discussion, the Board could not suggest specific word changes to the draft; instead, members could note those comment letters staff should review for possible revisions to the ED. Ms. Valentine also noted that FASAB released the classified activities ED in December 2017 with comments due in mid-March. Staff received seventeen comment letters, with the majority of those from preparers. She then provided the Board an overview of the responses, noting that the respondents generally agreed with the proposal, with the exception of the disclosure options. The respondents were more evenly split on the disclosure options, with the exception of the option to require every federal component reporting entity to disclose that certain presentations may have been modified; a majority of respondents did not agree with that option.

One Board member noted specific concern with the Department of Defense – Office of the Inspector General's (DoD-OIG) comment letter. Ms. Payne stated that staff had met with DoD-OIG, and Board members would have an opportunity to ask questions about their letter in closed session. Another member noted that there are several areas of the draft that will need clarification based on respondent comments. Mr. Showalter acknowledged the comment letter from the Association of International Certified Professional Accountants, which was generally supportive. A member suggested that the Board may want to consider monitoring the implementation of this Statement, as suggested by one of the respondents.

Another member noted that there is a broad spectrum of disclosure options, and, therefore, it may take some time to develop a plausible option in the final Statement. Members also suggested including more background in the basis for conclusions, as well as clarifying the classified interpretations and the reconciliations noted in paragraph 9 of the ED.

> **Next steps**: Staff will make revisions to the draft Statement based on comments from the members and have a revised draft version for the Board at the June meeting.

- **Closed Session – Classified Activities**

The Board met in closed session from 2:30 – 4:15 pm. The reason for the closure was that matters covered by 5 U.S.C. 552b(c)(1) were discussed. The discussion involved matters of national defense concern that have been classified by appropriate authorities pursuant to Executive Order. A determination has been made in writing by the U.S. Government Accountability Office, the U.S. Department of the Treasury, and the Office of Management and Budget, as required by section 10(d) of the Federal Advisory Committee Act, 5 U.S.C. App., that the portion of the meeting may be closed to the public in accordance with 5 U.S.C. 552b(c)(1).

- **Steering Committee**

The steering committee met and agreed to the following:

- Seek approval of closed meetings of the appointments panel
- Prioritize the following educational efforts:
    - Develop an introduction to federal financial reporting designed for new appointees and executives
    - Deliver to early career professionals a new course on how to use the Handbook to research issues
    - Consider developing an instructor-led course introducing key differences between federal and commercial GAAP

- Consider funding for transition efforts

Additional information on the above efforts will be provided at the next meeting.

Adjournment

The Board meeting adjourned at 5:30 p.m.