



# FASAB Newsletter

## Federal Accounting Standards Advisory Board

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#### Disclaimer

The staff of the Federal Accounting Standards Advisory Board publishes the FASAB newsletter following Board meetings to provide highlights of recent Board actions and issues. When an article refers to a Board decision, it should be understood that this is tentative until FASAB issues a Statement of Federal Financial Accounting Concepts (SFFAC) or Statement of Federal Financial Accounting Standards (SFFAS).

Please direct newsletter editorial questions to Leigha Kiger at 202-512-7358 or [kigerl@fasab.gov](mailto:kigerl@fasab.gov).

Please direct AAPC technical questions to Grace Wu at 202-512-7377 or [wug@fasab.gov](mailto:wug@fasab.gov).

Please direct FASAB and AAPC administrative questions to Romona Parker at 202-512-7350 or [parkerr1@fasab.gov](mailto:parkerr1@fasab.gov).

## Current Board Projects

(For more information, click on the title of the project to be directed to the related active project page.)

### Classified Activities

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) unanimously approved the Statement of Federal Financial Accounting Standards (SFFAS) titled *Classified Activities* and the *Classified Activities* Interpretation exposure draft (ED). The Statement has been submitted to the sponsors for the 90-day review period.

The proposed classified Interpretation of Federal Financial Accounting Standards (SFFAS) 56: *Classified Activities* would permit specific modifications to prevent the disclosure of classified information within unclassified general purpose federal financial reports (GPFRRs). Due to the classified nature of the proposal, the ED will only be made available to those individuals who have been designated as having a need to know

and who hold the proper clearances. The Board requests comments on the ED by August 13, 2018.

Points of Contact: Monica Valentine, 202-512-7362, [valentinem@fasab.gov](mailto:valentinem@fasab.gov)

### [Amending Inter-entity Cost Provisions](#)

On May 31, 2018, FASAB issued SFFAS 55, *Amending Inter-entity Cost Provisions*.

SFFAS 55 revises SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, to provide for the continued recognition of significant inter-entity costs by business-type activities and rescinds the following:

- SFFAS 30, *Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*
- Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*

Recognition of inter-entity costs by activities that are not business-type activities will not be required with the exception of inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements unless otherwise directed by the Office of Management and Budget (OMB). Notwithstanding the absence of a requirement, non-business-type activities may elect to recognize imputed cost and corresponding imputed financing for other types of inter-entity costs.

SFFAS 55 is effective for reporting periods beginning after September 30, 2018.

Point of Contact: Melissa Batchelor, 202-512-5976, [batchelorm@fasab.gov](mailto:batchelorm@fasab.gov)

### [Assigning Liabilities](#)

At the June 2018 meeting, the Board considered options for guidance on selected liabilities. Due to recent pronouncements (SFFAS 47, *Reporting Entity*; SFFAS 55; and Technical Bulletin [TB] 2017-2, *Assigning Assets to Component Reporting Entities*), there may be a need for additional guidance to assist in the application of the general liability standards and principles. This new guidance could address issues that may not have been considered when the pronouncements were originally written. Specifically, guidance may be needed for clean-up costs and contingent liabilities.

Because guidance regarding the application of the general liability standards has been provided through pronouncements at a lower level of generally accepted accounting principles (GAAP), such as TBs and Technical Releases, they may require updating to ensure conformance and consistency with new pronouncements. Necessary updates will be made to the affected GAAP documents.

Point of Contact: Melissa Batchelor, 202-512-5976, [batchelorm@fasab.gov](mailto:batchelorm@fasab.gov)

## Staff Implementation Guidance 6.1

At the June 2018 meeting, the Board considered the comment letters on staff's proposed Staff Implementation Guidance (SIG) 6.1: Clarification of Paragraphs 40-41 of SFFAS 6, *Accounting for Property, Plant, and Equipment*, as amended. SIG 6.1 answers the question regarding use of both the alternative methods for establishing opening balances (as allowed by SFFAS 50, *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 the alternative for estimated net remaining cost per the second sentence in paragraph 41 of SFFAS 6, as amended.

A majority of members did not object to issuing the SIG. FASAB staff issued SIG 6.1 on July 17, 2018.

Point of Contact: Melissa Batchelor, 202-512-5976, [batchelorm@fasab.gov](mailto:batchelorm@fasab.gov)

## Materiality

The Board reviewed the draft materiality ED and discussed whether “substantial likelihood” correctly captured the degree of certainty that members had intended regarding material misstatements. Various members expressed concern that materiality required a higher threshold of certainty than “substantial likelihood” communicated and stressed the importance of making this clear to readers. One member suggested adapting language used by both the Auditing Standards Board and the International Auditing and Assurance Standards Board. Both boards utilize “reasonably be expected” in their discussions surrounding materiality. The Board acknowledged the merits of using similar wording in the materiality ED. Ultimately, members decided to replace “substantial likelihood” with “reasonably be expected” in the discussion of material misstatements.

The Board also discussed whether or not to address presentation of irrelevant information in disclosures within the materiality ED. This led the Board to discuss levels of materiality in the context of reporting across the entity. The materiality considerations may change as financial information is rolled up into the reporting entity. Given these considerations, the OMB member offered to draft language regarding levels of materiality and relevance of financial information. After reviewing the language, the Board will make changes and determine whether the new text belongs in the proposed concepts or basis for conclusions.

Point of Contact: Grace Wu, 202-512-7377, [wug@fasab.gov](mailto:wug@fasab.gov)

## Reporting Model Phase I: MD&A and Stewardship Investments Improvements

To better reflect the objectives, the reporting model phase I: streamlining project was renamed to the reporting model phase I: MD&A and stewardship investments improvements project.

### Management's Discussion and Analysis

During the June 2018 meeting, the Board discussed the following four improvements to the management's discussion and analysis (MD&A) standards.

#### Improvement #1

The Board believed that component reporting entities should provide a summary about performance instead of details. The summary could include background information on the mission of the agency, management measures of strategic performance, and a high-level overview of major accomplishments. The summary could also include key risks associated with prior period performance and risk mitigation initiatives. The summary could also discuss how users might access detailed performance information.

#### Improvement #2

The Board believed that the requirement for information on compliance with laws and regulations and the adequacy of internal control should be retained. Members noted that management should provide a general discussion to address the requirement. For example, management could address material weaknesses that auditors identified and audit findings. In addition, the entity could address actions taken to mitigate any negative audit findings.

The Board also suggested that a reduction in volume of information could be addressed in changes to OMB Circular A-136, *Financial Reporting Requirements*, and requested that staff collaborate with OMB on this effort.

#### Improvements #3 & #4

Members agreed to remove the requirement to segment information in the MD&A. SFFAS 15, *Management's Discussions and Analysis*, currently requires management to discuss topics in discrete sections of the MD&A. Removing this requirement would allow flexibility in formatting MD&A and facilitate an integrated discussion about financial performance. The discussion should include the rationale for material changes in accounting elements, such as assets, liabilities, and/or net costs.

Staff originally presented a framework that would include a financial performance discussion for each responsibility segment presented in the statement of net cost. The discussions would inform users on the financial impact of key risks to the segment. However, the Board determined that key risk factors may affect entities at different levels and requested staff to present an alternative framework. The framework should

be flexible enough to integrate risks that had or will have a significant financial impact at the level best defined by management.

Members requested that staff develop principle-based standards to address the different types of risks that may have a significant financial impact on the government-wide financial position, condition, or results of operations. To tell the entire financial story, members believed that management should discuss what actions are being taken to address current and future risk drivers, as well as forward-looking information.

### **Stewardship Investments Information**

The Board discussed alternatives for improving stewardship investments (SI) information and agreed that SI should be presented in the MD&A of government-wide and component reporting entity GPFFRs. The Board considered the following alternatives for presenting SI:

- FASAB limits SI reporting to the Financial Report of the U.S. Government (FR). The FR would include a general discussion of SI and a reference to more detail in the Budget of the United States. SI would not be required for component reporting entities.
- FASAB allows reporting SI in the FR and component reporting entity reports if it is significant.
- FASAB moves all of the existing SI requirements to the MD&A of the FR and component reporting entities.
- FASAB encourages component reporting entities to present SI in agency performance reports.

For each alternative, staff proposed to rescind SFFAS 8, *Supplementary Stewardship Reporting*, and issue a new Statement.

FASAB members believed that SFFAS 8 should be rescinded and a new Statement should be developed. Members noted that users of the FR and component reporting entity reports need to know about the expenses that provide long-term benefits for the nation; however, the Board did not determine the level of detail that should be discussed. Staff will develop illustrations of the information that could be presented in MD&A regarding investments.

Point of Contact: Ross Simms, 202-512-2512, [simmsr@fasab.gov](mailto:simmsr@fasab.gov)

### **Reporting Model Phase II**

How long does it take for users to access your agency's financial information? Staff is continuing research on an electronic reporting model and is conducting interviews with potential users. In one interview, the respondent indicated that the public is becoming

accustomed to rapid data access and “seconds matter.” Hunting through a presentation in portable document format seems to take a lifetime relative to using computer technology and accessing machine-readable data. Analysts prefer to scan a website electronically and may assume the information is not available if it is not located within seconds. This respondent’s views highlighted the opportunities that exist for improving financial data access in the age of artificial intelligence and machine learning.

If you would like to join in the discussions on improving financial reporting or have suggestions you would like to share, please contact Ross Simms at [simmsr@fasb.gov](mailto:simmsr@fasb.gov). Research on an electronic reporting model in the digital age is ongoing.

Point of Contact: Ross Simms, 202-512-2512, [simmsr@fasab.gov](mailto:simmsr@fasab.gov)

### **Risk Assumed**

The risk assumed project is now operating in conjunction with the reporting model phase I: MD&A and stewardship investments improvements project. See session details above.

Point of Contact: Robin Gilliam, 202-512-7356, [gilliamr@fasab.gov](mailto:gilliamr@fasab.gov)

## **Accounting and Auditing Policy Committee**

There was no AAPC activity during the period.

Point of Contact: Grace Wu, 202-512-7377, [wug@fasab.gov](mailto:wug@fasab.gov)

# FASAB Meeting Schedule

## Schedule for 2018 Meetings

August 29 and 30  
October 24 and 25  
December 19 and 20

Unless otherwise noted, FASAB meetings begin at 9 a.m. and conclude before 5 p.m. Meetings are held at the Government Accountability Office (GAO) at 441 G Street, NW in room 7C13. Agendas and briefing materials are available at <http://www.fasab.gov/briefing-materials/> approximately one week before the meetings.

# AAPC Meeting Schedule

## Schedule for 2018 Meetings

August 16  
November 15

Unless otherwise noted, AAPC meetings begin at 1 p.m. and conclude at 3 p.m. Meetings are held at GAO at 441 G Street, NW in room 7C13. Agendas are available at <http://www.fasab.gov/aapc-activities/> approximately one week before the meetings.

# Security Notice

If you wish to attend a FASAB or an AAPC meeting, please pre-register on our website at <http://www.fasab.gov/pre-registration/> **no later than 8 a.m. the Tuesday before the meeting to be observed.** GAO, which provides space for our meetings, has increased its security procedures, and your name must be provided in advance to the GAO security force before you can enter the building. **When you arrive, please advise the security officer that you are attending either a FASAB or an AAPC meeting. Doing so will assist the officer in locating the correct security list.** Thank you.