

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
Board Meeting Minutes
August 30-31, 2017
Room 7C13
441 G Street, NW
Washington, D.C. 20548

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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, August 30, 2017

Attendance

The following Federal Accounting Standards Advisory Board (FASAB or “the Board”) members were present throughout the meeting: Mr. Showalter (chairman), Ms. Bronner, Messrs. Dacey and Granof, Ms. Ho, Messrs. McNamee, Scott, and Smith. Mr. Reger

was present with brief absences during which he was represented by Ms. Johnson. The executive director, Ms. Payne, and general counsel, Ms. Motley, were also present throughout the meeting.

Mr. Showalter acknowledged that this would be Ms. Ho's final meeting as the Department of the Treasury (Treasury) representative. He thanked her for her many significant contributions.

Ms. Ho thanked the members for their good wishes. She noted the important role of the Board and the challenges it has addressed. Ms. Ho introduced Ms. Amy Edwards to members. Ms. Edwards will serve as acting Deputy Assistant Secretary (DAS). Ms. Edwards was instrumental in developing the Digital Accountability and Transparency Act and joined Treasury to support its implementation. She has a strong passion for and background in performance and financial management.

Ms. Ho also announced that Mr. R. Scott Bell will represent Treasury on the Board until the DAS position is filled. Mr. Bell is familiar to members and has been involved in developing the consolidated financial report of the U.S. Government (CFR) for many years.

Administrative Matters

- **Approval of Minutes**

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

- **Updates and Clippings**

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

- Issuance of a consultation paper on revenue and non-exchange expenses including discussion of performance obligations
- Review of responses to the exposure draft (ED) on public-sector specific financial instruments
- Issuance of an ED proposing standards for financial instruments
- Development of an ED on social benefits
- Deliberation regarding a lease proposal
- Development of public-sector measurement guidance that would consider conformity with current concepts

In addition, Mr. Dacey noted the IPSASB hosted a National Standards Setters Forum, which both he and Ms. Payne attended. The benefits from the forum included increased awareness of the work of other public-sector standards setters as well as ranking potential future IPSASB projects based on participant input. One of the potential IPSASB projects rated highly by forum participants was consideration of standards for small- and medium-sized governments. The third forum will be in 2019.

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

- Issuance of final standards regarding leases
- Issuance of an ED on debt disclosures in reaction to increased government borrowing from banks for which there are no offering statements
- Development of a pre-ballot ED on equity interests in 100% owned businesses
- Issuance of implementation guidance regarding other post-employment benefits
- Deliberation on three reporting model options
- Initiation of a new project on conduit debt
- Continuation of a project on disclosures
- **Proposed Technical Release 18, *Implementation Guidance for Establishing Opening Balances***

Ms. Melissa Batchelor, assistant director, directed the Board to the tab included in the administrative section of the binders entitled Proposed Technical Release (TR) 18, *Implementation Guidance for Establishing Opening Balances*. Ms. Batchelor explained TR 18 was approved by the Accounting and Auditing Policy Committee (AAPC) for submission to FASAB. The document went through review by the AAPC and FASAB staff.

Ms. Batchelor explained a Board member requested that a footnote be added to define the term “precision.” Mr. Showalter explained his understanding that there is a difference between accuracy and precision. He believes “accurate” is how close the number relates to the true value and “precision” is how many times an auditor can replicate the process to arrive at the same number. Members agreed that adding a footnote to clarify the meaning of “precision” was the best resolution. There were no other suggestions or objections.

Ms. Payne explained that the additional footnote would not require restarting the 45-day Board review period. The change would be conveyed to the AAPC members to ensure no members wished to retract their vote based on the addition of the footnote. The TR is anticipated to be released on October 2, 2017.

Agenda Topics

- **Leases**

Mr. Showalter began the discussion by informing the Board that the objective of the session was to review the draft *Leases Statement* at [tab A](#) and give staff feedback on any technical issues so that a pre-ballot draft could be provided to the Board by the October meeting.

Ms. Monica Valentine, assistant director, noted that staff had made the necessary edits to the *Leases ED* to convert it to a draft *Statement*. These edits were based on the following:

- Board discussions related to responses to the 2016 *Leases ED*
- Board discussions with representatives from five federal entities about their views on the ED at the April meeting
- Staff editorial changes for understandability and readability of the standards, including revisions adapted from GASB's final *Leases Statement*

Issue 1: Definition of Lease

At the June meeting, the Board agreed with the broader definition of a lease over the more narrow definition, which would have only included property, plant, and equipment (PP&E). The Board stated that the broader definition would allow flexibility for leases (1) that are not PP&E or (2) that are not specifically scoped out to be considered for recognition.

At the June meeting, the Board asked staff to research what type of leased assets would be inadvertently scoped out of the *Statement* if the narrower lease definition were used. As a result, on June 26, 2017, staff requested the assistance of the leases task force to provide feedback on (1) the types of assets leased by federal entities (as the lessee) from non-federal entities and (2) the types of assets leased to non-federal entities from federal entities (as the lessor). As of the date of the meeting, staff had received seven responses. Most of the responses were a simple "none." Other task force members mentioned livestock, inventory, and service contracts, which would all be scoped out of the standards with the narrower lease definition.

Staff noted that the broader lease definition would necessitate the development of a definition of “nonmonetary assets” and “intangibles,” whereas these would not be necessary with the narrower definition. In addition, the broader definition would require more scope exclusions. Staff also noted that the original Financial Accounting Standards Board (FASB) leases standards were scoped to only include PP&E, as were the FASAB leases standards (which were modeled after FASB’s).

In an effort to reduce preparer burden, staff requested the Board reconsider its decision to maintain the broader definition of lease and reevaluate the benefits of the narrower lease definition.

Staff posed the following question to the Board.

Question 1: Does the Board agree with staff’s recommendation to define lease more narrowly as “*a contract or agreement that conveys the right to control the use of another entity’s identified PP&E (an identified asset) for a period of time in exchange for consideration*”?

Board discussion comments included the following:

- The task force has not identified any other significant leased assets that would be unintentionally excluded by narrowing the definition of a lease to only include PP&E. This should give the Board an additional level of reassurance on this decision.
- If necessary, this Statement’s underlying concepts could be applied to other significant non-PP&E leased assets.

The Board unanimously agreed to revise the standards to include the narrower lease definition.

Issue 2: Service Contracts

Based on comments received on the *Leases* ED and comments expressed at the April leases clarification discussion, the Board asked staff to include a definition of service contracts (contracts for services) in the standards. This will serve to ensure readers fully understand what constitutes a service contract and how it relates to the leases standards.

To address commenters’ concerns, staff recommended that the first sentence from a Federal Acquisition Regulation (FAR) excerpt be added to the draft *Leases* Statement to provide clarification on service contracts. Therefore, staff added language that described a service contract as “*a contract that directly engages the time and effort of a contractor whose primary purpose is to perform an identifiable task rather than to provide a tangible asset.*”

Staff posed the following question to the Board.

Question 2: Does the Board agree with staff's proposed definition of service contracts to help clarify the scope of the leases standards? The language describes a service contract as *"a contract that directly engages the time and effort of a contractor whose primary purpose is to perform an identifiable task rather than to provide a tangible asset."*

One member thought the language should include some of the examples from the full FAR definition in the basis for conclusions for added clarity. The Board unanimously agreed with staff's recommendation to include the definition of service contracts.

Issue 3: Lease Term Determination

Ms. Valentine noted that during both the February and April meetings the Board addressed the proposed guidance on determining the lease term. At the April meeting, the Board asked staff to explore options to ease the anticipated burden and cost of the lease revisions to federal preparers. As a result, staff presented options for determining the lease term to the Board for possible ease of the anticipated preparer burden. Staff also proposed several edits to the lease term language for clarity.

Staff posed the following question to the Board.

Question 3: Does the Board agree with staff's recommended edits to the lease term language?

Board discussion comments included the following:

- The Board first dealt with the issue of determining the lease term when it clarified what the "noncancelable period" is, as well as the periods to be added to the noncancelable period.
 - The probability of a fiscal funding clause being exercised, like other termination clauses, should be assessed by the lessee to determine if those related periods would be included in the lease term.
 - At the commencement of the lease term, the lessee and lessor will have to assess the probability of exercising all options to extend and terminate included in the lease contract or agreement.
- The Board should determine how the lessee or lessor assesses the probability that the other party will exercise its option to extend or terminate the lease based on the lease contract or agreement.
 - It can be burdensome for the lessee to determine whether it is probable the lessor will exercise its options to extend or terminate the lease. If the probability threshold were raised from "probable" to "reasonably certain" the burden would be lessened.

- Members expressed reluctance to change the probability threshold primarily because “reasonably certain” is not defined.
- The language in the standards needs to clarify what “probable” means when one party is faced with assessing the probability of the other party exercising its options to extend or terminate.
- If the lessee or lessor cannot reasonably assess, with significant evidence, whether the other party will exercise options to extend or terminate the lease, those options should not be taken into account when determining the lease term.

The Board agreed on the following:

- Language should be added to clarify the “noncancelable period.”
- Both the lessee and the lessor’s options to extend or terminate the lease contract or agreement, if probable, should be included in the lease term at its commencement.
- When the lessee or lessor is assessing its own options to extend or terminate the contract or agreement, the level of probability is at the probable threshold.
- When the lessee or lessor is assessing the other party’s options to extend or terminate the contract or agreement, the level of probability is at a higher threshold, like reasonably certain, and should be based on significant evidence.
- The “probable” threshold should be maintained in the leases standards.

Issue 4: Effective Date

Staff expects the final Statement to be pre-balloted at the October meeting and balloted before the December meeting. In addition to the 90-day sponsor review, the Statement will also be subject to the 45-day congressional review. Staff would also like to work on the implementation guidance with the task force before the standards become effective.

Staff posed the following question to the Board.

Question 4: Does the Board agree with staff’s recommendation to change the effective date of the Statement to reporting periods beginning after September 30, 2020 (fiscal year [FY] 2021)?

The Board unanimously agreed with staff’s recommendation to change the effective date of the leases standards to reporting periods beginning after September 30, 2020 (FY 2021).

Issue 5: Other Revisions

Staff also suggested various revisions to the draft *Leases* Statement to improve its clarity. The revisions are based on

- suggestions from ED respondents,
- revisions adapted from the GASB final *Leases* Statement, and
- other staff editorial suggestions.

Staff posed the following question to the Board.

Question 5: Does the Board agree with the other revisions to the draft leases standards?

The Board agreed with most editorial changes suggested by staff and agreed to other suggested edits provided by members. Other than edits provided to specific questions, only minor editorial changes would be provided to staff after the meeting.

Issue 6: Possibility of Re-exposure

Mr. Showalter asked members if they believed enough substantial changes were made to warrant FASAB's re-exposure of the leases proposal. If the Board felt comfortable that re-exposure was not warranted, the document would move forward to a pre-ballot. Mr. Showalter concluded that the Board simply listened to the ED responses and subsequent views expressed by members of various agencies and made the subsequent changes resulting in the standards being clearer and less burdensome to implement. However, he still believed in the importance of pausing procedurally to consider re-exposure.

Ms. Valentine noted that the most significant changes to the ED were in the following areas:

- Lease definition
 - Added the notion of control
 - Narrowed the definition to include only PP&E leases
 - Expanded the definition of service contracts to clarify the scope
- Eliminated unnecessary exclusions due to the lease definition change
- Reworded the definition of short-term lease to be more concise
- Reworded the definition of lease term for clarity

- Expanded lease incentives and concessions to cover all leases

Board discussion comments included the following:

- The revised Statement is less burdensome. The Board has clarified language related to recordkeeping and how to get to auditability.
- Staff should get the task force's thoughts on the revisions to see if members believe any of these changes cause additional burden.
- FASAB usually does not re-expose. Generally, the Board makes changes in reaction to respondents' input. FASAB routinely reaches out, in an informal way, to respondents or task force members to ask if new wording is clear and if the Board was responsive to their concerns.

Mr. Showalter posed the following question to the Board.

Question 6: Does the Board believe that re-exposure of the *Leases* ED is necessary based on the substance of the changes?

The Board unanimously agreed that re-exposure of the *Leases* ED was not necessary based on the substance of the revisions.

Next steps: Staff will make the necessary revisions to the draft standards based on all Board discussions since the release of the ED and present a pre-ballot draft to the Board by the October meeting.

- **Evaluation of Existing Standards**

Ms. Melissa Batchelor, assistant director, explained she would be discussing draft documents being considered under a new project titled "Evaluation of Existing Standards." At the June meeting, the Board considered a request for guidance from the Department of Defense (DoD) regarding DoD intragovernmental transactions. Staff provided the Board with a "strawman draft" of an ED that would have provided certain flexibilities to DoD.

After deliberation, the Board concluded additional work needed to be done and the provisions should not be limited to DoD. The Board agreed that, if permitted, all the provisions should be applied government-wide. However, it would be best to handle each of the issues in separate documents appropriate to the levels ascribed by generally accepted accounting principles. The resulting documents correspond to each topic area encompassed by the project.

Amending Inter-entity Cost Provisions

Ms. Batchelor directed members to [tab B1](#). At the June meeting, the Board agreed that a draft ED addressing inter-entity cost provisions should be shared with members prior

to the August meeting. This would enable the Board to move to a pre-ballot or ballot at the August meeting.

As a result, Ms. Batchelor provided the Board with a first draft ED titled *Amending Inter-entity Cost Provisions* on July 20. The draft accomplished the Board's goals by (1) revising Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts*, to provide for recognition of inter-entity costs by business-type activities, (2) rescinding SFFAS 30, *Inter-entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*, and (3) rescinding Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*.

Staff received comments from four members; others noted that they did not have comments. Of the members providing comments, most were minor, editorial suggestions. In response to a request from a member, staff added paragraphs to the basis for conclusions.

Ms. Batchelor had provided a pre-ballot draft to members and subsequently updated the document based on Board comments. This allowed for members to discuss a ballot version at the meeting. Further, additional time had been allotted on the second day of the Board meeting for a final review of changes to the ballot.

At the meeting, the Board discussed the following changes to the draft:

- Staff should maintain the sentence, "The [Office of Management and Budget] should consider information and advice from Treasury, [the Government Accountability Office], and other agencies in developing the implementation guidance." However, staff should remove the reference to FASAB staff in the second sentence of paragraph 110 of SFFAS 4.
- Staff should clarify the disclosure requirement to ensure that it is simply requesting an acknowledgement that inter-entity costs exist.
- Staff should make minor changes to the basis for conclusions.

NOTE: The Board reviewed the above changes at Thursday's Board meeting. A majority of the Board approved release of the ED entitled *Amending Inter-entity Cost Provisions*. This proposal would revise SFFAS 4 to provide for recognition of inter-entity costs by business-type activities and rescind SFFAS 30, *Inter-entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*, and Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*.

Assigning Assets to Component Reporting Entities

Ms. Batchelor directed the members to [tab B2](#) and explained that staff had created a draft Technical Bulletin (TB) titled *Assigning Assets to Component Reporting Entities* for

the Board's consideration. Ms. Batchelor explained that the briefing materials included reference materials and a discussion as to why a TB was chosen as the vehicle for addressing this guidance.

TBs provide guidance for applying existing FASAB Statements and Interpretations and resolving accounting issues not directly addressed by them. Due process procedures, content specifications, and voting requirements can be found in TB 2000-1, *Purpose and Scope of FASAB Technical Bulletins and Procedures for Issuance*.

The proposed TB would resolve the question of which component reporting entity should report the asset within a reporting entity. FASAB standards addressing asset recognition and related reporting do not provide detailed guidance useful to resolving this issue. Based on DoD's feedback, this void in the standards presents an obstacle for large and complex organizations. For example, many specialized components provide services to other components of DoD. Law may prohibit one component from owning assets; instead, another component owns the assets and hosts the component using the assets. In such cases, there may or may not be a financial transaction related to use of the assets.

Ms. Batchelor had received certain member comments and prepared a revised document. She explained the changes on the marked copy and noted that they were not significant. The staff recommendation for next steps was to issue the TB if there were no other Board questions or comments.

Mr. Showalter explained that TBs provide guidance where there is not any. Originally, he questioned whether the guidance should be presented in an interpretation versus a TB; however, Ms. Batchelor convinced him there was nothing in the standards to interpret. A TB is allowed for this type of situation.

Ms. Batchelor pointed out that she added a question regarding the assignment of liabilities because staff believed this would be a good opportunity to ask the respondents for more information.

Mr. Smith noted he does not have a problem with the proposed guidance; however, he asked if FASAB needs to provide guidance on how to get the cost off the books of one component. Staff explained that existing literature (SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*) explains how to get transfers of assets off the books.

Mr. Granof asked which component reporting entity depreciates the cost; staff responded the entity that has it on its balance sheet would depreciate it. Mr. Granof noted concern with assigning costs in a manner that has nothing to do with economic substance.

Staff responded that considering DoD as a conglomerate, it is very difficult to say in an economic sense sometimes where the cost belongs. One could spend an incredible

amount of time to sort out the single best place for the expense to show up, but it is not clear that would be of great benefit.

Mr. Granof understood; however, he believed there should be language added that states management has the flexibility to determine where the economic benefit lies. He thought management should have to justify the placement in terms of economic benefits. Mr. Showalter concurred and noted that it was that logic that led to including language that management should create a policy and follow it consistently.

Mr. Showalter explained that based on comments provided during the meeting, the only concern raised thus far was that Mr. Granof wanted additional language about how the assignments are made. Ms. Batchelor confirmed that other Board members preferred this as well and that she would add corresponding language to the proposal.

Ms. Payne explained that staff would share the updated document with the members after the meeting. After confirming that a majority of members do not object, the TB ED would be issued.

Conclusion: After reviewing a ballot version and considering changes, the Board approved release of the ED entitled *Amending Inter-entity Cost Provisions*. The Board considered a draft TB ED, *Assigning Assets to Component Reporting Entities*, and discussed comments. Members agreed that staff would update the document based on feedback and provide it to the Board. After confirming that a majority of members do not object, the TB ED will be released for comment.

The Board meeting adjourned for lunch.

- **Classified Activities**

Ms. Monica Valentine and Mr. Ross Simms, both assistant directors, presented the Board with an approach for protecting classified information and activities in general purpose federal financial reports (GPFGRs). Ms. Valentine led the discussion and referred Board members to [tab C](#) of the briefing materials: financial reporting and classified activities. The following guests also participated in the discussion:

- Ms. Monica Hayes, Deputy Chief Financial Officer, Office of the Director of National Intelligence
- Ms. Michelle Donald, Director, Financial Management Division, Office of the Director of National Intelligence
- Ms. Alaleh Jenkins, Assistant Deputy Chief Financial Officer, Office of the Undersecretary of Defense (Comptroller)

Members discussed the proposal and agreed to develop a general SFFAS followed by classified interpretations providing detailed guidance. The Board also agreed on the conditions necessary to apply the SFFAS. In particular, classified information must be

protected from disclosure in a publicly available GPFFR, and recorded amounts related to classified information must reconcile in aggregate to schedules or other documentation subject to audit.

In addition, when departures from other standards are needed to protect classified information, the Board agreed that

- departures that do not alter the results of operations for the reporting period should be permitted, and
- departures that do not alter the net position at the end of the reporting period should be permitted.

Next steps: Staff will present an ED of the general SFFAS during the October meeting and a pre-ballot draft shortly thereafter.

Adjournment

The Board meeting adjourned for the day at 2:45 p.m.

Thursday, August 31, 2017

Agenda Topics

- Land

At the August 31, 2017, Board meeting, members reviewed a draft ED from [tab F](#) prepared by Mr. Domenic Savini, assistant director. Specifically, the following matters were addressed by the Board:

Land rights¹ (excluding leaseholds)

Members agreed with the staff recommendation to treat permanent land rights consistent with proposed requirements for owned land. However, they did not agree to limit the reporting of remaining land rights to those only with a fixed term. The Board also did not come to a consensus on how to best address remaining land rights.

Disclosure of remaining land rights could be (1) a general description of their existence and nature made optional and subject to management discretion or (2) a required statement. However, some members questioned whether such land rights are material

¹ Existing guidance allows for the recognition of land rights as part of PP&E since they are generally associated with other items of PP&E actually owned by the entity. Specifically, SFFAS 6, FN 18 states, “*Land rights’ are interests and privileges held by the entity in land owned by others, such as leaseholds, easements, water and water power rights, diversion rights, submersion rights, rights-of-way, and other like interests in land.*” FN 42 states, “*Land rights that are for a specified period of time shall be depreciated or amortized over that time period.*”

and expressed concern that preparers would face increased burden without any corresponding benefit to users. Members discussed that, in some cases, these rights were acquired without cost and may also be duplicative or cross-cutting with other rights. Additionally, materiality would be more qualitative in nature and, absent specific guidance, would further complicate the attestation process.

Members agreed to proceed with caution as they explore and evaluate available options regarding potential disclosure for these remaining land rights. To that end, the Board asked staff to develop a question in the draft ED to solicit input from respondents.

Draft Definitions

Members generally agreed with the proposed draft definitions for (a) stewardship land (SL), (b) the three categories reflecting the predominant use of land, and (c) acres of land held for disposal or exchange. However, members requested that staff consider developing either a definition or list of factors that preparers could use to assess predominant use.

Regarding predominant use, members asked that staff clarify the intent that land would be categorized in one of the three sub-categories to avoid duplication. The Board also requested staff refine the operational sub-category definition if possible. Members felt the basis for conclusions should include a richer discussion concerning reasons for and against retaining the current land distinctions as currently reflected as SL and general property, plant, and equipment (G-PP&E) land. Some members stated that the current use of land does not necessarily change the reason why the land is owned or managed by the entity; as a result, these members believe that the task force's recommendation to retain the SL and G-PP&E categories based on purpose or intent is appropriate. Other members preferred the sub-categorization predicated on predominant use. They noted that the SL and G-PP&E categories are too broad and not useful, in light of the inconsistencies that have developed over time.

Members agreed that FASAB should retain the current SL and G-PP&E distinctions accompanied by the three proposed sub-categories. Staff will edit the draft ED based on the Board's aforementioned decisions.

Amendments

The Board agreed with the proposed amendments and also agreed to consider a member suggestion to amend SFFAS 42, *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29, and 32*. Current deferred maintenance and repairs (DM&R) requirements apply to capitalized G-PP&E and stewardship PP&E, whereas reporting is optional for non-capitalized G-PP&E or fully depreciated assets.

As a result of the proposed amendment to SFFAS 6, *Accounting for Property, Plant and Equipment*, paragraph 25 that excludes land from capitalization, G-PP&E land would be unintentionally exempted from DM&R reporting.

Amending SFFAS 42 would ensure that any DM&R on (non-capitalized) G-PP&E land would be measured and reported along with other (capitalized) general PP&E and SL.

Some members noted the inconsistency of the proposed disclosure between SFFAS 6 and SFFAS 29, *Heritage Assets and Stewardship Land*. Staff advised that the two Statements were written in completely different styles and that the intent was not to rewrite or reopen existing guidance. As a result, proposed disclosure requirements will need to be carefully reviewed to ensure that amendments are consistent between G-PP&E land and SL.

Members were asked to provide any additional edits to staff within the next two weeks to allow time for staff to work with FASAB's in-house editor.

Questions for Respondents

Members generally agreed with the proposed draft questions for respondents. They offered several edits and suggestions:

- Predominant-use question – Members requested staff develop either a definition or list of factors that preparers could use to assess predominant use. This new question should precede question 3 and be accompanied by a basis for conclusions discussion.
- Question 3.b – Members requested staff incorporate this question with the predominant-use question discussed above.
- Question 3.c – Members requested staff change the question to ask if SFFAS 6 and 29 disclosures should be contained in one note, provided their categories are retained.
- Question 3.d – Members requested staff replace this question with another asking whether FASAB should have predominant-use sub-categories and if they are sufficiently defined. That is, the question should ask respondents whether they agree with predominant-use reporting and, if so, what categories they would recommend.
- Question 5 – Members requested staff ask respondents whether they agree with the proposed definition.
- Question 7 – Members requested staff provide context for this “additional information.” Also, staff should add a question to ask readers if there is any other type of information that the Board should consider.
- Question 7.a and 7.b – Members requested staff ask respondents if the Board should consider a time-phased implementation approach and, if so, what it should be.

- Question 8.a – Members requested staff ask respondents if requiring “estimated acreage” would provide preparers greater flexibility and help to reduce overall burden.
- Question 8.b and 8.c – Members requested staff copy the specific guidance from TR 9, *Implementation Guide for Statement of Federal Financial Accounting Standards 29: Heritage Assets and Stewardship Land*, into the question and develop a basis for conclusions discussion.
- Question 9 – Members requested staff solicit input concerning the application of materiality to non-financial information (NFI). The question should also ask if and how placement of NFI as basic, required supplementary information (RSI), or other accompanying information will affect materiality judgments.

Next steps: Staff will present a revised draft ED during the October meeting and, pending deliberations, a pre-ballot draft shortly thereafter.

- **IPSASB Heritage Consultation Paper Response**

Ms. Payne presented from [tab J](#) the draft letter response to the IPSASB’s consultation paper titled *Financial Reporting for Heritage in the Public Sector*. Members unanimously agreed to not object to the issuance of the letter response, signed by the chair.

The Board meeting adjourned for lunch.

- **Intragovernmental Exchange Transactions**

Ms. Payne directed the members’ attention to the revised draft ED on intragovernmental exchange transactions containing tracked changes from input on the first draft, located at [tab G](#). She reminded members that this would be a staff ED of a TB. As such, members were asked to indicate whether they object to the draft.

Members suggested improvements to clarify the language in a few areas. For example, staff could clarify that value could be “expected” but not received.

Mr. Granof asked about cases of one department acting as an agent for another. He inquired whether these departments were actually performing the service or if they were just an intermediary.

Ms. Payne responded that existing Statements, particularly SFFAS 4 on managerial cost accounting, require presentation of full cost even in cases where one department is merely an agent of another. The standards make no distinction based on how much activity the department has.

Mr. Granof agreed but noted that GASB took a different approach.

Mr. Dacey explained that the proposed approach would help ensure that intragovernmental amounts balance. That is, the expense would be on the ultimate user of that product or service, and the revenue is needed to balance that elimination entry.

Mr. Showalter asked whether members objected to the issuance of the ED with the changes discussed. No members objected. Ms. Payne thanked the members for their assistance.

- **Draft Annual Report**

Ms. Payne directed members to the draft annual report. She thanked members for completing their performance surveys and confirmation forms. The appointments panel will receive the forms along with the draft annual report following the meeting. In October, the revised draft will be reviewed and the final issued on November 15.

Ms. Payne noted that some members provided editorial suggestions, which she included.

Ms. Payne asked whether members wished to discuss any matters raised in the survey responses. She explained that the key themes from the survey responses were presented in the annual report. The appointments panel members will receive the detailed responses as well as the annual report. Members had no matters to raise for discussion. Ms. Bronner noted the results indicated an effective Board.

For the remainder of the draft report, members offered a few additional editorial comments to the report, including the need to add a project on evaluating existing standards as matters are raised by agencies and to discuss the classified activities project.

Ms. Payne asked for feedback on the potential project list. She reminded members that the prior year's survey results highlighted the need to refresh the list by removing projects that the Board would be unlikely to address as standalone projects and ensure that the remaining project descriptions are clear. Presenting only potential projects that are likely to be addressed will make the survey results more useful. In February 2018, the members will receive input on the three-year plan and be asked to prioritize among potential projects.

Members agreed to remove the following potential projects:

- Cost of capital
- Electronic reporting
- Managerial cost accounting
- Reporting cash flows

- Derivatives
- Interim financial reporting
- Property with reversionary interests

Members requested that the explanatory text regarding the following projects be improved:

- Long-term construction/development/procurement contracts
- Research and development (relate the project to complex acquisition projects that transition from research and development to production)
- Revenue (identify the issues that would be addressed)

Mr. Reger was asked to identify any potential projects that might be added as a result of the Chief Financial Officers Council's streamlining discussions.

Another member asked whether a project should be added to address streamlining of fiscal sustainability and social insurance reporting in the CFR. Members were asked to consider this and respond in October.

Next steps: The annual report will be revised and shared with members for review before the October meeting. In addition, the appointments panel review will occur before the October meeting.

- **Streamlining**

Mr. Ross Simms, assistant director, presented proposals for streamlining management's discussion and analysis (MD&A) and required supplementary stewardship information (RSSI). He referred Board members to [tab I](#) of the briefing materials: federal financial reporting, streamlining MD&A and RSSI.

MD&A Proposal

The Board supported the proposal to eliminate the reporting requirement that addresses the reporting entity's vital performance goals, objectives, and results in MD&A. As an alternative, the Board would require reporting entities to inform readers where to obtain the entity's annual performance report (APR). Members noted that conditions have changed since FASAB developed the MD&A reporting standards. Component reporting entities currently issue separate financial and performance reports and issue the reports at different times. In addition, the Board's concepts acknowledge that information that users need may not reside in a single report. Consequently, the Board would develop an ED to amend the existing MD&A reporting standards, explain the rationale for the proposal, and obtain comments from users, preparers, and auditors.

Mr. Dacey cautioned that the ED should not be presented as streamlining financial reports. Instead, the ED should include a dialogue on the Board's reasoning, such as why the current approach is not achieving the intended goal, why the change would not result in diminishing the information users need, and the alternatives the Board considered. Discussing the rationale would help the respondents provide comments on the ED.

Members also discussed how the reporting entity could inform readers where to obtain the APR. Mr. Granof noted the benefits of electronic reporting. He emphasized that reports should provide an electronic link to the APR. Also, Mr. Showalter noted that the ED would be the Board's first attempt to demonstrate how information would not need to reside in a single report. In addition, Mr. Dacey suggested that the basis for conclusions section of the ED could describe an approach for addressing the proposed requirement.

Regarding questions that could be posed in the ED, Mr. Reger suggested asking respondents whether referring users to the APR should be an alternative to presenting detailed performance information. However, Mr. Scott reiterated the change in conditions since the Board issued the MD&A reporting requirements. Requiring a link to the APR is needed to eliminate the risk of providing incomplete or inconsistent information to users. The ED could discuss this requirement.

RSSI Proposal

The Board discussed staff's initial draft ED proposing to eliminate RSSI. The draft ED noted that users do not review the RSSI provided in financial reports. Users can access the information from other sources, such as the Budget of the U.S. and APRs.

Mr. Dacey noted that, similar to the MD&A proposal, the ED would need a rich discussion of the Board's reasoning. RSSI is a complex area that ED respondents may not encounter on a daily basis and may not understand. Although streamlining was the initial objective of the project, the ED discussion should focus on what has changed since the Board developed the RSSI requirement and address reasons why some might want to retain the information.

Mr. Dacey explained that, when the Board developed the RSSI standards, the Board believed the information would be important to users of the financial statements. Users needed to know that some costs were not simply current operating costs. Some costs had long-term impacts, and the Board considered those costs to be stewardship investments. For stewardship investments, the Board wanted a higher level of assurance than RSI. However, the higher level of assurance was not developed.

Members noted that RSSI initially included several components. However, only stewardship investments remain. Regarding why previous Boards eliminated all the other components except for stewardship investments, Ms. Payne explained that there was less concern about the audit coverage for stewardship investments. The stewardship investment guidance requires reporting expense data, and expense data is audited as part of the financial statement audit.

Ms. Payne also explained that the proposal could be viewed as providing flexibility rather than streamlining. If stewardship investments are important to the mission of the reporting entity, the information would be integrated into its performance report. Performance reporting has matured since the Board developed the RSSI standards, and reporting entities have a sense of what information is relevant for performance reporting. Reporting entities will discuss what they have accomplished with respect to the investments and will likely report outlays rather than expenses. Consequently, a separate section labeled stewardship investments would not be needed.

Ms. Payne asked rhetorically if the Board needed to require the reporting of expense information for stewardship investments and provide stewardship investment guidance to performance report preparers. Ms. Ho noted that if the reporting entity's mission requires making significant investments that provide long-term benefits, the entity is already reporting the information in its performance report regardless of a FASAB requirement. However, the information may not be as easy to locate as it is in the financial report. Mr. McNamee noted that the Board may need to better understand what a user would need to do to find stewardship investment information if it were not presented in financial reports.

In addition, Mr. Smith noted that a Statement would not be needed. Any time a reporting entity believed stewardship investments information was relevant to its performance, the reporting entity would be able to present the information without a FASAB Statement. Mr. Reger added that a reader would be interested in knowing about investments that have a long-term impact, and reporting entities would want to highlight that information for its report readers.

Next steps: For the October meeting, staff will prepare a draft ED proposing amendments to the MD&A performance reporting requirements and a revised draft ED proposing the rescission of the remaining RSSI reporting requirements.

- **Reserved to Discuss Edits from Wednesday**

At Thursday's meeting, the Board reviewed the changes requested from Wednesday's session related to the ED for amending inter-entity cost provisions. Ms. Melissa Batchelor, assistant director, provided the members an updated copy.

A majority of the Board approved release of the ED entitled *Amending Inter-entity Cost Provisions*. This Statement would revise SFFAS 4 to provide for recognition of inter-entity costs by business-type activities and rescind SFFAS 30 and Interpretation 6.

Adjournment

The Board meeting adjourned at 3:00 p.m.