FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
Board Meeting Minutes
June 21-22, 2017
Room 7C13
441 G Street, NW
Washington, DC 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, June 21, 2017

Attendance

The following Federal Accounting Standards Advisory Board (FASAB or "the Board") members were present throughout the meeting: Mr. Showalter (chairman), Messrs. Dacey, Granof, McNamee, Scott, and Smith. Ms. Bronner was present on June 21. Ms. Ho and Mr. Reger were present with brief absences during which they were represented by Mr. Bell and Ms. Johnson, respectively. 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 April meeting minutes prior to the meeting.

- **Updates and Clippings**

Mr. Showalter opened the meeting by directing members to the clippings. Members commented on the Deloitte paper regarding benefits of the Digital Accountability and Transparency (DATA) Act as well as Messrs. Showalter and Steinberg's article in *Government Executive*.

Mr. Dacey indicated that the International Public Sector Accounting Standards Board (IPSASB) has not met since March so there is no update. The IPSASB will meet during the week of June 26. In addition, the National Standards Setters Forum will be held the first week of July. Both Mr. Dacey and Ms. Payne will attend.

Mr. Granof reported that the Governmental Accounting Standards Board (GASB) has

- held hearings around the country on the reporting model,
- approved the final Statement on lease accounting,
- almost completed an implementation guide,
- addressed debt disclosures for private placements, and
- continued to consider whether revenue standards in the public sector should be adjusted given the changes in the private-sector standards.

Ms. Ho was asked to report on DATA Act implementation and the results of the May 9 deadline for agency submission of data. She noted the three-year effort was a government-wide project. On May 9, the government successfully rolled out the new USA Spending website. She noted it was one of the most successful implementations of a significant reform in recent history. It was done on time and under budget, but most importantly, agency chief financial officers (CFOs) are publicly acclaiming its value. All CFO Act agencies reported on time. Not all agencies reported everything required, but all reported some data.

Ms. Ho noted that this is an accomplishment of which the government should be proud. It has demonstrated that government can do things efficiently in a modern way. Modern best practices were applied in a government-wide approach.

Ms. Ho indicated that efforts continue to enhance the site. Public feedback about the site is ongoing, and she pointed to a significant change based on that feedback. The Department of the Treasury (Treasury) revised the presentation of spending by state to show per capita spending in each state. Another suggestion was to show the federal revenues received from each state. One promising aspect of the site is that it generates more questions about spending data. Creative uses of the data are being developed. Areas identified to date include the following:

- Analyzing state dependency on federal revenues
- Connecting federal spending with state spending to identify the total spending on a public problem
- Integrating spending and nonfinancial performance information
- Monitoring, at the state level, how much available funding has been obligated so states might proactively manage the funds they have not yet been awarded
- Collecting information-technology spending information across the government in a form useful to the Office of Management and Budget (OMB)

Mr. Reger offered his praise for the Treasury team, including Ms. Ho. He noted there were some difficult discussions and processes. The iterative approach taken was incredibly helpful. This implementation was the start of a groundbreaking process. He acknowledged that private-sector stakeholders are encouraging the development of applications to harness the data. Also, he indicated that the internal controls supporting audited financial statements are essential to ensuring the quality of the data.

Agenda Topics

- **Leases**

Mr. Showalter began the discussion by informing the Board that the objective of the session was to provide direction to staff on the issues raised in the briefing materials and to raise any other technical issues for staff to address. He also stated that staff would like to provide the Board with a pre-ballot draft after the August meeting discussion, so it was very important to have all technical issues identified at the June meeting. The briefing materials for the session can be found at tab A.

Ms. Monica Valentine, assistant director, reminded the Board that at the February 2017 FASAB meeting, the Board considered responses to its 2016 *Leases* exposure draft (ED) and at the April 2017 meeting representatives from five federal entities discussed their comments on the ED with members. The Board asked staff to consider additional scope exclusions, continue to highlight the benefits associated with revising the lease standards, and explore options to ease the anticipated burdens and costs of the revisions to federal preparers.

Issue 1: Definition of Lease

Ms. Valentine noted that at the April meeting some of the federal entity presenters suggested that the proposed lease definition needed to be clearer and should be more narrowly scoped. Members asked staff to develop options for Board consideration that would further clarify the definition and reduce its scope. Staff presented two options for Board consideration regarding the definition of a lease in the proposed lease standards. Staff posed the following questions to the Board.

Question 1: Does the Board prefer option 1-1, which maintains the broader lease definition? Does the Board prefer option 1-2, which more narrowly scopes the lease definition to include only property, plant, and equipment (PP&E)?

Board discussion comments included the following:

- Because it appears that most leased assets are PP&E, are there any other types of leased assets that would be considered material? If the Board limits the standards to PP&E, there would not be so many scope exclusions. Also, if the Board becomes aware of a material non-PP&E asset that is being leased, it could amend the Statement to include those assets.

- The broader definition will allow flexibility for leases that are not PP&E or those not specifically scoped out to be considered for recognition in accordance with the standards.

- Because there does not seem to be any leases that do not meet the narrower lease definition or scope exclusions, it would be easier to adopt the narrower definition with less exclusions.

- It is also important to clearly identify contracts for services, which are also excluded from the standards.

- The fiscal year (FY) 2016 consolidated financial report of the U.S. Government (CFR) shows long-term operating leases totaled $38.2 billion. A question was raised as to whether narrowing the scope of the definition would lower this number to where it is no longer material to the government as a whole.

- The materiality of federal leases, as well as the Board's goal, is important. The ability to analyze federal leasing activities on a comparable basis and identify the financing costs associated with leasing is also important.

- The Board has maintained burden reduction as a goal of this project, and the different treatment of intragovernmental leases and the scope exclusions both achieve that goal.

The Board agreed five to four to maintain the broader lease definition.

Issue 2: Scope

During the April meeting, the Board addressed the scope of the proposed lease definition. The Board asked staff to consult with the presenters and lease task force to develop a list of possible items to be scoped out of the *Leases* proposal, including intangibles.

Staff presented two options for Board consideration regarding the scope of the proposed lease standards. Staff posed the following questions to the Board.

Question 2: Does the Board prefer option 2-1, which maintains the broader lease scope *(only excluding natural resources per Statement of Federal Financial Accounting Standards [SFFAS] 38 and Technical Bulletin [TB] 2011-1)*? Does the Board prefer option 2-2, which further narrows the lease scope *(excluding natural resources per SFFAS 38 and TB 2011-1, leases of inventory, leases of assets under construction, leases of intangibles, and leases [licenses] of internal use software)*?

Board discussion comments included the following:

- Some scope exclusions would still be necessary even if the definition was narrowed to PP&E only.

- If the broader definition is used, an entity would have to identify all items meeting the definition and then justify the exclusions.

- The determination of what is within the scope of the lease standards will have to be made at the procurement process, not at the point the accountant is recording the transaction.

- If the broader definition is used and intangibles are excluded, the Board would have to develop a definition of intangibles, as the Board has not previously done so.

- It seems the Board will end up in the same place if it uses the more narrow definition with a few exclusions, or if it uses the broader definition with more exclusions.

- The question should be which definition of a lease is less burdensome and costly.

- With the narrow definition, it may be easier to manipulate the transaction. With the broader definition, entities are forced to evaluate the substance of the transaction.

- The scope exclusions will have to be very explicit to minimize any confusion.

The Board unanimously agreed to the additional proposed scope exclusions which further narrows the lease scope (excluding natural resources per SFFAS 38 and TB 2011-1, leases of inventory, leases of assets under construction, leases of intangibles, and leases [licenses] of internal use software).

After the April meeting, staff requested the assistance of the lease task force to compile example federal transactions. The examples needed to meet at least one of the following criteria:

- There is uncertainty as to whether the transaction meets the proposed definition of a lease.

- The transaction meets the proposed definition of a lease; however, there is uncertainty as to whether the transaction should be included in the scope of the lease standards.

Staff received seven responses from task force members. Based on the responses, staff recommended several revisions to the *Leases* proposal:

- The Board should specifically scope out all intangible assets, including software licenses. Also, it should ensure that implementation guidance provides additional details on applying the standards.

- The Board should add clarifying language in the *Leases* proposal on the applicability of land and land rights.

- The Board should further clarify the current language in the proposal on the applicability of service contracts: “contracts or agreements for services unless that contract or agreement also conveys the right to use a nonfinancial asset for a period of time in an exchange transaction.” Staff recommends that service contracts be specifically defined in the proposal and that implementation guidance provide additional details on applying the standards.

- The Board should add clarifying language in the proposal to address leases involved in public-private partnerships.

Board discussion comments included the following:

- Leasing of land amounts to the right to use the land for a specified time period, which differs from purchasing land for ownership. The right to use land through a lease is also different from a land right. The leasing of a land right is the right to use an intangible asset. When land is being leased the lease itself may be considered an intangible, but the leased asset is not an intangible asset.

- The Board also needs to address when the federal entity is the lessor of land, given the Board's direction in the land project.

The Board agreed to scope out intangibles from the lease standards, but asked staff to propose a definition of intangibles and provide examples of federal intangibles. The Board agreed that leased land would be subject to the revised lease standards and leased land rights would be excluded from the lease standards with other leases of intangibles. The Board also established that further clarification of "contracts or agreements for services" should be included in the revised standards along with a definition and examples. The Board agreed that clarifying language is needed in the standards to address leases involved in public-private partnerships.

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, members asked staff to explore options to ease the anticipated burdens and costs of the lease revisions to federal preparers. As such, staff presented four options for how to determine the lease term. Staff posed the following questions to the Board.

Question 3: Does the Board prefer option 3-1, which maintains the lease term determination as proposed in the ED? Does the Board prefer option 3-2, which revises the lease term determination language but retains the probable threshold? Does the Board prefer option 3-3, which revises the lease term determination to the reasonably certain threshold? Does the Board prefer option 3-4, which revises the lease term determination language and eliminates the probability threshold used to determine the likelihood that future renewal or termination options will be exercised?

Board discussion comments included the following:

- If the "reasonably certain" threshold is adopted, can a specific definition be included? Staff noted that neither the Financial Accounting Standards Board nor GASB has a specific definition of "reasonably certain" in their standards; they only state that "reasonably certain" is a higher threshold than probable.

- Reasonably certain could certainly reduce burden because the threshold for assessing the probability of options is so high.

- Reasonably certain seems to imply that an entity knows for certain it will or will not exercise the options or that it is ready to execute those options.

- An entity may look at economic factors when determining whether or not to exercise options.

- For example, if an entity has historically renewed options on a particular lease and now is asked to assess the probability of the upcoming renewal—if the entity says it is not reasonably certain it will renew the lease, would the renewal options not be added to the lease liability? That is management's representation. Other factors also have to be assessed. For instance, where will the entity house its offices if it is not reasonably certain it will renew its current lease?

- In those cases when a lease has several five-year renewal options associated with it, the probability of renewal or termination becomes very subjective.

- Probable gives the entity a better basis for assessing the lease term as opposed to reasonably certain, which would be more challenging to establish.

The Board agreed seven to two to revise the lease term determination language but retain the probable threshold. Staff will also work to ensure the lease term determination language is clear and includes the necessary explanations and definitions.

Next steps: Staff will make the necessary revisions to the draft standards based on all Board discussions since the ED and present the draft to the Board at the August meeting.

- **CFO Council Update**

Brian Nichols, policy analyst, OMB, and Mr. Reger presented the federal government's burden-reduction initiative to the Board. Mr. Nichols noted the focus is on reforming the government and ensuring agencies are focused on mission achievement. Consequently, OMB asked agencies to identify areas of duplication and work that is more focused on compliance activities rather than the mission. As agencies began reviewing their operations, OMB began reviewing its policy and guidance documents to identify opportunities to eliminate or streamline agency reporting burden, and the effort included input from the CFO community.

OMB plans to use a two-phased approach to implement the reporting changes. In the first phase, OMB focused on immediate changes, items that the office controlled, and Memorandum M-17-26, *Reducing Burden for Federal Agencies by Rescinding and Modifying OMB Memoranda*. The memorandum eliminated obsolete guidance documents and modified others.

In the second phase, OMB will focus on longer-term changes: items requiring legislative proposals. In addition, OMB is updating its circulars and consolidating memoranda issued prior to circular updates. For example, since OMB issued Circular A-123, Appendix B, Congress passed the Charge Card Abuse and Prevention Act and OMB issued a memorandum to provide additional guidance on the law. As a result of the streamlining effort, OMB plans to rescind the memorandum and include its requirements in Appendix B.

OMB has received over 240 cross-cutting reform ideas and is in the process of vetting the submissions. Proposals are categorized by type of reform, such as elimination or restructuring, the authority (legislation, regulation, or existing authority), and impacted agencies. The proposals will be considered in the FY19 budget process.

Mr. Reger reiterated the government's burden-reduction initiative, noting the focus on reducing costs and the reporting burdens placed on agencies. Reporting burden is defined as reporting that no one reviews and that does not appear to be driving changes in the agency's actions, such as Y2K reporting. Agencies are attempting to reformulate to a different operating level and, next, the government will focus on reorganizing across agencies. Mr. Reger noted OMB has received over 100,000 proposals for reorganizing the government. Many suggested the government use some form of administrative shared services, and he encouraged the Board to suggest areas for streamlining.

Mr. Reger also noted OMB has issued a revised Circular A-123, *Management's Responsibility for Internal Control*. The revised circular focuses on enterprise risk management (ERM) guidance. Consequently, internal control and reporting requirements for specific topics, such as conferences and travel, are not needed. In addition, agencies should consider the risks to achieving their goals and objectives and incorporate an ERM view in their budget discussions.

Mr. Reger discussed reducing the burden of Circular A-136, *Financial Reporting Requirements*. For example, the circular requires payment accuracy reporting in financial reports. However, the government now has a payment accuracy website. Thus, presenting payment accuracy information in financial reports could be optional rather than mandated.

With respect to burden-reduction proposals that may be of interest to FASAB, Mr. Reger noted that while some suggested limiting management's discussion and analysis (MD&A) to a certain number of pages, there is a great interest in preparing citizens' guides instead of financial reports. Also, there is interest in the consolidation of the financial audits. Mr. Reger noted the financial management community is considering whether a financial report is the most effective way of representing programmatic activity issues.

Mr. Showalter thanked Messrs. Nichols and Reger for the presentation and encouraged them to keep the Board informed of their progress. Mr. Reger agreed to provide the Board with an update, possibly when they complete the first review of the reorganization proposals concerning the financial community.

The Board meeting adjourned for lunch.

- **Reporting Model – Next Steps**

Mr. Showalter introduced the reporting model session by thanking Board members for unanimously approving Statement of Federal Financial Accounting Concepts (SFFAC) 8, *Federal Financial Reporting*. Mr. Showalter also noted that today's reporting model discussion concerns streamlining financial reports and encouraged the entire reporting community, including CFOs, auditors, and OMB to become involved in the process.

Mr. Ross Simms, assistant director, referred Board members to tab C of the briefing materials: streamlining standards and note disclosures. The briefing materials include summaries of staff's roundtable discussions with financial report preparers and auditors. Staff conducted the discussions to determine areas for improving financial reporting standards and note disclosures. Mr. Simms also thanked the entire Board for reviewing agency financial reports. Mr. Simms considered the Board's reviews and the roundtable discussions in suggesting areas for streamlining of financial reports in the near term—MD&A and Required Supplementary Stewardship Information (RSSI). Staff plans to consider additional suggestions during the note disclosures project and for the long-term reporting model.

MD&A

Mr. Simms suggested the Board revisit SFFAS 15, *Management's Discussion and Analysis*, to explore opportunities for streamlining MD&As. Primarily, the project could help management better determine what information should be presented in MD&As and what information should be excluded. Board members and roundtable participants noted the need to streamline the MD&A section of financial reports. MD&As appear voluminous and include information that management also presents elsewhere, such as on the agency's website. In addition, MD&As present information that may not be relevant to an analysis and discussion of the financial statements or the entity's most important issues.

Board members discussed how SFFAS 15 only lists six topics that management should address and permits significant discretion in what management says about those topics. However, management may include additional information to comply with Circular A-136. The circular may specify information requirements beyond the requirements of SFFAS 15.

Members also discussed how agencies use MD&A differently. For instance, some agencies may use MD&A as a public relations document and present various aspects about the agency. However, others may develop a concise presentation. In addition, over the years, MD&A appears to have become the section for presenting miscellaneous items—information that does not seem appropriate for other sections of the report.

Members expressed concern about revising SFFAS 15. Ms. Bonner noted MD&A for state and local governments provides an opportunity for the organizations to share their accomplishments. She cautioned against developing more prescriptive guidance. Mr. Dacey noted SFFAS 15 intends for management to present certain information in a single location. As a result, readers could go to one source to learn about the organization and how well it performed during the year. Mr. McNamee noted some preparers want to produce the information presented in MD&A. Thus, changing SFFAS 15 might not change behavior if management is electing to present the information.

Mr. Showalter reiterated how MD&As have become so broad and lengthy that the presentation is losing its utility. Information required by SFFAS 15 can be found on the agency's website. Thus, readers do not need to see the information duplicated in MD&A.

Board members believed some MD&A practice guidance may be beneficial. Mr. Scott suggested a combination of approaches for improving practices with respect to MD&A. He suggested providing practice guidance, possibly enhancing the standards, and working with organizations, such as the Association of Government Accountants' (AGA) Certificate of Excellence in Accountability Reporting program. Mr. Smith suggested the Board could define what should go in each particular section. Consequently, readers would have an idea of what they would be able to read in a section. Messrs. Reger and Showalter noted practice guidance would help preparers understand the kind of content that needs to be presented.

RSSI

The Board agreed staff should explore opportunities for streamlining RSSI. Mr. Simms suggested the Board revisit the remaining category of RSSI—stewardship investments. Through amendments to SFFAS 8, *Supplementary Stewardship Reporting*, the Board has removed the other items of information from the RSSI category. Stewardship investments include nonfederal physical property, human capital, and research and development. While the Statement requires agencies to present RSSI, *Analytical Perspectives, Budget of the United States Government* also presents this information.

Mr. Dacey noted the Board should consider whether RSSI continues to be important to users. RSSI was intended to show that, in addition to the assets reported on the balance sheet, the government makes investments that provide long-term benefits. The investments are included as expenses in determining the government's net cost of operations and not all agencies report RSSI. Also, the category is considered required supplementary information (RSI) and eliminating it may not result in a significant change in audit coverage.

Board members discussed possible criteria for determining whether information should be included in financial reports. Ms. Ho raised the concern that the Board had decided to require information on tax expenditures. However, information on tax expenditures is also available in other documents. Mr. Scott noted the information should be relevant and used, and tax expenditure information is highly relevant to readers. Mr. Showalter added that tax expenditure information is very important. Mr. Granof noted the Board should also be concerned about accountability, and Mr. Dacey stressed materiality is another consideration.

Mr. Reger reiterated that it is important for FASAB to encourage accountability. The goal of the streamlining effort is to determine how the Board might reduce the burden caused by duplication—compiling information for financial reports that is already being compiled for presentation to the public. Mr. Dacey noted the Board should determine whether the Board's definition of stewardship investments is the same as the definition used in other reports provided to the public.

Additional Areas for Consideration

The Board agreed to consider additional roundtable participant comments and suggestions during the note disclosures project and during its upcoming technical agenda discussions. In addition, Mr. Simms noted he would consider the additional areas for streamlining as part of the long-term reporting model project.

The Board discussed the human capital aspects involved in streamlining financial reports, such as the need to apply judgment in certain areas rather than simply following a checklist. Also, the Board discussed the need to engage CFOs, auditors, and organizations such as AGA in streamlining financial reports.

Mr. Showalter discussed that, in addition to the standards-setting process, the Board could take other actions to facilitate streamlining. For instance, Ms. Payne and Mr. Showalter are considering efforts with the AGA and the audit community.

The Hierarchy of Generally Accepted Accounting Principles

The Board also discussed whether to revisit SFFAS 34, *Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. Board members and roundtable participants noted the voluminous amount of other information (OI) presented in financial reports. Significant amounts of OI could overwhelm readers, and roundtable participants indicated that much of the OI is presented to comply with Circular A-136. Mr. Simms noted that when the Board exposed SFFAS 34 for comment, respondents sought clarification on the location of administrative directives, such as Circular A-136, within the hierarchy of generally accepted accounting principles (GAAP). However, at that time, the Board sought to adopt the hierarchy essentially as it existed in the American Institute of Certified Public Accountants' audit literature and did not intend to change federal reporting practices. Consequently, staff suggested the Board revisit SFFAS 34 to clarify the distinction between GAAP and information required by administrative directives.

The Board decided not to revisit SFFAS 34. Circular A-136 states the location of the circular within the hierarchy and has a section that specifies the items that should be considered OI. Also, Ms. Ho expressed that the issues appear to be a policy area for

OMB rather than FASAB. Mr. Reger expressed that OMB is reviewing the circular and asking the reporting community to comment on whether financial reports provide the most logical means for communicating certain information. For instance, respondents are considering whether it would be better to present certain items on a website that the government has developed subsequent to the circular's requirements for financial reports.

Mr. Reger explained that the financial report served as one place users could go and read information about an entity. However, more robust reporting has been developed that enables users to perform tasks that cannot be performed in a printed document. For instance, a website offers a more interactive format that allows the public to click on an item and see more detailed information.

> **Next steps**: Staff will explore streamlining opportunities with respect to MD&A and RSSI and report the results to the Board during the August 2017 meeting.

- **IPSASB Heritage Assets Response**

Mr. Showalter began the discussion with Mr. Domenic Savini, assistant director, by reminding members that the objective of responding to IPSASB's consultation paper on heritage was to continue on-going outreach efforts and help increase visibility of FASAB. Members were also advised that staff comments contained in tab B were meant to foster internal Board discussion and not necessarily to serve as a basis for any forthcoming response to IPSASB. Although members did not disagree with Mr. Showalter's objective, they noted the following concerns:

- Lack of deliberation and due process – Unlike other research topics or a project that the Board undertakes, this initiative has not included, to-date, any discussion or due process considerations. While this initiative would not constitute the consideration of accounting concepts and standards, any comments could be considered as precedent setting and potentially prejudicial to future Board deliberations. For example, tab B comments addressing statutory reliance are not necessarily representative of either comparable positions taken in SFFAS 29, *Heritage Assets and Stewardship Land*, or in the Board's current land project.

- Relevance of comments – While discussion by the Board at this meeting would provide members an opportunity for meaningful input, the relevancy of comments to IPSASB may be muted given that responses would be without the benefit of the Board's full deliberation and due process procedures afforded to the consideration of accounting concepts and standards. As such, FASAB credibility might be undermined.

As a result of these concerns, members discussed the most appropriate manner to respond to the consultation paper to assist IPSASB and avoid departing from positions reflected in issued accounting concepts and standards that have been taken as a result of deliberation and due process. Some members preferred a more general response to the issues at-hand, while others believed responses should specifically relate to each discrete IPSASB topic in *Specific Matters for Comment* and *Preliminary View*.

Some members noted that responses should explain the rationale (for example, using the basis for conclusions) for FASAB positions and possibly present differing views.

For the August Board meeting, members asked staff to prepare correspondence focusing on conclusions reached by the Board in existing concepts and standards, such as the use of nonfinancial information, deferred maintenance and repairs, and multi-use assets. In doing so, the Board would not risk establishing precedent setting positions. It was decided that Mr. Showalter would sign the letter as an individual communication and not as an official document from the Board.

Comments to the IPSASB are due by September 30, 2017.

- **Budget and Accrual Reconciliation**

On April 23, 2017, the Board proposed an updated budget and accrual reconciliation (BAR) format without the breakdown of Intragovernmental and With the Public for the budgetary net outlays. However, the new format retains the remaining breakdown numbers of line items above the net outlays. This updated format, along with Treasury's updated, detailed account-level guidance with a breakdown of Intragovernmental and With the Public, was provided to the nine agencies that had expressed concerns about the breakdown during the comment period. Ms. Grace Wu, assistant director, presented from tab E try-out responses from six agencies that responded. All respondents preferred this updated format after piloting both the format and the guidance. Because the updated BAR format addressed some of the concerns from the agencies, it will be included as an illustration in SFFAC 2, *Entity and Display*, as amended by the BAR Statement.

The members also discussed some edits to the BAR pre-ballot. Ms. Ho mentioned that the use of the abbreviation GWA for government-wide accounting in the basis for conclusions could be confused with one of Treasury's old divisions—GWA. She also expressed concern that discussing the crosswalk in the current basis for conclusions could be viewed by some readers as a condition for completing the BAR reconciliation. The Board agreed to modify the wording in the basis for conclusions to address those two points raised by Ms. Ho. In addition, the members discussed that because the BAR example format amended SFFAC 2 to provide for the reconciliation, it is a concept illustration. As such, the breakdown format listed in this new Statement is permitted but not required.

The members agreed that this discussion should be clarified in an updated pre-ballot version. This will be provided to the members for review prior to moving to the ballot stage before the next Board meeting.

- **Steering Committee Meeting**

The steering committee met to discuss the budget for fiscal years 2018 and 2019. Members discussed the uncertainty all agencies face but no specific changes to FASAB's budget were identified.

Adjournment

The Board meeting adjourned for the day at 4:30 p.m.

Thursday, June 22, 2017

Agenda Topics

- **Risk Assumed**

Mr. Showalter directed members to tab G to discuss the risk assumed (RA) project. Ms. Robin Gilliam, assistant director, noted that staff has been working on a gap analysis since RA was last discussed at the December 2016 meeting. Mr. Alan Perry, detailee, also contributed to these efforts. Work done to-date includes two focus group meetings and analysis of the USAFacts 10-K report. The purpose of meeting with the Board was to provide a status report and obtain responses to a few questions. Staff requested member feedback on what suggestions to include from the focus groups and whether the USAFacts 10-K risk section is an appropriate model for the federal financial report.

I. Improvements to Reporting on Fiscal Sustainability

Ms. Gilliam directed members to review the suggestions for improvements to reporting on fiscal sustainability. Mr. Perry stated the focus groups' main concern was the density of information presented. He noted that while most of the suggestions were directed toward the MD&A, some focused on RSI and/or footnotes.

Members discussed and did not agree with the suggestion to include a discussion of the potential impact of unforeseen catastrophic events on the long-term fiscal outlook; the prediction of their potential financial effect is not within FASAB's scope.

Ms. Ho asked if FASAB was trying to add additional meaningful information that users want or restructuring current information to make it easier to understand. Mr. Granof asked if Congress was our intended user. Mr. Showalter responded that targeted users should be citizens. Ms. Ho also asked if FASAB was addressing the quality of current reporting or the gaps against the current standards.

Mr. Dacey stated the most critical assumptions are currently identified in the *Long-Term Fiscal Projections* note in the CFR. He recommended consideration of disclosure of major risk events with a relationship to long-term sustainability in the CFR that are currently not included as an assumption. Mr. Granof recommended defining why a risk is within FASAB's scope. To accomplish this difficult task, criteria may include what is an immediate risk and who has special expertise in that area. Mr. Dacey also noted that sensitivity analyses for items such as interest rate changes and healthcare cost growth are currently presented in the CFR.

Mr. Dacey added that discussions about major risk events should be brief and at a high level—paragraphs not pages—to explain the potential effect on long-term sustainability. Members agreed that they did not want to add too many disclosures. Ms. Gilliam noted that the RA project staff is working with the reporting model project staff to reduce reporting burden.

Ms. Johnson voiced concern that the MD&A is not as concise as it could be. She recommended streamlining the MD&A to include only necessary information related to current laws. Mr. Showalter did not want to see boilerplate language used. Members agreed that information should be updated each year. They expressed interest in meaningful, streamlined information presented as a broad analysis, rather than specific details.

Mr. Smith asked for clarification on the suggestion to discuss risks that could occur if obligations for explicit liabilities, such as those provided by the Pension Benefit Guaranty Corporation (PBGC), could not be paid. Mr. Dacey explained that this suggestion refers to whether PBGC has sufficient revenues and assets to pay the already accrued liabilities or whether they will have to borrow funds. This is really a risk of increased debt. For example, premiums were not enough to pay liabilities accrued from hurricanes Katrina and Sandy, so the National Flood Insurance Program (NFIP) had to borrow money from the federal government. Now NFIP has significant intergovernmental debt on its balance sheet.

II. Improvements to Reporting on Past Shocks

Ms. Gilliam directed the discussion to the focus groups' suggestions for improving reporting on past shocks.

Members were not interested in presenting trends for emergency funding needed as an indicator of fiscal exposure to risk shocks. Ms. Johnson noted the budget already provides estimates for the Federal Emergency Management Agency and the Overseas Contingency Operation funding.

Members discussed including comparisons of projected liabilities to actual obligations incurred. Ms. Johnson explained that there is an entire chapter in *Analytical Perspectives* that compares estimates to actuals; therefore, she did not support including that information in the financial report. Members agreed.

Members concurred that including a discussion about past significant events that affected the current federal financial position was valuable. Ms. Johnson opined that including only events that occurred within the past year or two was sufficient.

Members agreed not to include a discussion on how past risk events were managed because that may create false expectations and could be misleading; a change in administration, political environment, and/or financial environment could skew how the government will respond in the future.

Mr. Dacey pointed out that the MD&A appropriately discloses major events that affect current year funding and potential future impact. For example, during the recession, estimates for potential funding were included for recovery efforts provided by programs managed by the Troubled Asset Relief Program. The sustainability report also discussed the drop in tax revenues resulting from the recession. Mr. Dacey also noted that it would be very difficult to determine "ultimate cost" of a major risk event because there may be many agencies and programs involved.

Ms. Gilliam asked if, in light of the current discussion, members still wanted staff to review the 2008 financial crisis from 2007 to the current period as part of the gap analysis. Mr. Showalter said that because every event is so unique and specific, that it would be difficult to determine whether what was reported for the fiscal crisis would be the same for another major event. Members agreed. Therefore, staff will not include an analysis of past information for the 2008 fiscal crisis as part of the gap analysis.

Ms. Gilliam concluded the review of the focus groups' feedback and noted that suggestions under the headings III. Improvements to Presentation of Actuarial Information or IV. Improvements to Overall Presentation of Information may be discussed at a later date.

USAFacts 10-K, Item 1A – Risk Factors

Ms. Gilliam directed members' attention to the USAFacts 10-K, Item 1A – Risk Factors to learn if they were interested in a similar model for the CFR. Mr. Smith did not see the value of including a separate section in the financial statements. Members agreed. Ms. Johnson was concerned with the lack of numbers in the USAFacts 10-K risk section and noted that the CFR already provides more detail.

Mr. McNamee preferred the categories in Appendix C, stating they provided a very clear and fact-based approach versus trying to understand the difference between risk factors and events. A number of members agreed.

Mr. Dacey said that a number of the highlighted areas in the USAFacts risk section are currently disclosed in other areas of the CFR, such as the *Investments in Government Sponsored Enterprises* note. He added that including a separate risk section could create duplicity and be difficult to follow. He suggested using existing notes to include any additional information the Board wanted instead of centralizing risk information in one location. Mr. Granof said a separate risk statement would not accomplish the goals discussed on June 21 for the reporting model project. Members agreed.

Mr. Showalter asked if and how the current risk of student loan default is being reported. Ms. Johnson said that information is currently being presented in the budget and in the financial statements. Ms. Gilliam added that the Department of Education included a robust discussion in the MD&A about the risk of student loan defaults. Mr. Granof suggested a sensitivity analysis to show the consequences if defaults go up to 10 or 15 percent, for example.

Ms. Ho added that the USAFacts risk section does provide a more concise write-up that people can understand, which is more effective than how the government provides its information.

Conclusion:

- Members do **not** want to include discussions that predict unforeseen catastrophes and their potential financial effect; trends for using emergency funding as an indicator of fiscal exposure to risk shocks; comparisons of estimates to actuals; how past risk events were managed; or a separate risk section within federal financial reports.

- Members **did want to** include past events that affect the current financial position; include and define major risk events with a relationship to long-term sustainability that are not already reported; use the risk exposure categories presented in Appendix C as a foundation for continuing the gap analysis; as well as provide meaningful, streamlined information as a broad analysis rather than specific details.

- **Land**

At the June 22, 2017, Board meeting, members reviewed a draft ED at tab H prepared by Mr. Domenic Savini, assistant director. Specifically, the following matters were addressed by the Board:

Draft ED

Members generally agreed with the staff recommendation that the ED should contain two major changes/clarifications to existing guidance: (a) reclassifying general property, plant, and equipment (G-PP&E) land as a non-capitalized asset with no dollar amounts reported on the balance sheet and (b) requiring consistent and uniform disclosures and presentation of information for G-PP&E land and stewardship land (SL).

However, members raised three issues concerning the major changes proposed in the draft ED:

- Some members questioned whether the current G-PP&E and SL distinctions are relevant or necessary if the Board adopts the three proposed categories illustrated at Appendix B.

- Related to the first issue, some members envisioned having only one note disclosure. By maintaining the G-PP&E and SL categories currently reflected in the draft ED, separate note disclosures would continue. Members agreed to add a question to the draft ED asking respondents for their thoughts in this regard.

- Definitions would be required for the three categories proposed at Appendix B.

Lastly, the Board advised staff to emphasize and highlight the necessity and related benefits of the proposed amendments.

Amendments

Members generally agreed that four SFFASs would require amendments:

- SFFAS 6, *Accounting for Property, Plant, and Equipment* – remove the requirement to report G-PP&E land on the Statement of Financial Position and clarify expense recognition for land and land rights

- SFFAS 6 and SFFAS 29, *Heritage Assets and Stewardship Land* – clarify the categorization and reporting of land use, require broad acreage disclosure, require disclosure of acreage held-for-disposal

- SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting* – conform requirements relating to land transfers and donations to the amendments

- SFFAS 32, *Consolidated Financial Report of the United States Government Requirements: Implementing Statement of Federal Financial Accounting Concepts 4 "Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government"* – establish conforming amendments for entity-wide disclosure requirements

However, some members believed that the ED should contain a prefatory statement that explicitly makes the point that land should not be capitalized on the balance sheet. Although there was some discussion concerning the relevancy of disclosing acreage as an aggregated amount (that is, combining land owned in downtown Manhattan with that in downtown Luckenbach, Texas), members generally agreed that requiring acres was consistent with meeting user needs and the reporting objectives.

Rescinding Level C GAAP Guidance

Members generally agreed that guidance specific to SL contained in Technical Release (TR) 9, *Implementation Guide for Statement of Federal Financial Accounting Standards 29: Heritage Assets and Stewardship Land*, should be rescinded. TR 9 would retain guidance relating to heritage assets.

Other Technical Matters

Members identified three additional issues, two of which were resolved during the meeting: (1) land rights, (2) land leases, and (3) the lack of a distinct definition for SL. The Board agreed that because land rights are intangible assets, any open issues related to their treatment not addressed by SFFAS 6 should be excluded from the land project's scope. Members also agreed that leased land should be subject to the revised lease standards and that disclosures should be harmonized to the extent practical. Additionally, the Board requested staff develop a definition for SL.

Basis for Conclusions

One member asked that the Board (1) consider realigning some of the discussion and (2) identify the Systems and Controls reporting objective in the draft ED, given the documented data-integrity problems noted by the Government Accountability Office. Requiring attestation over land information will help to increase its reliability and relevance to internal and external users.

Questions for Respondents

Members reviewed the proposed questions for respondents on pages eight and nine of the draft ED and noted the following:

- <u>Question sequencing</u> – Staff should move Q5 related to rescinding TR 9 immediately after Q2.

- <u>Question 2</u> – Staff should ensure adequate discussion of each category and its definition and inquire if proposed definitions are adequate.

- <u>Question 3</u> – Staff should ensure there is consistent terminology for land intended to be sold and provide a definition. Staff should define land held for disposal and use consistent terminology: eligible or held.

- <u>Question 4</u> – Staff should ensure adequate explanation of available options and development of the three proposed categories. Staff should inquire if there are alternatives the Board should consider and the supporting rationale.

- Additional questions to ask include the following:

    1. Should the disclosures related to G-PP&E and SL be combined into a single note disclosure?

    2. Do the three proposed predominant-use categories supersede the G-PP&E and SL categories, making them obsolete?

    3. What are the types of audit guidance preparers believe they will need to satisfy the proposed accounting standards? Staff will consider referring to SFFAS 38, *Accounting for Federal Oil and Gas Resources*, when developing the question.

Action item for staff: Incorporate suggestions into a revised draft ED.

The Board meeting adjourned for lunch.

- **DoD Status**

At the beginning of the session, Ms. Melissa Batchelor, assistant director, conveyed that the ED TR entitled *Implementation Guidance for Establishing Opening Balances* was released for comment on June 21, 2017. She thanked the Board members who offered preliminary comments and explained it would now go through due process. The ED is available at the FASAB website http://fasab.gov/documents-for-comment/.

Ms. Batchelor then referred members to tab I of the briefing materials. She explained the document was a new request from the Department of Defense (DoD) related to DoD intragovernmental activities/costs. Specifically, DoD requested FASAB provide guidance related to certain intragovernmental transactions. Staff proposed the following four flexibilities for component reporting entities other than those conducting business-type activities that are consolidated in the DoD financial statements:

- Inter-entity, including intra-departmental, costs addressed in SFFAS 4, *Managerial Cost Accounting Standards and Concepts* (including Interpretation 6), except for the following two items, need not be imputed.

    a. Costs of employee benefits addressed in paragraph 93 of SFFAS 4 and paragraphs 74-76 of SFFAS 5, *Accounting for Liabilities of the Federal Government*

    b. Treasury Judgment Fund transactions addressed in Interpretation 2

- Assets may be assigned to component reporting entities on a basis determined by management. For example, an asset may be assigned to the component reporting entity holding legal title, funding the asset, or using the asset in its operations.

- With the exception of the cost of liabilities intended to be covered by rates charged in a business-type activity, DoD may assign liabilities for cleanup cost and government-related events to component reporting entities based on the judgment of management. For example, the cleanup cost liability may be assigned to the component reporting entity that reports the asset or to another entity.

- DoD has the option to classify intragovernmental transactions as transfers-out (SFFAS 7, par. 70) or as a cost. This flexibility is necessary because it can be difficult to determine whether an exchange occurred between the federal components, departments, or agencies involved. Notwithstanding this flexibility, the two parties should attempt to agree to the nature of the transaction so that treatment of the transaction is parallel for purposes of elimination.

Ms. Batchelor explained that the initial Board member feedback was somewhat mixed. Some members questioned why the four flexibilities are proposed for DoD. Some have asked why DoD is different than other reporting entities. Based on that, staff provided additional information for the Board members to consider.

Staff believes DoD is different in the following respects—some are permanent differences and others may be resolved over time.

- The scale and extent of services provided intra-departmentally significantly exceeds other departments.

- DoD components are unlikely to have information needed to inform analysis of under- and non-reimbursed inter-entity costs when no major components have obtained unmodified opinions. Until major components attain unmodified opinions, there is unlikely to be a basis for sharing the cost information needed to implement inter-entity costing.

- DoD is the only department that has requested guidance regarding reporting PP&E owned by one component but used by another where there is no reimbursement. Staff believes there is no reason to provide this guidance government-wide.

Ms. Batchelor explained that these differences justify some of the proposed flexibilities. Ms. Batchelor also noted that staff performed outreach to agencies (Department of Homeland Security and Department of the Interior) to determine if they would apply any of these provisions, but initial feedback leads staff to believe they would not.

Feedback from the Board members included the following:

- The Board discussed that it is looking at a fairly imperfect world in terms of what was originally intended with SFFAS 4. Requiring full cost for business activities makes sense, but in other instances it may not be feasible.

- Provisions should not be limited to DoD. It is important to consider whether provisions may be helpful to other organizations. Most members preferred that an amendment or standards be broadened to government-wide.

- DoD is unique in the fact that it has many service organizations and is a complex organization. Or it may be that the issues are not unique to DoD; it is that the costs are immaterial to other organizations. Another option discussed was to ask respondents in the ED if the provisions would affect them.

- Specific to the fourth provision, there was concern for the consolidation and elimination entries because the language only encouraged partners to agree.

- Members expressed concern with an approach or guidance that states one does not have to follow GAAP. This would be inconsistent with the Operating Performance objective.

- Most members agreed that there may be an issue as presented by DoD. However, certain members believed the Board's approach should be to review the standards carefully, including what the broader implications are, instead of making an exception for DoD. The members noted the result may be the same, but at least the Board would have considered the issue fully.

Ms. Batchelor explained potential paths forward included maintaining the current approach with a question to respondents or expanding the scope with an amendment to current standards. This may also require other revisions or changes. As an example, Ms. Batchelor explained that FASAB has never received a question from any other department about the assets assigned to a component; therefore, it may not be directly addressed in the standards. Ms. Payne explained that some of the other areas may be a little more challenging to address in the context of government-wide. For example, FASAB does not have much criteria that addresses transfers out versus exchange revenue to make that distinction.

Certain members questioned the feasibility of amending SFFAS 4 within the timeframes required by DoD. Ms. Payne explained that it is more of a process challenge, but it should not take more than six months. The DoD representative in attendance at the meeting confirmed that provision four (classify intragovernmental transactions) is necessary for the FY17 audit (statutory deadline is March 15) and the other provisions are necessary for the FY18 audit.

The Board agreed that all the provisions would be applied government-wide. However, it would be best to handle each in separate, appropriate GAAP-level documents.

- The first provision relating to inter-entity costs would require amendments of SFFAS 4 or rescinding SFFAS 30 through an SFFAS. It would also rescind a TR.

- The second provision (assets may be assigned to component reporting entities on any basis) will need to be clarified. Specifically, assets may be owned by one component of a large department but used and/or funded by another component. The proposal is to allow management to decide which component should report each asset.

- The third provision relates to liabilities arising from government-related events. These may be caused by one component of a large department but paid for by another component. The proposal is to allow management to decide which component should report each liability.

- The fourth provision (classify intragovernmental transactions) could be handled as a proposed interpretation and meet the FY17 milestones needed.

Conclusion: After discussing the proposed flexibility provisions, the Board agreed the provisions should be government-wide. Staff will address each provision in separate, appropriate GAAP-level documents. To meet DoD’s reporting requirements, a draft ED will be shared with Board members prior to the next Board meeting.

Adjournment

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