

**FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD**  
**Board Meeting Minutes**  
**October 25–26, 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](http://www.fasab.gov). Briefing materials for each session are organized by tab; references to these tabs in the minutes are hyperlinked.

**Wednesday, October 25, 2017**

**Attendance**

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

- **Updates and Clippings**

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

- Development of a pre-ballot exposure draft (ED) on equity interests in 100% owned businesses
- Consideration of capitalization of interest cost during construction of an asset
- Initiation of a new project on conduit debt
- Deliberation on revenue and expense recognition in light of new approaches to performance obligations issued by the Financial Accounting Standards Board (FASB)
- Development of reporting model options

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

- Issuance of revised cash-basis standards
  - Release of an ED proposing standards for social benefits
  - Deliberation regarding proposed lease standards
  - Development of public-sector measurement guidance that would consider conformity with current concepts
  - Initiation of a new project on infrastructure
  - Consultation on the overall strategy and work plan
- **Technical Bulletin Responses**

Ms. Melissa Batchelor, assistant director, directed the Board to tab 1 within the administrative section of the binders. This tab included three documents:

- *Intragovernmental Exchange Transactions –Comment Letters, Tab 1*

- *Assigning Assets to Component Entities* – Comment Letters, Tab 1
- ADDITIONAL MATERIALS – *Assigning Assets to Component Entities* - Comment Letters, Tab 1

The meeting objective was to consider the comment letters on staff's proposed Technical Bulletin (TB) 2017-1, *Intragovernmental Exchange Transactions*, and proposed TB 2017-2, *Assigning Assets to Component Reporting Entities*.

Ms. Batchelor discussed the summary memo analyzing the comment letters and explained the corresponding changes made in the proposed TBs. The majority of respondents generally agreed with both documents. Ms. Batchelor noted that staff had made certain small changes and edits in the technical guidance sections of both documents for clarity. Staff addressed other comments in the basis for conclusions of the proposals.

In the proposed *Intragovernmental Exchange Transactions* TB, staff clarified the following:

- Recognition and measurement of exchange transactions is excluded from the scope of the TB.
- Revenue recognition is based on amounts billed by the providing entity to the receiving entity.
- Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts*, as amended, is the basis for determining full cost.

In the proposed *Assigning Assets to Component Reporting Entities* TB, staff clarified the following:

- In the year of implementation, assets assigned to another component reporting entity should be treated as transfers of assets per SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.
- This guidance is permissive and does not require any agency to change existing accounting practices.

One member asked whether these TBs are similar in nature to prior TBs. Ms. Payne confirmed that these TBs are similar in nature to prior TBs. TBs cover areas related to but not explicitly addressed in accounting standards or areas for which there are voids in the accounting standards.

Based on the discussion, a majority of members did not object to issuing the TBs. Staff plans to issue both in November.

## Agenda Topics

- **Leases**

Mr. Showalter began the discussion by informing the Board that the objective of the session was to review the pre-ballot draft *Leases Statement* at [tab A](#), address any final issues, and approve the latest edits so that the final Statement could be balloted.

Ms. Monica Valentine, assistant director, distributed to the Board an updated version of the draft Statement that included edits from Board members since the initial October distribution. Ms. Valentine noted that she heard from most every Board member concerning the initial draft. Staff highlighted the most significant revisions proposed in the latest draft:

- Changed “fiscal funding clause” to “availability of funds clause”
- Added government-wide disclosure requirements
- Added language to the basis for conclusions to explain why the Board had to take action on the lease standards

One Board member asked staff to include additional information in the basis for conclusions about the benefits of these revised lease standards to the federal community. The Board discussed that the basis for conclusions should address

- the added level of transparency with the new key data elements required;
- the improved accountability of federal lease obligations and interest expenses; and
- the inclusion of a sound lease definition to replace the previous bright line capital lease criteria under which federal entities were able to avoid recognizing capital leases.

Staff noted that the task force was well represented by those federal entities that have significant federal leasing activities.

Ms. Payne noted that the *Leases Statement* will be subject to the congressional capital asset 45-day review requirement.

**Next steps:** Staff will make the non-technical revisions to the draft Statement that were proposed by the Board. Staff will then send members a revised draft *Leases Statement* to review before sending a final ballot draft for Board approval. If any member identifies technical issues, they will be addressed by the full Board at the December meeting.

The Board meeting adjourned for lunch.

- **Streamlining**

Mr. Ross Simms, assistant director, presented two proposals that would streamline the content of financial reports. The first proposal would provide flexibility in reporting the remaining item of required supplementary stewardship information (RSSI), stewardship investments, and eliminate the RSSI category. The second proposal would permit management to refer users to more detailed performance reports when preparing management's discussion and analysis (MD&A). The flexibilities would be responsive to input from preparers and auditors regarding users' access to and preference for other sources of information. Mr. Simms referred Board members to [tab B](#) of the briefing materials. At the invitation of the chairman, Mr. Hal Steinberg, former FASAB member, briefed the Board on the history of stewardship investments and MD&A standards. Mr. Steinberg was a member of the Board during development of those standards and provided valuable context to the discussion.

Given the aforementioned flexibilities, Board members expressed concern that reporting entities may not report information that helps achieve the reporting objectives. Users need information on expenses that provide long-term benefits, such as investments in human capital, research and development, and non-federal physical property. In addition, when discussing an ideal reporting model, the Board has noted users' need for performance information.

Regarding other sources of stewardship investment information, Mr. Simms noted that the analytical perspectives section of the Budget of the United States ("the Budget") includes a chapter on stewardship investments. Organizations such as the Congressional Budget Office (CBO) and the Congressional Research Service report on the government's investments and reference the Budget. In addition, component reporting entities noted that users seeking performance information consult component reporting entity annual performance reports.

Board members agreed that stewardship investment information is important to users. However, additional research is needed to help determine how the information could be presented in a more meaningful way.

The Board also agreed that performance information is important to financial report users. However, the presentation of performance information in financial reports could be improved. Members noted MD&As in general are not achieving an intended purpose due to the fact that performance information is not integrated with the financial information. The presentations are voluminous, including information that may not be relevant to financial report users.

**Next steps:** Regarding stewardship investment information, staff will conduct research to determine who the users of the information are, how the investment information is used, and how its reporting might be improved. Also, FASAB's MD&A concepts prescribe MD&A performance reporting guidance. Staff will review the concepts to determine whether there is language that could be incorporated into the MD&A standards. In addition, staff will review the 2011

Accounting and Auditing Policy Committee's MD&A Best Practices report and conduct research to determine whether the Board's performance reporting concerns could be addressed through Office of Management and Budget (OMB) form and content guidance.

- **Classified Activities**

Ms. Monica Valentine and Mr. Ross Simms, both assistant directors, presented the Board the revised draft *Classified Activities* ED. The ED provides an approach for protecting classified information and activities in general purpose federal financial reports (GPFRRs). Ms. Valentine led the discussion and referred Board members to [tab C](#) of the briefing materials. Ms. Alaleh Jenkins, Assistant Deputy Chief Financial Officer, Office of the Undersecretary of Defense (Comptroller) also participated in the discussion.

Ms. Payne asked members to identify those paragraphs in the draft that they believed needed clarification. She also noted that staff could not discuss specific wording in a public forum because all revisions had to be cleared before the document was deemed unclassified again.

One member had concerns over the level of available information surrounding the issue addressed in the ED. He noted that he did not have enough information to adequately vote on the proposal. Several other Board members stated that the ED presented a straightforward, sound framework for reporting classified activities to protect national security. The framework allows for specific modifications while creating criteria to limit application of the guidance. One member stated that the guidance should be clear to readers who do not have knowledge of any specific classified activities. All but one member was in support of the framework and concepts the ED provides.

Mr. Showalter noted that the guidance provided in this Statement would be considered generally accepted accounting principles, as with all of FASAB's standards. He then asked the Board again if there were any areas of the draft ED that needed clarification. Several Board members noted that they had submitted comments to staff.

**Next steps:** Staff will make revisions to the draft ED based on the comments from members and will send those revisions to the Board for review. After the members approve the final edits, a ballot draft will be sent for final approval of the ED. As long as no technical issues arise, staff expects the ED to be released before the December Board meeting.

- **Annual Report**

Ms. Payne thanked members for their comments on the earlier draft of the annual report and provided a revised version for review. The revisions included members' comments as well as changes from Ms. Kiger's editorial review.

The most significant change was the addition of a potential project on improper payments. The project was suggested by a respondent to the 2016 plan and was proposed by a former member of the Board during the drafting of this year's plan. The former member suggested that there may be questions regarding the correct accounting for transactions deemed improper. Mr. Reger explained the various reasons a payment might be improper. He did not believe individual transactions could be identified as improper.

Other members suggested it would be helpful to relate the project to the financial statements. In addition, due to the technical nature of the improper payments laws, an educational session for the Board might be helpful. Ms. Payne agreed to revise the project plan and circulate it for comment before the report is published.

Mr. Reger suggested considering how FASAB might provide educational resources. He noted that incoming chief financial officers (CFOs) and others new to federal accounting would benefit from educational materials. Members shared ideas and Ms. Payne agreed to follow up on the ideas discussed.

Ms. Payne noted that after the potential projects are finalized, the annual report and three-year plan would be issued for public comment. To garner more input, staff plans to conduct an online survey again this year.

## **Adjournment**

The Board meeting adjourned for the day at 4:00 p.m.

## **Steering Committee**

The steering committee met to discuss the budget and the processes for addressing classified activities. While budget pressures remain, the members did not propose specific revisions to the FY2019 budget. Processes for the classified activities are in place. Once all member clearances are finalized, closed meetings will be arranged.

***Thursday, October 26, 2017***

## **Agenda Topics**

- **Land**

At the October 26, 2017, Board meeting, members considered staff recommendations concerning issues raised during the review of the August meeting materials. Mr. Domenic Savini, assistant director, presented the materials from [tab F](#). Specifically, the following technical issues were addressed by the Board:

1. **Single note disclosure** –The August draft ED proposes that the categories general property, plant, and equipment (G-PP&E) land and stewardship land (SL) be retained. These categories originate from SFFAS 6, *Accounting for Property, Plant,*

and Equipment, and SFFAS 29, *Heritage Assets and Stewardship Land*. Retaining these categories would maintain their distinction, and those disclosures (as amended) would follow suit and remain separate disclosures. Staff developed a single (uniform) set of note disclosure requirements that would be added by amendment to both SFFAS 6 and SFFAS 29.

- **Question 1** – The Board agreed with the staff recommendation to (1) rescind and replace the disclosure requirements in SFFAS 29 and (2) add to the existing disclosure requirements in SFFAS 6. This aligns with the proposed single-set disclosure requirements put forth by staff and as amended by the Board.
  - **Question 2** – The Board generally agreed with the draft single note disclosure requirements and noted the following changes:
    - Component reporting entities should account for the beginning and ending balance of acres, adopting a “net amount of transfers” approach.
    - Disclosures should include the predominant use (that is, sub-category reporting) requirement at the government-wide level.
  - **Other matters** – Members asked staff to engage the task force to help define, describe, and/or illustrate the different types of “physical unit” measurements (for example, number of national parks, land parcels, regional offices, areas, zones, etc.) that are in use by entities. Some members found the physical unit concept relevant for stewardship land but questioned its relevance for general PP&E. Members briefly discussed allowing management to report information other than acres in a manner consistent with how they manage land; for example, administrative units rather than physical units.
2. **Predominant use definition and reporting** – The August draft ED retains the SFFAS 29 requirement to disclose SL by its predominant use and would expand this practice to G-PP&E land. Staff developed a draft definition of predominant use accompanied by four major groups of associated factors designed to facilitate a predominant use assessment. Staff also proposed that disclosures for multi-use land lacking a predominant use be categorized in a fourth sub-category entitled *multi-use land* and be accompanied by a concise explanation of the multiple uses of the land.
- **Question 3** – Although members offered edits to the proposed definition of predominant use and generally agreed with the associated factors, they ultimately decided that this information be moved to implementation guidance.

Member edits to the proposed definition included the following:



Predominant use – is the major or most prominent **primary current** use of an asset during the reporting period. ~~Generally, a~~ An asset's predominant use is consistent with the entity's legislative authorities **authorizing legislation** and such use **may not always be consistent with the original intent or reason why the asset was acquired** could be routine or sporadic in nature and can change between reporting periods. Predominant use does not include incidental or infrequent uses of the asset.

- Potential predominant use factors – Because the factors are subjective and may be problematic to apply, members asked that language be added to explicitly address this.

Members suggested the following precursor or introductory language to the factors:

*“In certain cases when making a predominant use assessment, an entity will need to exercise judgment. Accordingly, subject to their existence and reasonable availability, the following four major groups of factors may be used to facilitate a predominant use assessment.”*

- **Question 4** – Members disagreed with the staff recommendation to establish a fourth multi-use sub-category when an entity cannot ascertain predominant use. The overarching concern is that establishing such a sub-category could lead preparers to use it as a catchall, causing an underreporting of land in the other three sub-categories.
3. **Materiality** – To facilitate the application of materiality to non-financial information, at the August meeting members asked staff to develop a materiality discussion for the basis for conclusions. Staff developed a proposed discussion exploring the use of quantitative and qualitative factors and adapting a four-step approach patterned after an International Accounting Standards Board Practice Statement.
- **Question 5** – Members decided to address this topic in implementation guidance. Members made this decision in light of the Note Disclosure Project Plan and Survey Results ([tab H-1](#)), which includes creating guidance for preparers on how to apply materiality in developing disclosures.
  - **Other matters** – Some members asked that additional research be done concerning the types of evidence preparers will need to support the proposed disclosures.
4. **Implementation approach** – Primarily due to concerns over preparer burden, at the August meeting members asked staff to identify possible implementation timetables for consideration.
- **Question 6** – The majority of members favored the two-year implementation timeline. At minimum, it allows the Board to address respondent concerns

and adjust the Statement's effective date accordingly. Members differed on how best to phase-in requirements (that is, discrete timing of disclosures) and presentation (that is, moving from required supplementary information to basic). For example, disclosing acres held for disposal or exchange could be accelerated before fiscal year 2023, given the current administration's focus on federal land holdings. Additionally, some members questioned the phase-in presentation approach, in light of other standards that have adopted this method.

5. **Amending deferred maintenance and repairs (DM&R) requirements: SFFAS 42**

– Staff proposed amendments to paragraphs 13 and 15 of SFFAS 42, *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29, and 32*. This 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.

- **Question 7** – Members agreed with the proposed edits.

**Next steps:** In consultation with task force representatives, staff will research (1) the identification of physical units of measure and (2) the types of audit evidence agencies believe will be needed to support the proposed disclosures. Staff expects to present a revised draft ED at the February 2018 Board meeting and, pending deliberations, a pre-ballot draft shortly thereafter.

- **Risk Assumed**

Mr. Showalter directed members to [tab G](#) to discuss the risk assumed (RA) project. Ms. Robin Gilliam, assistant director, reminded members that in December 2016 they agreed on developing principles-based broad risk categories as a framework for the RA gap analysis. Staff had continued to work on the gap analysis and plans to present draft categories at a future Board meeting for approval.

However, within the draft categories staff reviewed direct loans and loan guarantees, a sub-group of the financial guarantees category. This reporting is already established by the Federal Credit Reform Act, SFFAS 2, *Accounting for Direct Loans and Loan Guarantees*, and OMB Circular A-136, *Financial Reporting Requirements*. Any amendments to SFFAS 2 may form the baseline for RA standards.

Staff met with the Department of Education (Education), Department of Housing and Urban Development (HUD), Small Business Administration (SBA), and the Government Accountability Office to determine if SFFAS 2 disclosures present RA in a clear, concise, and meaningful way. Staff learned agencies cannot specifically identify their users, and reporting is inconsistent, extremely detailed, and burdensome. This not only affects preparers, but also users. Even those who have prepared financial reports for many years are still challenged in understanding all that needs to be completed.

To determine next steps, Ms. Gilliam asked members to comment on four questions:

## I. **USERS**

The first question Ms. Gilliam asked was whether members want to learn what information user groups utilize and how they do so. Agencies basically agreed that OMB, CBO, the Office of Inspector General, academe, industry, and journalists were their primary users. There was no conviction that the general public was interested in this level of detail.

Mr. Bell suggested that staff reach out to communities that utilize and are affected by these direct loan and loan guarantee programs, such as small businesses and communities affected by SBA and HUD programs. He recommended asking what information these users would like to see and why.

Mr. Reger agreed but added that subsidy reestimates were created to help budget for defaults. Anyone can get budget information, but that might not necessarily be the information the Board wants to present about risk. For example, many private lenders provide loans subsidized by the Federal Housing Administration (FHA). Related statistics and information about FHA's performance may indicate limits related to risk that could provide important information to the mortgage community. Mr. Reger recommended that staff talk to credit program risk managers to understand programmatic risk and determine if those risks are quantified anywhere in the financial reports.

Ms. Gilliam said agencies interviewed by FASAB staff agreed that explaining what subsidy costs are and why reestimates go up or down from year to year (due to the modeling of risk factors) could be very helpful information to include in the financial reports.

Mr. Reger suggested staff talk to FHA's large lending organizations to discuss the FHA related risks underlying their business models. Mr. Bell stated that credit disclosures are only a summary of the top-level portfolio and do not address the risk elements relevant to the questions members are asking. He recommended staff speak with colleges and universities to find out how their business models work with student loans.

Staff will probably find risk there too because the number of student loans should decrease as the economy rebounds after the recession.

Mr. Granof voiced concern about how detailed to make these disclosures. Mr. Dacey asserted that credit reform disclosures are already quite extensive. Mr. Granof responded that it is not within FASAB's scope to provide detailed information about what management uses to assess risk. For example, information about the types of schools that receive loans can be very critical. Loans that are made to proprietary schools are at far greater risk of default than to students who attend tier one research schools.

Mr. Reger thought Mr. Granof gave a good example of credit subsidy costs that are only affected by the estimated number of defaults. In relation to flood insurance, one could easily estimate that more storms mean more flood insurance. However, the underlying philosophy is flawed.

The U.S. Army Corps of Engineers reviewed, analyzed, and designated flood areas. Counties were not supposed to issue building permits in areas where flood insurance was used only as backup. However, there was no incentive to not build in those risky areas. In fact, at the local level, those zones were the best to collect property taxes on and that became the incentive for issuing building permits in that area. Mr. Reger emphasized that the wrong model was created.

Mr. Granof asked if this fell under the purview of financial reporting. Mr. Reger responded affirmatively, citing the flood program as evidence. This program is out of money, and more storms are expected.

Mr. Granof believed for reporting FASAB should provide the macro view rather than getting into a lot of details. Mr. Reger disagreed, suggesting that providing for a macro view leads to agencies reporting boilerplate, macro-level risk factors, whereas useful information on significant risks assumed may warrant more detailed reporting. Through this project, FASAB can determine the extent to which federal financial reporting should address these matters.

A number of members were interested in staff developing a risk profile to determine what risks beyond the reestimate factors, such as default and interest rate, really affect the economic condition of the government itself. For example, can the government actually afford to fund the currently increasing student loan portfolio?

## **II. SENSITIVITY ANALYSIS**

Ms. Gilliam then asked whether members wanted to include a sensitivity analysis to help with consistent reporting and possibly set a foundation for other RA reporting.

A number of members thought discussion about sensitivity analysis was premature. Mr. Bell stated that before FASAB addresses this, the Board should identify the primary risk metrics to see if there is even a potential for sensitivity analysis. Mr. Granof said conceptually sensitivity analysis is beneficial but challenging to model.

Mr. Showalter said the best way for people to understand RA is to understand the sensitivity and impact if there is a certain percentage change in either direction. He recommended staff review existing FASB guidance. Mr. Bell said that sensitivity analysis is included in the reestimate process to analyze the impact of risk factors. He explained that the cost of the program is established at the initial year. Then over the course of the cohort, each year factors in actual results and changes in assumptions for the annual reestimate.

Mr. Dacey said one of the key issues for a risk discussion in the statements is uncertainty. He recommends first that the Board determine the framework for how to disclose measurement uncertainty. He recommends looking at this holistically to build a forward-looking model that is scalable, given the nature and magnitude of the uncertainty, such as including different disclosure layers: disclosure of the existence of estimates, identification of line items affected by significant uncertainty, key assumptions used, and sensitivity of estimates to changes in key assumptions. This would help the Board to consistently disclose uncertainty.

### III. MATERIALITY

The third question Ms. Gilliam asked was whether members wanted to provide standards/guidance on how agencies should report materiality for credit reporting. Updating the standards might help to reeducate and reduce the burden of reporting immaterial information.

Mr. McNamee asked if it was FASAB's role to determine what is material. Mr. Reger responded that OMB is working with agencies to encourage them to remove information that becomes non-critical but has been reported on in previous years. OMB is also working on updating Circular A-136 to support the burden reduction effort.

Mr. Bell believed the crux of the matter was how to tell the story efficiently by understanding the risk metrics FASAB is interested in reporting. The reestimates are a starting point and may not alone be representative of risk.

Ms. Gilliam added that the agencies are all telling the story differently. For example, Education includes many details in one paragraph, SBA gives a brief summary for each project, and HUD does not discuss the details at all. Some agency staff stated this information would be helpful to users.

Mr. Showalter said a table would make it easier to understand instead of trying to weed through a dense paragraph of details.

Mr. Dacey agreed there is a lot of inconsistency in current disclosures. He said agencies tend to explain new or unique items. To what extent should fluctuations be explained in the notes? In some circumstances, it may be important to explain what changed and why. For example, the MD&A in last year's consolidated financial report of the U.S. Government (CFR) explained the many reasons why net cost changed.

Mr. Scott said that note disclosures, whether federal or not, are useful for explaining the "what." MD&A was supposed to help explain the "why" but generally has been a failure, at least at state and local levels. Streamlining should help discern the "why" behind the "what," which provides more meaningful information for users. Mr. Scott emphasized the importance of reaching out to users of this information for determining how best to move forward with the project.

Mr. McNamee said the “what” is much easier to audit than the “why.” This might be the reason why this information is in the MD&A and not in the notes. Mr. McNamee echoed Mr. Scott’s view that until FASAB understands user needs, reporting on the “why” could be challenging.

Mr. Reger said preparers should understand the “why” behind a change. For example, while actuarial changes may be hard to understand, people seem to accept them. However, what caused the actuarial change? Are people starting to live longer; was something underfunded in a previous year that is now coming to light; or was there a significant mistake that needed to be accounted for?

Mr. Perry asked if members were looking at how reestimates provide forward-looking information with predictive value rather than simply providing historical information with feedback value regarding how actual results differed from previous estimates. Mr. Perry noted that agencies often explain why reestimates changed from the previous year (which has feedback value) but do not always explain, interpret, or discuss how these reestimates might reflect forward-looking information and future demands, trends, and risks (which has predictive value).

Mr. Smith stated that “why” is more important when discussing estimates versus history. When estimating, users need to understand why estimates are reasonable at the time of reporting.

Mr. Bell disagreed, saying that historical and forward-looking information are intertwined. One cannot be favored over the other. There are many elements to reestimates, from what actually happened to projecting changes in assumptions going forward. At a very high level, those are the two elements that affect reestimates.

Mr. Showalter reminded members that by approving the risk assumed project—in relation to the others—the Board had opened the door to more “why,” which is part of the journey of this project.

#### **IV. TASK FORCE**

The fourth question Ms. Gilliam asked was whether members wanted to employ a task force.

Mr. Granof believed it was important to know what the questions were before using a task force.

A number of members were concerned with and discussed whether this was a streamlining project and/or focused on RA. They wanted to know what the relationship was between the risk assumed project and Ms. Wu’s note disclosure project. Would SFFAS 2 be scoped into to the note disclosure project for streamlining?

Mr. Bell said the credit reform note at the agency or government-wide level is low-hanging fruit for streamlining. He suggested approaching this in two steps: first streamlining what is there and then filling in gaps.

Mr. McNamee referred to the RA project objective:

In phase II, the Board will holistically review significant risk events other than adverse events covered by SFFAS 51, *Insurance Programs*, to determine accounting standards that provide concise, meaningful, and transparent information regarding the potential impact to the fiscal health of the federal government.

He noted that agency feedback included many complaints about what is already required in the notes, but he was concerned that a focus on streamlining may create scope creep for RA beyond its charter.

Ms. Gilliam said staff would discuss the best strategy between the two projects.

Mr. Dacey recommended that, in addition to users, staff ask preparers if there is any specific information in the disclosure that is taking them an extraordinary amount of time to prepare. Understanding the cost benefit to generate such a specific piece of information in relation to how many resources are needed would be helpful.

Staff added that agencies want to include information in either the Budget or the agency financial report but not both—as is currently done now.

Ms. Gilliam stated that staff started with SFFAS 2 because FASAB already has footnotes that can be amended to better discuss risk and fluctuations. Then staff can prepare a RA model. At this time, there may be too much detail. Staff confirmed this with comments from the note disclosure survey, including one from an inspector general.

Mr. Showalter agreed that amending SFFAS 2 may help staff to develop a model for how to discuss risk. He also emphasized the objective of piloting SFFAS 2 to create a framework that can be used for the entire risk project.

**Next steps:** Staff will (1) continue to identify user groups to analyze risks beyond the credit subsidy reestimate to help build a risk profile; (2) develop a framework for how to discuss measurement uncertainty; (3) discuss sensitivity analysis at a future date; (4) consider how to discuss the “why” behind the “what” of risk; and (5) pilot amendments to SFFAS 2 to develop a model/framework for how to address RA holistically.

The Board meeting adjourned for lunch.

- **Note Disclosures and Survey Results**

Ms. Grace Wu, assistant director, presented to the Board the note disclosure project plan and survey results from [tab H-1](#) and [tab H-2](#), respectively. The primary objectives of this project are to improve the relevance, clarity, consistency, and comparability of note disclosures among the federal entities. It includes two phases:

- Phase I consists of identifying and developing a set of principles for disclosure to be used by the Board and preparers to reduce repetition and improve relevance and consistency in note disclosure. While detailed literature research and data analysis will be performed in this stage by the newly formed working group, the working group recommended piloting the Summary of Significant Accounting Policies and Fund Balance with the Treasury to perform initial research.
- Phase II consists of using the principles to modify the existing note disclosure requirements for component reporting entities to improve the disclosures' usefulness and effectiveness.

The potential project management concerns on this project are in the following three areas:

- **Primary users** – It is important to identify the principal users of the component financial reporting note disclosure so that principles underlying the framework can be effectively developed for that target audience.
- **Complexity of note disclosures** – Although the note disclosure framework is intended to be applied across all the standards, each note disclosure requirement is unique. Standardization could be applied for some common areas to improve clarity, consistency, and comparability of the note disclosures, yet it might be contradictory to relevant and judgment based principles. In addition, some disclosure requirements are either administratively or legally required.
- **Sponsor integration** – For a note disclosure principles framework to be most useful, its application will need to be coordinated between FASAB and its sponsors during the implementation period. The new principles and related changes to standards should be considered when updating note disclosure requirements. This would affect OMB guidance for component level agencies as well as the closing package and other Treasury requirements.

Ms. Wu discussed that the current timeline for the project plan is aggressive given the complexity of the project. The Board approved the proposed project plan, execution, and required resources. Members also discussed whether the principle framework should be housed in a Statement of Federal Financial Accounting Concepts (SFFAC) or an SFFAS. This will be determined in the future.



## Survey Result Discussion

On August 31, 2017, the Board initiated an online note disclosure survey. The survey results confirmed the need to improve disclosures and targeted areas for improvement. Most respondents agreed that providing principle guidance would give flexibility to the agency while adhering to the objectives and increasing consistency. The respondents stated that the causes of note disclosure issues vary. These could be due to compliance with Circular A-136, input from the Certificate of Excellence in Accountability Reporting (CEAR) reviewers, or the auditor's requirements (which are more rigorous than those required by FASAB).

The Board discussed a few major issues based on the survey responses:

**Audiences of the future note disclosure principles** – Defining the primary users and tailoring the current note disclosures to their needs will help the Board to develop a principle-based concept framework to guide the preparers. Knowing the primary audience will help the preparer tailor the note disclosures' content and complexity. However, federal financial reporting is unique compared to reporting by privately owned entities. Federal financial reporting not only utilizes a consolidated financial statement, but its user base is much broader compared to the commercial world. The survey results confirmed that external and internal users are looking for very different information in the note disclosures for their respective research purposes.

Mr. Ross Simms, assistant director, was invited to present the results of the citizen survey conducted by FASAB in 2010. The aim was to compensate for low citizen response on the note disclosure survey. He stated that over 1,000 citizens were surveyed during that time. The survey results showed that although users have different interests, they all agree that the information presented in the financial report is too technical and not easy to understand.

The Board agreed that while it is critical to identify the primary users of both the component reporting entities' financial reports and the CFR, it might be more relevant to make the note disclosures appealing to different groups. Different views were discussed. The Board agreed that GPFRRs should be easily understandable to the average citizen. Some of the current notes are too detailed and targeted for a specific audience, which becomes meaningless for general users. However, the current note disclosure also bears two purposes for internal users: to ensure records are kept in accordance with the standards and to be used for making decisions. As such, more detail and targeting information is needed for that purpose. Some members suggested reaching a middle ground to satisfy both external and internal users while improving the note disclosures' readability. This could be a potential direction for the project's research of the note disclosure principles.

The Board agreed with staff's suggestion to maintain the users as stated in SFFAC 1, *Objectives of Federal Financial Reporting*: citizens, Congress, federal

executives, and federal program managers. Instead of defining the primary users, this project will use the objectives defined in SFFAC 1 as guidance to develop the note disclosure principles. SFFAC 1 summarizes the objectives as such:

The objectives are designed to guide the Board in developing accounting standards to enhance the financial information reported by the federal government to (1) demonstrate its accountability, (2) provide useful information, and (3) help internal users of financial information improve the government's management.

**Principle-based framework with a concentration on providing relevant information** – Survey respondents consistently indicated that disclosures pertaining to the most material matters, major line items in the financial statements or unique to the reporting agency, provide the most value. Information requiring significant management judgment provides insight. In addition, information not clearly presented from the statements such as reporting entity, expenses, contingencies, and subsequent events are important. A few respondents provided some suggestions:

- Allow more basic disclosures to be optional rather than mandatory
- Simplify, streamline, and improve relevance stating the objective of the disclosure
- Avoid notes with non-essential or immaterial information
- Add simple baseline requirements
- Increase management discretion regarding necessary disclosures
- Simplify Circular A-136 by reviewing the requirements not required by FASAB

The Board agreed that if an entity engages in the type of activity required by a note, and amounts involved are material, then the entity should present the information in the note. Members disagreed on making any disclosure optional. Some members raised concern that the Board moved more information to the financial statements a few years ago because the financial community was disciplined about generating those statements in a timely manner. It is the only place where independent validation of accuracy is performed. The Board needs to be careful about when the information is moved out and providing too much flexibility, as this could potentially lead to not getting consistent information that can be aggregated and put together in the CFR. The option of moving some boilerplate disclosures to another section within the report or outside the report altogether was discussed during the meeting as well.

**Judgment** – More than 45% of respondents agreed that standards that emphasize judgment in preparing note disclosures improve note disclosures. The respondents agreed that judgment can assist in eliminating redundancy and unnecessary disclosure by publishing only essential information. Yet judgment must be based on concepts and principles. Respondents pointed out that emphasizing judgment could decrease consistency and comparability across federal agencies since it is subjective.

The Board expressed similar views. Members agreed that materiality should be described in both qualitative and quantitative terms, and it should be evaluated at the component level.

**Improve clarity, consistency, and comparability** – The survey results indicated that a majority of respondents agreed that providing standardization would improve clarity, consistency, and comparability among the agencies. The language used in the note disclosures should be less complex by reducing length and explaining government-specific concepts in layman’s terms. Respondents also stated that the uniqueness of different agencies’ programs provides natural limits to the issue of consistency as each government entity has its distinctive programs. A few respondents suggested that FASAB could select those disclosures that would be similar across most agencies and streamline those disclosures (for example, capital leases from the perspective of the lessee) to improve the clarity, consistency, and comparability of the note disclosures.

The Board did not believe that taking a two-tiered approach to setting standards would be particularly helpful. Members also discussed the pros and cons for providing illustrations and/or a checklist. While creating a concise, meaningful, and relevant (primary-user focused) illustration might increase the consistency and comparability of the disclosure, it has the potential to become boilerplate. This could result in meaningless disclosures. Members wanted to consider other factors in the notes, such as writing style, the structure, and the level of technicality. In addition, the Board agreed that principles addressing readability would help the clarity and increase consistency of the note disclosures.

Considering the broad scope, complexity, and uniqueness of the federal government, the Board agreed this project would be a challenging one. Staff and the working group will perform data analysis by comparing the note disclosure presentation across the 24 CFO agencies and the 2016 CEAR review awardee agencies. Based on the results of that research, staff will then take direction from the Board to continue research on the potential approach for the note disclosure principles.

## **Adjournment**

The Board meeting adjourned at 2:00 p.m.