AGA®

June 30, 2021

Mr. George A. Scott, Chair
Federal Accounting Standards Advisory Board
441 G Street NW
Suite 1155
Washington, DC 20548

Via email to fasab@fasab.gov

Dear Mr. Scott:

The Financial Management Standards Board (FMSB) of the Association of Government Accountants (AGA) appreciates the opportunity to provide comments to the Federal Accounting Standards Advisory Board (FASAB) on its exposure draft (ED) of an interpretation of Federal Financial Accounting Standards titled *Debt Cancellation: An Interpretation of SFFAS7, Paragraph 313*. We have reviewed the ED and generally agree with the guidance and we agree that the Interpretation should be effective upon issuance as it may resolve audit related matters as noted in paragraph A5. We have the following comments regarding the questions for respondents:

Q1. Statement of Federal Financial Accounting Standards (SFFAS) 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, paragraph 313 provides:

Cancellation of debt. The debt that an entity owes Treasury (or other agency) may be canceled by Act of Congress. The amount of debt that is canceled (including the amount of capitalized interest that is canceled, if any) is a gain to the entity whose debt is canceled and a loss to Treasury (or other agency). The purpose of borrowing authority is generally to provide an entity with capital rather than to finance its operations. Therefore, the cancellation of debt is not earned by the entity's operations and is not directly related to the entity's costs of providing goods and services. As a result, the cancellation is a nonexchange gain to the entity that owed the debt and a nonexchange loss to the lender.

Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, paragraph 100 provides that nonexchange activity is reported on the statement of changes in net position (SCNP). This proposed Interpretation would clarify that the standards provide that debt cancellation is a nonexchange activity and should be reported on the SCNP. This proposed Interpretation would also clarify that paragraph 313 of SFFAS 7 should not be interpreted to require that a particular line item "gain" or "loss" be displayed on the SCNP. In addition, reporting entity management is responsible for determining the most appropriate line item presentation and display and related disclosures, such as information about the debt cancelation. Refer to paragraphs 2-8 and A6-A18.

Do you agree or disagree with the guidance? Please provide the rationale for your answer.

FMSB Response: We agree that the cancellation of debt is a nonexchange transaction. As noted in the ED, an Act of Congress must initiate the debt cancelation and the debtor agency will no longer have to sacrifice any resources in satisfaction of its debt obligation. Therefore, it meets the nonexchange transaction definition set forth in SFFAS 5: "A nonexchange transaction arises when one party to a transaction receives value without directly giving or promising value in return. There is a one-way flow of resources or promises." As a nonexchange transaction, we agree that the event should not flow through the Statement of Net Cost, which is used to report the results of operations for the reporting period. Instead, the event must be reported on the SCNP, in accordance with existing standards, to reflect the effect of debt cancellation on the entity's net position. We have no objection to not requiring that a particular line item be labeled as "gain" or "loss", although we believe that most entities with such transactions will have to use "gain" or "loss" accounts to properly portray the transaction. As noted in footnote 4 of the ED, most standards do not prescribe a specific reference or line item display. Since the interpretation is consistent with this practice, we do not object to this treatment.

Q2. Paragraph 3 of the proposed Interpretation refers to "other financing sources" as defined by SFFAS 7. Under SFFAS 7, financing sources are divided into three categories: exchange revenue, nonexchange revenue, and "other." As discussed in paragraph A22, FASAB coordinated with the Office of Management and Budget (OMB) and determined that certain changes to the form and content requirements provided for the statement of changes in net position (SCNP) in OMB Circular A-136 would ensure clarity and consistency with generally accepted accounting principles (GAAP). Specifically, eliminating the sub-categories "Budgetary Financing Sources" and "Other Financing Sources (Nonexchange)" presented under the Cumulative Results on the SCNP would simplify the presentation and thereby enhance the clarity. In the next update to the *FASAB Handbook of Accounting Standards and Other Pronouncements, as Amended*, FASAB plans to make similar changes to non-authoritative illustrative financial statements presented in SFFAS 27 and SFFAS 43. Refer to paragraphs 9 and A22.

Is there a need for additional clarity or consistency with respect to the definition or use of the term "other financing sources" in FASAB documents or other guidance?

FMSB Response: We have no objection to the elimination of the sub-categories noted above. We consider ED's provisions as facilitating the changes to OMB Circular A-136 and we applaud the FASAB for coordinating with OMB on this topic. We very much appreciate the FASAB's efforts to update the illustrative nonauthoritative financial statements in SFFAS 27 and SFFAS 43. Even nonauthoritative illustrations are very helpful.

Q3. Do you believe that the proposed Interpretation clarifies ambiguity regarding debt cancellation and would resolve any existing or anticipated issues? If not, please provide detail about other specific clarifications required regarding debt cancellations. Please also provide any other comments and other suggestions on the Interpretation. Please provide the rationale for your answer.

FMSB Response: We consider the Interpreation as providing appropriate clarification regarding debt cancellation and should resolve audit matters as noted in paragraph A5.

The FMSB is comprised of 24 members (listed below) with accounting and auditing backgrounds in federal, state, and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. The views of the FMSB do not necessarily represent those of AGA and the local AGA chapters and individual members are also encouraged to comment separately. If there are any questions regarding the comments in this letter, please contact me at (517) 334-8069.

Sincerely,

Craig M Murray

Craig M. Murray, CGFM, CPA, CIA
Chair, Financial Management Standards Board

cc: Wendy Morton-Huddleston, CGFM, PMP, AGA National President