

Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313

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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

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proposed Interpretation would also clarify that paragraph 313 of SFFAS 7 should not be interpreted to require that a particular line item¹ “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 cancellation. Refer to paragraphs 2-8 and A6-A18.

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

Comment: Agree. We appreciate FASAB’s clarification that debt cancellation does not result in a gain or loss, and that management is responsible for determining the most appropriate line item. However, this lends itself to management misinterpreting the guidance and presenting the information in lines that may not be appropriate. Therefore, to minimize potential disagreement between agency and its auditors regarding the presentation, perhaps the guidance could be further clarified to require management to present the transaction consistent with the presentation in SFFAS 7, “Appendix B.

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.

- a. 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?

No comment

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

¹ While in certain standards, the Board may have determined that requiring a specific line item for display was appropriate, most standards do not prescribe a specific reference or line item display because items may need to be displayed separately or be included with other items due to materiality.

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cancellations. Please also provide any other comments and other suggestions on the Interpretation. Please provide the rationale for your answer.

Comment: Footnote #6 of the proposed Interpretation noted that OMB may also provide more specific detailed instructions to agencies regarding form and content of presentation and display of transactions. As A4 – A5 noted, the issue that led to this Exposure Draft resulted from a disagreement between the agency and the auditors regarding the proper entries for the transaction. Specifically, the auditors found OMB and Treasury's posting logic inconsistent with SFFAS 7. Therefore, we suggest FASAB and OMB continue to work together to ensure OMB's instructions are consistent with FASAB guidance.