

**OFFICE OF THE UNDER SECRETARY OF DEFENSE****1 100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1 100**

COMPTROLLER

July 22, 2021

Monica R. Valentine
Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 1155
Washington, DC 20548

Dear Ms. Valentine:

The Department of Defense is pleased to submit the attached comments on the Federal Accounting Standards Advisory Board (FASAB) Exposure Draft "Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313." The Department agrees with the proposed Exposure Draft. Detailed responses to FASAB's questions and additional comments are provided in the enclosure.

Thank you for considering the Department's input.

Sincerely,

**LAURANCE.
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Kim R. Laurance
Assistant Deputy Chief Financial Officer

Enclosure:
As stated

Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select “individual.”

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| Accounting Firm | <input type="checkbox"/> | |
| Federal Entity (user) | <input type="checkbox"/> | |
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Please email your responses to fasab@fasab.gov. If you are unable to respond by email, please call (202) 512-7350 to make alternate arrangements.

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).

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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 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.

DoD Response: *Agree. The proposed interpretation clarifies that the current SFFAS 7 and SFFAC 2 statements, when considered together, provide that debt cancellation is a nonexchange activity and should be reported on the Statement of Changes in Net Position. This interpretation also confirms that reporting entity management is responsible for determining the most appropriate line item presentation and display and related disclosures about the debt cancellation information. The standards do not require that a particular line item “gain” or “loss” be displayed on the SCNP.*

- 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?

DoD Response: *No, the additional clarity is not needed. The elimination of the sub-categories “Budgetary Financing Sources” and “Other Financing Sources (Nonexchange)” presented under the Cumulative Results of the SCNP would simplify the presentation and thereby enhance the clarity of the financial statements and ensure*

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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consistency with Generally Accepted Accounting Principles. SFFAS 7 Appendix B: Guidance For The Classification of Transactions states: "The type of transaction may be an exchange transaction, a nonexchange transaction, or an other financing source..." The alignment of "other" category to "other financing sources" type of transactions (including debt cancellation to the entity that owed the debt) will provide the additional clarity. To simplify the presentation, "other financing source" type of transactions may be presented under "other" category on the Statement of Changes in Net Position.

- 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.

DoD Response: *Yes. The proposed interpretation clarifies the classification of the debt cancellation transactions and the reporting requirement on the Statement of Changes in Net Position (SCNP).*