



UNITED STATES DEPARTMENT OF COMMERCE
Chief Financial Officer and
Assistant Secretary for Administration
Washington, D.C. 20230

Monica R. Valentine
Executive Director
Federal Accounting Standards Advisory Board
Washington, DC

Dear Ms. Valentine:

The Department of Commerce has reviewed the Exposure Draft *–Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313*, dated May 25, 2021.

Please find enclosed answers to the questions that were asked of respondents. If you have any questions, please contact me at (202) 482-0502 or jTao@doc.gov.

Sincerely,

Julie Tao
Acting Director for Financial Reporting,
Internal Controls, and Travel

Enclosure

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.”

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

Organization:

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.

Department of Commerce Response:

The Department agrees with the proposed interpretation that debt cancellation is a nonexchange activity that should be reported on the Statement of Changes in Net Position and not be interpreted to require that a specific “gain/loss” line item be presented, and believes that the guidance clarifies the existing standard in a way that is helpful to facilitating consistent reporting of debt cancellation.

- 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?

Department of Commerce Response:

The Department believes that there is not a need for additional clarity and that combining the sub-categories “Budgetary Financing Sources” and Other Financing

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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Sources (Non-exchange)" would simplify the presentation for readers and enhance clarity, consistent with generally accepted accounting principles.

- 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.**

Department of Commerce Response:

Yes, the Department believes that the proposed Interpretation would clarify debt cancellation is a nonexchange activity that should be reported on the Statement of Changes in Net Position and should not be interpreted to require that a particular line item "gain" or "loss" be displayed on this statement, and would clarify and centralize the debt cancellation definition, thus assisting in better applying the debt cancellation concept and improving consistency across financial reporting.