

Memorandum

TCES-Debt Cancel

August 11, 2021

To: Members of the Board
From: Melissa L. Batchelor, Assistant Director
Thru: Monica R. Valentine, Executive Director
Subject: **Debt Cancellation Interpretation ED Comment Letters** (Topic B)

INTRODUCTION

The agenda session will consider the comment letters, staff analysis, and staff's recommendations on the proposed Interpretation, *Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313*. Staff analysis and recommendations are intended to support the Board's review of comment letters.

REQUEST FOR FEEDBACK BY AUGUST 18

Prior to the Board's August meeting, please review the briefing materials and respond to the staff questions no later than August 18, 2021. Please provide responses to Ms. Melissa Batchelor at BatchelorM@fasab.gov with a cc to Ms. Valentine at ValentineM@fasab.gov.

NEXT STEPS

Pending Board member feedback, staff will finalize a pre-ballot Interpretation. Considering the majority of respondents supported the proposal, next steps will depend on Board member feedback. If member feedback is consistent with respondents, staff believes a pre-ballot interpretation could be distributed electronically and a final ballot approved either before or at the October Board meeting.

ATTACHMENTS

1. Staff Analysis, including Table of Responses and Staff Notes
2. Respondent Table of Content and Individual Comment Letters
3. Original Exposure Draft with MARKED CHANGES
4. Clean proposed Interpretation, *Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313*

Staff Analysis

Attachment 1

TCES-Debt Cancel

August 11, 2021

CONTEXT

As part of the Technical Clarifications of Existing Standards (TCES) project, this sub-project resolves potential ambiguity regarding debt cancellation. Specifically, the proposal would clarify that debt cancellation is a nonexchange activity that should be reported on the statement of changes in net position (SCNP). It 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 to the proprietary accounting, budgetary accounting should be considered.

FASAB issued the exposure draft (ED), *Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313*, on May 25, 2021, with comments requested by July 23, 2021. Upon release of the ED, FASAB notified constituents through the FASAB website and listserv, the Federal Register, and FASAB newsletter. FASAB also provided news releases to its press contacts, including various news organizations and committees of professional associations generally commenting on EDs in the past. To encourage responses, a reminder notice was provided to FASAB’s listserv near the comment deadline. Staff also provided copies of the ED directly to agencies that were directly impacted by the particular issue in prior years.

FASAB received 16 comment letters from the following sources:

	FEDERAL	NON-FEDERAL
Users, academics, & other organizations		2
Auditors	1	1
Preparers and financial managers	12	

The full text of the comment letters is provided as **Attachment 2- Respondent Table of Content and Individual Comment Letters**. Attachment 2 includes a table of contents and identifies respondents in the order their responses were received. The comment letters appear as an attachment to facilitate compilation and pagination. However, staff encourages you to read the letters in their entirety before you read the staff analysis and recommendation for each question and other responses below.

SUMMARY OF RECOMMENDATIONS AND ANALYSES

In summary, the majority of respondents generally supported the exposure draft and generally agreed with the proposed guidance. As a result, only minimal changes are suggested to the proposed Interpretation. Staff analysis, discussion and recommendations are summarized for each Question for Respondents below. Please see the **Table of Responses and Staff Notes** that follows for a chart that contains all responses by question, including staff notes of disposition. As noted, **Attachment 2-Respondent Table of Content and Individual Comment Letters** provides the full comment letters.

Analysis of Responses to Question for Respondents #1:

QFR # 1 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 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.**

- **Thirteen or the majority of respondents (13 out of 16) generally agreed with QFR #1.**

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.

- **Two respondents (2 out of 16) were ‘NA’ for QFR #1.** This means the respondent did not answer question QFR #1 or staff considered the response as unspecified agreement. As noted on **Table of Responses and Staff Notes**, respondents #2 and #9 were NA. For example, one respondent (#2) noted that they had reviewed the ED and did not have comments to offer. The other respondent (#9) did not provide answers to the questions but instead provided general comments to the ED.
- **One respondent (1 out of 16) disagreed with QFR #1. As noted on Table of Responses and Staff Notes**, respondent #13 disagreed with Q1 based on “We disagree that the purpose of borrowing authority is generally to provide an entity with capital rather than to finance its operations.” *Staff notes par. 313 of SFFAS 7 does include this, it is not the focus or basis of the interpretation. While staff appreciates all comments received and does not discount them, the purpose of the Interpretation was to focus on the very narrow issue that debt cancellation is a nonexchange activity and should be reported on the SCNP. The Board agreed that other items, including this particular sentence (if it needed to be revisited) would be considered in the Reexamination project.*
- Staff notes the respondents provided comments and suggested edits with their responses to QFR #1. Please see the following summary and staff response:
 - One respondent (#3) indicated they would like to know whether the Department of the Treasury (Treasury) and the Office of Management and Budget (OMB) plan to update their debt cancellation scenario to align with FASAB guidance. *FASAB staff provided the comment to Treasury and OMB for input and their joint response indicated that Treasury plans to update the debt cancellation scenario and the SGL guidance and OMB plans to update A-136 guidance, if necessary, to align with FASAB guidance.*
 - One respondent (#4) indicated that agreed with the proposal noted the ED references to Statement of Federal Financial Accounting Concepts (SFFAC) 2 state, “...paragraph 100 provides that non-exchange **activity** is reported on the statement of changes in net position (SCNP)” whereas, the actual wording in SFFAC 2 paragraph 100 is “non-exchange **revenues**.” The respondent suggested the actual wording of SFFAC 2 paragraph 100 be used and clarifying sentence(s) be added to define other “non-exchange activity” (gains/losses, etc.) if the intention was to use “activity” to put a broad umbrella over all the possibilities. *Staff notes that a lengthy discussion and reference to GAAP guidance is included in the BfC regarding this in par. A7- A13:*

A7. Paragraph 313 is part of Appendix B, Guidance for the Classification of Transactions in SFFAS 7. Appendix B provides

authoritative guidance on classifying transactions. Specifically, the appendix provides guidance for the classification of specific transactions based on the standards for accounting for revenue and “other financing sources,” and the reasoning behind these standards as explained in the Introduction and the Basis for Conclusions. Cancellation of debt is included under Intragovernmental Transactions: Nonexchange transactions—intragovernmental: gains and losses.

A8. Not only is the transaction labeled a nonexchange transaction per the Appendix B Table of Transactions in SFFAS 7, but paragraph 313 of SFFAS 7 clearly provides that debt cancellation is nonexchange activity by stating, “As a result, the cancellation is a nonexchange gain to the entity that owed the debt and a nonexchange loss to the lender.” Understanding that debt cancellation is nonexchange activity is very important because it specifies reporting as prescribed in SFFAC 2.

A9. The Introduction of SFFAS 7, paragraphs 16-17 provides the following explanation regarding the difference between nonexchange and exchange revenue:

16. The essential differences among exchange revenues, nonexchange revenues, and other financing sources affect the way they are recognized and measured under the accrual method of accounting. Properly classifying these inflows according to their nature, therefore, provides the basis for applying different accrual accounting principles. In addition, proper classification is essential to constructing financial statements that meet the federal financial reporting objectives as they have been described in Statement of Federal Financial Accounting Concepts No. 2, Entity and Display.

17. To help meet those objectives, classifications were developed to determine what specific kinds of revenue should be deducted from the cost of providing goods and services by the reporting entities. Only revenue classified as exchange revenue should be matched with costs. Nonexchange revenue and other financing sources are not matched with costs because they are not earned in the operations process. Because they are inflows that finance operations, nonexchange revenues and other financing sources should be classified in accordance with other rules and should be recognized only in determining the overall financial results of operations for the period. This differs from the focus used in the private sector, where the focus is on

net income for business organizations, and on changes in net assets for not-for-profit organizations. It is also a different focus from that used previously in reporting on U.S. Government operations. Under the old federal accounting standards, the focus was on matching all of an entity's financing with incurred expenses to report "net results of operations" which generally was not useful in evaluating performance. The new focus is on costs—both gross and net—which are useful in evaluating performance on many levels.

A10. Paragraph 21 of SFFAS 7 provides further explanation regarding nonexchange revenue and why it should not be reported with net costs as follows:

Nonexchange revenue transactions do not require a Government entity to give value directly in exchange for the inflow of resources. The Government does not "earn" the nonexchange revenue. The cost that nonexchange revenue finances falls on those who pay the taxes and make the other nonexchange payments to the Government. The different character of nonexchange revenues requires that they be distinguished from exchange revenues. They should, therefore, be shown in a way that does not obscure the entity's net cost of operations.

A11. SFFAC 2, paragraph 100 provides that nonexchange activity is reported on the SCNP. Therefore, previous Boards were clear that debt cancellation activity is nonexchange and should be reported on the SCNP.

A12. It should also be noted that paragraph 133 of SFFAS 7 states:

Gains and losses are recognized rather than revenues and expenses in order to differentiate unusual or nonrecurring transactions for evaluating an entity's performance or setting its prices. Material gains and losses are expected to be infrequent. They would normally be of a type that management would want to be considered in appraisals of its operations.

A13. Further, the Board also discussed the relationship between revenues and gains in SFFAC 5, Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements, as follows:

55. Existing standards or established practice may indicate that certain increases and decreases in assets should be reported as gains and losses, rather than revenues and expenses. Use of the terms gains and losses generally serves to highlight particular features of certain revenues and expenses, such as their unusual or non-recurring nature or their having resulted from peripheral or incidental activities of an entity.

56. The definitions of revenue and expense in this Statement include items that might be reported as gains and losses. Gains and losses are considered subsets of revenues and expenses, rather than distinct elements, just as capital assets and financial assets are considered subsets of assets. Whether certain kinds of revenues and expenses should be reported as gains and losses and, if so, under what circumstances, is beyond the scope of this Statement.

Staff also notes that the references to SFFAC 2 are not quoted but paraphrased and staff believed the non-exchange aspect of the scenario was not at issue considering it is clearly labeled in SFFAS 7. Further the Board does not define new terms or such in an Interpretation. Staff believed using the term “activity” would be appropriate in this instance to correlate with the debt cancellation discussion, especially considering it involves two parties consideration of paragraph 313 a nonexchange gain to the entity that owed the debt and a nonexchange loss to the lender, although those terms need not be used.

Alternatively, if the Board prefers to use the term as used in SFFAC 2, staff could revise. However, staff does not believe the Interpretation would read as well. As mentioned the BFC provides the relevant discussion and background on the topic.

- Two respondents (#9 and #11) noted that they 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, the respondents believed this may lend itself to management misinterpreting the guidance and presenting the information in lines that may not be appropriate. The respondents suggested 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. One of the two respondents suggested removing the last sentence in paragraph 8 because it is overly broad and could be interpreted to permit material debt

cancellation to be presented as nonexchange revenue or appropriation used on the SCN. *Staff agrees that adding language “consistent with the guidance in Appendix B in SFFAS 7” would be helpful. However, staff believes maintaining the last sentence regarding management is responsible for determining line item presentation and display and related disclosures is appropriate and consistent with the Board’s intent.*

- One respondent (#9) indicated they do not believe that paragraphs 2 – 7 improve the understandability of SFFAS 7 and SFFAC 2, which we believe already provide clear guidance that debt cancellation is a nonexchange activity that should be reported on the Statement of Changes in Net Position (SCNP). We recommend that the Board not move forward with these paragraphs. *Staff appreciates the respondent’s view that SFFAS 7 and SFFAC 2 provide clear guidance. Staff notes this was also true among certain Board members. However, the Board voted and agreed that providing clarity through an interpretation would be the best vehicle to resolve ambiguity.*

Recommendation

As noted the majority of respondents generally agreed with the guidance asked upon in QFR #1. As noted in the staff analysis above, staff agrees with the suggested edit to paragraph 8 [adding language “consistent with the guidance in Appendix B in SFFAS 7”] because it would help ensure no misinterpretations. Staff does not suggest any other changes based on the responses to QFR #1.

Question for the Board #1:

1. Do Board members agree with staff’s analysis and recommendation of responses to QFR #1?

Analysis of Responses to Questions for Respondents #2

QFR # 2 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?

- **Eleven or the majority of respondents (11 out of 16) generally agreed with QFR #2.**
- **Four respondents (4 out of 16) were ‘NA’ for QFR #2.** This means the respondent did not answer question QFR #2 or staff considered the response as unspecified agreement. As noted on **Table of Responses and Staff Notes**, respondents #2, #9, #10 and #11 were NA. For example, two respondents (#2 and #11) noted that they did not have comments to offer. One respondent (#9) did not provide answers to the questions but instead provided general comments to the ED. One respondent (#10) did not answer the question, but offered a comment that is addressed below.
- **One respondent (1 out of 16) disagreed with QFR #2.** As noted on **Table of Responses and Staff Notes**, respondent #13 disagreed with Q2 and noted that other financing sources should include non-recurring or infrequent transactions for which debt cancellation may be considered to be non-recurring or infrequent. *Staff notes the respondent indicated disagreement with QFR #2, but staff is unclear based on the response provided. Staff also notes that Other Financing Sources is defined in SFFAS 7 and in the FASAB Glossary.*
- Staff notes the respondents provided comments and suggested edits with their responses to QFR #2. Please see the following summary and staff response:
 - One respondent (#9) suggested the last sentence in paragraph 9 be revised by changing “central agencies” to “the Office of Management and Budget (OMB)” because central agencies is defined in the proposal as the Department of the Treasury (Treasury), the Office of Management and Budget (OMB), and the Government Accountability Office (GAO). The respondent noted they believe it is inconsistent with SFFAS 7 paragraph 78, which states that “Recognition and measurement of budgetary resources

should be based on budget concepts and definitions contained in OMB Circulars A-11 and A-34.” Because SFFAS 7 does not state that budgetary accounting guidance is provided by the Department of the Treasury or GAO, and because the Department of the Treasury is a preparer of the government-wide financial statements and GAO is the auditor of the government-wide financial statements. Therefore, the respondent suggested the last sentence of paragraph 9 be revised as follows:

- “This Interpretation does not provide guidance on budgetary accounting, which is issued by ~~central agencies~~ the Office of Management and Budget (OMB).”

In addition, the respondent believes with the above change to paragraph 9, footnote 2 would no longer apply. *Staff is in agreement with the suggested change and that footnote 2 is not needed. Staff believes the language in the basis for conclusions will adequately address the other types of guidance that is provided by the other central agencies, such as Treasury. FASAB staff provided the comment to Treasury and OMB for input and their joint response indicated that Treasury and OMB agree that footnote 2 can be deleted. However, they suggested also revising the last sentence in paragraph 9 as: “This Interpretation does not provide guidance on budgetary accounting, which is issued by ~~central agencies~~ the Office of Management and Budget (OMB) and the Department of the Treasury (Treasury).” While staff understands their perspective, OMB provides guidance on budgetary accounting. Staff believes additional language can be added if Treasury believes additional explanation is warranted, but it appears sufficient.*

- One respondent (#10) suggested the Board consider whether other FASAB documents and guidance besides those referenced above will need to also be updated to reflect the changes related to the form and content of the SCNP. *FASAB staff did not identify any other required changes. As members may recall, staff performed searches on the relevant terms (such as Budgetary Financing Sources) used in the FASAB Handbook.*

Recommendation

As noted the majority of respondents generally agreed with the guidance asked upon in QFR #2. Staff suggests revising the last sentence in paragraph 9 as: “This Interpretation does not provide guidance on budgetary accounting, which is issued by ~~central agencies~~ the Office of Management and Budget (OMB).” Staff also recommends removing footnote 2. Staff does not suggest any other changes based on the responses to QFR #2.

Question for the Board #2:

2. Do Board members agree with staff's analysis and recommendation of responses to QFR #2?

Analysis of Responses to Questions for Respondents #3

QFR # 3 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.

- **Eleven or the majority of respondents (11 out of 16) generally agreed with QFR #3.**
- **Four respondents (4 out of 16) were 'NA' for QFR #3.** This means the respondent did not answer question QFR #3 or staff considered the response as unspecified agreement. As noted on **Table of Responses and Staff Notes**, respondents #2, #9, #11 and #16 were NA. For example, one respondent (#2) noted that they did not have comments to offer. One respondent (#9) did not provide answers to the questions but instead provided general comments to the ED. Two respondents (#11 and #16) did not answer the question, but offered comments that are addressed below.
- **One respondent (1 out of 16) disagreed with QFR #3. As noted on Table of Responses and Staff Notes**, respondent #13 disagreed with Q3 and noted that the guidance for "cancellation of debt" could be more specific. For example, is it a cancellation of debt if
 - old debt is replaced by new debt
 - the old debt and new debt occur simultaneously (or if not, does the amount of time in between matter)
 - the old debt is valued in the transaction at a value that is different from the balance sheet value
 - the terms of the debt are re-negotiated, e.g., forgiven principal, forgiven interest, change in interest rates, extension of maturity dates/due dates of principal and interest, or any combination of these.

The respondent also provided an example for the Board's consideration. *FASAB staff notes the respondent suggested the guidance for debt cancellation could be more specific and provided questions as well as an examples for the Board's*

consideration. FASAB staff notes the Board agreed to delay the debt cancellation project in February 2020 pending research into prior debt cancellations and other historical circumstances by Treasury and OMB. However, the examples provided by the respondent were not presented by Treasury and OMB. The examples and responses submitted by the respondent were provided to OMB and Treasury for their comment and feedback. OMB did not have any comments. Treasury's response is pending. Based on staff's limited review (and staff is not familiar with the programs) it appears the examples may be restructuring and/or renegotiation of debt versus debt cancellation or forgiveness as paragraph 313 of SFFAS 7 addresses. Staff believes the examples and questions are outside the scope of the limited scope interpretation.

- Staff notes the respondents provided comments and suggested edits with their responses to QFR #3. Please see the following summary and staff response:
 - Several respondents (#3, #8, and #11) indicated that they would like assurance that proper updates would be made to OMB and Treasury guidance so that it aligns with FASAB guidance. One respondent (#3) reiterated their point from question #1. They would like to know whether Treasury and OMB plan to update their debt cancellation scenario to align with FASAB guidance. Another respondent (#11) explained that previously the auditors found OMB and Treasury's posting logic inconsistent with SFFAS 7. Therefore, they suggested FASAB and OMB continue to work together to ensure OMB's instructions are consistent with FASAB guidance. *As noted, FASAB staff provided the comments to Treasury and OMB for input and their joint response indicated that Treasury plans to update the debt cancellation scenario and the SGL guidance and OMB plans to update A-136 guidance, if necessary, to align with FASAB guidance.*
 - One respondent (#16) requests confirmation that the only accounting impact on the Balance Sheet, as a result of a debt cancellation, includes the reduction/elimination of the liabilities financial line item(s), and net position-related accounts. The respondent would also like to confirm that FASAB's interpretation of debt cancellation only applies to intragovernmental transactions. *FASAB staff agrees that debt cancellation would include the forgiveness or elimination of a liability. FASAB staff notes that debt cancellation activity is also reported on the statement of changes in net position. Appendix B of SFFAS 7 includes cancellation of debt (paragraph 313) under Intragovernmental Transactions, Nonexchange transactions.*

Recommendation

As noted the majority of respondents generally agreed with the guidance or that that the proposed Interpretation clarifies ambiguity regarding debt cancellation and would resolve any existing or anticipated issues. Staff does not suggest any changes as a result of the responses to this question.

Question for the Board #3:

3. Do Board members agree with staff's analysis and recommendation of responses to QFR #3?

Table of Responses and Staff Notes

Question 1

EXPOSURE DRAFT QUESTION 1: 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 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.

KEY: Agree, Disagree, Partial (agreement), NA (unspecified agreement or no answer)

Ref	Respondent	Agree	Response	Staff Notes:
1	AGA-FMSB	Agree	We agree that the cancellation of debt is a nonexchange transaction. As noted in the ED, an Act of Congress must initiate the debt cancellation 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.	Respondent was in agreement so there was no response required by staff.
2	EPA	NA	EPA officials in our financial reporting and financial policy areas reviewed the below referenced Exposure Draft regarding debt cancellation. At this time, we have no comments to offer.	Although the respondent reviewed the ED and did not have comments to offer, there was unspecified agreement with the proposal.
3	DHS	Agree	DHS agrees with the proposed guidance. It should be up to the agency to determine the most appropriate line item presentation and display and related disclosures, such as information about the debt cancellation.	FASAB staff provided the comments to Treasury and OMB for input. Joint response indicated that Treasury plans to update

EXPOSURE DRAFT QUESTION 1: 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:

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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 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.

KEY: Agree, Disagree, Partial (agreement), NA (unspecified agreement or no answer)

Ref	Respondent	Agree	Response	Staff Notes:
			DHS would like to know whether the Department of the Treasury (Treasury) and the Office of Management and Budget (OMB) plan to update their debt cancellation scenario to align with FASAB guidance. Specifically, to add the "nonexchange" domain to SGL 711200 Gains on Disposition of Borrowings or make it known that SGL 7190 Other Gains should be used for this type of transaction.	the debt cancellation scenario and the SGL guidance and OMB plans to update A-136 guidance, if necessary, to align with FASAB guidance.
4	SSA	Agree	<p>We agree with the proposed guidance. We believe that it will clarify the Board's intentions in regards to reporting debt cancellation and the appropriate presentation and display thereof. We appreciate clarifications that will assist stakeholders in avoiding confusion and disagreement and ensuring the proper reporting of financial information.</p> <p>However, we did note throughout the exposure draft that references to Statement of Federal Financial Accounting Concepts (SFFAC) 2 state, "...paragraph 100 provides that non-exchange <u>activity</u> is reported on the statement of changes in net position (SCNP)." Whereas, the actual wording in SFFAC 2 paragraph 100 is "non-exchange revenues." We believe the actual wording of SFFAC 2 paragraph 100 should be used to eliminate further confusion. Clarifying sentence(s) could be added to define other non-exchange activities (gains/losses, etc.) if the intention was to use "activity" to put a broad umbrella over all the possibilities.</p>	Staff notes that a lengthy discussion and reference to GAAP guidance is included in the BfC. Specifically par. A7- A13 discuss this further. Staff believed the non-exchange aspect of this complex topic to be minor and not at issue. Further the Board does not typically define new terms or such in an Interpretation.
5	Treasury	Agree	The Department of the Treasury agrees with this guidance that clarifies that the standards provide that debt cancellation is a nonexchange activity and should be reported on the SCNP per the discussion in Appendix A – Basis of Conclusion section of the proposed Interpretation.	Respondent was in agreement so there was no response required by staff.
6	NASA	Agree	Agree. Because the cancellation of the debt is not directly earned nor directly related to costs, by the nonexchange definition, this guidance clarifies why the cancellation of debt is	Respondent was in agreement so there was

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

KEY: Agree, Disagree, Partial (agreement), NA (unspecified agreement or no answer)

Ref	Respondent	Agree	Response	Staff Notes:
			<p>treated as a nonexchange activity and should be reported on the SCNP. Agree because debt cancellation is a nonexchange activity and should be reported on the statement of changes in net position (SCNP) and the responsibility for determining the most appropriate line item presentations, displays and related disclosures, such as information about the debt cancellation should be required as a standard for every reporting Agency so that reporting is consistent.</p> <p>All debts closed out and written off are considered a loss to NASA and are reported on the Treasury Report on Receivables in Section E below.</p> <p>TROR Section E – Disposition of Closed – Out Debts captures information on the number and dollar amount of closed- out delinquent debts. Section E captures information on the final close out of delinquent debt and reporting of debts to IRS as potential income on IRS Form 1099-C (Cancellation of Debt), once the agency determines that no further collection action will be taken. Section E also collects information on debts closed out during the previous calendar year where the debt was not reported to the IRS. This section reports on the close out of all delinquent debts, including debt that may have been previously classified as Currently Not Collectible (CNC).</p>	no response required by staff.
7	VA	Agree	Agree. This office agrees this proposal would "facilitate consistent accounting and reporting of debt cancellation on the SCNP" and that "proper classification is essential to constructing financial statements that meet the federal financial reporting objectives as they have been described in SFFAC 2." Furthermore, "the provisions of this Interpretation need not be applied to information if the effect of applying the provision(s) is immaterial."	Respondent was in agreement so there was no response required by staff.
8	CCC	Agree	Agree. When considering SFFAS 7, paragraph 313 and SFFAC 2 together, this proposed Interpretation would clarify that the standards provide that debt cancellation is a nonexchange activity that should be reported on the SCNP.	Respondent was in agreement so there was no response required by staff.

EXPOSURE DRAFT QUESTION 1: 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 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.

KEY: Agree, Disagree, Partial (agreement), NA (unspecified agreement or no answer)

Ref	Respondent	Agree	Response	Staff Notes:
9	KPMG	NA	<p>Paragraphs 2 – 7</p> <p>We support the Board's efforts to clarify existing standards when needed; however, we do not believe that paragraphs 2 – 7 improve the understandability of SFFAS 7 and SFFAC 2, which we believe already provide clear guidance that debt cancellation is a nonexchange activity that should be reported on the Statement of Changes in Net Position (SCNP). We recommend that the Board not move forward with these paragraphs.</p> <p>Paragraph 8</p> <p>We appreciate the clarification 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. We also agree, and believe it is widely understood, that management is responsible for the fairness of presentation of the financial statements. However, we believe that the last sentence in paragraph 8 is overly broad and could be interpreted to permit material debt cancellation to be presented as nonexchange revenue or appropriation used on the SCNP. We believe these presentations would not be appropriate based on the guidance in SFFAS 7 Appendix B. We suggest the following changes to the paragraph (added text underlined, deleted text struck-through,):</p> <p>Paragraph 313 of SFFAS 7 provides, "As a result, the cancellation is a nonexchange gain to the entity that owed the debt and a nonexchange loss to the lender." This proposed Interpretation would clarify that paragraph 313 of SFFAS 7 should not be interpreted to require that a particular line items "gain" or "loss" be displayed on the SCNP. Rather, the proposed Interpretation requires that debt cancellation activity be included on the SCNP and that its line item presentation be consistent with the guidance in Appendix B in SFFAS 7. <u>Reporting entity management is responsible for determining the most appropriate line item presentation and display and related disclosures, such as contextual information about the debt cancellation (for example, the statutory authority cancelling the debt or the reason for the debt), if appropriate.</u></p>	<p>Staff appreciates the respondent's view that SFFAS 7 and SFFAC 2 provide clear guidance because this was as also true among Board members. However, the Board agreed providing clarity through an interpretation would be the best vehicle to resolve ambiguity.</p> <p>Staff agrees that adding language "consistent with the guidance in Appendix B in SFFAS 7" would be helpful. However, staff believes maintaining the last sentence regarding management is responsible for determining line item presentation and display and related disclosures is most appropriate and</p>

EXPOSURE DRAFT QUESTION 1: 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 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.

KEY: Agree, Disagree, Partial (agreement), NA (unspecified agreement or no answer)

Ref	Respondent	Agree	Response	Staff Notes:
				consistent with the Board's intent.
10	GWSCPA	Agree	The FISC agrees with the guidance for the reasons provided by the Board.	Respondent was in agreement so there was no response required by staff.
11	DHS-OIG	Agree	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.	Staff agrees that adding language "consistent with the guidance in Appendix B in SFFAS 7" would be helpful. However, staff believes maintaining the last sentence regarding management is responsible for determining line item presentation and display and related disclosures is most appropriate and consistent with the Board's intent.
12	DoD	Agree	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.	Respondent was in agreement so there was no response required by staff.

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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 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.

KEY: Agree, Disagree, Partial (agreement), NA (unspecified agreement or no answer)

Ref	Respondent	Agree	Response	Staff Notes:
13	DOL	Disagree	<p>We disagree that the purpose of borrowing authority is generally to provide an entity with capital rather than to finance its operations. Currently, DOL has two social insurance programs that borrow from the Treasury: The Black Lung Disability Trust Fund (BLDTF) and the Unemployment Trust Fund (UTF). Both of these funds are also reported as funds from dedicated collections.</p> <p>From P.L. 110-343, enacted 10/03/2008, Division B--Energy Improvement and Extension Act of 2008, Section 113 [122 STAT. 3826]:</p> <div style="border: 1px solid black; padding: 10px;"> <p>(B) REPAYMENT OF OBLIGATIONS.—In the event that the Trust Fund is unable to repay the obligations that it has issued to the Secretary of the Treasury under subparagraph (A)(i) and this subparagraph, or is unable to make benefit payments and other authorized expenditures, the Trust Fund shall issue obligations to the Secretary of the Treasury in such amounts as may be necessary to make such repayments, payments, and expenditures, with a maturity of 1 year, and bearing interest at the Treasury 1-year rate. These obligations shall be in such forms and denominations and be subject to such other terms and conditions as the Secretary of the Treasury shall prescribe.</p> </div> <p>The BLDTF is authorized to borrow from Treasury in the form of one-year obligations to make payments for repayments of debt, interest due on the debt, costs for benefits, and administrative costs. The BLDTF borrows from Treasury every year.</p> <p>The UTF borrows for two purposes:</p>	<p>Staff notes that the respondent disagreed with Q1 based on "We disagree that the purpose of borrowing authority is generally to provide an entity with capital rather than to finance its operations."</p> <p>While staff appreciates all comments received and does not discount them, the purpose of the Interpretation was to focus on the very narrow issue that debt cancellation is a nonexchange activity and should be reported on the SCNP. The Board agreed that other items, including this particular sentence (if it needed to be revisited) would be considered in the Reexamination project.</p>

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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.

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

KEY: Agree, Disagree, Partial (agreement), NA (unspecified agreement or no answer)

Ref	Respondent	Agree	Response	Staff Notes:
			<p>Providing funding for the UTF's</p> <p>-- Federal Unemployment Account (FUA) and</p> <p>-- Extended Unemployment Compensation Account (EUCA)</p> <p>Title XII, Section 1201 of the Social Security Act authorizes the FUA to loan Federal monies to state accounts that are otherwise unable to make benefit payments because a State's Unemployment Insurance account balance has been exhausted. When the FUA needs funds to loan to States, the FUA borrows as interest-bearing repayable Advances from U.S. Treasury; unemployment taxes repay this debt.</p> <p>The Extended Unemployment Compensation Account (EUCA) was established pursuant to the Social Security Act Section 905 of the Social Security Act. EUCA provides for the payment of extended unemployment benefits (extended benefits) authorized under the Federal-State Extended Unemployment Compensation Act of 1970, as amended. In general, the cost of extended benefits is shared 50 percent Federal and 50 percent State. COVID-19 related legislation authorized 100 percent Federal funding of extended benefits through September 6, 2021. When EUCA needs funds to pay extended benefits the EUCA borrows as interest-bearing repayable Advances from U.S. Treasury; unemployment taxes repay this debt. During periods of sustained high unemployment, Congress may authorization legislation so that the EUCA may also receive payments and non-repayable advances from the General Fund of the Treasury to finance temporary emergency unemployment compensation benefits. The FUA and EUCA borrow from Treasury during years of higher unemployment. In FY 2020, the balances in the FUA and EUCA were depleted and the FUA and EUCA borrowed from the Treasury general fund as repayable Advances from U.S. Treasury. As of September 30, 2020, the FUA's outstanding advances totaled \$36.0 billion at rates between 1.75 and 2.0 percent; the EUCA repaid its advances as of September 30, 2020.</p>	

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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 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.

KEY: Agree, Disagree, Partial (agreement), NA (unspecified agreement or no answer)

Ref	Respondent	Agree	Response	Staff Notes:
			Based on the discussions above, we disagree that the purpose of borrowing authority is generally to provide an entity with capital rather than to finance operations; the borrowing is a result of operations.	
14	DOC	Agree	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.	Respondent was in agreement so there was no response required by staff.
15	HUD	Agree	HUD Agrees. Debt cancellation is more feasible reported as a nonexchange transaction. The handling of debt can be different for different types of debt incurred by the agency. Determining the appropriate presentation and disclosure of debt in the Financial Statements and Notes should be up to the agency's management.	Respondent was in agreement so there was no response required by staff.
16	HHS	Agree	HHS concurs with the guidance that debt cancellation should be reported on the Statement of Changes in Net Position (SCNP). The entity that writes-off or cancels the debt (i.e., lender) should classify the transactions as a non-exchange loss, while the trading partner (i.e. entity that owes the debt) should record a non-exchange gain and reduce the liability.	Respondent was in agreement so there was no response required by staff.

Question 2

EXPOSURE DRAFT QUESTION 2: 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?

KEY: Agree, Disagree, Partial (agreement), NA (unspecified agreement or no answer)

Ref	Respondent	Agree	Response	Staff Notes:
1	AGA-FMSB	Agree	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.	Respondent was in agreement so there was no response required by staff.
2	EPA	NA	EPA officials in our financial reporting and financial policy areas reviewed the below referenced Exposure Draft regarding debt cancellation. At this time, we have no comments to offer.	Although the respondent reviewed the ED and did not have comments to offer, there was unspecified agreement with the proposal.
3	DHS	Agree	DHS did not identify any need for further clarification for the definition or use of the term “other financing sources” in FASAB guidance or documents.	Respondent was in agreement so there was no response required by staff.
4	SSA	Agree	We do not believe additional clarity is needed. Current FASAB guidance is adequate in defining the term “other financing sources.” Additionally, the revisions of the June 14, 2021 near-final draft of OMB Circular A-136 portray the elimination of the sub-categories “Budgetary Financing Sources” and “Other Financing Sources Nonexchange,” which provides simplification for presentation and reporting purposes on the SCNP and synchronization with FASAB, thereby enhancing clarity.	Respondent was in agreement so there was no response required by staff.
5	Treasury	Agree	The Department of the Treasury does not believe any additional clarity is required with respect to the definition or use of the term “other financing sources” in FASAB documents or other guidance.	Respondent was in agreement so there was no response required by staff.
6	NASA	Agree	No.	Respondent was in agreement so there was

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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?

KEY: Agree, Disagree, Partial (agreement), NA (unspecified agreement or no answer)

Ref	Respondent	Agree	Response	Staff Notes:
				no response required by staff.
7	VA	Agree	We do not believe additional clarity is needed on the definition or use of the term “other financing sources”.	Respondent was in agreement so there was no response required by staff.
8	CCC	Agree	Agreed. In fact, the latest A-136 draft for FY 2021 illustrates changes to the SCNP whereby “Other Financing Sources (Nonexchange)” is removed and “Budgetary Financing Sources” is revised to just “Financing Sources”.	Respondent was in agreement so there was no response required by staff.
9	KPMG	NA	<p>Paragraph 9</p> <p>The last sentence in paragraph 9 states “This Interpretation does not provide guidance on budgetary accounting, which is issued by central agencies.” Footnote 2 defines central agencies as the Department of the Treasury (Treasury), the Office of Management and Budget (OMB), and the Government Accountability Office (GAO). We believe that this sentence and the footnote are inconsistent with SFFAS 7 paragraph 78, which states that “Recognition and measurement of budgetary resources should be based on budget concepts and definitions contained in OMB Circulars A-11 and A-34.” Because SFFAS 7 does not state that budgetary accounting guidance is provided by the Department of the Treasury or GAO, and because the Department of the Treasury is a preparer of the government-wide financial statements and GAO is the auditor of the government-wide financial statements, we suggest the following changes to the last sentence of paragraph 9:</p> <p>“This Interpretation does not provide guidance on budgetary accounting, which is issued by central agencies <u>the Office of Management and Budget (OMB)</u>.”</p> <p>Due to the placement of the footnote, it is unclear if it is intended to be included in the final Interpretation. Based on our changes to paragraph 9, footnote 2 would no longer apply.</p>	<p>Staff is in agreement with the suggested change and footnote 2 is not needed. FASAB staff provided the comment to Treasury and OMB for input. Their joint response indicated they agree footnote 2 can be deleted. However, they suggested revising the last sentence in paragraph 9 as: “This Interpretation does not provide guidance on budgetary accounting, which is issued by central agencies <u>the Office of Management and Budget (OMB) and the Department of the Treasury (Treasury)</u>.” While staff understands their perspective, OMB provides guidance on</p>

EXPOSURE DRAFT QUESTION 2: 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?

KEY: Agree, Disagree, Partial (agreement), NA (unspecified agreement or no answer)

Ref	Respondent	Agree	Response	Staff Notes:
				budgetary accounting. Staff believes additional language can be added to the BFC if Treasury believes additional explanation is warranted.
10	GWSCPA	NA	The FISC recommends that the Board considers whether other FASAB documents and guidance besides those referenced above will need to also be updated to reflect the changes related to the form and content of the SCNP.	FASAB staff did not identify any other required changes.
11	DHS-OIG	NA	No comment	Although the respondent reviewed the ED and did not have comments to offer, there was unspecified agreement with the proposal.
12	DoD	Agree	No, the additional clarity is not needed. The elimination of the subcategories “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 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.	Respondent was in agreement so there was no response required by staff.
13	DOL	Disagree	Other financing sources should include non-recurring or infrequent transactions for which debt cancellation may be considered to be non-recurring or infrequent.	Staff notes the respondent indicated disagreement with QFR #2, but staff is unclear based on the response provided. Staff also notes that Other

EXPOSURE DRAFT QUESTION 2: 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?

KEY: Agree, Disagree, Partial (agreement), NA (unspecified agreement or no answer)

Ref	Respondent	Agree	Response	Staff Notes:
				Financing Sources is defined in SFFAS 7 and in the FASAB Glossary.
14	DOC	Agree	The Department believes that there is not a need for additional clarity and that combining the sub-categories “Budgetary Financing Sources” and Other Financing Sources (Non-exchange)” would simplify the presentation for readers and enhance clarity, consistent with generally accepted accounting principles.	Respondent was in agreement so there was no response required by staff.
15	HUD	Agree	No, there is not any need for additional language be provided for the use of “other financing sources”.	Respondent was in agreement so there was no response required by staff.
16	HHS	Agree	HHS concurs with elimination the sub-categories “Budgetary Financing Sources” and “Other Financing Sources” presented under the Cumulative Results on the SCNP. This is also consistent with the updates in the latest draft of OMB Circular A-136. Considering there is no formal FASAB definition of “Other Financing Sources”, HHS believes additional clarity is needed when using the term in FASAB documents or other guidance.	Respondent was in agreement. Other Financing Sources is defined in the FASAB Glossary.

Question 3

EXPOSURE DRAFT QUESTION 3: 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.

KEY: Agree, Disagree, Partial (agreement), NA (unspecified agreement or no answer)

Ref	Respondent	Agree	Response	Staff Notes:
1	AGA-FMSB	Agree	We consider the Interpretation as providing appropriate clarification regarding debt cancellation and should resolve audit matters as noted in paragraph A5.	Respondent was in agreement so there was no response required by staff.
2	EPA	NA	EPA officials in our financial reporting and financial policy areas reviewed the below referenced Exposure Draft regarding debt cancellation. At this time, we have no comments to offer.	Although the respondent reviewed the ED and did not have comments to offer, there was unspecified agreement with the proposal.
3	DHS	Agree	DHS agrees that the proposed interpretation clarifies ambiguity regarding debt cancellation. As stated in the response to question #1, DHS would like to know whether Treasury and OMB plan to update their debt cancellation scenario to align with FASAB guidance. <u>Editorial comments:</u> Paragraph 78 on page 17 references OMB A-34. This guidance was rescinded and superseded by OMB A-11.	FASAB staff provided the comments to Treasury and OMB for input. Joint response indicated that Treasury plans to update the debt cancellation scenario and the SGL guidance and OMB plans to update A-136 guidance, if necessary, to align with FASAB guidance. Editorial comment relates to par. 78 of SFFAS 7 that was included in the ED as an appendix. It will not be included in the final pronouncement.
4	SSA	Agree	We believe the proposed interpretation clarifies any ambiguity regarding debt cancellation, and should be sufficient to resolve current or potential future issues. We have no additional comments or suggestions, other than as noted in question 1, and we do not foresee any other issues.	Respondent was in agreement so there was no response required by staff.
5	Treasury	Agree	The Department of the Treasury believes that the proposed Interpretation clarifies ambiguity regarding debt cancellation and resolves any existing or anticipated issues.	Respondent was in agreement so there was

EXPOSURE DRAFT QUESTION 3: 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.

KEY: Agree, Disagree, Partial (agreement), NA (unspecified agreement or no answer)

Ref	Respondent	Agree	Response	Staff Notes:
				no response required by staff.
6	NASA	Agree	Yes, because debt cancellations although rare can be confusing. This clarification should help with reporting the activity. An illustration of this accounting treatment would be helpful as well.	Respondent was in agreement so there was no response required by staff.
7	VA	Agree	This office agrees this proposal would “facilitate consistent accounting and reporting of debt cancellation on the SCNP” and that “proper classification is essential to constructing financial statements that meet the federal financial reporting objectives as they have been described in SFFAC 2”. Otherwise, VA has no further comment.	Respondent was in agreement so there was no response required by staff.
8	CCC	Agree	<p>Yes, the proposed Interpretation clarifies ambiguity regarding debt cancellation and would resolve any existing or anticipated issues. However, other specific clarifications, regarding debt cancellations, would include the following:</p> <ol style="list-style-type: none"> 1. Since the “requirements of this Interpretation are effective upon issuance”, and issuance will probably be in FY 2021, please clarify with OMB that their current draft of A-136 incorporates all the required updates of this Interpretation for FY 2021 reporting. (It does “appear” that the current draft incorporates these changes.) If not, I’m not sure OMB will have time to update A-136 with additional FY 2021 changes to comply with the interpretation effective in FY 2021. 2. Some agencies may not have treated material debt cancellation as a nonexchange revenue in FY 2020. This Interpretation does not address the restatement of FY 2020 statements in those situations. Recommend adding guidance since it is the intent of FASAB to “facilitate consistent accounting and reporting of debt cancellation on the SCNP.” (I did notice that OMB added verbiage in their latest A-136 draft (pages 64-65) to address changes in accounting principles (prospective or retrospective) include those resulting from the adoption of new FASAB standards. 3. Although not discussed in this interpretation, I do not foresee any reporting issues of the “parent” agency if the “child” agency incurred debt cancellation. Just mentioning for others to consider issues, if any. 4. While the draft Interpretation just focuses on consistent accounting and reporting of debt cancellation on the SCNP, several pre- and post-credit reform accounting issues may arise with the respective potential debt cancellation including, but not limited to, use of appropriations to finance pre-credit reform loans, reversal of allowances before debt cancellation, and changes in subsidy rate calculations for Credit Reform debt. 	<p>While the respondent noted the proposed Interpretation clarifies ambiguity regarding debt cancellation and would resolve any existing or anticipated issues, the respondent provided comments regarding debt cancellations that required clarification.</p> <p>FASAB staff provided the comments to Treasury and OMB for input. Joint response indicated that Treasury plans to update the debt cancellation scenario and the SGL guidance and OMB plans to update A-136 guidance, if necessary, to align with FASAB guidance.</p>

EXPOSURE DRAFT QUESTION 3: 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.

KEY: Agree, Disagree, Partial (agreement), NA (unspecified agreement or no answer)

Ref	Respondent	Agree	Response	Staff Notes:
9	KPMG	NA		There was unspecified agreement with the proposal.
10	GWSCPA	Agree	The FISC believes the proposed Interpretation clarifies the proper reporting of debt cancellation.	Respondent was in agreement so there was no response required by staff.
11	DHS-OIG	NA	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.	FASAB staff provided the comments to Treasury and OMB for input. Joint response indicated that Treasury plans to update the debt cancellation scenario and the SGL guidance and OMB plans to update A-136 guidance, if necessary, to align with FASAB guidance.
12	DoD	Agree	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).	Respondent was in agreement so there was no response required by staff.
13	DOL	Disagree	<p>The guidance for “cancellation of debt” could be more specific. For example, is it a cancellation of debt if</p> <ul style="list-style-type: none"> -- old debt is replaced by new debt -- the old debt and new debt occur simultaneously (or if not, does the amount of time in between matter) -- the old debt is valued in the transaction at a value that is different from the balance sheet value -- the terms of the debt are re-negotiated, e.g., forgiven principal, forgiven interest, change in interest rates, extension of maturity dates/due dates of principal and interest, or any combination of these. 	FASAB staff notes the respondent had questions regarding debt cancellation and also provided a potential example for the Board’s consideration. Staff notes that the Board had taken a pause in the debt cancellation project in February 2020 for OMB and Treasury to provide examples of previous debt

EXPOSURE DRAFT QUESTION 3: 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.

KEY: Agree, Disagree, Partial (agreement), NA (unspecified agreement or no answer)

Ref	Respondent	Agree	Response	Staff Notes:
			<p>We ask the Board to consider this example from the BLDTF because it had the opposite effect: DOL reported a Loss on the Statement of Net Costs instead of a Gain in the Statement of Changes in Net Position.</p> <p>On October 3, 2008, P.L. 110-343, Division B, section 113 authorized a transaction in which</p> <ul style="list-style-type: none"> -- the BLDTF received an appropriation to pay the outstanding advances to U.S. Treasury, but the appropriation did not pay for all of it; -- the outstanding advances and interest were valued at "market value," not carrying/book value, for the purposes of the transaction; -- the BLDTF issued new obligations similar in form to zero-coupon bonds (ZCBs) with staggered maturities on September 30 over the 32-year period 2009 through 2040; -- the ZCBs issued had interest rates between 1.412% and 4.556%; -- the debt removed from the balance sheet had higher interest rates; -- the law used the terms "Restructuring of trust fund debt" and "Refinancing of outstanding principal of repayable advances and unpaid interest on such advances"; and -- the BLDTF recognized a "Loss on debt refinancing" of \$2.5 billion that was reported as a separate line item in the Note 15.C, Consolidating Statement of Net Cost of the Employment Standards Administration for the Year Ended September 30, 2009 and was included in Net Program Cost (no separate line item) on the Statement of Net Cost for the Year Ended September 30, 2009. <p>Prior to the transaction, as of 09/30/2008, the debt was reported on the balance sheet at its carrying/book value of nearly \$10.5 billion. But, in accordance with the law, for the purposes of the transaction, the old debt was valued at "market value" by the Treasury.</p> <p>P.L. 110-343, Division B, Section 113 [122 STAT. 3825]</p>	<p>cancellations. However, the examples were not presented by Treasury and OMB. The examples and responses were submitted were provided to OMB and Treasury for their comment and feedback. OMB did not have any comments. Treasury response is pending.</p> <p>Based on staff's limited review (and staff is not familiar with the programs) it appears the examples may be restructuring and/or renegotiation of debt versus a debt cancellation or forgiveness. The questions and example appear out the limited scope of the Interpretation.</p>

EXPOSURE DRAFT QUESTION 3: 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.

KEY: Agree, Disagree, Partial (agreement), NA (unspecified agreement or no answer)

Ref	Respondent	Agree	Response	Staff Notes:
			<p>(2) REFINANCING OF OUTSTANDING PRINCIPAL OF REPAYABLE ADVANCES AND UNPAID INTEREST ON SUCH ADVANCES.—</p> <p>(A) TRANSFER TO GENERAL FUND.—On the refinancing date, the Trust Fund shall repay the market value of the outstanding repayable advances, plus accrued interest, by transferring into the general fund of the Treasury the following sums:</p> <p>(i) The proceeds from obligations that the Trust Fund shall issue to the Secretary of the Treasury in such amounts as the Secretaries of Labor and the Treasury shall determine and bearing interest at the Treasury rate, and that shall be in such forms and denominations and be subject to such other terms and</p> <p>For the BLDTF, the effect of the refinancing was to eliminate Advances from U.S. Treasury that had higher interest rates and replace them with ZCBs bearing interest rates between 1.412% and 4.556%. Treasury's market value for the outstanding repayable Advances from U.S. Treasury, plus accrued interest, was nearly \$13.0 billion. The total par value of the zero coupon bonds was \$11.4 billion and the total proceeds to the BLDTF from the issuance of the ZCBs was nearly \$6.5 billion. The one-time appropriation amount was nearly \$6.5 billion. The BLDTF recognized a loss of nearly \$2.5 billion for the difference between the market value of the outstanding advances, plus accrued interest, of nearly \$13.0 billion as determined by Treasury and the carrying value of the outstanding advances and accrued interest of nearly \$10.5 billion.</p> <p>For your reference, DOL's FY 2009 financial statements may be found here:https://www.dol.gov/sites/dolgov/files/general/reports/2009annualreport.pdf</p>	
14	DOC	Agree	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.	Respondent was in agreement so there was no response required by staff.
15	HUD	Agree	Yes, this clarifies the uncertainty of debt cancellation posting and treatment for financial statement purposes.	Respondent was in agreement so there was no response required by staff.

EXPOSURE DRAFT QUESTION 3: 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.

KEY: Agree, Disagree, Partial (agreement), NA (unspecified agreement or no answer)

Ref	Respondent	Agree	Response	Staff Notes:
16	HHS	NA	HHS requests confirmation that the only accounting impact on the Balance Sheet, as a result of a debt cancellation, includes the reduction/elimination of the liabilities financial line item(s), and net position-related accounts. HHS would also like to confirm that FASAB's interpretation of debt cancellation only applies to intragovernmental transactions.	FASAB staff agrees that debt cancellation would include the forgiveness or elimination of a liability. FASAB staff notes that debt cancellation activity is also reported on the statement of changes in net position. Appendix B of SFFAS 7 includes cancellation of debt (paragraph 313) under Intragovernmental Transactions, Nonexchange transactions.

ATTACHMENT 2

Respondent Table of Content and Individual Comment Letters

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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 SFFAS 7, 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 cancellation. Refer to paragraphs 2-8 and A6-A18.

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

Mr. George A. Scott

June 30, 2021

Page 2

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 cancellation 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 Interpretation as providing appropriate clarification regarding debt cancellation and should resolve audit matters as noted in paragraph A5.

Mr. George A. Scott

June 30, 2021

Page 3

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, CGFM, CPA, CIA

Chair, Financial Management Standards Board

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

Association of Government Accountants
Financial Management Standards Board
July 2020 – June 2021

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Brittney Williams

Ann Ebberts, CEO, AGA
Susan Fritzlen, COO, AGA

From: Osborne, Christopher <Osborne.Christopher@epa.gov>
Sent: Thursday, July 15, 2021 3:53 PM
Subject: FW: ****TIME SENSITIVE RESPONSE****FW: FASAB Issues Exposure Draft Interpretation, Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313

CAUTION EXTERNAL EMAIL: Do not click on any links or open any attachments unless you trust the sender and/or know the content is safe. If you are suspicious of the e-mail, click on the Report Suspicious Emails button.

Melissa:

EPA officials in our financial reporting and financial policy areas reviewed the below referenced Exposure Draft regarding debt cancellation. At this time, we have no comments to offer.

Thank you...

Christopher S. Osborne, CPA

Senior Financial Adviser

Office of the Controller

Desk Phone 202 564 5070

Cell Phone: 202 510 1486

Fax: 202 565 3084

Mailing Address:

Environmental Protection Agency

1200 Pennsylvania Ave., NW

Room 81214

Ronald Reagan Building. MC 2733R

Washington, DC 20460

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 checked="" type="checkbox"/>	
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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).

This proposed Interpretation would clarify that the standards provide that debt cancellation is a nonexchange activity and should be reported on the SCNP. This

Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313

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 SCN. 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.

DHS Response: DHS agrees with the proposed guidance. It should be up to the agency to determine the most appropriate line item presentation and display and related disclosures, such as information about the debt cancellation.

DHS would like to know whether the Department of the Treasury (Treasury) and the Office of Management and Budget (OMB) plan to update their debt cancellation scenario to align with FASAB guidance. Specifically, to add the “nonexchange” domain to SGL 711200 Gains on Disposition of Borrowings or make it known that SGL 7190 Other Gains should be used for this type of transaction.

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 (SCN) 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 SCN 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?

DHS Response: DHS did not identify any need for further clarification for the definition or use of the term “other financing sources” in FASAB guidance or documents.

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.

Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313

- 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.

DHS Response: DHS agrees that the proposed interpretation clarifies ambiguity regarding debt cancellation. As stated in the response to question #1, DHS would like to know whether Treasury and OMB plan to update their debt cancellation scenario to align with FASAB guidance.

Editorial comments: Paragraph 78 on page 17 references OMB A-34. This guidance was rescinded and superseded by OMB A-11.

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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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: Christian Hellie, Acting Associate Commissioner, Office of Financial Policy and Operations

Please identify your organization, if applicable.

Organization: Social Security Administration (SSA)

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).

Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313

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.

SSA Response: We agree with the proposed guidance. We believe that it will clarify the Board’s intentions in regards to reporting debt cancellation and the appropriate presentation and display thereof. We appreciate clarifications that will assist stakeholders in avoiding confusion and disagreement and ensuring the proper reporting of financial information.

However, we did note throughout the exposure draft that references to Statement of Federal Financial Accounting Concepts (SFFAC) 2 state, “...paragraph 100 provides that non-exchange activity is reported on the statement of changes in net position (SCNP).” Whereas, the actual wording in SFFAC 2 paragraph 100 is “non-exchange revenues.” We believe the actual wording of SFFAC 2 paragraph 100 should be used to eliminate further confusion. Clarifying sentence(s) could be added to define other non-exchange activities (gains/losses, etc.) if the intention was to use “activity” to put a broad umbrella over all the possibilities.

- 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.

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.

Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313

- 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?**

SSA Response: We do not believe additional clarity is needed. Current FASAB guidance is adequate in defining the term “other financing sources.” Additionally, the revisions of the June 14, 2021 near-final draft of OMB Circular A-136 portray the elimination of the sub-categories “Budgetary Financing Sources” and “Other Financing Sources Nonexchange,” which provides simplification for presentation and reporting purposes on the SCNP and synchronization with FASAB, thereby enhancing clarity.

- 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.**

SSA Response: We believe the proposed interpretation clarifies any ambiguity regarding debt cancellation, and should be sufficient to resolve current or potential future issues. We have no additional comments or suggestions, other than as noted in question 1, and we do not foresee any other issues.

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).

This proposed Interpretation would clarify that the standards provide that debt cancellation is a nonexchange activity and should be reported on the SCNP. This

Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313

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 SCN. 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.

The Department of the Treasury agrees with this guidance that clarifies that the standards provide that debt cancellation is a nonexchange activity and should be reported on the SCN per the discussion in Appendix A – Basis of Conclusion section of the proposed Interpretation.

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 (SCN) 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 SCN 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?

The Department of the Treasury does not believe any additional clarity is required with respect to the definition or use of the term “other financing sources” in FASAB documents or other guidance.

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.

Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313

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

The Department of the Treasury believes that the proposed Interpretation clarifies ambiguity regarding debt cancellation and resolves any existing or anticipated issues.

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"/>
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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).

Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313

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.

Do you agree or disagree with the guidance?

NASA Response: Agree

Please provide the rationale for your answer.

Because the cancellation of the debt is not directly earned nor directly related to costs, by the nonexchange definition, this guidance clarifies why the cancellation of debt is treated as a nonexchange activity and should be reported on the SCNP. Agree because debt cancellation is a nonexchange activity and should be reported on the statement of changes in net position (SCNP) and the responsibility for determining the most appropriate line item presentations, displays and related disclosures, such as information about the debt cancellation should be required as a standard for every reporting Agency so that reporting is consistent.

All debts closed out and written off are considered a loss to NASA and are reported on the Treasury Report on Receivables in Section E below.

TROR Section E – Disposition of Closed – Out Debts captures information on the number and dollar amount of closed- out delinquent debts. Section E captures information on the final close out of delinquent debt and reporting of debts to IRS as potential income on IRS Form 1099-C (Cancellation of Debt), once the agency determines that no further collection action will be taken. Section E also collects information on debts closed out during the previous calendar year where the debt was not reported to the IRS. This section reports on the close out of all delinquent debts, including debt that may have been previously classified as Currently Not Collectible (CNC).

- 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

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Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313

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?

NASA Response: No.

- 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.

NASA Response: Yes, because debt cancellations although rare can be confusing. This clarification should help with reporting the activity. An illustration of this accounting treatment would be helpful as well.

Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313

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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"/>
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Nonprofit organization/Foundation	<input type="checkbox"/>	
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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

Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313

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 SCN. 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.

VA Response: Agree. This office agrees this proposal would “facilitate consistent accounting and reporting of debt cancellation on the SCN” and that “proper classification is essential to constructing financial statements that meet the federal financial reporting objectives as they have been described in SFFAC 2.” Furthermore, “the provisions of this Interpretation need not be applied to information if the effect of applying the provision(s) is immaterial.”

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 (SCN) 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 SCN 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?

VA Response: We do not believe additional clarity is needed on the definition or use of the term “other financing sources”.

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

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Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313

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

VA Response: This office agrees this proposal would “facilitate consistent accounting and reporting of debt cancellation on the SCNP” and that “proper classification is essential to constructing financial statements that meet the federal financial reporting objectives as they have been described in SFFAC 2”. Otherwise, VA has no further comment.

Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313

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Federal Entity (auditor)	<input type="checkbox"/>	
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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

Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313

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.

Agree. When considering SFFAS 7, paragraph 313 and SFFAC 2 together, this proposed Interpretation would clarify that the standards provide that debt cancellation is a nonexchange activity that should be reported 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?

Agreed. In fact, the latest A-136 draft for FY 2021 illustrates changes to the SCNP whereby “Other Financing Sources (Nonexchange)” is removed and “Budgetary Financing Sources” is revised to just “Financing Sources”.

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.

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.

Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313

Yes, the proposed Interpretation clarifies ambiguity regarding debt cancellation and would resolve any existing or anticipated issues. However, other specific clarifications, regarding debt cancellations, would include the following:

- 1. Since the “requirements of this Interpretation are effective upon issuance”, and issuance will probably be in FY 2021, please clarify with OMB that their current draft of A-136 incorporates all the required updates of this Interpretation for FY 2021 reporting. (It does “appear” that the current draft incorporates these changes.) If not, I’m not sure OMB will have time to update A-136 with additional FY 2021 changes to comply with the interpretation effective in FY 2021.*
- 2. Some agencies may not have treated material debt cancellation as a nonexchange revenue in FY 2020. This Interpretation does not address the restatement of FY 2020 statements in those situations. Recommend adding guidance since it is the intent of FASAB to “facilitate consistent accounting and reporting of debt cancellation on the SCNPs.” (I did notice that OMB added verbiage in their latest A-136 draft (pages 64-65) to address changes in accounting principles (prospective or retrospective) include those resulting from the adoption of new FASAB standards.*
- 3. Although not discussed in this interpretation, I do not foresee any reporting issues of the “parent” agency if the “child” agency incurred debt cancellation. Just mentioning for others to consider issues, if any.*
- 4. While the draft Interpretation just focuses on consistent accounting and reporting of debt cancellation on the SCNPs, several pre- and post-credit reform accounting issues may arise with the respective potential debt cancellation including, but not limited to, use of appropriations to finance pre-credit reform loans, reversal of allowances before debt cancellation, and changes in subsidy rate calculations for Credit Reform debt.*



July 21, 2021

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

RE: Proposed Interpretation titled Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313

Dear Mr. Scott:

We appreciate the opportunity to respond to the exposure draft (ED) of the proposed interpretation titled *Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313*. We have the following observations and suggestions for consideration.

Paragraphs 2 – 7

We support the Board's efforts to clarify existing standards when needed; however, we do not believe that paragraphs 2 – 7 improve the understandability of SFFAS 7 and SFFAC 2, which we believe already provide clear guidance that debt cancellation is a nonexchange activity that should be reported on the Statement of Changes in Net Position (SCNP). We recommend that the Board not move forward with these paragraphs.

Paragraph 8

We appreciate the clarification 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. We also agree, and believe it is widely understood, that management is responsible for the fairness of presentation of the financial statements. However, we believe that the last sentence in paragraph 8 is overly broad and could be interpreted to permit material debt cancellation to be presented as nonexchange revenue or appropriation used on the SCNP. We believe these presentations would not be appropriate based on the guidance in SFFAS 7 Appendix B. We suggest the following changes to the paragraph (added text underlined, deleted text struck-through,):

Paragraph 313 of SFFAS 7 provides, "As a result, the cancellation is a nonexchange gain to the entity that owed the debt and a nonexchange loss to the lender." This proposed Interpretation would clarify that paragraph 313 of SFFAS 7 should not be interpreted to require that a particular line item⁵ "gain" or "loss" be displayed on the SCNP. Rather, the proposed Interpretation requires that debt cancellation activity be included on the SCNP and that its line item presentation be consistent with the guidance in Appendix B in SFFAS 7. ~~Reporting entity management is responsible for determining the most appropriate line item presentation and display⁶ and related disclosures, such as contextual information about the debt cancellation (for example, the statutory authority cancelling the debt or the reason for the debt), if appropriate.~~

Paragraph 9

The last sentence in paragraph 9 states "This Interpretation does not provide guidance on budgetary accounting, which is issued by central agencies." Footnote 2 defines central agencies as the Department of the Treasury (Treasury), the Office of Management and Budget (OMB), and the Government

Accountability Office (GAO). We believe that this sentence and the footnote are inconsistent with SFFAS 7 paragraph 78, which states that "Recognition and measurement of budgetary resources should be based on budget concepts and definitions contained in OMB Circulars A-11 and A-34." Because SFFAS 7 does not state that budgetary accounting guidance is provided by the Department of the Treasury or GAO, and because the Department of the Treasury is a preparer of the government-wide financial statements and GAO is the auditor of the government-wide financial statements, we suggest the following changes to the last sentence of paragraph 9:

"This Interpretation does not provide guidance on budgetary accounting, which is issued by ~~central agencies~~ the Office of Management and Budget (OMB)."

Due to the placement of the footnote, it is unclear if it is intended to be included in the final Interpretation. Based on our changes to paragraph 9, footnote 2 would no longer apply.

If you have questions about our response, please contact Ms. Amanda Nelson at 202-533-5560 or aenelson@kpmg.com.

Sincerely,

KPMG LLP

KPMG LLP

July 22, 2021

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

Dear Ms. Valentine:

The Greater Washington Society of Certified Public Accountants (GWSCPA) Federal Issues and Standards Committee (FISC) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board (FASAB or “the Board”) Exposure Draft (ED) on the proposed Interpretation, *Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313*.

The GWSCPA consists of approximately 3,300 members, and the FISC includes nearly 20 GWSCPA members who are active in financial management, accounting, and auditing in the Federal sector. We sincerely appreciate the opportunity by the Board to share our views.

Our responses to the ED questions are included below.

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 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.

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.

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

- A1. The FISC agrees with the guidance for the reasons provided by the Board.
- 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?

- A2. The FISC recommends that the Board considers whether other FASAB documents and guidance besides those referenced above will need to also be updated to reflect the changes related to the form and content of the SCNP.
- 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.**
- A3. The FISC believes the proposed Interpretation clarifies the proper reporting of debt cancellation.

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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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

Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313

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.

Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313

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.

**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.
KIM.R.12285
06334**

Digitally signed by
LAURANCE.KIM.R.12
28506334
Date: 2021.07.23
08:03:35 -04'00'

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.”

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
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Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
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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).

Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313

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.

Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313

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).*

From: Simpson, Cynthia - OCFO <Simpson.Cynthia@dol.gov>

Sent: Friday, July 23, 2021 6:03 PM

To: FASAB <FASAB@fasab.gov>

Cc: Batchelor, Melissa L <BatchelorM@fasab.gov>; Simpson, Cynthia - OCFO <Simpson.Cynthia@dol.gov>; Maurer, Jennifer - OCFO <Maurer.Jennifer@dol.gov>; Wyes, Tesfaye T - OCFO <Wyes.Tesfaye.T@dol.gov>; Lin, Ching Yi - OCFO <Lin.Ching.Yi@dol.gov>; Sacchetti, Dylan M - OCFO <Sacchetti.Dylan.M@dol.gov>; Polen, Chris - OCFO <Polen.Chris.P@dol.gov>

Subject: US DOL/OCFO/DFR Comments on FASAB ED, "Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313"

Below please find comments from the U.S. Department of Labor (DOL), Office of the Chief Financial Officer (OCFO), Division of Financial Reporting (DFR), on the exposure draft of proposed Interpretation, "Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313." Comments were requested by July 23, 2021. DOL/OCFO/DFR is a Federal entity preparer.

We appreciate the opportunity to provide comments. If there are any questions, please contact:

Cynthia Simpson, simpson.cynthia@dol.gov or
Jennifer Maurer, Maurer.Jennifer@dol.gov

Regards,

Cynthia D. Simpson
U.S. Department of Labor
Office of the Chief Financial Officer
Division of Financial Reporting
~~~~~

Q.1. Do you agree or disagree with the guidance? Please provide the rationale for your answer.

**DOL/OCFO/DFR disagrees.**

**For the SFFAS 7, paragraph 313:**

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.

1. We disagree that the purpose of borrowing authority is generally to provide an entity with capital rather than to finance its operations. Currently, DOL has two social insurance programs that borrow from the Treasury: The Black Lung Disability Trust Fund (BLDTF) and the Unemployment Trust Fund (UTF). Both of these funds are also reported as funds from dedicated collections.

1a. From P.L. 110-343, enacted 10/03/2008, Division B--Energy Improvement and Extension Act of 2008, Section 113 [122 STAT. 3826]:

(B) **REPAYMENT OF OBLIGATIONS.**—In the event that the Trust Fund is unable to repay the obligations that it has issued to the Secretary of the Treasury under subparagraph (A)(i) and this subparagraph, or is unable to make benefit payments and other authorized expenditures, the Trust Fund shall issue obligations to the Secretary of the Treasury in such amounts as may be necessary to make such repayments, payments, and expenditures, with a maturity of 1 year, and bearing interest at the Treasury 1-year rate. These obligations shall be in such forms and denominations and be subject to such other terms and conditions as the Secretary of the Treasury shall prescribe.

The BLDTF is authorized to borrow from Treasury in the form of one-year obligations to make payments for repayments of debt, interest due on the debt, costs for benefits, and administrative costs. The BLDTF borrows from Treasury every year.

1b. The UTF borrows for two purposes:  
 Providing funding for the UTF's  
 -- Federal Unemployment Account (FUA) and  
 -- Extended Unemployment Compensation Account (EUCA)

Title XII, Section 1201 of the Social Security Act authorizes the FUA to loan Federal monies to state accounts that are otherwise unable to make benefit payments because a State's Unemployment Insurance account balance has been exhausted. When the FUA needs funds to loan to States, the FUA borrows as interest-bearing repayable Advances from U.S. Treasury; unemployment taxes repay this debt.

The Extended Unemployment Compensation Account (EUCA) was established pursuant to the Social Security Act Section 905 of the Social Security Act. EUCA provides for the payment of extended unemployment benefits (extended benefits) authorized under the Federal-State Extended Unemployment Compensation Act of 1970, as amended. In general, the cost of extended benefits is shared 50

percent Federal and 50 percent State. COVID-19 related legislation authorized 100 percent Federal funding of extended benefits through September 6, 2021. When EUCA needs funds to pay extended benefits the EUCA borrows as interest-bearing repayable Advances from U.S. Treasury; unemployment taxes repay this debt. During periods of sustained high unemployment, Congress may authorization legislation so that the EUCA may also receive payments and non-repayable advances from the General Fund of the Treasury to finance temporary emergency unemployment compensation benefits. The FUA and EUCA borrow from Treasury during years of higher unemployment. In FY 2020, the balances in the FUA and EUCA were depleted and the FUA and EUCA borrowed from the Treasury general fund as repayable Advances from U.S. Treasury. As of September 30, 2020, the FUA's outstanding advances totaled \$36.0 billion at rates between 1.75 and 2.0 percent; the EUCA repaid its advances as of September 30, 2020.

Based on the discussions above, we disagree that the purpose of borrowing authority is generally to provide an entity with capital rather than to finance operations; the borrowing is a result of operations.

**Q.2. Is there a need for additional clarity or consistency to the definition or use of the term "other financing sources" in FASAB documents or other guidance?**

Other financing sources should include non-recurring or infrequent transactions for which debt cancellation may be considered to be non-recurring or infrequent.

**Q.3. 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.**

The guidance for "cancellation of debt" could be more specific. For example, is it a cancellation of debt if

- old debt is replaced by new debt
- the old debt and new debt occur simultaneously (or if not, does the amount of time in between matter)
- the old debt is valued in the transaction at a value that is different from the balance sheet value
- the terms of the debt are re-negotiated, e.g., forgiven principal, forgiven interest, change in interest rates, extension of maturity dates/due dates of principal and interest, or any combination of these.

We ask the Board to consider this example from the BLDTF because it had the opposite effect: DOL reported a Loss on the Statement of Net Costs instead of a Gain in the Statement of Changes in Net Position.



On October 3, 2008, P.L. 110-343, Division B, section 113 authorized a transaction in which

- the BLDTF received an appropriation to pay the outstanding advances to U.S. Treasury, but the appropriation did not pay for all of it;
- the outstanding advances and interest were valued at “market value,” not carrying/book value, for the purposes of the transaction;
- the BLDTF issued new obligations similar in form to zero-coupon bonds (ZCBs) with staggered maturities on September 30 over the 32-year period 2009 through 2040;
- the ZCBs issued had interest rates between 1.412% and 4.556%;
- the debt removed from the balance sheet had higher interest rates;
- the law used the terms “Restructuring of trust fund debt” and “Refinancing of outstanding principal of repayable advances and unpaid interest on such advances”; and
- the BLDTF recognized a “Loss on debt refinancing” of \$2.5 billion that was reported as a separate line item in the Note 15.C, Consolidating Statement of Net Cost of the Employment Standards Administration for the Year Ended September 30, 2009 and was included in Net Program Cost (no separate line item) on the Statement of Net Cost for the Year Ended September 30, 2009.

Prior to the transaction, as of 09/30/2008, the debt was reported on the balance sheet at its carrying/book value of nearly \$10.5 billion. But, in accordance with the law, for the purposes of the transaction, the old debt was valued at “market value” by the Treasury.

**P.L. 110-343, Division B, Section 113 [122 STAT. 3825]**

**(2) REFINANCING OF OUTSTANDING PRINCIPAL OF REPAYABLE ADVANCES AND UNPAID INTEREST ON SUCH ADVANCES.—**

(A) TRANSFER TO GENERAL FUND.—On the refinancing date, the Trust Fund shall repay the market value of the outstanding repayable advances, plus accrued interest, by transferring into the general fund of the Treasury the following sums:

(i) The proceeds from obligations that the Trust Fund shall issue to the Secretary of the Treasury in such amounts as the Secretaries of Labor and the Treasury shall determine and bearing interest at the Treasury rate, and that shall be in such forms and denominations and be subject to such other terms and

For the BLDTF, the effect of the refinancing was to eliminate Advances from U.S. Treasury that had higher interest rates and replace them with ZCBs bearing interest rates between 1.412% and 4.556%. Treasury’s market value for the outstanding repayable Advances from U.S. Treasury, plus accrued interest, was nearly \$13.0 billion. The total par value of the zero coupon bonds was \$11.4 billion and the total proceeds to the BLDTF from the issuance of the ZCBs was nearly \$6.5 billion. The one-time appropriation amount was nearly \$6.5 billion.

The BLDTF recognized a loss of nearly \$2.5 billion for the difference between the market value of the outstanding advances, plus accrued interest, of nearly \$13.0 billion as determined by Treasury and the carrying value of the outstanding advances and accrued interest of nearly \$10.5 billion.

For your reference, DOL's FY 2009 financial statements may be found here:

<https://www.dol.gov/sites/dolgov/files/general/reports/2009annualreport.pdf>



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](mailto:jTao@doc.gov).

Sincerely,

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

Enclosure

**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"/>            |                                                |
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| 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"/>            |                                                |

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**Please identify your organization, if applicable.**

Organization:

*Please email your responses to [fasab@fasab.gov](mailto: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).

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<sup>1</sup> “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

<sup>1</sup> 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.

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.

## Exposure Draft Question for Respondents

*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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| Federal Entity (other)            | <input checked="" 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" value="Department of Housing and Urban Development"/> |
| Individual                        | <input type="checkbox"/>            |                                                                                                    |

**Please provide your name.**

Name:

**Please identify your organization, if applicable.**

Organization:

*Please email your responses to [fasab@fasab.gov](mailto: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).

## Exposure Draft Question for Respondents

*Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313*

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<sup>1</sup> “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.

**HUD Agrees. Debt cancellation is more feasible reported as a nonexchange transaction. The handling of debt can be different for different types of debt incurred by the agency. Determining the appropriate presentation and disclosure of debt in the Financial Statements and Notes should be up to the agency’s management.**

**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, there is not any need for additional language be provided for the use of “other financing sources”.**

---

<sup>1</sup> 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.

**Exposure Draft Question for Respondents***Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313*

- 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.

**Yes, this clarifies the uncertainty of debt cancellation posting and treatment for financial statement purposes.**

*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"/>            |                                                |
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| Federal Entity (auditor)          | <input type="checkbox"/>            |                                                |
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| 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](mailto: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).

**This proposed Interpretation would clarify that the standards provide that debt cancellation is a nonexchange activity and should be reported on the SCNP. This**



*Debt Cancellation:  
An Interpretation of SFFAS 7, paragraph 313*

proposed Interpretation would also clarify that paragraph 313 of SFFAS 7 should not be interpreted to require that a particular line item<sup>4</sup> “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.

HHS concurs with the guidance that debt cancellation should be reported on the Statement of Changes in Net Position (SCNP). The entity that writes-off or cancels the debt (i.e., lender) should classify the transactions as a non-exchange loss, while the trading partner (i.e. entity that owes the debt) should record a non-exchange gain and reduce the liability.

- 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?

HHS concurs with elimination the sub-categories “Budgetary Financing Sources” and “Other Financing Sources” presented under the Cumulative Results on the SCNP. This is also consistent with the updates in the latest draft of OMB Circular A-136. Considering there is no formal FASAB definition of “Other Financing Sources”, HHS believes additional clarity is needed when using the term in FASAB documents or other guidance.

- 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.

*Debt Cancellation:  
An Interpretation of SFFAS 7, paragraph 313*

HHS requests confirmation that the only accounting impact on the Balance Sheet, as a result of a debt cancellation, includes the reduction/elimination of the liabilities financial line item(s), and net position-related accounts. HHS would also like to confirm that FASAB's interpretation of debt cancellation only applies to intragovernmental transactions.

**ATTACHMENT 3**  
**Original Exposure Draft**  
**with MARKED CHANGES**

## DEBT CANCELLATION:

AN INTERPRETATION OF SFFAS 7, PARAGRAPH 313

### Interpretation of Federal Financial Accounting Standards

~~Exposure Draft~~

**Commented [BML1]:** Staff has accepted certain standard changes to convert the ED document to final pronouncement. Examples include removing the transmittal and question for respondents.

~~Written comments are requested by July 23, 2021~~

~~May 25 October XX, 2021~~

**Commented [BML2]:** Interpretations- Following an affirmative vote of majority of members, it is submitted to members representing OMB, GAO and Treasury for 45 days

## THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

Accounting standards are typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. FASAB publishes the proposed standards in an exposure draft for public comment. In some cases, FASAB publishes a discussion memorandum, invitation for comment, or preliminary views document on a specific topic before an exposure draft. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standards with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information and other items of interest are available at [www.fasab.gov](http://www.fasab.gov):

- [Memorandum of Understanding](#) among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board
- [Mission statement](#)
- [Documents for comment](#)
- [Statements of Federal Financial Accounting Standards and Concepts](#)
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## EXECUTIVE SUMMARY

### WHAT IS THE BOARD PROPOSING?

Issues were raised during audits related to the accounting treatment for debt cancellation that led to the need for review and clarification of paragraph 313 of Statement of Federal Financial Accounting Standards (SFFAS) 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. SFFAS 7, 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).

When considering paragraph 313 of SFFAS 7 and SFFAC 2 together, this ~~proposed~~ Interpretation ~~would clarify~~clarifies that the standards provide that debt cancellation is a nonexchange activity that should be reported on the SCNP. This ~~proposed~~ Interpretation ~~would~~ also ~~clarify~~clarifies that paragraph 313 of SFFAS 7 should not be interpreted to require that a particular line item<sup>1</sup> "gain" or "loss" be displayed on the SCNP.

In addition to the proprietary accounting and reporting discussed above, budgetary accounting should be considered. As noted in paragraph 313 of SFFAS 7, the cancellation of debt requires an Act of Congress. Each debt cancellation is governed by the particular language used in the enacted legislation canceling the debt. This ~~proposed~~ Interpretation ~~would does~~ not provide guidance on budgetary accounting, which is issued by the Office of Management and Budget (OMB) central agencies.<sup>2</sup>

### HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

~~This proposal would facilitate consistent accounting and reporting of debt cancellation on the SCNP. Proper classification is essential to constructing financial statements that meet the federal financial reporting objectives as they have been described in SFFAC 2.~~

<sup>1</sup> 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.

<sup>2</sup> "Central agencies" refers to the Department of the Treasury (Treasury), the Office of Management and Budget (OMB), and the Government Accountability Office (GAO).

## MATERIALITY

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The provisions of this Interpretation need not be applied to information if the effect of applying the provision(s) is immaterial.<sup>3</sup> A misstatement, including omission of information, is material if, in light of surrounding facts and circumstances, it could reasonably be expected that the judgment of a reasonable user relying on the information would change or be influenced by the correction or inclusion of the information. Materiality should be evaluated in the context of the specific reporting entity. Determining materiality requires appropriate and reasonable judgment in considering the specific facts, circumstances, size, and nature of the misstatement. Consequently, after quantitative and qualitative factors are considered, materiality may vary by financial statement, line item, or group of line items within an entity.

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<sup>3</sup> Refer to Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, chapter 7, titled *Materiality*, for a detailed discussion of the materiality concepts.

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## PROPOSED INTERPRETATION

### SCOPE

1. This Interpretation applies when a reporting entity is presenting general purpose federal financial reports (GPFFRs) in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

### INTERPRETATION

2. 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."

3. As provided in paragraph 32 of SFFAS 7, "Appendix B, 'Guidance for the Classification of Transactions,' provides authoritative guidance on which transactions should be classified as exchange transactions and which should be classified as nonexchange transactions or other financing sources." In addition, paragraph 63 of SFFAS 7 also states, "The various types of nonexchange revenue are described in Appendix B: Guidance for the Classification of Transactions. Some of these are not specifically mentioned in this standard."
4. Paragraph 313 is part of Appendix B: Guidance for the Classification of Transactions. As noted, the appendix provides authoritative guidance for the classification of major transactions. The introduction of Appendix B provides the following:

It is intended that these classifications—together with the explanation of these classifications, interpreted in the light of the Standards, the Basis for Conclusions, and the Introduction—will provide guidance for classifying all the financing transactions of the Government, including those that are not specifically listed. It should be understood that while some classifications are unequivocal, others are the result of balancing different considerations.

5. SFFAS 7, Appendix B includes cancellation of debt under Intragovernmental Transactions: Nonexchange transactions—intragovernmental: gains and losses.

6. 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).
7. When considering SFFAS 7, paragraph 313 and SFFAC 2 together, this ~~proposed~~ Interpretation ~~would clarify~~ clarifies that the standards provide that debt cancellation is a nonexchange activity that should be reported on the SCNP.
8. Paragraph 313 of SFFAS 7 provides, “As a result, the cancellation is a nonexchange gain to the entity that owed the debt and a nonexchange loss to the lender.” This ~~proposed~~ Interpretation ~~would clarify~~ clarifies that paragraph 313 of SFFAS 7 should not be interpreted to require that a particular line item<sup>4</sup> “gain” or “loss” be displayed on the SCNP. Rather, ~~the~~ this proposed Interpretation requires that debt cancellation activity be included on the SCNP and be consistent with guidance in SFFAS 7, Appendix B. Reporting entity management is responsible for determining the most appropriate line item presentation and display<sup>5</sup> and related disclosures, such as contextual information about the debt cancellation (for example, the statutory authority cancelling the debt or the reason for the debt), if appropriate.
9. In addition to the proprietary accounting and reporting discussed above, budgetary accounting should be considered. As noted in paragraph 313 of SFFAS 7, the cancellation of debt requires an Act of Congress. Each debt cancellation is governed by the particular language used in the enacted legislation canceling the debt. For example, Congress may provide an appropriation to the agency for the purposes of cancelling the debt or it may cancel the debt without providing an appropriation. This Interpretation does not provide guidance on budgetary accounting, which is issued by the Office of Management and Budget (OMB) ~~central agencies~~.

#### EFFECTIVE DATE

10. The requirements of this Interpretation are effective upon issuance.

The provisions of this Interpretation need not be applied to information if the effect of applying the provision(s) is immaterial. Refer to Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, chapter 7, titled *Materiality*, for a detailed discussion of the materiality concepts.

<sup>4</sup> 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.

<sup>5</sup> OMB prescribes form and content in OMB Circular A-136, *Financial Reporting Requirements*, based on the requirements and guidance contained in FASAB standards but also may provide more specific detailed instructions. See the Basis for Conclusions paragraphs A21-A22 for additional discussion.

## APPENDIX A: BASIS FOR CONCLUSIONS

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This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Interpretation. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Interpretation—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

This Interpretation may be affected by later Statements or pronouncements. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent pronouncements that amend this Interpretation. Within the text of the documents, the authoritative sections are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Statement or other pronouncement for the rationale for each amendment.

### BACKGROUND

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- A1. The Federal Accounting Standards Advisory Board (FASAB or “the Board”) was asked to review paragraph 313 of SFFAS 7, which pertains to debt cancellation, to determine if it needs to be revised. Specifically, issues were raised during audits related to the proper accounting treatment of a cancellation of debt that affected several reporting entities.

#### Debt Cancellation Example

- A2. The request for guidance was based on an issue where an agency borrowed from the Department of the Treasury (Treasury) resulting in a payable/receivable relationship. Congress canceled debt through legislation and relieved the agency of liability.
- A3. Each debt cancellation is governed by the particular language used in the enacted legislation canceling the debt. For example, Congress may provide an appropriation to the agency for the purposes of cancelling the debt or it may simply cancel the debt without providing an appropriation. In this particular example, the debt was canceled without providing an appropriation.
- A4. Treasury’s Bureau of the Fiscal Service (Fiscal Service) is responsible for prescribing the accounting posting logic for the agencies through the Treasury Financial Manual. Fiscal Service is also responsible for ensuring proper application of intragovernmental eliminations at the government-wide financial reporting level. The Office of Management and Budget (OMB) and Treasury determined the posting logic for the debt cancellation scenario described in this ~~proposed~~ Interpretation. Treasury and OMB concurred that a negative surplus warrant should be used. Per the Fiscal Service guidance, which Treasury and OMB agreed upon, the agency was required to show an increase to Fund Balance with Treasury (FBWT) and a subsequent decrease to FBWT representing debt repayment to implement the cancellation. The posting logic resulted in the agency reporting what appeared like an appropriation provided by the legislation by recording the debt cancellation as a budgetary financing source on its SCNP.
- A5. However, the reporting entities disagreed on the proper entries. Specifically, the auditors of the agency that was relieved of the liability believed the cancellation of debt should be reported on the SCNP but recognized as nonexchange gain in accordance with SFFAS 7

because the legislation did not provide for an appropriation. The auditors did not agree with Fiscal Service's prescribed posting logic and identified this treatment as a material weakness. To avoid losing its unmodified opinions on its agency financial report and closing package audits, the agency made the correcting entry required by the auditors to reverse the posting logic and recognize a nonexchange gain on the SCNP.

#### GAAP Guidance

A6. SFFAS 7 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.

A7. Paragraph 313 is part of Appendix B, Guidance for the Classification of Transactions in SFFAS 7. Appendix B provides authoritative guidance on classifying transactions. Specifically, the appendix provides guidance for the classification of specific transactions based on the standards for accounting for revenue and "other financing sources," and the reasoning behind these standards as explained in the Introduction and the Basis for Conclusions. Cancellation of debt is included under Intragovernmental Transactions: Nonexchange transactions—intragovernmental: gains and losses.

A8. Not only is the transaction labeled a nonexchange transaction per the Appendix B Table of Transactions in SFFAS 7, but paragraph 313 of SFFAS 7 clearly provides that debt cancellation is nonexchange activity by stating, "As a result, the cancellation is a nonexchange gain to the entity that owed the debt and a nonexchange loss to the lender." Understanding that debt cancellation is nonexchange activity is very important because it specifies reporting as prescribed in SFFAC 2.

A9. The Introduction of SFFAS 7, paragraphs 16-17 provides the following explanation regarding the difference between nonexchange and exchange revenue:

16. The essential differences among exchange revenues, nonexchange revenues, and other financing sources affect the way they are recognized and measured under the accrual method of accounting. Properly classifying these inflows according to their nature, therefore, provides the basis for applying different accrual accounting principles. In addition, proper classification is essential to constructing financial statements that meet the federal financial reporting objectives as they have been described in Statement of Federal Financial Accounting Concepts No. 2, *Entity and Display*.

17. To help meet those objectives, classifications were developed to determine what specific kinds of revenue should be deducted from the cost of providing goods and services by the reporting entities. Only revenue classified as

exchange revenue should be matched with costs. Nonexchange revenue and other financing sources are not matched with costs because they are not earned in the operations process. Because they are inflows that finance operations, nonexchange revenues and other financing sources should be classified in accordance with other rules and should be recognized only in determining the overall financial results of operations for the period. This differs from the focus used in the private sector, where the focus is on net income for business organizations, and on changes in net assets for not-for-profit organizations. It is also a different focus from that used previously in reporting on U.S. Government operations. Under the old federal accounting standards, the focus was on matching all of an entity's financing with incurred expenses to report "net results of operations" which generally was not useful in evaluating performance. The new focus is on costs—both gross and net—which are useful in evaluating performance on many levels.

- A10. Paragraph 21 of SFFAS 7 provides further explanation regarding nonexchange revenue and why it should not be reported with net costs as follows:

Nonexchange revenue transactions do not require a Government entity to give value directly in exchange for the inflow of resources. The Government does not "earn" the nonexchange revenue. The cost that nonexchange revenue finances falls on those who pay the taxes and make the other nonexchange payments to the Government. The different character of nonexchange revenues requires that they be distinguished from exchange revenues. They should, therefore, be shown in a way that does not obscure the entity's net cost of operations.

- A11. SFFAC 2, paragraph 100 provides that nonexchange activity is reported on the SCNP. Therefore, previous Boards were clear that debt cancellation activity is nonexchange and should be reported on the SCNP.

- A12. It should also be noted that paragraph 133 of SFFAS 7 states:

Gains and losses are recognized rather than revenues and expenses in order to differentiate unusual or nonrecurring transactions for evaluating an entity's performance or setting its prices. Material gains and losses are expected to be infrequent. They would normally be of a type that management would want to be considered in appraisals of its operations.

- A13. Further, the Board also discussed the relationship between revenues and gains in SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*, as follows:

55. Existing standards or established practice may indicate that certain increases and decreases in assets should be reported as gains and losses, rather than revenues and expenses. Use of the terms *gains* and *losses* generally serves to highlight particular features of certain revenues and expenses, such as their unusual or non-recurring nature or their having resulted from peripheral or incidental activities of an entity.

56. The definitions of revenue and expense in this Statement include items that might be reported as gains and losses. Gains and losses are considered subsets of revenues and expenses, rather than distinct elements, just as capital assets and financial assets are considered subsets of assets. Whether certain kinds of revenues and expenses should be reported as gains and losses and, if so, under what circumstances, is beyond the scope of this Statement.

- A14. SFFAS 7 also provides discussion of budgetary accounting as it pertains to meeting the objectives of federal financial reporting. For example, SFFAS 7, Introduction paragraphs 23-26 discuss the budgetary accounting perspective. SFFAS 7, paragraphs 77-82 discuss budgetary accounting and current disclosures. In addition, paragraphs 203-223 of the Basis for Conclusions provide further rationale and explanation of SFFAS 7 specific to budgetary principles, the budget process, and its link to proprietary accounting. (These paragraphs have been included at Appendix B - Excerpts from SFFAS 7 as a reference in this exposure draft and will be removed before the Interpretation is issued as final.)

#### **Nonexchange Activity Reported on Statement of Changes in Net Position**

- A15. When considering SFFAS 7 and SFFAC 2 together, GAAP clearly provides that debt cancellation is nonexchange activity that should be reported on the SCNP. It is important to note that paragraph 313 of SFFAS 7 provides, "As a result, the cancellation is a nonexchange gain to the entity that owed the debt and a nonexchange loss to the lender."
- A16. However, the Board recognizes that there could be uncertainty conceptually with respect to applying "gain" and "loss" to intragovernmental transactions. The Board believes the previous Board was clear in its intent by classifying debt cancellation as nonexchange. However, valid concerns were raised regarding the potential ambiguity of the terms "gain" and "loss" in the context of intragovernmental transactions, and therefore, the Board believed it important to clarify that ambiguity through this ~~proposed~~ Interpretation.
- A17. This Interpretation clarifies that paragraph 313 of SFFAS 7 should not be interpreted to require that a line item "gain" or "loss" be displayed on the SCNP, only that debt cancellation activity be included on the SCNP.
- A18. 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 due to materiality or may need to be included with other items for presentation. Instead, most standards allow reporting entities flexibility in determining the best presentation. The Board did not prescribe specific line items for display in paragraph 313 of SFFAS 7. Reporting entity management is responsible for determining the most appropriate presentation and display. Much judgment and consideration of materiality is required and ~~would be~~ specific to each reporting entity.
- A19. In addition to the proprietary accounting and reporting discussed above, budgetary accounting should be considered. As noted in paragraph 313 of SFFAS 7, the cancellation of debt requires an Act of Congress. Each debt cancellation is governed by the particular language used in the enacted legislation canceling the debt. For example, Congress may provide an appropriation to the agency for the purposes of cancelling the debt or it may simply cancel the debt without providing an appropriation.

A20. As noted, this Interpretation does not provide guidance on budgetary accounting. Central agencies provide guidance on budgetary accounting<sup>6</sup> for debt cancellation based upon language provided in the legislation canceling the debt and based upon budget concepts. For example, OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, provides instructions on budget execution, including guidance on the apportionment and reappropriation process, a report on budget execution and budgetary resources (SF 133), and a checklist for fund control regulations. In addition, the Treasury Financial Manual is Fiscal Service's official publication of policies, procedures, and instructions concerning financial management in the federal government.

#### OMB A-136 Form and Content

A21. OMB specifies the form and content of agency financial statements, pursuant to its authority under the Chief Financial Officers Act of 1990, as amended (31 U.S.C. § 3515(d)) through issuance of Bulletins and Circulars. OMB prescribes form and content in OMB Circular A-136, *Financial Reporting Requirements*, based on the requirements and guidance contained in FASAB standards but also may provide more specific detailed instructions.

A22. As part of the research on this project, FASAB coordinated with OMB and determined that certain changes to the form and content requirements provided for the SCNP in A-136 ~~would~~ ensure clarity and consistency with GAAP. Specifically, eliminating the sub-categories "Budgetary Financing Sources" and "Other Financing Sources (Nonexchange)" presented under the Cumulative Results on the SCNP ~~would simplify~~ simplifies the presentation and thereby enhance the clarity.

#### Disclosures

A23. The Board considered whether this ~~proposed~~ Interpretation should clarify disclosures. The Board believed it important to remind users that management is responsible for reporting, presentation, and display. Therefore, this ~~would~~ include consideration of additional disclosures. The reporting entity may believe it relevant to provide readers information about debt cancellation and the impact<sup>7</sup> of the debt cancellation.

#### SUMMARY OF OUTREACH EFFORTS AND RESPONSES

A24. FASAB issued the exposure draft (ED), *Debt Cancellation: An Interpretation of SFFAS 7*, Paragraph 313, on May 25, 2021, with comments requested by July 23, 2021.

<sup>6</sup> See paragraphs 23-26 and paragraphs 77-82 of SFFAS 7 for discussion about budgetary information and the budgetary accounting perspective. In addition, paragraphs 203-223 of the Basis for Conclusions provides further rationale and explanation of SFFAS 7 specific to budgetary principles, the budget process and its link to proprietary accounting.

<sup>7</sup> For example, if a cancellation of debt is for a business-type activity, and it prevents the reporting entity from having to increase future charges for goods or services the reporting entity should disclose this. In addition, a summary of the impact of the cancellation on the reporting entity, the lender, and current and future users of the goods or services could be provided.

A25. Upon release of the ED, FASAB notified constituents through the FASAB website and listserv, the Federal Register, and FASAB newsletter. FASAB also provided news releases to its press contacts, including various news organizations and committees of professional associations generally commenting on EDs in the past. Staff also provided copies of the ED directly to agencies that were directly impacted by the particular issue in prior years.

A26. To encourage responses, a reminder notice was provided to FASAB's listserv near the comment deadline.

A27. FASAB received 16 comment letters from preparers, auditors, professional associations, and users of federal financial information. The Board considered responses to the ED at its August 2021 meeting. The Board did not rely on the number in favor of or opposed to a given position. The Board considered each response and weighed the merits of the points raised. The respondents' comments are summarized below.

A28. The majority of respondents generally agreed with the Interpretation. Specifically, respondents generally agreed the Interpretation clarified that that the standards provide that debt cancellation is a nonexchange activity that should be reported on the SCNP. The Interpretation also clarifies 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.

A29. Certain respondents provided minor editorial clarifications that were carefully considered and incorporated.

#### BOARD APPROVAL

A30. This Interpretation was [TBD approved] for issuance by all members of the Board.



## APPENDIX B: ABBREVIATIONS

**Commented [BML3]:** Just a reminder note- Staff removed the SFFAS 7 Excerpts that were included with the Exposure Draft as an Appendix. The Board suggested that it be included with the ED but removed for final.

|       |                                                     |
|-------|-----------------------------------------------------|
| FASAB | Federal Accounting Standards Advisory Board         |
| GAAP  | Generally Accepted Accounting Principles            |
| GPFFR | General Purpose Federal Financial Report            |
| OMB   | Office of Management and Budget                     |
| SCNP  | Statement of Changes in Net Position                |
| SFFAC | Statement of Federal Financial Accounting Concepts  |
| SFFAS | Statement of Federal Financial Accounting Standards |

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## **ATTACHMENT 4**

**Clean proposed Interpretation,**

***Debt Cancellation: An Interpretation of  
SFFAS 7, Paragraph 313***

**DEBT CANCELLATION:**  
AN INTERPRETATION OF SFFAS 7, PARAGRAPH 313

**Interpretation of Federal Financial Accounting Standards**

October XX, 2021

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## THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

Accounting standards are typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. FASAB publishes the proposed standards in an exposure draft for public comment. In some cases, FASAB publishes a discussion memorandum, invitation for comment, or preliminary views document on a specific topic before an exposure draft. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standards with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information and other items of interest are available at [www.fasab.gov](http://www.fasab.gov):

- [Memorandum of Understanding](#) among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board
- [Mission statement](#)
- [Documents for comment](#)
- [Statements of Federal Financial Accounting Standards and Concepts](#)
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## SUMMARY

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Issues were raised during audits related to the accounting treatment for debt cancellation that led to the need for review and clarification of paragraph 313 of Statement of Federal Financial Accounting Standards (SFFAS) 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. SFFAS 7, 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). When considering paragraph 313 of SFFAS 7 and SFFAC 2 together, this Interpretation clarifies that the standards provide that debt cancellation is a nonexchange activity that should be reported on the SCNP. This Interpretation also clarifies that paragraph 313 of SFFAS 7 should not be interpreted to require that a particular line item<sup>1</sup> “gain” or “loss” be displayed on the SCNP.

In addition to the proprietary accounting and reporting discussed above, budgetary accounting should be considered. As noted in paragraph 313 of SFFAS 7, the cancellation of debt requires an Act of Congress. Each debt cancellation is governed by the particular language used in the enacted legislation canceling the debt. This Interpretation does not provide guidance on budgetary accounting, which is issued by the Office of Management and Budget (OMB).

## MATERIALITY

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The provisions of this Interpretation need not be applied to information if the effect of applying the provision(s) is immaterial.<sup>2</sup> A misstatement, including omission of information, is material if, in light of surrounding facts and circumstances, it could reasonably be expected that the judgment of a reasonable user relying on the information would change or be influenced by the correction or inclusion of the information. Materiality should be evaluated in the context of the specific reporting entity. Determining materiality requires appropriate and reasonable judgment in considering the specific facts, circumstances, size, and nature of the misstatement.

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<sup>1</sup> 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.

<sup>2</sup> Refer to Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, chapter 7, titled *Materiality*, for a detailed discussion of the materiality concepts.

Consequently, after quantitative and qualitative factors are considered, materiality may vary by financial statement, line item, or group of line items within an entity.

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## INTERPRETATION

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### SCOPE

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1. This Interpretation applies when a reporting entity is presenting general purpose federal financial reports (GPFFRs) in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

### INTERPRETATION

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2. 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."

3. As provided in paragraph 32 of SFFAS 7, "Appendix B, 'Guidance for the Classification of Transactions,' provides authoritative guidance on which transactions should be classified as exchange transactions and which should be classified as nonexchange transactions or other financing sources." In addition, paragraph 63 of SFFAS 7 also states, "The various types of nonexchange revenue are described in Appendix B: Guidance for the Classification of Transactions. Some of these are not specifically mentioned in this standard."
4. Paragraph 313 is part of Appendix B: Guidance for the Classification of Transactions. As noted, the appendix provides authoritative guidance for the classification of major transactions. The introduction of Appendix B provides the following:

It is intended that these classifications--together with the explanation of these classifications, interpreted in the light of the Standards, the Basis for Conclusions, and the Introduction--will provide guidance for classifying all the financing transactions of the Government, including those that are not specifically listed. It should be understood that while some classifications are unequivocal, others are the result of balancing different considerations.

5. SFFAS 7, Appendix B includes cancellation of debt under Intragovernmental Transactions: Nonexchange transactions—intragovernmental: gains and losses.

6. 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).
7. When considering SFFAS 7, paragraph 313 and SFFAC 2 together, this Interpretation clarifies that the standards provide that debt cancellation is a nonexchange activity that should be reported on the SCNP.
8. Paragraph 313 of SFFAS 7 provides, “As a result, the cancellation is a nonexchange gain to the entity that owed the debt and a nonexchange loss to the lender.” This Interpretation clarifies that paragraph 313 of SFFAS 7 should not be interpreted to require that a particular line item<sup>3</sup> “gain” or “loss” be displayed on the SCNP. Rather, this Interpretation requires that debt cancellation activity be included on the SCNP and be consistent with guidance in SFFAS 7, Appendix B. Reporting entity management is responsible for determining the most appropriate line item presentation and display<sup>4</sup> and related disclosures, such as contextual information about the debt cancellation (for example, the statutory authority cancelling the debt or the reason for the debt), if appropriate.
9. In addition to the proprietary accounting and reporting discussed above, budgetary accounting should be considered. As noted in paragraph 313 of SFFAS 7, the cancellation of debt requires an Act of Congress. Each debt cancellation is governed by the particular language used in the enacted legislation canceling the debt. For example, Congress may provide an appropriation to the agency for the purposes of cancelling the debt or it may cancel the debt without providing an appropriation. This Interpretation does not provide guidance on budgetary accounting, which is issued by the Office of Management and Budget (OMB).

## EFFECTIVE DATE

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10. The requirements of this Interpretation are effective upon issuance.

The provisions of this Interpretation need not be applied to information if the effect of applying the provision(s) is immaterial. Refer to Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, chapter 7, titled *Materiality*, for a detailed discussion of the materiality concepts.

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<sup>3</sup> 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.

<sup>4</sup> OMB prescribes form and content in OMB Circular A-136, *Financial Reporting Requirements*, based on the requirements and guidance contained in FASAB standards but also may provide more specific detailed instructions. See the Basis for Conclusions paragraphs A21-A22 for additional discussion.

## APPENDIX A: BASIS FOR CONCLUSIONS

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This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Interpretation. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Interpretation—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

This Interpretation may be affected by later Statements or pronouncements. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent pronouncements that amend this Interpretation. Within the text of the documents, the authoritative sections are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Statement or other pronouncement for the rationale for each amendment.

### BACKGROUND

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- A1. The Federal Accounting Standards Advisory Board (FASAB or “the Board”) was asked to review paragraph 313 of SFFAS 7, which pertains to debt cancellation, to determine if it needs to be revised. Specifically, issues were raised during audits related to the proper accounting treatment of a cancellation of debt that affected several reporting entities.

#### **Debt Cancellation Example**

- A2. The request for guidance was based on an issue where an agency borrowed from the Department of the Treasury (Treasury) resulting in a payable/receivable relationship. Congress canceled debt through legislation and relieved the agency of liability.
- A3. Each debt cancellation is governed by the particular language used in the enacted legislation canceling the debt. For example, Congress may provide an appropriation to the agency for the purposes of cancelling the debt or it may simply cancel the debt without providing an appropriation. In this particular example, the debt was canceled without providing an appropriation.
- A4. Treasury’s Bureau of the Fiscal Service (Fiscal Service) is responsible for prescribing the accounting posting logic for the agencies through the Treasury Financial Manual. Fiscal Service is also responsible for ensuring proper application of intragovernmental eliminations at the government-wide financial reporting level. The Office of Management and Budget (OMB) and Treasury determined the posting logic for the debt cancellation scenario described in this Interpretation. Treasury and OMB concurred that a negative surplus warrant should be used. Per the Fiscal Service guidance, which Treasury and OMB agreed upon, the agency was required to show an increase to Fund Balance with Treasury (FBWT) and a subsequent decrease to FBWT representing debt repayment to implement the cancellation. The posting logic resulted in the agency reporting what appeared like an appropriation provided by the legislation by recording the debt cancellation as a budgetary financing source on its SCNP.
- A5. However, the reporting entities disagreed on the proper entries. Specifically, the auditors of the agency that was relieved of the liability believed the cancellation of debt should be reported on the SCNP but recognized as nonexchange gain in accordance with SFFAS 7

because the legislation did not provide for an appropriation. The auditors did not agree with Fiscal Service's prescribed posting logic and identified this treatment as a material weakness. To avoid losing its unmodified opinions on its agency financial report and closing package audits, the agency made the correcting entry required by the auditors to reverse the posting logic and recognize a nonexchange gain on the SCNPN.

## GAAP Guidance

A6. SFFAS 7 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.

A7. Paragraph 313 is part of Appendix B, Guidance for the Classification of Transactions in SFFAS 7. Appendix B provides authoritative guidance on classifying transactions. Specifically, the appendix provides guidance for the classification of specific transactions based on the standards for accounting for revenue and "other financing sources," and the reasoning behind these standards as explained in the Introduction and the Basis for Conclusions. Cancellation of debt is included under Intragovernmental Transactions: Nonexchange transactions—intragovernmental: gains and losses.

A8. Not only is the transaction labeled a nonexchange transaction per the Appendix B Table of Transactions in SFFAS 7, but paragraph 313 of SFFAS 7 clearly provides that debt cancellation is nonexchange activity by stating, "As a result, the cancellation is a nonexchange gain to the entity that owed the debt and a nonexchange loss to the lender." Understanding that debt cancellation is nonexchange activity is very important because it specifies reporting as prescribed in SFFAC 2.

A9. The Introduction of SFFAS 7, paragraphs 16-17 provides the following explanation regarding the difference between nonexchange and exchange revenue:

16. The essential differences among exchange revenues, nonexchange revenues, and other financing sources affect the way they are recognized and measured under the accrual method of accounting. Properly classifying these inflows according to their nature, therefore, provides the basis for applying different accrual accounting principles. In addition, proper classification is essential to constructing financial statements that meet the federal financial reporting objectives as they have been described in Statement of Federal Financial Accounting Concepts No. 2, *Entity and Display*.

17. To help meet those objectives, classifications were developed to determine what specific kinds of revenue should be deducted from the cost of providing goods and services by the reporting entities. Only revenue classified as

exchange revenue should be matched with costs. Nonexchange revenue and other financing sources are not matched with costs because they are not earned in the operations process. Because they are inflows that finance operations, nonexchange revenues and other financing sources should be classified in accordance with other rules and should be recognized only in determining the overall financial results of operations for the period. This differs from the focus used in the private sector, where the focus is on net income for business organizations, and on changes in net assets for not-for-profit organizations. It is also a different focus from that used previously in reporting on U.S. Government operations. Under the old federal accounting standards, the focus was on matching all of an entity's financing with incurred expenses to report "net results of operations" which generally was not useful in evaluating performance. The new focus is on costs—both gross and net—which are useful in evaluating performance on many levels.

- A10. Paragraph 21 of SFFAS 7 provides further explanation regarding nonexchange revenue and why it should not be reported with net costs as follows:

Nonexchange revenue transactions do not require a Government entity to give value directly in exchange for the inflow of resources. The Government does not "earn" the nonexchange revenue. The cost that nonexchange revenue finances falls on those who pay the taxes and make the other nonexchange payments to the Government. The different character of nonexchange revenues requires that they be distinguished from exchange revenues. They should, therefore, be shown in a way that does not obscure the entity's net cost of operations.

- A11. SFFAC 2, paragraph 100 provides that nonexchange activity is reported on the SCNP. Therefore, previous Boards were clear that debt cancellation activity is nonexchange and should be reported on the SCNP.

- A12. It should also be noted that paragraph 133 of SFFAS 7 states:

Gains and losses are recognized rather than revenues and expenses in order to differentiate unusual or nonrecurring transactions for evaluating an entity's performance or setting its prices. Material gains and losses are expected to be infrequent. They would normally be of a type that management would want to be considered in appraisals of its operations.

- A13. Further, the Board also discussed the relationship between revenues and gains in SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*, as follows:

55. Existing standards or established practice may indicate that certain increases and decreases in assets should be reported as gains and losses, rather than revenues and expenses. Use of the terms *gains* and *losses* generally serves to highlight particular features of certain revenues and expenses, such as their unusual or non-recurring nature or their having resulted from peripheral or incidental activities of an entity.

56. The definitions of revenue and expense in this Statement include items that might be reported as gains and losses. Gains and losses are considered subsets of revenues and expenses, rather than distinct elements, just as capital assets and financial assets are considered subsets of assets. Whether certain kinds of revenues and expenses should be reported as gains and losses and, if so, under what circumstances, is beyond the scope of this Statement.

- A14. SFFAS 7 also provides discussion of budgetary accounting as it pertains to meeting the objectives of federal financial reporting. For example, SFFAS 7, Introduction paragraphs 23-26 discuss the budgetary accounting perspective. SFFAS 7, paragraphs 77-82 discuss budgetary accounting and current disclosures. In addition, paragraphs 203-223 of the Basis for Conclusions provide further rationale and explanation of SFFAS 7 specific to budgetary principles, the budget process, and its link to proprietary accounting. (These paragraphs have been included at Appendix B - Excerpts from SFFAS 7 as a reference in this exposure draft and will be removed before the Interpretation is issued as final.)

### **Nonexchange Activity Reported on Statement of Changes in Net Position**

- A15. When considering SFFAS 7 and SFFAC 2 together, GAAP clearly provides that debt cancellation is nonexchange activity that should be reported on the SCNP. It is important to note that paragraph 313 of SFFAS 7 provides, “As a result, the cancellation is a nonexchange gain to the entity that owed the debt and a nonexchange loss to the lender.”
- A16. However, the Board recognizes that there could be uncertainty conceptually with respect to applying “gain” and “loss” to intragovernmental transactions. The Board believes the previous Board was clear in its intent by classifying debt cancellation as nonexchange. However, valid concerns were raised regarding the potential ambiguity of the terms “gain” and “loss” in the context of intragovernmental transactions, and therefore, the Board believed it important to clarify that ambiguity through this Interpretation.
- A17. This Interpretation clarifies that paragraph 313 of SFFAS 7 should not be interpreted to require that a line item “gain” or “loss” be displayed on the SCNP, only that debt cancellation activity be included on the SCNP.
- A18. 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 due to materiality or may need to be included with other items for presentation. Instead, most standards allow reporting entities flexibility in determining the best presentation. The Board did not prescribe specific line items for display in paragraph 313 of SFFAS 7. Reporting entity management is responsible for determining the most appropriate presentation and display. Much judgment and consideration of materiality is required and is specific to each reporting entity.
- A19. In addition to the proprietary accounting and reporting discussed above, budgetary accounting should be considered. As noted in paragraph 313 of SFFAS 7, the cancellation of debt requires an Act of Congress. Each debt cancellation is governed by the particular language used in the enacted legislation canceling the debt. For example, Congress may provide an appropriation to the agency for the purposes of cancelling the debt or it may simply cancel the debt without providing an appropriation.



A20. As noted, this Interpretation does not provide guidance on budgetary accounting. Central agencies provide guidance on budgetary accounting<sup>5</sup> for debt cancellation based upon language provided in the legislation canceling the debt and based upon budget concepts. For example, OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, provides instructions on budget execution, including guidance on the apportionment and reapportionment process, a report on budget execution and budgetary resources (SF 133), and a checklist for fund control regulations. In addition, the Treasury Financial Manual is Fiscal Service's official publication of policies, procedures, and instructions concerning financial management in the federal government.

### **OMB A-136 Form and Content**

- A21. OMB specifies the form and content of agency financial statements, pursuant to its authority under the Chief Financial Officers Act of 1990, as amended (31 U.S.C. § 3515(d)) through issuance of Bulletins and Circulars. OMB prescribes form and content in OMB Circular A-136, *Financial Reporting Requirements*, based on the requirements and guidance contained in FASAB standards but also may provide more specific detailed instructions.
- A22. As part of the research on this project, FASAB coordinated with OMB and determined that certain changes to the form and content requirements provided for the SCNP in A-136 ensures clarity and consistency with GAAP. Specifically, eliminating the sub-categories "Budgetary Financing Sources" and "Other Financing Sources (Nonexchange)" presented under the Cumulative Results on the SCNP simplifies the presentation and thereby enhance the clarity.

### **Disclosures**

- A23. The Board considered whether this Interpretation should clarify disclosures. The Board believed it important to remind users that management is responsible for reporting, presentation, and display. Therefore, this includes consideration of additional disclosures. The reporting entity may believe it relevant to provide readers information about debt cancellation and the impact<sup>6</sup> of the debt cancellation.

## **SUMMARY OF OUTREACH EFFORTS AND RESPONSES**

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- A24. FASAB issued the exposure draft (ED), *Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313*, on May 25, 2021, with comments requested by July 23, 2021.

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<sup>5</sup> See paragraphs 23-26 and paragraphs 77-82 of SFFAS 7 for discussion about budgetary information and the budgetary accounting perspective. In addition, paragraphs 203-223 of the Basis for Conclusions provides further rationale and explanation of SFFAS 7 specific to budgetary principles, the budget process and its link to proprietary accounting.

<sup>6</sup> For example, if a cancellation of debt is for a business-type activity, and it prevents the reporting entity from having to increase future charges for goods or services the reporting entity should disclose this. In addition, a summary of the impact of the cancellation on the reporting entity, the lender, and current and future users of the goods or services could be provided.

- A25. Upon release of the ED, FASAB notified constituents through the FASAB website and listserv, the Federal Register, and FASAB newsletter. FASAB also provided news releases to its press contacts, including various news organizations and committees of professional associations generally commenting on EDs in the past. Staff also provided copies of the ED directly to agencies that were directly impacted by the particular issue in prior years.
- A26. To encourage responses, a reminder notice was provided to FASAB's listserv near the comment deadline.
- A27. FASAB received 16 comment letters from preparers, auditors, professional associations, and users of federal financial information. The Board considered responses to the ED at its August 2021 meeting. The Board did not rely on the number in favor of or opposed to a given position. The Board considered each response and weighed the merits of the points raised. The respondents' comments are summarized below.
- A28. The majority of respondents generally agreed with the Interpretation. Specifically, respondents generally agreed the Interpretation clarified that the standards provide that debt cancellation is a nonexchange activity that should be reported on the SCNP. The Interpretation also clarifies 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.
- A29. Certain respondents provided minor editorial clarifications that were carefully considered and incorporated.

#### BOARD APPROVAL

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- A30. This Interpretation was [TBD approved] for issuance by all members of the Board.



## APPENDIX B: ABBREVIATIONS

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|       |                                                     |
|-------|-----------------------------------------------------|
| FASAB | Federal Accounting Standards Advisory Board         |
| GAAP  | Generally Accepted Accounting Principles            |
| GPFFR | General Purpose Federal Financial Report            |
| OMB   | Office of Management and Budget                     |
| SCNP  | Statement of Changes in Net Position                |
| SFFAC | Statement of Federal Financial Accounting Concepts  |
| SFFAS | Statement of Federal Financial Accounting Standards |

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