

Memorandum Reexamination

October 15, 2021

To: Members of the Board
From: Monica R. Valentine, Executive Director
Subject: **Reexamination of Existing Standards** (Topic D)

INTRODUCTION

The Board believes that the accounting standards should be periodically reexamined to assess their current applicability and to eliminate or revise unnecessary requirements. As such, the Board approved moving the reexamination project from the Board's research agenda to an active technical project at the August 2021 meeting's technical agenda-setting session. The project objective is to reexamine FASAB's existing standards to assess their current relevance and to identify opportunities to streamline authoritative guidance.

Given the Board's commitment to the success of the reexamination project, the Board requested staff to fully vet options on how to best approach the project prior to committing significant resources. For this topic discussion, staff is seeking the Board's feedback on the plan to request input from the public and the general organization of the invitation to comment, along with a preliminary list of potential questions.

REQUEST FOR FEEDBACK BY OCTOBER 22

Prior to the Board's October meeting, please review the attached staff recommendations and analyses and respond to the ensuing questions by October 22.

Please submit responses to me at ValentineM@fasab.gov.

ATTACHMENTS

1. Staff Recommendations and Analyses

Staff Analysis

Reexamination

October 15, 2021

CONTEXT

As part of the reexamination project, the Board will explore opportunities to review and reexamine existing SFFASs and other pronouncements, as appropriate, and identify areas where clarification or amendments may be needed. In addition, the Board will consider enhancements to its conceptual framework and the issuance of additional pronouncements as a part of the reexamination.

BACKGROUND

Since 1993, the Board has promulgated 27 new topic standards, 6 add-on standards, 17 amending standards, 1 omnibus, and 7 deferrals – 7 of those 58 standards have also been rescinded. These numbers demonstrate that the Board has addressed many issues in a relatively piecemeal manner by amending, expanding, and even rescinding standards. Additionally, there are concepts statements, 10 Interpretations, and other lower-level pronouncements. This further strengthens the need for a reexamination project to specifically and comprehensively review existing guidance.

At the June 2021 meeting, staff requested the Board's feedback on potential approaches to advance the reexamination of existing standards research topic and consider the project during the August technical agenda deliberations. A majority of members agreed to further research both the benefits of and concerns with FASAB's current GAAP hierarchy. The members also agreed to consider soliciting feedback through an Invitation to Comment (ITC) as a first step to the reexamination project. Members unanimously agreed that the community's input would be important to the project's success.

At the August 2021 meeting's technical agenda-setting session, the members approved moving the reexamination project from the Board's research agenda to an active technical project.

RECOMMENDATIONS AND ANALYSES OF REQUEST FOR FEEDBACK

The project objective is to reexamine FASAB's existing standards to assess their current relevance and to identify opportunities to streamline authoritative guidance.

Staff has identified potential approaches to effectively manage a comprehensive reexamination project.

RECOMMENDATION

Seeking Input from the Public

At the June 2021 meeting, the members agreed that the community's input on the project's approach would be important. Staff plans to solicit input from the public by holding round tables, forming a task force, conducting outreach to various organizations, and seeking feedback in an ITC.

ANALYSIS

Given the potential extent of a reexamination project and significant use of staff resources to research the Board's approach, staff believes that seeking input from the public is an essential step. Staff believes that holding round tables, forming a task force, conducting outreach to various organizations, and seeking feedback in an ITC will be both beneficial and useful to the Board in establishing an approach to the reexamination project.

Gaining widespread feedback on potential approaches would be advantageous to the project's success. Given the multiple mediums of gaining input from the public, staff believes it best to determine the most efficient manner to include input from the community. For example, Board members agreed to consider soliciting feedback from the public through an ITC as a *first* step to the reexamination project. As such, staff has begun to prepare potential questions for the Board's consideration (see next memo topic: *Potential ITC Questions to Seek Feedback on the Reexamination Project*).

Staff believes informally gaining preliminary feedback on the ITC by conducting outreach to targeted organizations, such as the CFO Council and Financial Statement Audit Network, would help ensure the ITC is clear and focused. Most importantly, it would help ensure the ITC does not overlook key questions that may assist stakeholders in providing the information the Board is requesting for the reexamination project. Staff believes conducting targeted outreach prior to the ITC would be a valuable tool that could be accomplished within 6-8 weeks. Staff believes the use of a task force or round table should be reserved until the Board assesses the results of the ITC. This may also include forming a task force for specific topic areas¹ or new projects that come out of the ITC feedback. Therefore, staff views the high-level steps to ensure efficient input from the public as follows:

- Staff drafts ITC questions (see next topic).
- Staff conducts outreach to organizations for feedback on draft ITC questions.
- Staff finalizes the ITC.
- The Board reviews the ITC.
- The Board releases the ITC for public comment.

¹ The Board has noted its preference to use task forces, SME, detailees, etc., when appropriate for specific topic areas.

- The Board analyzes the public's response to the ITC, including determining if use of a round table or task force would be efficient in assessment of comments and development of planned approaches. This may also include forming a task force for specific topics or new projects that evolve from the ITC results.

Question for the Board:

1. Do Board members agree with staff's recommended plan to seek input from the public? (As described in the staff analysis, this would involve the use of outreach to organizations for feedback on the draft ITC questions and the use of a round table or task force after FASAB receives the ITC comments.)

RECOMMENDATION

Potential ITC Questions to Seek Feedback on the Reexamination Project

At the June 2021 meeting, the members agreed to consider soliciting feedback from the public through an ITC as a first step to the reexamination project. As this is just a first exposure, staff thought it important to provide the Board with a suggested framework or organization of the ITC along with a preliminary list of potential questions. Staff believes seeking feedback on the organization and the preliminary list may provide members an opportunity to present additional questions for consideration.

Staff recommends the following high-level questions be included in the reexamination ITC. As noted, this is a first exposure to gain Board feedback. The ITC will include additional narrative as context for each section and question, where appropriate. Examples may also be included where appropriate.

I. FASAB GAAP Hierarchy

1. Do you have any specific concerns in the application of the GAAP hierarchy as outlined in SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*? If so, please provide the details of your concerns.
2. What do you perceive as the benefits of the GAAP hierarchy in relationship to listing the priority sequence of pronouncements that a federal reporting entity should look to for accounting and financial reporting authoritative guidance? Please provide the rationale for your answer.

II. Reexamination of FASAB Standards

3. Do you agree with the Board's plans to reexamine its existing standards? Please provide the rationale for your answer.
4. Are there specific existing standards you believe the Board should review in its reexamination project? If so, please list those standard(s), specifying your reasons why they are in need of reexamination and the urgency of that need. Please provide as much information and detail needed to clearly explain your reasons and the urgency. This information would be helpful to the Board in understanding why the reexamination of a particular SFFAS might take precedence or be considered more important than the reexamination of another. For example, respondents may offer detail in terms of materiality, audit findings, or other significant information that the Board can use for ranking purposes.
5. Are there any specific topics not currently addressed in the existing standards that you believe the Board should address in its reexamination project? If so, please list those topic(s), specifying your reasons why they should be included in the reexamination and the urgency of that need. Please provide as much

information and detail needed to clearly explain your reasons and the urgency. This information would be helpful to the Board in understanding why the topic might take precedence or be considered more important than another. For example, respondents may offer detail in terms of materiality, audit findings, or other significant information that the Board can use for ranking purposes.

6. The Board will ultimately decide on its specific approach to the reexamination project. The Board is aware that reexamination of existing standards can be approached many different ways. The following are some potential approaches the Board is considering.
 - a. A one-by-one approach, starting chronologically with the oldest standards and working through the full set of standards to the most recently issued
 - b. A broad topic approach (for example, assets, liabilities, revenue, and expenses, etc.)
 - c. A targeted approach, addressing the guidance most in need of revision based on specific criteria (such as identification of outdated guidance, perceived voids or gaps in the existing GAAP standards, frequency of technical inquiries, audit issues, GAO's high risk list, consolidation issues, topics addressed by other standard-setters, etc.)

Please provide your feedback on each of the above potential approaches, including which approach you believe FASAB should select. In addition, please feel free to provide any alternate approaches to the reexamination project you would like the Board to consider.

III. Codification of FASAB Standards and/or Handbook Improvements

7. What are your general thoughts on the Board taking on a project to codify the FASAB standards? Please provide the rationale for your answer.
8. The [FASAB Handbook](#) is the authoritative source of generally accepted accounting principles (GAAP) developed for federal entities. Do you have any suggested improvements on how the Handbook could be a more useful tool for those in the federal community?

ANALYSIS

ITCs have been used sparingly by the Board in the past. However, an ITC is an excellent tool to invite the public to comment on a variety of approaches to reexamination, as well as to potentially generate additional alternatives for the Board to consider. It is a means to gain general feedback on broad reexamination-related issues. For example, an ITC can request feedback on specific standards or topics in need of reexamination, concerns and/or benefits of the existing GAAP hierarchy, users' thoughts on codification of FASAB standards, and suggested improvements to the Handbook.

With the array of topics that have been discussed that are related to the reexamination project, staff believes arranging the ITC in the following way will garner the most helpful feedback:

- I. FASAB GAAP Hierarchy
- II. Reexamination of FASAB Standards
- III. Codification of FASAB Standards and/or Handbook Improvements

- I. A question in the ITC on the GAAP hierarchy can provide staff with a starting point to conducting research to assess both the benefits of and concerns with FASAB's current GAAP hierarchy. At the June 2021 Board meeting, a majority of members agreed to further research both the benefits of and concerns with FASAB's current GAAP hierarchy. Staff believes conducting the research in conjunction with the ITC would be an efficient way to inform the Board if the current GAAP hierarchy needs to be updated and if the four-level hierarchy is effective.
- II. As the Board has previously stated, FASAB should reexamine the accounting standards to assess their current applicability and to eliminate or revise unnecessary requirements periodically. A general question on the reexamination project may provide some insights to the Board as to the public's views on the overall project. Questions on which standards or topics are most in need of reexamination will assist the Board on how best to approach its review of 30 years' worth of standards.

Staff is aware reexamination of existing standards can be approached many different ways, including a one-by-one approach starting with the oldest standards and working through the full set of standards, addressing the standards on a broad topic basis (for example, assets, liabilities, revenue, and expenses, etc.), targeting the guidance most in need of revision, or combining these as well as other approaches. Identifying an optimal approach is essential to the success of the project. Therefore, staff believes it is best to take the necessary time and fully vet all options prior to committing significant resources to this effort.

- III. Given the vast amount of guidance issued since FASAB's inception, in addition to the reexamination project, the Board has discussed codification as a potential project; therefore, staff is proposing a general question on codification be included in the reexamination ITC.

As additional background, at the June 2016 Board meeting the Board approved an outreach plan to evaluate alternatives for providing accounting standards to the community. Staff then conducted two focus group meetings during July 2016. Several concerns voiced by participants about a transition to a topical codification arose. The participants were concerned with the different levels of GAAP and where the concepts and basis for conclusions would ultimately reside. There were also concerns about the amendments, effective dates, and potential issues

with topics merging into one another. However, it is important to note that these types of issues came up because the participants realized that both formats would not be produced going forward. Considering resource constraints, the Board in consultation with the FASAB staff determined that it would not be feasible to produce two formats if a transition to a topical codification was selected; that is, the current Handbook would no longer be updated. For the full briefing memo please refer to this link:

http://files.fasab.gov/pdf/files/tab_a_handbook_update_aug_2016.pdf

Staff also conducted an educational session in February 2021 to inform the Board of staff's initial research pertaining to codifying existing FASAB guidance. Specifically, this session provided an overview and illustration of different schema approaches including their respective pros and cons.

As previously noted, codification will require substantial FASAB resources, including added manpower, staff resources, as well as Board time. In the meantime, staff is confident that additional revisions to the current Handbook could improve and increase its usability. Therefore, staff recommends adding a question in the ITC asking respondents to provide the Board and staff with any suggested improvements to the Handbook.

Questions for the Board:

2. Do Board members agree with the suggested framework or organization of the invitation to comment?
3. Do Board members generally agree with the above list of potential questions to include in an invitation to comment seeking input on the reexamination project?
4. Do Board members have other questions to offer for consideration for the ITC?