

Memorandum

Omnibus Amendments

May 31, 2023

To: Members of the Board
From: Sherry L. Lee, Senior Analyst
Thru: Monica R. Valentine, Executive Director
Subject: **Omnibus Amendments 2023-2 - Pre-Ballot Draft** (Topic E)

INTRODUCTION

At the April 2023 meeting, members agreed to include amendments to Statement of Federal Financial Accounting Standards (SFFAS) 49: *Public-Private Partnerships: Disclosure Requirements*, and SFFAS 38: *Accounting for Federal Oil and Gas*, in the proposed Omnibus Amendments. Staff has determined that it is appropriate for the proposed SFFAS 38 amendments to include the related amendments to Technical Bulletin (TB) 2011-1: *Accounting for Federal Natural Resources Other Than Oil and Gas*, without issuing two separate amending documents.

REQUEST FOR FEEDBACK BY June 8, 2023

Prior to the Board's June meeting, please review the attached staff analysis and the pre-ballot SFFAS XX: *Omnibus Amendments 2023-2* exposure draft, which includes amendments to TB 2011-1 that members previously reviewed and approved. Staff requests responses to the ensuing questions in the staff analysis by June 8, 2023.

Please note that pre-ballot documents offer members an opportunity to clarify or editorialize but not to make substantive changes to the proposals. Alternative views should be provided to staff as soon as possible so that members may consider these views during their review.

Please submit responses to Sherry L. Lee at LeeSL@fasab.gov and Domenic Savini at SaviniD@fasab.gov with a cc to Monica Valentine at ValentineM@fasab.gov.

NEXT STEPS

Pending Board member feedback, staff intends to ballot soon after the June meeting.

ATTACHMENTS

1. Staff Analysis
2. Pre-Ballot SFFAS XX: *Omnibus Amendments 2023-2* Exposure Draft – Clean Version
3. Pre-Ballot SFFAS XX: *Omnibus Amendments 2023-2* Exposure Draft – Tracked Version

Staff Analysis

Omnibus Amendments

May 31, 2023

CONTEXT

Proposed Amendments to SFFAS 38 and TB 2011-1 – Sherry Lee

SFFAS 38: *Accounting for Federal Oil and Gas Resources*, requires federal entities to report the value of the federal government's estimated petroleum royalties from the production of federal oil and gas proved reserves. Similarly, TB 2011-1: *Accounting for Federal Natural Resources Other Than Oil and Gas*, requires federal entities to report the federal government's estimated royalties and other revenue from federal natural resources other than oil and gas that are under lease, contract, or other long-term agreement and are reasonably estimable. SFFAS 38, as amended, and TB 2011-1 were effective for periods beginning after September 30, 2012 and September 30, 2013, respectively.

At the time SFFAS 38 and TB 2011-1 were issued, the Board intended for the reporting requirements to be presented as basic information. However, the Board wanted to gather more information on the reliability of the estimation methodologies before making a final decision. The Board decided on a three-year Required Supplementary Information (RSI) presentation before determining whether the information would transition to basic information as financial statement recognition or note disclosure, or if new information might become available that would warrant continued reporting as RSI.

Between August 2022 and April 2023, the Board considered the challenges with the estimation methodologies and agreed that the reporting requirements in SFFAS 38 and TB 2011-1 should remain as RSI. Since TB 2011-1 applies the federal oil and gas reporting requirements in SFFAS 38 to other federal natural resources, staff has determined that it is appropriate for the proposed SFFAS 38 amendments to include the related amendments to TB 2011-1, without issuing two separate amending documents.

Proposed Amendments to SFFAS 49 – Domenic Savini

In 2022 as part of its training and outreach efforts, staff held meetings with two federal Inspectors General, a public accounting (audit) firm and two financial policy accountants to help identify implementation challenges requiring attention. It was brought to staff's attention that certain preparers and auditors are using the exception in SFFAS 49 paragraph 24b, which is meant exclusively for when non-federal partner's funding amounts (estimates) are unavailable, to avoid reporting the other paragraph 24 required disclosures. Staff raised this issue along with several other matters with the SFFAS 49 Implementation Task Force at its January 2023 meeting, and task force representatives agreed with the proposed amendments (deletions) to paragraph 24b. At the April 2023

Board meeting, based on staff's presentation and task force recommendation, members agreed to amend SFFAS 49 as proposed to remove the exception in paragraph 24b.

RECOMMENDATIONS AND STAFF ANALYSIS

Staff drafted the pre-ballot SFFAS XX: *Omnibus Amendments 2023-2* exposure draft to include proposed amendments to SFFAS 38 and TB 2011-1, as well as SFFAS 49, for Board consideration. Staff recommend moving the proposed SFFAS XX exposure draft to a ballot soon after the June meeting and provide a 30-day comment period to meet the planned 2023 issuance.

Questions for the Board:

1. Do members have any comments or questions regarding the pre-ballot SFFAS XX: *Omnibus Amendments 2023-2* exposure draft?
2. Do members wish to move to ballot SFFAS XX: *Omnibus Amendments 2023-2* exposure draft?

OMNIBUS AMENDMENTS 2023-2

AMENDING STATEMENTS OF FEDERAL FINANCIAL ACCOUNTING STANDARDS 38,
ACCOUNTING FOR FEDERAL OIL AND GAS RESOURCES AND 49, *PUBLIC-PRIVATE
PARTNERSHIPS: DISCLOSURE REQUIREMENTS*, AND TECHNICAL BULLETIN 2011-1,
ACCOUNTING FOR FEDERAL NATURAL RESOURCES OTHER THAN OIL AND GAS

Statement of Federal Financial Accounting Standards **XX** Exposure Draft

Written comments are requested by [date 90 days after issuance]

Month day, year

Pre-ballot draft. Public comments are not requested on this draft.

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.

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ISSUE DATE

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) requests your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards, entitled *Omnibus Amendments 2023-2*. Specific questions for your consideration appear on pages 3 and 4, but you are welcome to comment on any aspect of this proposal. If you do not agree with specific matters or proposals, your responses will be most helpful to the Board if you explain the reasons for your positions and any alternatives you propose.

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Please provide your comments by email to fasab@fasab.gov. We will confirm receipt of your comments. If you do not get a confirmation, please contact our office at 202-512-7350 to determine if your comments were received. If you are unable to email your responses, please call (202) 512-7350 to make alternate arrangements.

FASAB's rules of procedure provide that the Board may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft.

FASAB will publish notice of the date and location of any public hearing on this document in the Federal Register and in its newsletter.

Sincerely,

George A. Scott
Chair

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

This proposal would:

- retain the requirement to report oil and gas and other natural resources information as Required Supplementary Information (RSI) by rescinding paragraphs 6 and 31 of Statement of Federal Financial Accounting Standards (SFFAS) 38, *Accounting for Federal Oil and Gas Resources*, and paragraphs 5 and 31 of Technical Bulletin (TB) 2011-1, *Accounting for Federal Natural Resources Other Than Oil and Gas*, and
- remove the exception in paragraph 24b of SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*.

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

SFFAS 38 and TB 2011-1 indicate that the Board intended to transition the reporting requirements in SFFAS 38 and TB 2011-1 from RSI to either financial statement recognition or note disclosure at a future time. The Board proposes that the reporting requirements remain as RSI. The Board believes that federal oil and gas resources represent federal assets and accounting for and reporting information as RSI enhances accountability for and stewardship over assets of the federal government.

The exception provided in SFFAS 49 paragraph 24b, which was meant exclusively for when non-federal partner's funding estimates are unavailable, has been inappropriately applied to other required disclosures in paragraph 24. The Board proposes removing the exception in paragraph 24b to avoid reporting inconsistencies and increase comparability. The Board believes that because of risks involved in entering into Public-Private Partnerships (P3s), disclosures regarding P3s are needed. Such disclosures foster accountability and improve understanding of (1) the general risks inherent in P3 arrangements by revealing their purpose, objective, funding, operational and financial structures; and 2) contractual risks of loss such as early termination requirements.

MATERIALITY

The provisions of this Statement need not be applied to immaterial items. 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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QUESTIONS FOR RESPONDENTS

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) encourages you to become familiar with all proposals in the Statement before responding to the questions below. In addition to the questions below, the Board also welcomes your comments on other aspects of the proposed Statement. Because FASAB may modify the proposals before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views are especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have regarding implementing this proposal.

The questions in this section are available in a Microsoft Word file for your use at <https://www.fasab.gov/documents-for-comment/>. Your responses should be sent to fasab@fasab.gov. If you are unable to respond by email, please contact us at (202) 512-7350.

All responses are requested by **[insert date]**.

- Q1. SFFAS 38 requires the value of the federal government’s estimated petroleum royalties from the production of federal oil and gas proved reserves be reported in a schedule of estimated federal oil and gas petroleum royalties by the component entity that is responsible for collecting royalties and be presented as required supplementary information (RSI). TB 2011-1 applies the reporting requirements in SFFAS 38 to federal natural resources other than oil and gas. TB 2011-1 requires reporting the value of the federal government’s estimated royalties and other revenue from federal natural resources that are (1) under lease, contract, or other long-term agreement and (2) reasonably estimable as of the reporting date as RSI. It was the Board’s intent when SFFAS 38 and TB 2011-1 were issued that the information required would eventually transition from presentation as RSI to basic information after three years. The Board is now proposing that the information required in SFFAS 38 and TB 2011-1 continues to be reported as RSI. Please refer to Basis for Conclusions paragraphs A1 through A15.

Do you agree or disagree with the Board’s decision? Please explain.

- Q2. The Board believes that SFFAS 38 and TB 2011-1 reporting requirements presented as RSI meets the needs of financial statement users.

Do you agree or disagree with the Board’s position? Please explain.

- Q3. SFFAS 49 paragraph 24b, which was meant exclusively for when non-federal partner’s funding estimates are unavailable, has been inappropriately applied to other required disclosures in paragraph 24. The Board proposes removing the exception in paragraph 24b to avoid reporting inconsistencies and increase comparability. Please refer to Basis for Conclusions paragraphs A16 through A20.

Do you agree or disagree with the Board's proposal to remove the exception in paragraph 24b? Please provide the rationale for your answer.

PROPOSED STANDARDS

SCOPE

1. This Statement applies to federal entities that present general purpose federal financial reports (GPFFRs), including the consolidated financial report of the U.S. Government (CFR), 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*.
2. This Statement amends the following guidance¹:
 - a. SFFAS 38, *Accounting for Federal Oil and Gas Resources*
 - b. TB 2011-1, *Accounting for Federal Natural Resources Other Than Oil and Gas*
 - c. SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*

AMENDMENTS TO SFFAS 38 AND TB 2011-1

3. This paragraph rescinds paragraphs 6 and 31 of SFFAS 38:

~~6. It is the Board's intent that the information required by this Statement transition to basic information after being reported as RSI for a period of three years. Prior to the conclusion of the three-year RSI period, the Board plans to make a determination as to whether the information will transition to basic information as financial statement recognition or note disclosure. This Statement will remain in effect until such time a determination is made.~~

~~31. It is the Board's intent that the information required by this Statement transition to basic information after being reported as RSI for a period of three years. Prior to the conclusion of the three-year RSI period, the Board plans to make a determination as to whether the information will transition to basic information as financial statement recognition or note disclosure. This Statement will remain in effect until such time a determination is made.~~

4. This paragraph rescinds paragraphs 5 and 31 of TB 2011-1:

~~5. It is the Board's intent that the information required by SFFAS 38 transition to basic information after being reported as RSI for a period of three years. Prior to the conclusion of the three-year RSI period, the Board plans to make a determination as to whether the information required by SFFAS 38 will transition to basic information as financial statement recognition or note disclosure. It is anticipated that a similar determination would be made for natural resources other than oil and gas based on agencies' experiences implementing the guidance in this technical bulletin.~~

~~31. It is the Board's intent that the information required by SFFAS 38 transition to basic information after being reported as RSI for a period of three years. Prior to the conclusion of~~

¹ Complete deletions are in black strikethrough text and partial deletions are in red strikethrough text.

~~the three-year RSI period, the Board plans to make a determination as to whether the information required by SFFAS 38 will transition to basic information as financial statement recognition or note disclosure. It is anticipated that a similar determination would be made for natural resources other than oil and gas based on agencies' experiences implementing the guidance in this technical bulletin.~~

AMENDMENTS TO SFFAS 49

5. This paragraph amends paragraph 24b of SFFAS 49 as follows:

24b. A description of federal and non-federal funding of the P3 over its expected life, including the mix and ~~where available,~~ the amounts of such funding. ~~For any amounts that are not available, the disclosures should indicate such.~~

EFFECTIVE DATE

6. The requirements of this Statement are effective upon issuance.

The provisions of this Statement 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.

APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. 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 Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

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

PROJECT HISTORY

OIL AND GAS AND OTHER NATURAL RESOURCES REPORTING

1. FASAB issued SFFAS 38, *Accounting for Federal Oil and Gas Resources*, on April 13, 2010. SFFAS 38 requires the value of the federal government's estimated petroleum royalties from the production of federal oil and gas proved reserves to be reported in a schedule of estimated federal oil and gas petroleum royalties. In addition, SFFAS 38 requires the value of estimated petroleum royalty revenue designated for others be reported in a schedule of estimated federal oil and gas petroleum royalties to be distributed to others, as part of a discussion of all significant federal oil and gas resources under management of the entity.
2. On July 6, 2011, FASAB issued SFFAS 41, which deferred the effective date of SFFAS 38 from periods beginning after September 30, 2011 to periods beginning after September 30, 2012.
3. Also on July 6, 2011, FASAB issued TB 2011-1, which applies the general principles in SFFAS 38 and requires federal entities to report as RSI the value of the federal government's estimated royalties and other revenue from other federal natural resources that are (1) under long-term lease, long-term contract or other long-term agreement and (2) reasonably estimable as of the reporting date.
4. At the time SFFAS 38 and TB 2011-1 were issued, the Board believed that the estimated federal royalty share of proved oil and gas reserves and recoverable reserves of other natural resources should be presented as basic information, since the quantity of the estimated federal proved oil and gas reserves and recoverable reserves of other natural resources could be reliably estimated and converted to monetary terms. However, members wanted to gather more information about the reliability of the valuation methodology before the Board made a final decision on whether the information should be recognized on the face of the financial statements or disclosed in the notes to the financial statements. The Board agreed to require the information to be reported as RSI for three

years. Before the end of the three-year RSI period, the Board planned to decide whether the information would transition to basic information as financial statement recognition or note disclosure. The Board acknowledged that new information might become available that would warrant continued reporting as RSI.

5. Between 2012 and 2014, the reassessment of the SFFAS 38 reporting requirements was removed as a potential Board project due to other priorities.
6. In August 2022, the Board revisited the open-ended reporting requirement in SFFAS 38 paragraphs 6 and 31 and TB 2011-1 paragraphs 5 and 31. The Board acknowledged its original intent in was to transition natural resources reporting from RSI to basic information after three years was based on the belief that over time there would be improvements in certain measurement approaches for valuing royalties from oil and gas proved reserves and recoverable reserves of other natural resources. However, based on discussions with the Department of the Interior (Interior), measurement challenges still remain.
7. Interior's valuation methodology for oil and gas petroleum royalties from federal onshore and offshore oil and gas proved reserves is based on oil and gas proved reserve estimates published by the Department of Energy's Energy Information Administration (EIA). Because the EIA published national oil and gas proved reserve estimates are developed from well operators' estimated proved reserves and are not subject to audit, verifying the proprietary information will be challenging.
8. In addition, the EIA oil and gas proved reserve estimates are not separated between federal and non-federal, and therefore, Interior estimates the federal portion of each state's oil and gas proved reserves using production on federal land. However, production on federal land only provides an indirect correlation in the valuation methodology and thereby increases the uncertainties about the methodology.
9. The valuation methodology for estimating the federal royalty share of proved oil and gas reserves assumes 100 percent of the oil and gas proved reserves will be produced over time. Uncertainties about future production affect this assumption, resulting in additional uncertainties.
10. The Board also considered the oil and gas price fluctuations that may result in significant changes in the asset value of future royalty revenues between reporting periods, and the resulting diminished meaningfulness of asset value to users.
11. Coal is the only significant federal natural resources reported under the requirements of TB 2011-1. The estimation methodology for royalties from federal coal recoverable reserves relies on assumptions that result in uncertainties and challenges:
 - a. The amount of coal in a federal lease is difficult to estimate because the geologic model is based on wide spaced exploration drilling and necessitates the use of geologic assumptions that may not be accurate.
 - b. Estimates of recoverable reserves change when assumptions, such as price and mining technology, change.
 - c. The methodology is based on current year production and projected future production until the reserves are 100% depleted, resulting in additional uncertainties.

- d. Coal price fluctuations may result in significant changes in the asset value of future royalty revenue projections between reporting periods.
- 12. One objective of the Board's reexamination of existing standards project is to eliminate or revise unnecessary requirements to reduce reporting burden. The Board concluded that changing the reporting requirements under SFFAS 38 and TB 2011-1 to basic information may add to reporting burden without producing increased reporting benefits.
- 13. The Board acknowledged that actual royalties collected and distributed are currently recognized and disclosed in accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources*. The Board does not believe there is a further benefit to recognize future royalties as basic information.
- 14. The Board noted that the Financial Accounting Standards Board and the U.S. Securities and Exchange Commission require reporting of oil and gas reserve quantities and asset value as RSI rather than as basic information.
- 15. Considering the significant measurement uncertainties and associated challenges, the Board believes that the potential benefits do not justify the cost and added burden to increase the reliability of the oil and gas and other natural resources information for basic information presentation, therefore, the Board agreed to propose that the SFFAS 38 and TB 2011-1 reporting requirements remain as RSI.

PUBLIC-PRIVATE PARTNERSHIP

- 16. At the October 2022 Board meeting, staff briefed the Board concerning SFFAS 49 implementation challenges requiring attention. The implementation challenges were a result of information gathering meetings with two federal Inspectors General, a public accounting (audit) firm and two financial policy accountants to help identify challenges they saw requiring attention. Additionally, staff conducted agency one-on-one meetings as well as training and outreach sessions to also help identify potential impediments to SFFAS 49 implementation.
- 17. As a result, staff identified a total of 15 implementation challenges (some of which were deemed beyond the Board's control or overlapping with other noted challenges) that could benefit from additional Board guidance; that is, amendments, interpretations, and/or technical guidance. In December 2022 staff assembled an SFFAS 49 P3 Implementation Task Force to further study implementation issues such as preparer/auditor challenges and related Board action that might be necessary in light of said challenges. At a January 2023 meeting, the Task Force concluded that an amendment would be required to Paragraph 24b. Such an amendment was deemed necessary and appropriate given that certain preparers and auditors were applying the exception meant exclusively for non-federal partner's funding amounts to avoid reporting cash flows required at paragraphs 24c and 24d.
- 18. Task Force representatives noted that (1) the 24b. exception although well intentioned, seemed to create a basis to exclude any non-federal partner information deemed to be subjectively unavailable seriously undermining the usefulness of the SFFAS 49 disclosures and (2) failure to disclose all cash flows, federal as well as non-federal would lead to an incomplete analysis and understanding of the P3 arrangement/transaction.

19. Additionally, Task Force external auditors and inspectors-general also agreed with the proposed amendment to paragraph 24b. As one auditor confirmed, the 24b paragraph was successfully used by an auditee to not disclose key amounts as required by other paragraph 24 requirements. Furthermore, an auditor noted that if the P3 has already been identified as material, the 24b information is necessary to properly understand the P3s' cash flows.
20. During the April 2023 meeting, the Board agreed to remove the exception in paragraph 24b as suggested by the Task Force. The Board agreed that the importance of this disclosure is predicated on informing users as to the amount of financing attributable to each partner within a P3. That is, such amounts invested can impact a user's understanding concerning the relative risks each partner is undertaking, the relative economic incentives they each bare or share, as well as the overall reasonableness of the P3s expected life.

APPENDIX B: ABBREVIATIONS

CFR	Consolidated Financial Report of the U.S. Government
ED	Exposure Draft
EIA	Energy Information Administration
FASAB	Federal Accounting Standards Advisory Board
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GPFFR	General Purpose Federal Financial Report
OMB	Office of Management and Budget
P3	Public-Private Partnership
RSI	Required Supplementary Information
SFFAS	Statement of Federal Financial Accounting Standards
TB	Technical Bulletin

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- remove the exception in paragraph 24b of SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*.

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

SFFAS 38 [and TB 2011-1](#) indicates that the Board intended to transition the reporting requirements in SFFAS 38 [and TB 2011-1](#) from RSI to either financial statement recognition or note disclosure at a future time. The Board proposes that the reporting requirements remain as RSI. [The Board believes that federal oil and gas resources represent federal assets and accounting for and reporting information as RSI enhances accountability for and stewardship over assets of the federal government.](#)

The exception provided in SFFAS 49 paragraph 24b, which was meant exclusively for when non-federal partner's funding estimates are unavailable, has been inappropriately applied to other required disclosures in paragraph 24. The Board proposes removing the exception in paragraph 24b to avoid reporting inconsistencies and increase comparability. The Board believes that because of risks involved in entering into Public-Private Partnerships (P3s), disclosures regarding P3s are needed. Such disclosures foster accountability and improve understanding of (1) the general risks inherent in P3 arrangements by revealing their purpose, objective, funding, operational and financial structures; and 2) contractual risks of loss such as early termination requirements.

MATERIALITY

The provisions of this Statement need not be applied to immaterial items. 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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QUESTIONS FOR RESPONDENTS

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) encourages you to become familiar with all proposals in the Statement before responding to the questions below. In addition to the questions below, the Board also welcomes your comments on other aspects of the proposed Statement. Because FASAB may modify the proposals before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views are especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have regarding implementing this proposal.

The questions in this section are available in a Microsoft Word file for your use at <https://www.fasab.gov/documents-for-comment/>. Your responses should be sent to fasab@fasab.gov. If you are unable to respond by email, please contact us at (202) 512-7350.

All responses are requested by **[insert date]**.

- Q1. SFFAS 38 requires the value of the federal government’s estimated petroleum royalties from the production of federal oil and gas proved reserves be reported in a schedule of estimated federal oil and gas petroleum royalties by the component entity that is responsible for collecting royalties and be presented as required supplementary information (RSI). TB 2011-1 applies the reporting requirements in SFFAS 38 to federal natural resources other than oil and gas. TB 2011-1 requires reporting the value of the federal government’s estimated royalties and other revenue from federal natural resources that are (1) under lease, contract, or other long-term agreement and (2) reasonably estimable as of the reporting date as RSI. It was the Board’s intent when SFFAS 38 and TB 2011-1 ~~was~~were issued that the information required ~~by SFFAS 38~~ would eventually transition from presentation as RSI to basic information after three years. The Board is now proposing that the information required in SFFAS 38 and TB 2011-1 continues to be reported as RSI. Please refer to Basis for Conclusions paragraphs A1 through A15.

Do you agree or disagree with the Board’s decision? Please explain.

- Q2. The Board believes that SFFAS 38 and TB 2011-1 reporting requirements presented as RSI meets the needs of financial statement users.

Do you agree or disagree with the Board’s position? Please explain.

- Q3. SFFAS 49 paragraph 24b, which was meant exclusively for when non-federal partner’s funding estimates are unavailable, has been inappropriately applied to other required disclosures in paragraph 24. The Board proposes removing the exception in paragraph 24b to avoid reporting inconsistencies and increase comparability. Please refer to Basis for Conclusions paragraphs A16 through A20.

Do you agree or disagree with the Board's proposal to remove the exception in paragraph 24b? Please provide the rationale for your answer.

PROPOSED STANDARDS

SCOPE

1. This Statement applies to federal entities that present general purpose federal financial reports (GPFFRs), including the consolidated financial report of the U.S. Government (CFR), 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*.
2. This Statement amends the following guidance¹:
 - a. SFFAS 38, *Accounting for Federal Oil and Gas Resources*
 - b. TB 2011-1, *Accounting for Federal Natural Resources Other Than Oil and Gas*
 - c. SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*

AMENDMENTS TO SFFAS 38 AND TB 2011-1

- 4.3. This paragraph rescinds paragraphs 6 and 31 of SFFAS 38:

~~6. It is the Board's intent that the information required by this Statement transition to basic information after being reported as RSI for a period of three years. Prior to the conclusion of the three-year RSI period, the Board plans to make a determination as to whether the information will transition to basic information as financial statement recognition or note disclosure. This Statement will remain in effect until such time a determination is made.~~

~~31. It is the Board's intent that the information required by this Statement transition to basic information after being reported as RSI for a period of three years. Prior to the conclusion of the three-year RSI period, the Board plans to make a determination as to whether the information will transition to basic information as financial statement recognition or note disclosure. This Statement will remain in effect until such time a determination is made.~~

4. This paragraph rescinds paragraphs 5 and 31 of TB 2011-1:

~~5. It is the Board's intent that the information required by SFFAS 38 transition to basic information after being reported as RSI for a period of three years. Prior to the conclusion of the three-year RSI period, the Board plans to make a determination as to whether the information required by SFFAS 38 will transition to basic information as financial statement recognition or note disclosure. It is anticipated that a similar determination would be made for natural resources other than oil and gas based on agencies' experiences implementing the guidance in this technical bulletin.~~

¹ Complete deletions are in black strikethrough text and partial deletions are in red strikethrough text.

~~31. It is the Board's intent that the information required by SFFAS 38 transition to basic information after being reported as RSI for a period of three years. Prior to the conclusion of the three-year RSI period, the Board plans to make a determination as to whether the information required by SFFAS 38 will transition to basic information as financial statement recognition or note disclosure. It is anticipated that a similar determination would be made for natural resources other than oil and gas based on agencies' experiences implementing the guidance in this technical bulletin.~~

AMENDMENTS TO SFFAS 49

~~2.5.~~ This paragraph amends paragraph 24b of SFFAS 49 as follows:

24b. A description of federal and non-federal funding of the P3 over its expected life, including the mix and ~~where available,~~ the amounts of such funding. ~~For any amounts that are not available, the disclosures should indicate such.~~

EFFECTIVE DATE

~~3.6.~~ The requirements of this Statement are effective upon issuance.

The provisions of this Statement 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.

APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. 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 Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

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

PROJECT HISTORY

OIL AND GAS AND OTHER NATURAL RESOURCES REPORTING

1. FASAB issued SFFAS 38, *Accounting for Federal Oil and Gas Resources*, on April 13, 2010. SFFAS 38 requires the value of the federal government's estimated petroleum royalties from the production of federal oil and gas proved reserves to be reported in a schedule of estimated federal oil and gas petroleum royalties. In addition, SFFAS 38 requires the value of estimated petroleum royalty revenue designated for others be reported in a schedule of estimated federal oil and gas petroleum royalties to be distributed to others, as part of a discussion of all significant federal oil and gas resources under management of the entity.
2. On July 6, 2011, FASAB issued SFFAS 41, which deferred the effective date of SFFAS 38 from periods beginning after September 30, 2011 to periods beginning after September 30, 2012.
3. Also on July 6, 2011, FASAB issued TB 2011-1, which applies the general principles in SFFAS 38 and requires federal entities to report as RSI the value of the federal government's estimated royalties and other revenue from other federal natural resources that are (1) under long-term lease, long-term contract or other long-term agreement and (2) reasonably estimable as of the reporting date.
- 3.4. At the time SFFAS 38 and TB 2011-1 ~~was~~were issued, the Board believed that the estimated federal royalty share of proved oil and gas reserves and recoverable reserves of other natural resources should be presented as basic information, since the quantity of the estimated federal proved oil and gas reserves and recoverable reserves of other natural resources could be reliably estimated and converted to monetary terms. However, members wanted to gather more information about the reliability of the valuation methodology before the Board made a final decision on whether the information should be recognized on the face of the financial statements or disclosed in the notes to the financial statements. The Board agreed to require the information to be reported as RSI for three

years. Before the end of the three-year RSI period, the Board planned to decide whether the information would transition to basic information as financial statement recognition or note disclosure. The Board acknowledged that new information might become available that would warrant continued reporting as RSI.

4.5. Between 2012 and 2014, the reassessment of the SFFAS 38 reporting requirements was removed as a potential Board project due to other priorities.

5.6. In August 2022, the Board revisited the open-ended reporting requirement in SFFAS 38 paragraphs 6 and 31 and TB 2011-1 paragraphs 5 and 31. The Board acknowledged its original intent in 2010 was to transition oil and gas natural resources reporting from RSI to basic information after three years was based on the belief that over time there would be improvements in certain measurement approaches for valuing royalties from oil and gas proved reserves and recoverable reserves of other natural resources. However, based on discussions with the Department of the Interior (Interior), measurement challenges still remain.

6.7. Interior's valuation methodology for oil and gas petroleum royalties from federal onshore and offshore oil and gas proved reserves is based on oil and gas proved reserve estimates published by the Department of Energy's Energy Information Administration (EIA). Because the EIA published national oil and gas proved reserve estimates are developed from well operators' estimated proved reserves and are not subject to audit, verifying the proprietary information will be challenging.

7.8. In addition, the EIA oil and gas proved reserve estimates are not separated between federal and non-federal, and therefore, Interior estimates the federal portion of each state's oil and gas proved reserves using production on federal land. However, production on federal land only provides an indirect correlation in the valuation methodology and thereby increases the uncertainties about the methodology.

8.9. The valuation methodology for estimating the federal royalty share of proved oil and gas reserves assumes 100 percent of the oil and gas proved reserves will be produced over time. Uncertainties about future production affect this assumption, resulting in additional uncertainties.

10. The Board also considered the oil and gas price fluctuations that may result in significant changes in the asset value of future royalty revenues between reporting periods, and the resulting diminished meaningfulness of asset value to users.

11. Coal is the only significant federal natural resources reported under the requirements of TB 2011-1. The estimation methodology for royalties from federal coal recoverable reserves relies on assumptions that result in uncertainties and challenges:

a. The amount of coal in a federal lease is difficult to estimate because the geologic model is based on wide spaced exploration drilling and necessitates the use of geologic assumptions that may not be accurate.

b. Estimates of recoverable reserves change when assumptions, such as price and mining technology, change.

c. The methodology is based on current year production and projected future production until the reserves are 100% depleted, resulting in additional uncertainties.

d. Coal price fluctuations may result in significant changes in the asset value of future royalty revenue projections between reporting periods.

9-12. One objective of the Board's reexamination of existing standards project is to eliminate or revise unnecessary requirements to reduce reporting burden. The Board concluded that changing the reporting requirements under SFFAS 38 and TB 2011-1 to basic information may add to reporting burden without producing increased reporting benefits.

10-13. The Board acknowledged that actual royalties collected and distributed are currently recognized and disclosed in accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources*. The Board does not believe there is a further benefit to recognize future royalties as basic information.

11-14. The Board noted that ~~several other accounting standard-setters the Financial Accounting Standards Board and one regulatory agency~~² the U.S. Securities and Exchange Commission require ~~supplementary information~~ reporting of oil and gas reserve quantities and asset value as RSI rather than as basic information.

12-15. Considering the significant measurement uncertainties and associated challenges, the Board believes that the potential benefits do not justify the cost and added burden to increase the reliability of the oil and gas and other natural resources information for basic information presentation, therefore, the Board agreed to propose that the SFFAS 38 and TB 2011-1 reporting requirements remain as RSI.

PUBLIC-PRIVATE PARTNERSHIP

13-16. At the October 2022 Board meeting, staff briefed the Board concerning SFFAS 49 implementation challenges requiring attention. The implementation challenges were a result of information gathering meetings with two federal Inspectors General, a public accounting (audit) firm and two financial policy accountants to help identify challenges they saw requiring attention. Additionally, staff conducted agency one-on-one meetings as well as training and outreach sessions to also help identify potential impediments to SFFAS 49 implementation.

14-17. As a result, staff identified a total of 15 implementation challenges (some of which were deemed beyond the Board's control or overlapping with other noted challenges) that could benefit from additional Board guidance; that is, amendments, interpretations, and/or technical guidance. In December 2022 staff assembled an SFFAS 49 P3 Implementation Task Force to further study implementation issues such as preparer/auditor challenges and related Board action that might be necessary in light of said challenges. At a January 2023 meeting, the Task Force concluded that an amendment would be required to Paragraph 24b. Such an amendment was deemed necessary and appropriate given that certain preparers and auditors were applying the exception meant exclusively for non-federal partner's funding amounts to avoid reporting cash flows required at paragraphs 24c and 24d.

² ~~Financial Accounting Standards Board, Government Accounting Standards Board, International Financial Reporting Standards Foundation, and International Public Sector Accounting Standards Board, and U.S. Securities and Exchange Commission.~~

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15-18. Task Force representatives noted that (1) the 24b. exception although well intentioned, seemed to create a basis to exclude any non-federal partner information deemed to be subjectively unavailable seriously undermining the usefulness of the SFFAS 49 disclosures and (2) failure to disclose all cash flows, federal as well as non-federal would lead to an incomplete analysis and understanding of the P3 arrangement/transaction.

16-19. Additionally, Task Force external auditors and inspectors-general also agreed with the proposed amendment to paragraph 24b. As one auditor confirmed, the 24b paragraph was successfully used by an auditee to not disclose key amounts as required by other paragraph 24 requirements. Furthermore, an auditor noted that if the P3 has already been identified as material, the 24b information is necessary to properly understand the P3s' cash flows.

17-20. During the April 2023 meeting, the Board agreed to remove the exception in paragraph 24b as suggested by the Task Force. The Board agreed that the importance of this disclosure is predicated on informing users as to the amount of financing attributable to each partner within a P3. That is, such amounts invested can impact a user's understanding concerning the relative risks each partner is undertaking, the relative economic incentives they each bear or share, as well as the overall reasonableness of the P3s expected life.

APPENDIX B: ABBREVIATIONS

CFR	Consolidated Financial Report of the U.S. Government
ED	Exposure Draft
EIA	Energy Information Administration
FASAB	Federal Accounting Standards Advisory Board
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GPFFR	General Purpose Federal Financial Report
OMB	Office of Management and Budget
P3	Public-Private Partnership
RSI	Required Supplementary Information
SFFAS	Statement of Federal Financial Accounting Standards
TB	Technical Bulletin

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