

Memorandum

Reexamination

May 31, 2024

To: Members of the Board
From: Melissa L. Batchelor, Assistant Director
Thru: Monica R. Valentine, Executive Director
Subject: **Reexamination of Existing Standards** (Topic A)

INTRODUCTION

The Board discussed preliminary research for the priority reexamination topics (SFFAS 5, SFFAS 7, and SFFAS 34) at the April 2024 meeting. This agenda session will consider staff's preliminary research on the remaining issue areas for reexamination. This includes the remaining top tier and second tier issue areas identified through the Invitation to Comment (ITC) and results from the SFFAS 2 round table. The purpose of this research is to assist the Board with prioritizing issue areas.

REQUEST FOR FEEDBACK BY June 6th

Prior to the Board's June meeting, please review the attached staff recommendations and analyses and respond to the ensuing questions by June 6th. Please submit responses to Melissa Batchelor at BatchelorM@fasab.gov with a copy to Monica Valentine at ValentineM@fasab.gov.

NEXT STEPS

Pending Board member feedback, staff would prepare a schedule and analysis of the reexamination issue areas against the prioritization factors. Staff's assessment would be general information and a reference tool for the Board in the prioritization of reexamination issue areas. Staff would like to ensure the Board has the necessary information to finalize its prioritization of reexamination issues at the August meeting.

ATTACHMENTS

1. Staff Recommendations and Analyses
2. Preliminary Revenue (SFFAS 7) Research- *Expanded*
3. Preliminary Research on Loan (SFFAS 2) Note Disclosures
4. Preliminary Research on Remaining Issue Areas

Staff Analysis Reexamination May 31, 2024

CONTEXT

The Board requested that staff provide preliminary research on the ITC issue areas to facilitate the prioritization of reexamination topics.

BACKGROUND

At the December 2023 meeting, the Board discussed the comment letters, staff's initial analysis, and staff's recommendations based on the responses to the ITC, *Reexamination of Existing Standards*. The Board agreed that the high priority topics were SFFAS 5, SFFAS 7 and SFFAS 34. Some members also suggested considering other issue areas such as SFFAS 2 disclosures¹ and second tier topics. The Board agreed that preliminary research was needed to prioritize issues.

At the April 2024 Board meeting, staff provided the preliminary research on SFFAS 5, SFFAS 7, and SFFAS 34.

The June Board materials provide research into remaining issue areas and the results of the SFFAS 2 round table discussion.

RECOMMENDATIONS AND ANALYSES OF REQUEST FOR FEEDBACK

RECOMMENDATION

Comments on Research

The Board should review the attached high-level preliminary research on issue areas for the remaining ITC top tier and second tier topics for reexamination.² Staff is not requesting Board deliberation on any of the technical issues presented as this is preliminary research to facilitate the prioritization of reexamination topics.

¹There were no ITC responses from agencies with material loans and loan guarantees. Members asked staff to contact the major federal credit reform agencies to assess their concerns with SFFAS 2, *Accounting for Direct Loans and Loan Guarantees* disclosures.

² As presented at the December 2023 meeting, staff used a weighted model to prioritize the topics based on the priority assessment of respondent comments. These results provided a ranking of reexamination topics and staff further segregated the ranked topics into three tiers. The Board requested staff perform preliminary research on the issue areas in the top tier and second tier.

ANALYSIS

Staff's preliminary research consisted of outreach and communication with stakeholders as well as considering FASAB historical information to gather more information and specifics about the ITC issues presented. Discussions with respondents focused on detailed information about the issue, potential cause, current impact, specific examples, and ways to resolve. During outreach, some respondents were more forthcoming with examples and sharing pertinent information such as auditor NFRs. Generally, the respondents reiterated the feedback provided in their ITC responses on the topic areas.

As explained with the high-level research presented in April, it is important to be mindful that the preliminary research is exactly that—preliminary, and that research was limited.³ Staff notes that only after a project has been added to the research agenda would project research begin. Accordingly, additional outreach, including round tables, task forces, and other research as appropriate, would occur once a project is added to the agenda. Research at that time would be more in depth and include a broader audience.

For this meeting, staff is seeking Board questions and comments about the preliminary research on the remaining areas. This includes:

- **Preliminary Revenue (SFFAS 7) Research-Expanded.** At the April meeting, certain members requested additional information on SFFAS 7 to better inform prioritization discussions. The preliminary research has been expanded to provide the Board more detail on this complex topic. The research provides additional tables with detailed issue areas. These tables, along with staff discussion and analysis, highlight the complexities and interdependencies within the revenue topic area. Certain sub-topics may be separable sub-projects, while several sub-topics and issue areas have complex interdependencies and overlaps that are conducive to holistic reexamination efforts.
- **Preliminary Research on Loan (SFFAS 2) Note Disclosures.** There were few ITC responses from agencies with material loans and loan guarantees. Members asked staff to contact the credit reform agencies to assess their concerns with SFFAS 2, *Accounting for Direct Loans and Loan Guarantees* disclosures. The preliminary research provides the Board a summary of staff's round table meeting with the major credit agencies.
- **Preliminary Research on Remaining Issue Areas.** This provides the high-level preliminary research on issue areas for the remaining ITC top tier and second tier

³ Outreach was limited to respondents that selected the topic as high or medium priority. Further, staff did not engage with subject matter experts or others.

topics for reexamination.⁴ With the exception of SFFAS 6⁵, the remaining topics (SFFAS 1 and SFFAS 3) were second tier topics⁶. As such, most issue areas presented are much smaller, especially when compared to the issue areas presented at the April Board meeting.

Staff notes that there were various general comments about considering whether updates are needed to certain discussions with the existing standards to reflect the current environment. For example, a respondent suggested that FASAB should revisit the discussion of “other current liabilities” and the definition of “intragovernmental.” Staff notes that there were several suggestions such as this and these would be addressed in the appropriate reexamination project.

Staff is looking for Board feedback and whether the information is sufficient to inform the Board about the issue areas for prioritization. Staff would like to ensure the Board has the necessary information to prioritize the reexamination issue areas as this will be needed for the Board’s technical agenda setting discussion and decisions at the August 2024 Board meeting. This is elaborated in the next section.

Questions for the Board:

1. Does the Board have any specific questions or comments regarding the research provided for the remaining issue areas for reexamination?

⁴As presented at the December 2023 meeting, staff used a weighted model to prioritize the topics based on the priority assessment of respondent comments. These results provided a ranking of topics and staff further segregated the ranked topics into three tiers. The Board requested staff to perform preliminary research on the issue areas in the top tier and second tier.

⁵ SFFAS 6 was a top tier topic, but it was not considered one of the high priority topics (SFFAS 5, SFFAS 7 and SFFAS 34) identified by the Board. Therefore, it is included with this analysis of the remaining top tier and second tier preliminary research.

⁶ Second tier topics include: Topic 1 (SFFAS 1), Topic 21 (SFFAS 49), Topic 3 (SFFAS 3), Topic 9 (SFFAS 17), and Topic 14 (SFFAS 33.) Staff did not perform preliminary research on SFFAS 49 because there is an active project on Public Private Partnerships. Staff has shared reexamination feedback with the project manager so it may be considered. SFFAS 33 is being considered within the high priority topic Liabilities area.

RECOMMENDATION

Reexamination Prioritization Approach

The Board should address the prioritization approach before August's technical agenda setting session.

ANALYSIS

The ITC was an excellent tool to accumulate an inventory of the specific issues for reexamination. The Board agreed that taking a priority approach to address the ITC issues would have the most benefit for preparers and users. At the April 2024 meeting, the Board discussed that the prioritization is for the order in which the projects will be addressed, and the Board will continue going through the specific issue areas in a prioritized manner until all issues have been addressed.

The Board also discussed the importance of determining the priority order of specific issues areas (narrow scope projects) that should be added to the agenda.⁷ However, the Board has not finalized the factors for prioritizing the reexamination issue areas. In April, staff included suggested factors for the Board to consider for prioritizing the specific issue areas. The Board provided feedback so staff could update the suggested factors.

Board member comments and suggestions included combining and streamlining factors so there are no more than five to six factors. The Board generally agreed that the critical nature or the significance and severity of the specific issue should be key in determining the order of prioritization. Members also noted that the approach and order of prioritization is subjective to some extent as it involves the judgments of each member.

Members also noted that the suggested factors are very similar to the factors that the Board uses to prioritize projects in its technical agenda setting. For members reference, staff is including a brief discussion of the Board's technical agenda setting. During its annual agenda review, the Board identifies its priorities so that research can begin when resources are available. Projects identified as priorities, but not as active agenda topics are considered "research topics." In August of each year, the Board discusses those priorities and makes needed adjustments to the technical agenda.

The Board prioritizes projects based on the following factors:

- The likelihood a potential project will significantly contribute to meeting the operating performance and stewardship reporting objectives established in SFFAC 1, *Objectives of Federal Financial Reporting*
- The significance of the issue relative to meeting reporting objectives
- The pervasiveness of the issue among federal entities

⁷ Staff used a weighted model to prioritize the topics based on the priority assessment of respondent comments. These results provided a ranking of topics and staff further segregated the ranked topics into three tiers. The Board requested staff to perform research on the issue areas in the top tier and second tier. Next, the Board will determine the priority order for addressing the issue areas.

- The potential project's technical outlook and resource needs

Members also consider the following additional factors that they deem significant in planning the technical agenda:

- A focus on citizens and citizen intermediaries as the primary users of the consolidated financial report of the U.S. Government
- Attention to the needs of Congress and program managers
- Effects on preparers and auditors due to declining real budgets
- Increasing risks due to fiscal uncertainty and operational complexity
- Increased electronic reporting and availability of relevant information in sources other than financial reporting

Based on the Board discussion in April, it would be redundant to include the same or similar factors in the reexamination project prioritization. Staff notes the factors used in the technical agenda setting would ultimately be considered by the Board prior to adding any project to the agenda, including the reexamination issue areas the Board will prioritize.

Staff believes that some of the technical agenda setting factors, such as pervasiveness of the issue, are embedded within the factors for prioritization of the reexamination issues, and that is reasonable. However, others may be best suited for consideration during technical agenda setting. For example, during the April discussion, certain members recognized that resource requirements based on the degree of difficulty or complexity is a very important consideration. The Board will need to consider that some of the projects can be done with relatively few resources and in little time compared to others. It is a balance of the resources and projects. The Board must consider its resources⁸, even if it is not a deciding factor for the prioritization of reexamination issues, it would be considered in the technical agenda setting session.

The ITC sought feedback from stakeholders on opportunities for the Board to improve the standards. The ITC included the following potential improvements for stakeholders to consider:

- Streamlining authoritative guidance
- Eliminating or revising unclear requirements
- Eliminating disclosures and other required information that may no longer benefit users
- Filling gaps in the standards where the guidance either does not address or does not adequately address areas where federal financial reporting objectives are not being met
- Resolving inconsistencies in current practice
- Clarifying the standards (including addressing areas where the standards are difficult to apply)

⁸ As noted above, the potential project's technical outlook and resource needs is a factor for consideration in technical agenda setting.

- Reconsidering areas where there is significant preparer or audit burden versus perceived value of the information or other cost/benefit concerns
- Considering overlaps or redundancy in requirements

Staff believes it important to ensure that these potential improvements referenced above are embedded within the factors the Board uses for prioritizing the reexamination issues. Considering the above analysis, staff recommends the following factors for prioritization of reexamination issues:

- **Clarifying the standards (including addressing areas where the standards are difficult to apply).** Clarifying the standards is used broadly to include various improvements to the standards. This could include eliminating or revising unclear requirements. It could include consideration of areas where there is confusion or difficulties applying requirements and clarifications to resolve inconsistencies with current practice and. Clarifications may also include filling gaps in the standards where the guidance either does not address or does not adequately address areas where federal financial reporting objectives are not being met.
- **Cost-benefit (includes streamlining and burden reduction).** Cost versus benefit considerations is used broadly to focus on areas where there may be significant burden on stakeholders, such as significant preparer or audit burden. This could include eliminating disclosures and other required information that may no longer benefit users and streamlining authoritative guidance. It could also include overlaps or redundancy in requirements that may need to be removed.
- **Critical nature of the issue.** The critical nature of the issue is a factor the Board should consider when taking a priority approach to reexamining the standards. This includes issues considered critical, such as issue areas that prevent financial statement preparation and related audit. The issue may be referenced as contributing to a disclaimer or included as a material weakness in the audit report.
- **Pervasiveness.** Pervasiveness of the issue among federal entities is another consideration. An issue area is pervasive if it affects multiple reporting entities. For example, several agencies might have identified the area in the ITC response. In addition, it would include issues areas that impact the government-wide.

Staff is seeking Board member feedback on the above factors for prioritizing issues. Staff believes the four factors are comprehensive to assess the reexamination issue areas to determine an order of prioritization. Members should consider if there are any other factors that should be added. Also, members may wish to consider if all factors should be considered equally or if a particular factor, such as the “Critical nature of the issue” should take precedence or be weighted so that it may be considered most

important. Based on member feedback, staff would update the factors so the factors may be used for the Board to prioritize reexamination issues in August.

Staff envisions the reexamination prioritization being completed on the first day of the August Board meeting so the prioritization can be used in the technical agenda session on the second day of the Board meeting.

To assist the Board with the prioritization, staff would provide a schedule and analysis of the reexamination issue areas against the prioritization factors. Staff's assessment would be general information and a reference tool for the members, but not include a prioritization.

Consistent with Board discussions, staff will also develop internal tools to monitor progress on the reexamination of each standard so assessments can be made on what remains for a comprehensive review of a particular standard.

Questions for the Board:

2. Does the Board generally agree with staff recommendations for the factors for prioritizing reexamination issues?

Preliminary Revenue (SFFAS 7) Research-Expanded

Context and Summary of Material

At the December 2023 meeting, the Board tentatively agreed to consider revenue as a priority topic for reexamination.

At the April 2024 meeting, several members expressed their tentative agreement that the topic should remain a high-priority topic based on the information provided by respondents and additional information provided by staff. Certain members requested additional information to inform prioritization discussions during the June and August meetings.

Additional information is provided in this attachment, including a draft mapping and analysis of reexamination candidates.

This additional information should be viewed as *preliminary* for the purpose of assessing the prioritization of the topic.

The preliminary information includes:

- Minor updates to the summary of revenue and related pronouncements and summary of respondent feedback and research to-date.
- Table 1 – Staff analysis of revenue reexamination issue areas
- Table 2 – Detailed issue areas identified by respondents and staff
- Table 3 – Summary of detailed issue areas raised by respondents or identified by staff
- Staff discussion and analysis of revenue topic reexamination issues and above tables

Staff's discussion and analysis highlights the complexities and interdependencies within the revenue topic area. Certain sub-topics may be separable into isolated sub-projects, while several sub-topics and issue areas have complex interdependencies and overlaps that are conducive to holistic reexamination efforts. These matters can be further studied and discussed during the project's research phase, should the Board elect to move the revenue topic to the research agenda in the future.

The information provided in this material is not intended to elicit tentative Board deliberations or decisions.

Summary of Revenue and Related Board Pronouncements

As noted in April, the core Board pronouncement promulgating generally accepted accounting principles in the revenue topic area is:

- SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.

Pronouncements that significantly interact with or otherwise relate to the core pronouncement include the following Statements of Federal Financial Accounting Standards:

- SFFAS 21, *Reporting Corrections of Errors and Changes in Accounting Principles*

- SFFAS 27, *Identifying and Reporting Funds from Dedicated Collections*
- SFFAS 31, *Accounting for Fiduciary Activities*
- SFFAS 52, *Tax Expenditures*
- SFFAS 53, *Budget and Accrual Reconciliation*

Numerous other Concepts, Interpretations, Technical Bulletins, and other pronouncements have varying degrees of interactions and relationships with SFFAS 7. These interactions and relationships would be further studied, mapped, and considered for opportunities to consolidate and/or reorganize Board guidance.

Respondent Feedback and Research To-date:

- Research previously discussed in December and April: SFFAS 7 was the highest ranked topic area for reexamination based on the weighted rankings of stakeholder comments, as presented in the December 2023 materials.
- SFFAS 7 was issued in May 1996. The Statement presents standards to account for inflows of resources from revenue and other financing sources. Although the Statement has been amended numerous times, most amendments have been relatively narrow. Moreover, even the areas that were amended have not been spared from the feedback of Invitation to Comment (ITC) respondents identifying viable reexamination candidates, such as guidance for budget-to-accrual reconciliations.
- As discussed in December and April, issues noted by respondents included:
 - Considerable changes to the government environment since 1996 that may not be sufficiently addressed under the current standards.
 - Similarly, some respondents noted that the standard is not sufficiently comprehensive in certain areas, such as intragovernmental activities, transfers, and contra-revenue accounts. Many respondents noted that updates are needed based on the business environment of today and opportunities to improve disclosures for decision-makers, including the Federal Issues and Standards Committee of the Greater Washington Society of CPAs and the Bureau of the Fiscal Service.
 - The Department of the Treasury, the Internal Revenue Service (IRS), the Government Accountability Office (the IPA for IRS), and KPMG (the IPA for the Department of the Treasury) raised numerous specific accounting issues for reexamination. These entities generally re-affirmed their comments in our follow-up interviews with them. Issues raised among these four respondents alone included:
 - Auditability of the existing standards for recognizing revenue
 - Opportunities to clarify existing standards on compliance assessments, taxes receivable, custodial accounting, and exchange/non-exchange revenues
 - Updates to guidance for additional types of transactions
 - Private debt collections and subsequent accounting

- Opportunities to address critical gaps on changes in accounting estimates and changes in reporting entity
 - Opportunities to clarify the application of requirements for changes in accounting principles, error corrections, and changes in the reporting entity. SFFAS 21, which amended SFFAS 7, was issued in 2001. Since that time, there have been numerous updates to accounting principles among other bodies that promulgate GAAP in this area that warrants further study and convergence.
 - Opportunities to modernize guidance for certain topic areas in the standard for changes in systems, controls, programs, and processes among reporting entities that report material revenues—both exchange and non-exchange revenues
 - Staff has provided an expanded analysis of respondent and staff-identified technical issues in Tables 1-3 below.
- Staff followed up with ITC respondents following the December 2023 meeting. Generally, these respondents reiterated the feedback provided in their ITC responses on this topic area. Through these interviews, some respondents expressed a desire for the Board to modernize its standards and clarify accounting issues that have emerged since the issuance of the core pronouncement and other pronouncements that significantly interact with or otherwise relate to the core pronouncement. Based on staff's further review of the original comments and staff's follow-up discussions with staff from the Bureau of the Fiscal Service, the Government Accountability Office, among others, staff is confident that there are significant opportunities to clarify numerous accounting issues that could significantly contribute to the Board's reporting objectives and reduce preparer/auditor burden. There is a long list of accounting issues that were raised by ITC respondents that warrant further reexamination, study, and solution development.
- SFFAS 7—at the time of its issuance and today—is widely regarded to be a major milestone and accomplishment of the Board. The pronouncement implemented several lasting improvements to the reporting model that have in many respects held up well over the course of 28 years and contributed significantly to the Board's federal financial reporting objectives. For this reason, along with the considerable scope and complexity of the accounting issues addressed under this suite of pronouncements, staff views the research process and reexamination methodology to be an endeavor that must be informed by careful review and study of the SFFAS 7 project archives to obtain a sufficient understanding of the history behind various aspects of the standards.
- Staff has also reviewed recent technical inquiries in this topic area. In recent years (between 2019 and 2024), staff has continued to address technical inquiries of considerable magnitude and consequence related to SFFAS 7 and pronouncements that significantly interact with or otherwise relate to it, including SFFAS 27. Many of these technical inquiries appear to signal considerable practice issues related to the clarity and/or correct adoption of these standards, including revenue accounting, custodial collections and disbursements accounting, and dedicated collections accounting. Recent technical inquiries in these areas are generally consistent with the ITC feedback that was provided by respondents. Although staff found that the extant standards generally provided sufficient principles for addressing many of these recent technical inquiries, there are considerable opportunities to clarify and modernize these principles for today's environment. Moreover, certain audit-related disputes appear to remain unresolved in

certain areas based on the comments provided by certain respondents. The reexamination project on revenue could resolve those matters.

- Based on the preliminary research, staff observed certain characteristics of the core pronouncement:
 - Two or more pronouncements may promulgate guidance similar classes of transactions and balances. There may be opportunities to harmonize and organize guidance under the revenue topic area.
 - Pronouncements under the revenue topic area may have gaps for certain classes of transactions and presentation issues, as reflected in certain respondent comments.
 - The principles provided under this topic's pronouncements may address unexpected presentation or accounting topics that may be more appropriate to include under other extant or stand-alone pronouncements.
 - Pronouncements under this topic may contain guidance that make performing accounting research unduly challenging for practitioners. For example, Appendix B of SFFAS 7 is considered authoritative. The Board's Rules of Procedure allow for authoritative appendices, provided that the authoritative status is explicitly indicated. In practice, this is not typical. SFFAS 7 is the only example of the Board issuing an authoritative appendix. This has resulted in some confusion in practice.
 - Pronouncements under this topic may not align with revenue accounting principles in the private sector, state-and-local sector, and/or international sector. While many divergences are likely to be appropriate, known, and expected, identification and analysis of areas of alignment and divergence can inform the reexamination candidate identification process and Board deliberations on such candidates. In general, however, staff's preliminary research has not provided any indication that stakeholders are seeking any major shifts to the current reporting model for revenues.
 - Pronouncements under this topic may not be sufficiently responsive to changes in legislative authorities (for examples, see respondent 22 comments in table 3 below); the types of revenue and financing transactions that the federal government engages in today; changes in programs, operations, systems, controls, and user needs over the years. Several respondents also identified opportunities to improve the predictive and feedback value of revenue-related information based on changes to the federal environment over the years. Certain specific proposals appear to be cost-beneficial due to already-implemented processes and systems improvements.

Table 1 – Staff mapping and analysis of revenue reexamination issues

X = Tentative reexamination candidates identified by staff in related sub-topic and dimension
= Reexamination candidates identified by ITC respondents in related sub-topic area (see far right column dimension; respondent number listed)
N/A = Reexamination dimension not applicable based on the nature of the sub-topic and dimension
NN = No specific issues noted by staff for reexamination candidacy; however, issues in the sub-topic and dimension may be identified during the research phase
✂ = Potentially separable or omissible sub-topic (staff would further assess severability and omissibility during the research phase)
***** = Potentially combinable sub-topic with the overall revenue topic or another topic (staff would further assess combination options during the research phase)

Existing Standards			Reexamination Dimensions					
SFFAS	Section / sub-topic area	SFFAS 7 par.	Design and organization of pronouncements	Alignment and consistency across pronouncements	Alignment and consistency FASB GASB Int'l std.-setters	Technical Practice issues Clarifications Modernization	Cost-benefit Qualitative characteristics User needs Streamlining	Issues noted by ITC comments, and/or follow-up
SFFAS 7	Exec summary	01-15	X	NN	N/A	N/A	N/A	N/A
	Part I: Introduction / Background	16-29	X	X	N/A	N/A	N/A	N/A
	Scope	30-32	X	X	X	X	NN	NN
	Exchange revenue (rec/meas/dis)	33-47	X	X	X	X	NN	2, 7, 9, 10, 16, 22, 26
	Nonexchange revenue (rec/meas/dis)	48-69	X	X	X	X	NN	6, 7, 10, 15, 16, 22, 26
	Other financing sources (rec/meas/dis)	70-75	X	X	X	X	X	6, 7, 10, 16, 17, 18, 22, 26
	Prior period adjustments	76	Rescinded. See SFFAS 21 below.					
	Budgetary information	77-82	NN	X	X	X	X	22
	Dedicated collections	83-87	Rescinded by SFFAS 31. See SFFAS 27/43 and 31 below.					
	Part II: Concepts / SFFAC 2 / BAR ✂	88-102	X	X	NN	N/A	N/A	9, 22
	Guidance for the classes of transactions ✂	235-370	X	X	X	X	N/A	6, 8, 10, 11, 16, 17, 18, 22, 26
SFFAS 21	Accounting changes, error corrections ✂		NN	NN	X	X	NN	10
SFFAS 27 SFFAS 43	Dedicated collections ✂ *		X	X	X	X	X	9, 11
SFFAS 31	Accounting for fiduciary activities ✂ *		X	X	X	X	X	11, 12, 26
SFFAS 52	Tax expenditures ✂ *		X	NN	X	X	X	25
SFFAS 53	Budget and accrual reconciliation ✂		X	NN	NN	X	NN	9, 11, 22

Table 2 – Detailed issue areas identified by respondents and staff

SFFAS	Section / sub-topic area	Detailed issue areas identified by respondents (respondent number) and/or staff
SFFAS 7	Exchange revenue (rec/meas/dis)	<ul style="list-style-type: none"> Collections and transfers, diversity in application of extant standards, insufficient guidance on intragovernmental transactions and eliminations (2, 9, 10, 11, 18, 22) Contra-revenue account guidance (6, 9) Verifiability in measurement (9, 10, 16, 18, 22) Modernization and expansion of guidance to address classes of transactions in the current federal environment (2, 6, 7, 16, 18, 22) Taxes receivable measurement, compliance assessments (16, 26) Private debt collections (16, 26) Presentation issues (9, 17, 22) Other financing sources (7, 17, 22) Debt cancellation (15, 17, 22) Re-examination of disclosure requirements (7, 9, 10)
	Nonexchange revenue (rec/meas/dis)	
	Other financing sources (rec/meas/dis)	
	Budgetary information	
	Guidance for the classes of transactions ✂	
SFFAS 21	Accounting changes, error corrections ✂	<ul style="list-style-type: none"> Changes in the reporting entity (10) Alignment with FASB/GASB standards (staff-identified issue) Misapplication of the standards and reliability of reporting (staff-identified issue)
SFFAS 27 SFFAS 43	Dedicated collections ✂ *	<ul style="list-style-type: none"> Co-mingled funds, dedicated collections classification and subsequent measurement (9) Inconsistencies in practice / comparability (staff-identified issue)
SFFAS 31	Accounting for fiduciary activities ✂ *	<ul style="list-style-type: none"> Post-implementation review of the standard (12, 26)
SFFAS 52	Tax expenditures ✂ *	<ul style="list-style-type: none"> Extending requirements to certain component reporting entities (11) More transparency on the basic financial statements (25)
SFFAS 53	Budget and accrual reconciliation ✂	<ul style="list-style-type: none"> Budget-to-accrual reconciliations (9, 22)

Note: See <https://fasab.gov/reexamination-of-existing-standards/> to identify corresponding respondents, by organization.

Table 3 – Summary of detailed issue areas identified by respondents and staff

SFFAS	Detailed issues raised, by respondent (respondent number)	Staff notes
SFFAS 7	<i>"The terms exchange and nonexchange revenue should be elaborated to help agencies consistently recognize, measure, and report revenue on the financial statement. Recommend this standard includes scenarios/examples." (2)</i>	<ul style="list-style-type: none"> Generally consistent with other ITC comments and staff analysis regarding modernization and expansion of guidance to improve consistency and reduce cost.
	<i>"We think it would be helpful and appropriate to provide expanded prescriptive guidance for intragovernmental transactions. For example, SFFAS 7 paragraph 41 consists of two sentences regarding sales credits and returns. However, it would be useful if standards could address methodologies for developing contra revenue accounts, in particular for those related to intragovernmental transactions." (6)</i>	<ul style="list-style-type: none"> Generally consistent with other ITC comments requesting additional guidance for intragovernmental transactions.
	<i>"Considering the changes that occurred in the business environment since SFFAS 7 was issued, Federal agencies could be inconsistently reporting certain transactions that are not specifically addressed by the standard. The FISC recommends that the Board consider updating the standard to provide accounting and reporting treatment for exchange and non-exchange revenue and other financing sources transactions that are not currently addressed."</i>	<ul style="list-style-type: none"> Generally consistent with other ITC comments and staff analysis regarding modernization and expansion of guidance to improve consistency and reduce cost.
	<i>"The FISC also recommends that the Board reexamines [sic] the disclosure requirements to ensure that it provides useful information for the decision makers." (7)</i>	<ul style="list-style-type: none"> Generally consistent with other ITC comments and staff analysis regarding reexamination of topic area disclosure requirements.
	<p><i>"DOD components identified the following areas of the standard for revision:</i></p> <ul style="list-style-type: none"> <i>- Unclear requirements around reporting of revenue allowance. Paragraph 41 states that such an allowance should be reflected as a revenue adjustment and separately shown. Some DoD components believe this provision is met by a note disclosure, yet paragraphs 46 and 47 (disclosure requirements) do not indicate that the amounts should be included in a note disclosure. Current TFM mapping of the Statement of Net Cost (SNC) does not show GLAC 510900 as a separately shown item on the face of the SNC. DoD auditors have issued findings regarding this financial statement presentation. In addition to Treasury changing the mapping of the SNC, clearer guidance from FASAB would significantly assist in remediating the types of audit findings and preventing them in the future.</i> <i>- Part II: Concepts for Reconciling Budgetary and Financial Accounting (and also SFFAS 53). DoD continues to struggle with the Budget and Accrual (BAR) (sic) reconciliation/footnote. According to OMB Circular A-136, Agencies are to use the TFM Crosswalk to reconcile their footnote. However, the crosswalk is not all-encompassing and has not been updated since 2021 causing disagreements upon the correct reconciliation methods, and ultimately causing off-line adjustments in order to reconcile the footnote in the audited/published statements. It would be beneficial to preparers if FASAB included more extensive information on each section of the BAR, what's expected to be under each section, etc.</i> 	<ul style="list-style-type: none"> Generally consistent with other ITC comments and staff analysis regarding modernization and expansion of guidance to improve consistency and reduce cost. Staff notes that several issues raised are related to administrative directives and outside of the Board's domain. Respondent's overall comment is generally consistent with staff views regarding opportunities to improve the form and content of guidance under the revenue topic area, which would improve navigability of the standards. Staff is also aware that this respondent has been working with central agencies on material issues related to the Medicare-Eligible Retiree Health Care Fund. These issues require further study and research before bringing specific technical issues to the Board, if necessary.

	<p>Overall DoD components said that the standard can be confusing and difficult to follow because of the numerous amendments from subsequent SFFASs.” (9)</p>	
	<p>“Accounting for revenue and other financing sources</p> <p>... we suggest the Board reexamine SFFAS 7 and consider clarify could be provided with lower-level organizational categories within exchange and non-exchange revenue to clearly differentiate the accounting guidance when the entity retains the revenue versus when the entity collects and transfers the revenue to other entities. Further, we suggest the Board undertake outreach with preparers of the Financial Report of the United States Government and, based on that outreach, clarify and/or fill gaps in guidance that result in diversity in application of guidance and, ultimately intragovernmental differences that do not eliminate...”</p> <p>“Appendix B to SFFAS 7, Guidance for the Classification of Transactions, provides guidance for classifying various transactions as exchange or nonexchange revenue, or other financing source, based on the accounting standards. Given the amount of time that has elapsed since the Appendix was first effective and the limited subsequent revisions, we suggest the Board also reexamine the Appendix and assess whether additional types of transactions should be incorporated into this guidance based on the nature of transactions occurring in today’s environment.” (10)</p>	<ul style="list-style-type: none">• Generally consistent with other ITC comments and staff analysis regarding modernization and expansion of guidance to improve consistency and reduce cost.• Generally consistent with other ITC comments requesting additional guidance for intragovernmental transactions.
	<p>“DHS is requesting clarification of the term “true up” used in Interpretation Number 5. Guidance on the budgetary accounting should be provided in Interpretation 11. (15)</p>	<ul style="list-style-type: none">• Generally consistent with a few other ITC comments requesting expansion of guidance to improve consistency and reduce cost.• Comment relates to debt cancellation issues.
	<p>“Treasury (and the IRS) selects SFFAS No. 7 as a high priority for reexamination and seeks both an accounting change for the treatment of compliance assessments that it believes will lead to fuller application of accrual accounting and further guidance related to exchange and nonexchange transactions. Below are two separate areas for consideration.” [abridged by FASAB staff with select excerpts for each issue]</p> <p>1. “Compliance assessments vs. federal tax receivables”</p> <p>“Currently, SFFAS 7 forces Treasury (and the IRS) to materially underreport its federal taxes receivables by not allowing the reporting of compliance assessments in its Federal Taxes Receivable, Net.”</p> <p>“When SFFAS No. 7 was originally drafted, the IRS did not have the ability to accurately estimate future collections of its reporting compliance assessments” [unable to meet par. 48 and 53 requirements] The IRS can currently meet the specific requirements of SFFAS 7, par. 48 and 53 for recognizing compliance assessments as federal taxes receivable.”</p> <p>2. “Exchange/ nonexchange revenue”</p>	<ul style="list-style-type: none">• Generally consistent with a few other ITC comments requesting expansion of guidance to improve consistency, address user needs, and reduce cost.• Staff received technical inquiries on both of the two issues summarized in the ITC comments. Staff considers the inquiries on compliance assessments and private debt collections closed. Notwithstanding, both of these issues are reexamination candidates.

	<p><i>"Taxes collected from the public and subsequently retained by the IRS for the Private Debt Collection programs should be presented on the Statement of Changes in Net Position as nonexchange and non on the Statement of Net Cost."</i> (16)</p>	
	<p><i>"HHS supports the proposed interpretations, especially those that will facilitate the consistent accounting for and reporting of other financing sources and debt cancellation among Federal agencies, and efforts that will allow proposed SCNP form and content changes to align with OMB and GAAP accounting standards."</i> (17)</p>	<ul style="list-style-type: none"> • Generally consistent with a few other ITC comments requesting improvements to presentation consistency and guidance on debt cancellation.
	<p>Respondent comments describe certain elimination issues related to transfers of assets. (18)</p>	<ul style="list-style-type: none"> • Generally consistent with other ITC comments requesting additional guidance for intragovernmental transactions.
	<p><i>"Fiscal recommends the following: [Abridged by staff to summarize]</i></p> <ol style="list-style-type: none"> <i>1. ...Significant confusion remains within SFFAS 7 on perceived differences between "financing sources and "other financing sources"...</i> <i>2. Fiscal realizes the SFFAS 7 Table of Transactions and other references are not intended to be all-inclusive and are principles-based. However, the nature of activities within the federal government continues to evolve based on statutory authorities, budgetary constraints/the availability of budgetary resources, etc. The Board should consider what types of activities are not captured, and the underlying principles of activities in the future of the federal government. These might include:</i> <ol style="list-style-type: none"> <i>A) The increasing use of "pooled" funding, "pass-the-hat funding," with related repayments, etc., to fund projects and increase efficiency, such as the Technology Modernization Fund..."</i> <i>B) Differences between "Cancellation of debt," "borrowing authority with no repayment required," "forgiveness," and/or "elimination of debt" can lead to confusion..."</i> <i>C) Energy savings performance contracts (ESPCs) under the National Energy Conservation Policy Act..."</i> <i>3. SFFAS 53 did not outline explicit steps to lead agencies toward implementation. Rather, the standard mentions in several areas that Treasury-issued guidance would facilitate implementation, and that OMB/Treasury have the flexibility to determine specific reconciliation requirements for the future.... Deferrals to OMB and Treasury for implementation guidance offer agencies flexibility to meet reporting requirements. However, authoritative guidance within the GAAP Hierarchy should stand alone, without external references to administrative directives."</i> (22) 	<ul style="list-style-type: none"> • Generally consistent with staff analysis. • Generally consistent with other ITC comments and staff analysis regarding modernization and expansion of guidance to improve consistency and reduce cost. • Generally consistent with other ITC comments requesting additional guidance for intragovernmental transactions. • Generally consistent with a few other ITC comments requesting improvements to presentation consistency and guidance on debt cancellation. • Staff views SFFAS 53 sub-topic as a reexamination candidate under the revenue topic area. However, the separability/combinability of the sub-topic requires further study and assessment.
	<p><i>"FASAB may consider clarifying the accounting and reporting requirements relating to when a collecting entity retains a portion of the collections. There have been some conflicting views about the application of the current standard in this area. The Board may also consider clarifying the accounting and reporting requirements relating to custodial activity, including custodial distributions."</i> (26)</p>	<ul style="list-style-type: none"> • Generally consistent with a few other ITC comments requesting expansion of guidance to improve consistency, address user needs, and reduce cost. • Staff received a technical inquiry on the issue summarized in the ITC comments. Staff considers the

		inquiry on private debt collections resolved. Notwithstanding, the issue is a reexamination candidate.
SFFAS 21	Currently SFFAS 21, Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources, does not provide specific guidance on changes in accounting estimates and changes in the reporting entity. Given that both the FASAB and GASB prescribe guidance on these topics, we recommend that the Board develop guidance to eliminate the gap in extant standards. (10)	<ul style="list-style-type: none"> • Generally consistent with staff analysis on this topic. • Over time, staff has observed instances of reporting entities appearing to misapply SFFAS 21, classifying corrections of errors as changes in accounting principles. • The Board should consider the implications of changes to the reporting entity over time. From time to time, the Congress may pass major legislation that could reorganize reporting entities, create new reporting entities, and transfer functions among them. GASB Statement 100 (issued in 2022) addresses changes in accounting principles, changes in accounting estimates, error corrections, and changes in the reporting entity.
SFFAS 27 SFFAS 43	<p>“One DoD component requested further review of the mixed or co-mingled funds to identify a mechanism to reflect this activity more clearly in the financial statements.</p> <p>Consider the following scenario: [Abridged by staff] SFFAS standards and OMB Circular A-136 address mixed or co-mingled funds, and express that the fund as a whole only meet [sic] the FDC definition if the fund is predominantly sourced from the FDCs. USACE’s general fund operating accounts are not predominantly funded by the FDC totals, as they receive appropriated funds yearly that serve as the majority of the source of funds. However, we question if this results in correct and transparent reporting because the funds received are FDC by definition, as they came from the trust funds, even though they ended up in a predominantly operating account.” (9)</p>	<ul style="list-style-type: none"> • USACE reported a \$12 billion adjustment as a “change in accounting principle” in note 1.B and its SCNP (beg. bal. adj. to cum. results of operations) in fiscal year 2023. • Issue raised is generally consistent with staff-identified issues and observations related to funds from dedicated collections and opportunities to improve consistency of application.
SFFAS 31	“In 2008 when this standard became effective, there was disagreement about the basis of accounting and placement of the fiduciary information within the basic notes. With 15 years of experience using this information, it may be a good time to re-evaluate the definition of fiduciary activities, basis of accounting, and placement within the financial statements.” (12)	<ul style="list-style-type: none"> • Generally consistent with other ITC comments and staff analysis regarding modernization and expansion of guidance to improve consistency and reduce cost. • Generally consistent with the other ITC comments on fiduciary activities.
	“We suggest that FASAB research whether the standard is achieving its intended objectives.” (26)	<ul style="list-style-type: none"> • Generally consistent with other ITC comments and staff analysis regarding modernization and expansion of guidance to improve consistency and reduce cost. • Generally consistent with the other ITC comments on fiduciary activities.

SFFAS 52	<i>Paragraphs A25-A28; The Board may consider revisiting whether the requirements to report on tax expenditures should also be extended to at least certain component reporting entities. (11)</i>	<ul style="list-style-type: none">• Par. A15-A16 and A25-A28 of SFFAS 52 provide that the Board may “evaluate the costs, limitations, benefits, and other implications of developing additional measurement, recognition, and disclosure guidance in the future” and matters to consider before doing so.
	<i>The Office of Management and Budget estimates that tax expenditures for 2022 totaled \$1.47 trillion, which equals 30% of the 2022 tax revenues. Greater transparency of tax expenditures would exist if a schedule of these tax expenditures were available in the basic financial statements of the federal financial report. (25)</i>	<ul style="list-style-type: none">• Generally consistent with staff analysis on the topic provided to the Board in February 2016 (Tab A).• Par. A15-A16 and A25-A28 of SFFAS 52 provide that the Board may “evaluate the costs, limitations, benefits, and other implications of developing additional measurement, recognition, and disclosure guidance in the future” and matters to consider before doing so.• Staff views SFFAS 52 sub-topic as a reexamination candidate under the revenue topic area. However, the separability/combinability of the sub-topic requires further study and assessment.
SFFAS 53	Summarized under SFFAS 7 above.	Above.

Staff discussion and analysis of revenue topic reexamination issues and above tables

A. Project interdependency management ✕✱

The complex technical interdependencies across numerous sub-topic areas under the revenue topic should be systematically mapped, studied, understood, and managed during the research phase. This approach will facilitate coordinated and efficient use of project resources, minimize project risks, and complement Board efforts on the umbrella reexamination project and management of the FASAB Handbook.

Staff would study the separability, omissibility, and combinability of sub-topics based on the nature and extent of sub-topic interdependencies. For example, certain sub-topic areas (such as accounting changes and error corrections) do not preliminarily appear to have extensive technical interdependencies, interactions, or inherent relevance to the main topic area or other sub-topics, while other sub-topics—such as exchange revenue—may have extensive technical interdependencies and interactions.

Staff's *preliminary* assessment on technical interdependencies informed the above analysis regarding potential separability, omissibility, and combinability of certain sub-topic areas. Staff would further study and analyze interdependencies during the research phase, and the Board would discuss them, during the research phase. This, in turn, would allow the Board to evaluate opportunities to pursue granular sub-projects and sub-topic efforts and/or holistically reexamination of multiple sub-topics in a coordinated and cohesive manner.

B. Reexamination Dimensions (six rightmost columns in table 1)

Staff mapped reexamination candidates to six dimensions:

1. Design and organization of FASAB pronouncements.¹
2. Alignment and consistency across FASAB pronouncements.
3. Alignment / consistency with pronouncements of the FASB and the GASB.²
4. Technical issues.
5. Cost-benefit, user needs, qualitative characteristics, and streamlining.
6. ITC responses provided on the sub-topic area.³

C. Reexamination candidates identified by ITC respondents #

In mapping reexamination issues identified respondents to the sub-topic areas in table 1, staff observed that numerous detailed issues raised by respondents (tables 2 and 3) related to

¹ This dimension includes, but is not necessarily limited to, the pronouncement type, method of presentation and organization, navigability, and understandability of the related guidance.

² This is not intended to imply that staff views consistency with FASB / GASB as a desired attribute for sub-topic areas tagged (✕) for candidacy. Staff believes that areas of alignment and divergence should simply be studied, understood, and considered during reexamination research efforts.

³ Staff elected to map ITC responses to sub-topics (rows in table 1), but did not map responses to the other five reexamination dimensions (columns in table 1). Respondents did not provide this information and such information could not be reliably inferred by staff. Accordingly, ITC responses were only mapped to the sub-topic rows and a stand-alone dimension column for purposes of this analysis.

multiple sub-topic areas (rows) and dimensions (columns). This is consistent with staff's expectation regarding high levels of technical interdependencies across certain sub-topic areas.

The Department of Defense (9), the Internal Revenue Service and the Department of the Treasury (16), the Bureau of the Fiscal Service (22), the Government Accountability Office (26), and others materially affected by the revenue topic area continue to provide generally consistent feedback to staff regarding sub-topic areas and detailed issues to be re-examined under the revenue topic, as reflected in their original comment letters.

Tables 1, 2, and 3 should facilitate further Board discussion of various sub-topic areas, reexamination dimensions, and the detailed issue areas provided by ITC responses at the June meeting.

Staff Note: This paper provides a summary of the preliminary research. Staff is not requesting Board deliberation on any of the specific technical issues presented, as this is preliminary research to facilitate the prioritization of reexamination topics. As such, there are no specific recommendations by staff.

Preliminary Research on Loan (SFFAS 2) Note Disclosures

At the December 2023 meeting, the Board acknowledged that there were limited responses from major federal credit entities to the Invitation to Comment (ITC). The Board asked staff to reach out to federal credit reporting entities to assess their concerns with SFFAS 2, *Accounting for Direct Loan and Loan Guarantees*. Specifically, the Board asked staff to assess reporting entity concerns with the preparation of loan note disclosures.

Examples of federal credit programs include farmers' home loans, small business loans, veterans' mortgage loans, and student loans.

Background

Due to the complexity, FASAB staff believes it important to provide a short over of the existing FASAB standards. SFFAS 2 was issued in August 1993 but then was amended by Statement of Federal Financial Accounting Standards 18: *Amendments to Accounting Standards For Direct Loans and Loan Guarantees in Statement of Federal Financial Accounting Standards No. 2* and Statement of Federal Financial Accounting Standards 19: *Technical Amendments to Accounting Standards For Direct Loans and Loan Guarantees in Statement of Federal Financial Accounting Standards No. 2*. In addition, the AAPC has provided Technical Release 3: *Auditing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act – Amendments to Technical Release No. 3 Preparing and Auditing Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act* and Technical Release 6: *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act – Amendments to Technical Release No. 3 Preparing and Auditing Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act*.

SFFAS 2 was issued to provide accounting standards for federal direct loans and loan guarantees. SFFAS 2 was based on the Federal Credit Reform Act of 1990 (FCRA).¹ The Federal Credit Reform Act of 1990 requires that effective October 1, 1991, the cost of direct loans and loan guarantees be estimated at present value for the budget. In developing SFFAS 2, the Board's primary considerations were to carry out the intent of the Federal Credit Reform Act of 1990 and to make financial reporting compatible with the budget.

¹ As explained in SFFAS 2, paragraph 6, the primary intent of the Federal Credit Reform Act of 1990 is to "to ensure that the SUBSIDY COSTS of direct loans and LOAN GUARANTEES are taken into account in making budgetary decisions. To achieve this general result, the Act has the following specific purposes: (a) ensure a timely and accurate measure and presentation in the President's budget of the costs of direct loan and loan guarantee programs, (b) place the cost of credit programs on a budgetary basis equivalent to other federal spending, (c) encourage the delivery of benefits in the form most appropriate to the needs of beneficiaries, and (d) improve the allocation of resources among credit programs and between credit and other spending programs."

SFFAS 2 provides for the recognition and measurement of direct loans, the liability associated with loan guarantees, and the cost of direct loans and loan guarantees. The accounting standards are applied to direct loans and loan guarantees on a group basis, such as a cohort or a risk category of loans and loan guarantees. The present value accounting as required by SFFAS 2 does not apply to direct loans or loan guarantees on an individual basis, except for a direct loan or loan guarantee that constitutes a cohort or a risk category.

Further, SFFAS 2 requires that post-1991 direct loans be recognized as assets at the present value of estimated net cash inflows. Loan Guarantees are recognized as a liability at the present value of estimated cash outflows. The credit subsidy expense is the present value of estimated cash outflows minus the present value of cash inflows discounted at the interest rate of marketable securities. Both direct loans and loan guarantees have subsidy expense. SFFAS 2 permits pre-1992 loans to be reported using the allowance for loss method. For pre-1992 direct loans the nominal amount is reduced by the allowance for uncollectible amount. Pre-1992 loan guarantees are reported as liabilities when it is more likely than the not the reporting entity will have to use a future outflow of cash to pay default claims.

During 1998 and early 1999, the Board discussed issues related to reporting the credit subsidy expense and credit subsidy reestimates in general. The Board concluded that certain portions of SFFAS 2 should be amended so that more useful information on credit programs' subsidy costs and performance would be provided to citizens, Congress, program managers, and other users of Federal financial information.

It was determined that SFFAS 2 had limited disclosure guidance and therefore, the Board issued SFFAS 18 to amend SFFAS 2 to provide more information on credit subsidy costs and performance. SFFAS 18 requires federal entities to "(a) report subsidy reestimates by component, (b) display in a note to financial statements a reconciliation between the beginning and ending balances of the subsidy cost allowance for direct loans and the liability for loan guarantees, and (c) provide disclosure and discussion that would help the reader understand the changes in Federal credit programs' subsidy costs and performance."

Based on staff's review of FASAB's historical files, staff notes that stakeholders were consulted in the Board deliberations in determining information to include in the federal entity financial reports. Specifically, congressional staff members who had been involved in Federal credit programs indicated they needed more rather than less detailed data on the credit subsidy costs for direct loans and loan guarantees.

In response to those deliberations, the Board issued SFFAS 19 for the following purposes (1) to clarify that the cash flow discount method used in SFFAS 2 is consistent with the method required by FCRA, (2) to clarify that the effective interest rate of a cohort of direct loans or loan guarantees is the interest rate adjusted for the interest rate reestimate, and (3) to clarify the measurement principle for the default costs of direct loans and loan guarantees.

As a result of the above, federal entity loan note disclosures have become very lengthy due to the required loan note disclosures. Most entity loan note disclosures span 5-10 pages, with certain entity loan note disclosures up to 14 pages. The information presented in these disclosures are very detailed, complex, and comprehensive. There are questions as to whether all the information presented is still necessary and useful to the reader.

Staff Outreach

As part of the reexamination project, FASAB staff reached out to the major federal credit reporting entities to assess their concerns with SFFAS 2 and to discuss their issues and challenges when preparing entity loan note disclosures. Staff reached out individually to each entity to gain their feedback and then held a round table with the major Federal Credit Reform Act entities in April 2024. The round table was attended by representatives from the Department of Housing and Urban Development, Small Business Administration (SBA), Department of Agriculture, and Department of Veteran's Affairs.²

The primary objective of the round table was to discuss ways to potentially improve, clarify, or expand reporting entity direct loan and loan guarantee note disclosures. FASAB staff asked entity representatives to discuss issues/challenges that the entities face when preparing loan/loan guarantee note disclosures, as well as ideas on how the required loan/loan guarantee note disclosures could be streamlined and/or eliminated. The meeting also provided an opportunity for representatives to discuss areas in the existing Direct Loan and Loan Guarantee accounting guidance that could be improved, clarified, or expanded.

In May staff also spoke with a Government Accountability Office staff member with vast experience auditing SFFAS 2 requirements to gain further credit reform insights. Those insights have been incorporated into this research paper.

In summary, FASAB staff's outreach and preliminary research into SFFAS 2 direct loan and loan guarantee note disclosures provided valuable feedback. Staff discussions with ITC and roundtable respondents revealed areas where stakeholders believe guidance can be improved or streamlined.

Various Sources of Potential Preparer Burden

Complexity

Round table respondents also mentioned that credit reform is a complicated area and there are few subject matter experts. Therefore, there is an increased burden on those few subject matter experts. Further the need to separately account for the direct loans or loan guarantees obligated or committed by each credit program in a fiscal year by

² Although the Department of Education is a major credit reform entity and FASAB staff invited representatives to participate, Education did not participate in the round table meeting.

cohort can be quite cumbersome. As years go by, the number of cohorts normally multiply. As a result, entities use numerous spreadsheets to keep track of the many cohorts. For example, one entity with 20 programs has up to 600 spreadsheets to account for the different loan cohorts. Aggregating cohorts as loan balances decrease was discussed by the participants as a possible solution, but this would require consideration of changes to the FCRA.

Narrative

Several respondents explained that the required narrative portions of the disclosures should be reassessed. Specifically, participants questioned the need for the narrative disclosure requirements in SFFAS 18 par. 11(C). SFFAS 18 par. 11(C) requires “Reporting entities should disclose, discuss, and explain events and changes in economic conditions, other risk factors, legislation, credit policies, and subsidy estimation methodologies and assumptions, that have had a significant and measurable effect on subsidy rates, subsidy expense, and subsidy reestimates.” For example, changes in projections of cash inflows and outflows impact subsidy reestimates. There is a clear line between economic conditions and subsidy expense and subsidy reestimates. However, a respondents explained there is not a clear connection between economic conditions and loan subsidy rates.

Another stakeholder mentioned that entities are having difficulties preparing concise and meaningful narratives. The stakeholder noted that entity narratives are very general and need to focus on the key drivers of the changes in subsidy costs.³ This point confirms some of the challenges entities are having when preparing narratives to comply with the disclosure and discussion requirement in SFFAS par. 11(C). The stakeholder also discussed materially provisions for entities providing descriptions of their loan programs. One stakeholder mentioned that some entities are including 3-4 pages of descriptions for their loan programs when some of these programs have immaterial amounts.

Required Reconciliation

Another respondent mentioned that the required subsidy cost allowance reconciliation⁴ is cumbersome to prepare. Specifically, the participant highlighted that the reconciliation for loan guarantees subsidy cost allowance balances requires additional support and is complicated. Another respondent questioned the value to readers. Furthermore, some questioned the value added in the financial reports. One respondent mentioned that

³ In the Basis for Conclusions to SFFAS 18, the Board stated its primary intent for the disclosure and discussion requirement is to discuss significant changes in subsidy rates and reestimates. Events that have occurred and will have a significant impact on subsidy rates should be discussed.

⁴ This reconciliation is required by SFFAS 18 and it “displays activities that affect the subsidy cost allowance or the loan guarantee liability, such as the subsidy expense for direct or guaranteed loans disbursed during the reporting period, subsidy reestimates, fees received, interest supplements paid, loans written off, claim payments made to lenders, recoveries obtained, and other adjustments.”

they viewed the required reconciliation as beneficial for the reader but could be streamlined to provide more concise information to the users.

Loan Disclosures that can be Streamlined

Pre-1992 Loan Disclosures

Pre-1992 direct loans and loan guarantees refers to direct loans obligated and loan guarantees committed before October 1, 1991, the effective date of the Federal Credit Reform Act of 1990. Stakeholders believe that the Board should reexamine the need for pre-1992 loan note disclosures. Entities are currently disclosing their pre-1992 direct loan and loan guarantees in separate schedules from post-1991 credit reform loans. Entities are also including a short narrative explaining pre-1992 loans are prepared under the allowance for loss method. Respondents noted that the pre-1992 loan balances are mostly immaterial and adds to the entities' note disclosures.

Respondents also questioned the meaningfulness of reporting pre-1992 loans given that in many instances the amounts are not material and may not be as relevant as current loan programs that are reported under FCRA. Although materiality should be considered by preparers, participants suggested the Board possibly including explicit language allowing preparers to consider materiality for pre-1992 loan note disclosures. The participants suggested the Board may want to provide an alternative for presenting pre-1992 loan note disclosures if necessary, such as merging them into one line under the FCRA presentation. Another option suggested by respondents would be to allow some flexibility to entities in determining what disclosures would be most useful to the report users.

Staff notes that the Board considered the expected costs and efforts that would be required in restating pre-1992 loans at present value. Based on this consideration, the standards permit but do not require restating those loans and loan guarantees on a present value basis. Specifically, paragraph 40 of the standard provides:

40. Restatement of pre-1992 direct loans and loan guarantees on a present value basis is permitted but not required.

Loan Modifications

One respondent suggested that some of the required disclosures for loan modifications⁵ could be streamlined or eliminated. Specifically, the respondent questioned the usefulness of the loan modification disclosures required in SFFAS 2 par. 56 to the users of the financial statements. For example, SFFAS 2 par. 56 requires disclosure of the nature of the modification, the discount rate used in calculating the modification expense, and the basis for recognizing a gain or loss related to the modification.

⁵ Loan Modification as defined in the standards "means a federal government action, including new legislation or administrative action, that directly or indirectly alters the estimated subsidy cost and the present value of outstanding direct loans, or the liability of loan guarantees."

The respondent suggested that there should be more flexibility and allow judgment by the preparer and the external auditors to determine what pertinent information is useful to the reader of the agency financial report (AFR) regarding modifications. For example, the participant questioned if the inclusion of the discount rates or the basis for gain or loss recognition provide useful information to an external reader of the AFR.

Subsidy Rate Information

A stakeholder highlighted the potential redundancy of the inclusion of the schedule for the subsidy rates for each loan program in the note disclosure. Subsidy rates for loan programs are published annually in *The Federal Credit Supplement, Budget of the U.S. Government*.⁶ Further research would need to be done to assess if financial report users still need the subsidy rates by program schedule.

In addition, a stakeholder suggested that the subsidy expense by component schedule could potentially be a candidate for removal if users are not finding it meaningful.

Opportunities to Increase Meaningfulness of Loan Disclosures

Negative Loan Guarantees

Several stakeholders mentioned a gap in guidance regarding negative loan guarantees⁷. Per FASAB guidance loan guarantees are recorded as a liability on the balance sheet. The existing standards do not address how reporting entities should report loan guarantees when they are negative. Reporting entities are currently following OMB A-136 guidance to report negative loan guarantees as an asset on the balance sheet. Respondents believed that GAAP guidance on reclassification of the liability (negative) to an asset would be helpful. In addition, the respondents believed that guidance should also address if additional disclosures would be needed to explain the reclassification. Stakeholders believe additional guidance and disclosures regarding negative loan guarantees would provide benefits to preparers as well as users of the financial reports.

Guidance on the Objectives of Loan Note Disclosures

A stakeholder suggested the Board consider providing more guidance on the intended objectives of the loan note disclosures. The stakeholder believes this would result in a

⁶ Staff notes the Basis for Conclusions to SFFAS 18 explains the Board was aware that the budget subsidy rates are published in the Federal Credit Supplement to the Budget of the U.S. Government. The Board the inclusion of those subsidy rates in the financial reports will provide the reader of the financial statements with an easy access to the budget data. Further, the disclosure of budget subsidy rates was initially proposed by the AAPC Credit Reform Accounting Task Force.

⁷ Negative loan guarantees result when the net present value of expected inflows exceeding net present value of expected outflows.

decrease in some of the preparer's challenges when preparing these disclosures and increase the meaningfulness of the users of financial reports. For example, stakeholders would like more explicit materiality guidance and its application in note disclosures. Another stakeholder called for more discussion and narrative guidance for preparers. Several preparers questioned how meaningful for the users the current loan disclosures were in the round table.

Increasing Preparer Flexibilities

As mentioned earlier in the paper several respondents sought more flexibility in preparing the loan disclosures. Some respondents mentioned explicit materiality language in regard to disclosure of pre-1992 loans and loan program narratives. Respondents also think these increased flexibilities could result in streamlined disclosures. As discussed, most reporting entities disclosures are 5-10 pages composed of schedules and narratives.

Additional Round Table Insights for Board's Consideration

SBA raised concerns about fraud and its impact on accounting and reporting on direct loans and loan guarantees. FASAB loan guidance currently does directly discuss fraudulent loans' impact in SFFAS 2. SBA believes the financial environment has changed and believes more guidance in this area is necessary. FASAB responded to a technical inquiry in 2023 sent by SBA regarding this topic.

Participants also suggested the Board consider activity on loans that have been approved, but not yet disbursed. Participants explained that although cost activity occurs for these loans, SFFAS 2 provides the liability is not recognized until loans have been disbursed. Participants believe not including these costs on the financial statement may be misleading to the users of the reports.

Staff Note: This paper provides a summary of the preliminary research. Staff is not requesting Board deliberation on any of the specific technical issues presented, as this is preliminary research to facilitate the prioritization of reexamination topics. As such, there are no specific recommendations by staff.

Preliminary Research on Remaining Issue Areas

This provides the high-level preliminary research on issue areas for the remaining ITC top tier and second tier topics for reexamination.

SFFAS 1, Accounting for Selected Assets and Liabilities

SFFAS 1 was issued in 1993. SFFAS 1 defines and illustrates the distinction between Entity Assets and Non-entity Assets, as well as Intragovernmental and Governmental Assets and Liabilities. Assets available to an entity to use in its operations are entity assets while those assets not available to an entity but held by the entity are non-entity assets. While both entity and non-entity assets are to be reported in entity statements, the standards require the segregation of entity and non-entity assets. In addition, a liability (due to Treasury or other entities) must be recognized in an amount equal to non-entity assets.

Intragovernmental assets and liabilities arise from transactions among federal entities. Governmental assets and liabilities arise from transactions of the federal government or an entity of the federal government with nonfederal entities. The standards require that all selected assets and liabilities addressed in SFFAS 1 be reported separately as intragovernmental or governmental assets and liabilities.

SFFAS 1 establishes specific standards for six assets: Cash, Fund Balance with Treasury, Accounts Receivable, Interest Receivable, Advances and Prepayments, and Investments in Treasury Securities; and three liabilities: Accounts Payable, Interest Payable, and Other Current Liabilities.

Respondents to the ITC suggested that several areas in SFFAS 1 may need to be reexamined.¹

Fund Balance with Treasury

Fund Balance with Treasury (FBWT) tends to be a material account for most reporting entities. To assist federal agencies with reporting and disclosure requirements, respondents suggested that the Board should provide guidance, such as scenarios when the agency's FBWT does not balance with Treasury. Respondents explained that additional guidance may direct agencies as to how to adequately support differences particularly in preparation for external audits where a lack of support has sometimes resulted in a material weakness.

Paragraph 39 of SFFAS 1 provides:

39. Federal entities should explain any discrepancies between fund balance with Treasury in their general ledger accounts and the balance in the Treasury's accounts and explain the causes of the discrepancies in footnotes to financial statements. (Discrepancies due to time lag should be reconciled and discrepancies due to error should be corrected when financial reports are prepared.) Agencies also should provide

¹ The issues are presented in alphabetical order.

information on unused funds in expired appropriations that are returned to Treasury at the end of a fiscal year.

Staff notes there is much complexity regarding intragovernmental balances. Staff believes that specific guidance regarding areas such as reconciliations should come from central federal agencies (Treasury and the Office of Management and Budget); that guidance should not conflict with FASAB standards. Staff notes that Treasury, Bureau of Fiscal Service provides guidance on FBWT in the Treasury Financial Manual Chapter 5100. See <https://tfx.treasury.gov/tfm/volume1/part2/chapter-5100-fund-balance-treasury-accounts>. The chapter includes information regarding reconciliation of USSGL accounts with Treasury Fund Symbols and available reconciliation tools.

Also related, DoD requested that FASAB provide an alternative approach to establish an opening balance for FBWT. DoD explained the FBWT account is composed of hundreds of individual accounts maintained by the Treasury that reflect the funds available for the reporting entity to spend. DoD explained that even though DoD might be able to support the additions and subtractions with its improved internal controls and systems, it is unable to support the opening balance which is an accumulation of prior years' ending balances. Due to unsupportable prior year beginning balances, several components struggle to support their current year FBWT accounts. DoD acknowledged the problem can be resolved over time for the funds that have an expiration date, but this is not the case for no-year funds which do not expire and continuously rollover to the next year. Therefore, in the case of no-year funds, the issue of the unsupported opening beginning balance cannot be solved with the passage of time.

DoD submitted a technical inquiry on this issue in November 2022. FASAB² conveyed the request was outside the scope of FASAB's purview because it pertained to a DoD operational decision. FASAB suggested that DoD work with the central agencies on a solution as they would be able to advise DoD.

Intragovernmental Receivables

Intragovernmental balances remain a common and a significant challenge in financial reporting. ITC respondents indicated they would benefit from increased clarity on guidance for loss allowance for intragovernmental receivables. Respondents indicated that Technical Bulletin 2020-1, *Loss Allowance for Intragovernmental Receivables* was helpful by clarifying that SFFAS 1 applies to both intragovernmental and nonfederal receivables.

Respondents explained that it would be helpful to expand prescriptive guidance for other intragovernmental balances. For example, a respondent suggested that FASAB consider clarifying whether TB 2020-1 applies to Loans Receivable; specifically, whether Intra-governmental Loans Receivable should be subject to the same allowance measurement and recognition criteria as Intra-governmental Accounts Receivable. Based on outreach, it appears there may be different interpretations regarding its applicability and respondents suggest that it be clarified.

Based on staff's review of TB 2020-1 historical files, the Board asked if there were any material concerns in the intragovernmental loan category that should be considered. At the April 2019

² The technical inquiry was shared with the Chairman and discussed at a steering committee meeting, and the steering confirmed it was outside of FASAB's purview.

Board meeting, Treasury representatives provided an educational session with an overview of the intragovernmental allowances for losses. The April 2019 Board minutes and transcripts included the following point made by Treasury: “No allowances are recorded for loans receivable amounts, but there have been a few rare occasions when Congress passed legislation for debt forgiveness.”

Although existing guidance does not specifically address allowances for intragovernmental Loans Receivable, staff believes the Board did not intend to prohibit entities from applying the practices established for Intra-governmental Accounts Receivable if appropriate. Staff notes that TB 2020-1 clarifies SFFAS 1 by explaining the allowance approach is not a “write-off” of a receivable. Rather, it is a method for reporting an amount that the entity believes is realizable by requiring only accounts receivable, net of an allowance, to be reported on the financial statements. An allowance recognized in a reporting entity's financial statements does not alter the underlying statutory authority to collect the receivable or the legal obligation of the other intragovernmental entity to pay.

Staff notes that federal reporting entities should use the GAAP hierarchy in SFFAS 34 to recognize and report material items that are not addressed in FASAB's existing standards.

Investments in other than Treasury securities

As the role of Federal entities has evolved in the past several years to respond to significant economic events and the pandemic, there has been an increase in investments reported on entities' balance sheets. However, existing standards do not address the accounting for such investments – SFFAS 1 only addresses investments in Treasury securities. ITC respondents believe the Board could improve SFFAS 1 to provide guidance that meets the specific needs of the users on accounting and reporting for investments in other than Treasury securities.

In the Basis for Conclusions to SFFAS 1 (Appendix A) paragraphs 140 - 150, the Board reaffirms that SFFAS 1 only applies to Treasury Securities. The board acknowledged that although it was limited to Treasury securities, it effectively covered 90 percent of federal entities' investment. Staff notes that paragraph 141 in the Basis for Conclusions of SFFAS 1 states:

141. In the future, the Board will address investments that are not covered by this standard. In the interim, federal entities should continue their current accounting practices for those investments not covered by this standard.

Federal entities currently use the hierarchy in SFFAS 34 to recognize and report such investments and, in practice, reporting entities elect to follow FASB standards in this situation. Staff notes that OMB A-136 includes guidance on non-federal securities by referring to relevant standards issued by the FASB. OMB A-136 provides “For investments in non-federal securities, consult Accounting Standards Codifications (ASC) 320, 321, 323, 325, and 820, but do not apply such guidance to non-federal securities that are accounted for under SFFAS 2, *Accounting for Direct Loans and Loan Guarantees*.”

ITC respondents suggested that the Board should consider whether reporting of such information in accordance with the FASB achieves the objectives of Federal financial reporting. For example, private sector standards assume that investments are held as part of an organization's business strategy, to sell or hold to maturity with the goal of maximizing profits. However, in many instances the U.S. Government purchases investments to benefit the nation as a whole – for example, to promote liquidity, to stabilize the financial markets, or to preserve

the solvency of financial institutions or industries that are important to the U.S. economy. These actions are unique to the government and do not occur in the private sector and warrant consideration.

Staff notes that in 2011, the Board considered a project plan for *Investments and Other Equity Interests in Non-Federal Entities* to address the valuation of non-Federal entity investments. The objective of that project was to provide accounting standards for federal investments and other equity interests in non-federal entities.³ However, the project was eventually deferred due to resource (staffing) constraints. Staff found no further activity on this project. Although the Board has considered a project in this area, other competing demands took priority.

Contingent assets

A respondent conveyed that FASAB standards do not address the accounting for contingent assets. As such, situations that give rise to contingent assets may not be appropriately recognized and reported in the agency's financial statements.

The respondent explained that as part of a program, a component can earn credits for air transportation services from another component. Although the provider records contingent liabilities for the incurred credits, there is no existing FASAB standard that would cover accounting for the earned credits as potential contingent assets for Federal entities.

Staff notes that SFFAS 6, Accounting for Property, Plant, and Equipment, Basis for Conclusions, paragraph 150 is the only place in existing FASAB guidance that mentions 'contingent assets.'

Reversionary Interests in PP&E

150. The Board also received a request to address reversionary interests in PP&E. In some instances, the Federal Government provides grants to state and local governments for the acquisition of PP&E. If the state or local government eventually decides that it no longer needs to use the PP&E for the purpose specified in the original grant there is often a provision that the PP&E must revert to Federal ownership. In these cases, the Federal Government maintains a reversionary interest in PP&E. **In essence, these are contingent assets and should not be recognized on the balance sheet.** The Board elected to specifically exclude these items from PP&E."

Although the facts and circumstances are not the same; in the above case, the Board elected *not* to recognize contingent assets on the balance sheet.

Staff notes that federal reporting entities should use the hierarchy in SFFAS 34 to recognize and report material items that are not addressed in FASAB's existing standards.

³ The scope of the project was narrowed to primarily address the federal government's bailout activities, but the project was deferred.

SFFAS 3, *Accounting for Inventory and Related Property*

SFFAS 3 was issued in 1993 and addresses several types of tangible property, other than long term fixed assets, held by federal government agencies. Inventory and related property includes inventory, operating materials and supplies (OM&S), stockpile materials, forfeited property, commodities, seized property, and foreclosed property.

ITC respondents identified several issues in SFFAS 3 that should be addressed during reexamination.⁴ It is important to note that one issue, Construction in Progress (CIP), was identified for both SFFAS 3 and SFFAS 6. The CIP issue is included under SFFAS 6.

DOD comprises over 80 percent of the government's inventory and related property, net as of September 30, 2023.

Accounting for Impairment of Inventory

A respondent noted that existing standards lack a framework for the impairment of inventory or stockpile material and are silent as it relates to impairment outside of general, property, plant, and equipment (GPP&E); goodwill; internal use software, and other similar assets. Research of other applicable standards, to include the Financial Accounting Standards Board (FASB) standards for the public sector, also contained limited information in their publications in accounting for these type of impairments (i.e., FASB Topic 350, Intangibles – Goodwill and Other: Accounting Alternative for Evaluating Triggering Events, and Securities (Accounting Standards Codification (ASC) 320, Debt Security)).

The respondent provided factors identified as a potential trigger for an impairment review of inventory and stockpile material:

- Unsellable inventory – inventory not able or unlikely to be sold (in the open market).
- Lack of recoverability – asset value will not likely be recovered in the future (future cash flows less than book value).
- Reduced demand – decrease in market demand (adverse change in regulatory, economic, technological environment or general market conditions (geographical, industry or cash flows)).
- Decline in market value – the asset suffered a significant loss in market value.
- Obsolete inventory - material no longer needed due to changes in technology, laws, customs, or operations.
- Permanent vs. temporary decline – permanent reduction in asset value below the market value not expected to recover vs. temporary decline in asset value, expected to recover.

The respondent explained that whether these triggering factors can be used as possible options for impairment is subjective because the standards do not specifically identify the application of impairment to inventory or stockpile material. The respondent noted the lack of FASAB

⁴ The issues are presented in alphabetical order.

guidance may impact materiality as it relates to the valuation and reporting of inventory and stockpile material.

Paragraphs 8-9 (footnotes omitted) of SFFAS 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use* defines impairment:

8. Impairment is a significant⁶ and permanent decline in the service utility of G-PP&E, or expected service utility for construction work in process. Entities generally hold G-PP&E because of the services they provide or will provide in the future; consequently, impairments affect the service utility of the G-PP&E. The events or changes in circumstances that lead to impairments are not considered normal and ordinary.⁷ That is, at the time the G-PP&E was acquired, the event or change in circumstance would not have been (a) expected to occur during the useful life of the G-PP&E or, (b) if expected, sufficiently predictable to be considered in estimating its useful life.

9. The service utility of G-PP&E is the usable capacity that at acquisition was expected to be used to provide service, as distinguished from the level of utilization, which is the portion of the usable capacity currently being used. The current usable capacity of G-PP&E may be less than its original usable capacity due to the normal or expected decline in useful life or to impairing events or changes in circumstances, such as physical damage, obsolescence, enactment or approval of laws, or regulations or other changes in environmental or economic factors, or change in the manner or duration of use. Usable capacity may be different from maximum capacity⁸ in circumstances in which surplus capacity (the excess capacity over the usable capacity) is needed for safety, economic, operational readiness or other reasons. G-PP&E that experience decreases in utilization, and the simultaneous existence of or increases in surplus capacity not associated with a decline in service utility are not considered impaired.

Based on discussions with the FASAB project manager, SFFAS 44 specifically addressed only general PP&E because the Board wanted to tie Impairment to Deferred Maintenance and Repair (capital assets in other words.) The project plan didn't scope-in inventory.

Staff notes that SFFAS 3 provides that inventory shall be categorized as (1) inventory held for sale, (2) inventory held in reserve for future sale, (3) excess, obsolete and unserviceable inventory, or (4) inventory held for repair. Paragraphs 29-31 of SFFAS 3 provides the following about excess, obsolete and unserviceable inventory and paragraphs:

29. Excess, Obsolete, and Unserviceable Inventory. "Excess inventory" is inventory stock that exceeds the demand expected in the normal course of operations because the amount on hand is more than can be sold in the foreseeable future and that does not meet management's criteria to be held in reserve for future sale. "Obsolete inventory" is inventory that is no longer needed due to changes in technology, laws, customs, or operations. "Unserviceable inventory" is damaged inventory that is more economical to dispose of than to repair. The category "excess, obsolete and unserviceable inventory" shall be either (1) included in the inventory line item on the face of the financial statements with separate disclosure in footnotes or (2) shown as a separate line item on the face of the financial statements.

30. Such inventory shall be valued at its expected net realizable value. The difference between the carrying amount of the inventory before identification as excess, obsolete or

unserviceable and its expected net realizable value shall be recognized as a loss (or gain) and either separately reported or disclosed. Any subsequent adjustments to its net realizable value or any loss (or gain) upon disposal shall also be recognized as a loss (or gain). The U.S. government-wide financial statements need not separately report or disclose the difference between the carrying amount of the inventory and its expected net realizable value.

31. Management shall develop and disclose in the financial statements its criteria for identifying excess, obsolete and unserviceable inventory.

Staff also notes that when addressing Stockpile Materials, SFFAS 3 paragraph 54 provides:

54. Exception to Valuation. The carrying amount of materials that have suffered (1) a permanent decline in value to an amount less than their cost or (2) damage or decay shall be reduced to the expected net realizable value of the materials. The decline in value shall be recognized as a loss or an expense⁴ in the period in which it occurs.

Staff notes that federal reporting entities should use the hierarchy in SFFAS 34 to recognize and report material items that are not addressed in FASAB's existing standards.

OM&S Held for Repair

Across DoD there are multiple weapon systems that have high dollar, complex operating materials and supplies that undergo repair/remanufacture on a regular and recurring basis. For example, aircraft engines, rocket engines, sub-launched ballistic missile, and ground-based interceptors. These assets frequently mimic general equipment in every basis except for being expended upon issuance or use. Missiles that are deployed cannot be recovered and rebuilt but in many cases these assets are held long-term and essentially never used outside of test events. These repair events perform and 'look' most like capital improvements to general equipment since they increase the useful life and often add additional capability. These assets also carry material balances to the entities. For example, the Navy reports \$10.2 billion in sub-launched ballistic missiles and the MDA reports \$3.9 billion in ground-based interceptors.

SFFAS 3 does not specifically address an OM&S "held for repair" category. However, staff believes the Board did not intend to prohibit applying the practices established for inventory held for repair in SFFAS 3 to OM&S held for repair.⁵

Staff notes that Interpretation 7, *Items Held for Remanufacture* provides further clarification on this issue. Interpretation 7 provides specific guidance to assist preparers and auditors in the classification, valuation and reporting of items that are in the process of major overhaul or remanufacture for sale or for internal use. Interpretation 7 identifies acceptable options for classification, valuation and reporting by applying existing standards, in particular SFFAS 3. Staff notes that paragraph 13 provides:

13. Items held for remanufacture that meet the definition of Operating Materials and Supplies, if significant, may be recognized as a category of operating materials and

⁵ Based on a review of the historic files, SFFAS 3 did not provide an OM&S "held for repair" because at the time of SFFAS 3 was being developed, DoD representatives asserted that DoD did not have any OM&S held for repair.

supplies and valued in accordance with paragraphs 32-33 or paragraphs 42-44 of SFFAS 3.

The Board's rationale is explained in paragraph A15. in the Basis for Conclusions:

A15. SFFAS 3 did not anticipate the existence of a significant category of Operating Materials and Supplies held for repair or remanufacture. For example, reparable parts and subassemblies related to tactical munitions may meet the definition of Operating Materials and Supplies. The Board believes that any of the three valuation methods described for inventory in paragraphs A12-A14 above may be reasonably applied to operating materials and supplies.

However, DoD suggested that there seems to be a gap in guidance in Interpretation 7 because of the scope limitations and exclusions. Staff notes that the scope of Interpretation provides:

Scope

2. This Interpretation applies to reparable parts and subassemblies that are in the process of (or awaiting) inspection, disassembly, evaluation, cleaning, rebuilding, refurbishing and/or restoration to serviceable or technologically updated/upgraded condition. This Interpretation addresses remanufacturing activity for items intended for sale or for internal use. Items held for remanufacture may consist of direct materials (including repairable parts and subassemblies, also referred to as "carcasses" at the Department of Defense (DoD)), and work-in-process where products are restored to serviceable condition and/or improved/upgraded condition for sale or internal use.

3. Long-lasting spare parts were not specifically addressed in SFFAS 3. It is not the intent of this Interpretation to imply that long-term spare parts for issuance without reimbursement should or should not be classified as Operating Materials and Supplies.

Exclusion

4. This Interpretation does not apply to stand-alone items such as entire airplanes, ships, tanks, intercontinental ballistic missiles (ICBMs) or other higher assemblies that function independently.

Staff notes that the intent of paragraph 3 was to explain the Interpretation is not addressing the asset classification of spare parts for internal use which may be classified as OM&S or PP&E. Paragraphs A6-A7 in the Basis for Conclusions explains that paragraph 12 of the Exposure Draft stated that "Parts and subassemblies held for remanufacture that are intended for use, rather than sale, and which meet the definition of Property, Plant and Equipment, should be recognized as a category in Property, Plant and Equipment and should be valued in accordance with SFFAS 6, as amended." Respondents to the ED objected, stating that it implied that such items should be classified and depreciated as Property, Plant and Equipment and that it would be costly to change the accounting for such items. Therefore, the scope of the Interpretation was reduced to address only Inventory and Operating Materials and Supplies that are in the process of repair or remanufacture.

As for the specific exclusions in paragraph 4, staff notes that paragraph A10 in the Basis for Conclusions provide the following:

A10. This Interpretation is limited to reparable parts and subassemblies, which are not specifically addressed in current standards, and for which guidance has been requested by the DoD. This Interpretation does not apply to stand-alone items that function independently; such as entire airplanes, ships, tanks, ICBMs and other stand-alone items. Such items are already addressed in SFFAS 3 and SFFAS 6, as amended.

Staff notes the intent of the Board was to exclude stand-alone assets that are currently addressed in existing standards by indicating stand-alone assets that function independently should not be considered a reparable part or a subassembly. For example, an airplane should not be a reparable part or a subassembly. However, an engine (part of the airplane) may be considered a reparable part or a subassembly. Further, the “held for repair guidance” in SFFAS 3 may be applied to OM&S held for repair.

DoD explained that the issue was elevated to FASAB based on the different interpretations of the guidance. Staff believes the current guidance addresses scenarios raised by DoD. DoD explained that the preliminary research discussions with staff was extremely helpful in clarifying their understanding.

Purchases Method v Consumption Method for OM&S

The consumption method⁶ of accounting is used to account for the recognition of operating materials and supplies (OM&S) unless a reporting entity meets the criteria for using the purchases method.⁷ Certain respondents suggested that the Board reconsider current requirements and clarify certain requirements.

SFFAS 3 provides the following:

38. **Recognition.** The consumption method of accounting for the recognition of expenses shall be applied for operating materials and supplies. Operating materials and supplies shall be recognized and reported as assets when produced or purchased. “Purchased” is defined as when title passes to the purchasing entity. If the contract between the buyer and the seller is silent regarding passage of title, title is assumed to pass upon delivery of the goods. Delivery or constructive delivery shall be based on the terms of the contract regarding shipping and/or delivery.

39. The cost of goods shall be removed from operating materials and supplies (i.e., the asset account) and reported as an operating expense in the period they are issued to an end user for consumption in normal operations.

40. If (1) operating materials and supplies are not significant amounts, (2) they are in the hands of the end user for use in normal operations, or (3) it is not cost-beneficial to apply the consumption method of accounting, then the purchases method may be applied to operating materials and supplies. The purchases method provides that operating materials and supplies be expensed when purchased.

⁶ The consumption method is a method of accounting for goods, such as materials and supplies, where the goods are recognized as assets upon acquisition and are expensed as they are consumed. (FASAB Glossary)

⁷ The purchases method is accounting for goods, such as materials and supplies, in which the acquisition cost is recognized as an expense upon purchase of the goods rather than upon their use. (FASAB Glossary)

41. An end user is any component of a reporting entity that obtains goods for direct use in the component's normal operations. Any component of a reporting entity, including contractors, that maintains or stocks operating materials and supplies for future issuance shall not be considered an end user.

One respondent (an IPA) suggested that the Board clarify criterion 3 in paragraph 40, which allows the purchases method of accounting to be applied when it is not cost-beneficial to apply the consumption method. The respondent explained that the criterion is very broad and could allow the purchases method to be used in many circumstances when it may not be appropriate to do so. The respondent suggested that this could lead to diversity in practice in accounting for operating materials and supplies. Further, the respondent explained that there may be difficulty determining what the cost benefit analysis should entail as well as the necessary audit procedures.

Staff notes that another respondent commented on this issue with a very different perspective. Specifically, DoD requested that FASAB consider removing the cost-benefit analysis requirement. DoD explained it would be resource intensive to build a cost-benefit analysis. DoD also questioned the usefulness of the cost-benefit analysis. DoD suggested that removing this requirement would provide them greater flexibility to apply the OM&S accounting method most appropriate for their type of operations and usage of OM&S.

Staff notes that paragraph 40 provides three scenarios when the purchases method may be used:

40. If (1) operating materials and supplies are not significant amounts, (2) they are in the hands of the end user for use in normal operations, **or** (3) it is not cost-beneficial to apply the consumption method of accounting, then the purchases method may be applied to operating materials and supplies. The purchases method provides that operating materials and supplies be expensed when purchased.

Staff notes that the use of the word **"or"** indicates that any one scenario would permit the purchases method. Further, removing any one of the criteria would not allow an entity any further flexibility as suggested by DoD because they would still need to meet one of the criteria to use the purchases method.

Upon further discussion, DoD explained that the first two criteria also disqualifies them from the use of the purchases method. DoD explained that it is difficult and costly to track the value of OM&S because many of the DoD's systems are not configured to capitalize the cost of material procured on contracts into an asset account, maintain historical cost using the moving average cost flow assumption, and expense the items when they are issued to the end-user. DoD explained that it's also difficult to identify the end-user because so many different types of material move through the DoD supply chain, including contractor facilities and systems. DoD reiterated that it is a huge burden to prove the cost-beneficial criteria and thus they are not permitted to apply the purchases method based on existing guidance. Further, DoD explained that they do not place a high priority on the requirement to maintain the value of OM&S on the balance sheet because it isn't used for decision-making purposes.

As such, DoD is requesting that flexibility be provided to apply the OM&S accounting method most appropriate for their type of operations and usage of OM&S. Staff notes that there are a wide range of items reported as OM&S (from bullets to missiles) and it may be appropriate to consider necessary clarifications.

SFFAS 6, Accounting for Property, Plant, and Equipment

Accounting for the federal government's general PP&E is complex, and this area continues to be a challenge, especially for large federal departments. SFFAS 6 was issued in 1995 and there have been numerous amendments over the years. This topic has been addressed in numerous SFFASs, Interpretations, Technical Bulletins as well as guidance issued by the AAPC. Although Technical Releases⁸ will not be a part of the reexamination, it is important to know much implementation guidance has been provided through TRs.

Although SFFAS 6 was one of the highest ranked topics, environmental liabilities was a key area identified by respondents in SFFAS 6. SFFAS 6 provides guidance for recognizing liabilities for cleanup costs, and SFFAS 5 provides guidance for recognizing liabilities from government-related events such as cleanup of environmental damage.⁹ Consistent with its decision to consider liabilities broadly, the Board determined it appropriate to address environmental liabilities while considering issue areas in the reexamination of SFFAS 5. Staff notes that much of the SFFAS 6 feedback was included in the *Environmental Liabilities* preliminary research presented in April. there are few significant issue areas that remain in SFFAS 6.

In addition, respondents noted the topic should be reexamined because PP&E is significant for most federal reporting entities. Because it is significant, FASAB should review this area regularly to keep it current with advances in technology and changes in federal acquisition practices. Several respondents explained that guidance should be streamlined because it is difficult to follow. A respondent explained that the amount of guidance on accounting and reporting for PP&E has increased and the Board should consider streamlining and presenting the guidance for PP&E in a format that is easier to reference. Similarly, respondents noted the general difficulty of applying the FASAB guidance because it is spread among different pronouncements. It was suggested that FASAB rescind the various publications and issue one pronouncement with current requirements. While these responses are on point, they don't correlate to a specific issue area for prioritization. Instead, the Board will remain mindful as these things during the specific reexamination projects.

Considering many of the SFFAS 6 comments related to environmental liabilities and streamlining existing guidance, there were few significant issue areas within SFFAS 6 identified for reexamination. Construction in Progress (CIP) was identified for both SFFAS 3 and SFFAS 6. The CIP discussion is included below.

⁸ Technical Releases are not included in the reexamination project because FASAB's Rules of Procedure authorize the AAPC to issue Technical Releases related to existing federal accounting standards. The Board anticipates that the AAPC would begin a similar project to conform all TRs to be consistent with revisions to existing standards that result from the reexamination project. Proposed Technical Releases are submitted to FASAB for a 45-day review. If neither a majority of FASAB nor a member representing a FASAB sponsor objects to the proposed Technical Release during the review period, then it becomes final.

⁹ Staff notes that SFFAS 6 supplements SFFAS 5 by providing additional guidance regarding cleanup costs. SFFAS 5 applies to all environmental liabilities not specifically covered in SFFAS 6, including cleanup resulting from accidents or when cleanup is an ongoing part of operations. The Board could determine it appropriate to address environmental liabilities with reexamination of SFFAS 5.

Construction in Progress (NOTE: Issue for both SFFAS 3 and SFFAS 6)

Opening Balances

DoD assets include the construction in progress (CIP) and operating materials and supplies in development (OID). DoD suggested that SFFAS 50 does not specifically address the transition from (1) the use of deemed cost as the opening balance for CIP to (2) the subsequent capitalization of CIP acquisition costs consistent with SFFAS 6, par. 26, after an unreserved assertion is made. Similarly, SFFAS 48 does not specifically address the transition from (1) the use of deemed cost as the opening balance for OID to (2) the capitalization of acquisition costs consistent with SFFAS 3, par. 43.

DoD believes that once opening CIP and OID balances are established using deemed cost consistent with SFFAS 50 and 48, management should then use acquisition cost consistent with SFFAS 6 and SFFAS 3. However, DoD could not satisfy the IPA concern for a specific GAAP reference because the relevant standards are silent regarding CIP and OID. The IPA's concern included that there is no specific FASAB standard that allows for the acquisition value of a long-lead time asset (e.g., vessel) to be made up of methods that are in compliance with two different standards. (i.e., partially through an alternative method and partially through historical cost).

The issue was submitted to FASAB through a Technical Inquiry (TI.) FASAB staff responded to the TI and explained SFFAS 50 permits a reporting entity, under specific conditions, to apply alternative methods in establishing opening balances for general PP&E. Staff explained that deemed cost is a surrogate for initial amounts and an acceptable valuation method for opening balances for general PP&E. Use of deemed cost is intended to provide a cost-effective approach to the adoption of SFFAS 6, as amended, where historical records and systems do not support such balances. Although the applicability of SFFAS 50 to CIP is not explicitly addressed in the standards, the intent of the Board in developing SFFAS 50 is clear. The guidance is intended to provide a cost-effective approach to the adoption of SFFAS 6, where historical records and systems do not support such balances.

The TI response explained that CIP is considered part of general PP&E and SFFAS 50 paragraph 13 provides that deemed cost is an acceptable valuation method for opening balances of general PP&E. As explained in paragraph 40g. of SFFAS 6, "Once established using alternative methods, opening balances are considered consistent with GAAP." Therefore, SFFAS 6, par. 26 and other relevant guidance would apply to future costs once opening balances are established with deemed cost.

Although it appears this issue has been resolved with the FASAB staff TI response, FASAB staff acknowledges the standards could be clarified to address CIP more specifically.

Timing for CIP assets to be placed in service

Certain respondents to the ITC explained that additional guidance may be necessary regarding CIP. A respondent explained that clarification on when an asset should be considered placed in service would be helpful. Should a constructed piece of equipment which is functionally able to perform the intended task, but lacking specific certifications continue to be accounted for as CIP or should it be considered as a completed asset that's placed in service? Further, if the constructed equipment is considered to have been placed in service, how would any additional

costs (e.g., enhancements) be treated? A respondent explained that there are differences in how reporting entities account for these. For example, follow-on costs that are incurred after the asset was placed in service are recorded in the associated CIP account and periodically transferred to the PPE account.

A respondent explained that certain assets have the capability to perform their stated function and yet need further testing, certifications, etc. to be completed per the project plan. For example, an asset could be functionally complete and performing its function which allow them to be placed in service, even though further requirements exist. For example, a hydropower dam, once installed performs its stated function, but the project document requires 100 hours of service and a tolerance test (not necessarily a real example). The part is performing its stated function during this period and is thus functionally completed. The respondent asked if consideration should be given to the useful life and if it is being reduced through this testing and certification period.

A respondent noted that questions and concern come up because CIP accounts were getting to be quite large. For example, it may take many years for ships to be placed in service due to the amount of testing required. However, the ships have people living onboard, and are performing missions during the required testing. In these situations, once they are placed in service, the in-service date becomes a date in the past, sometimes years, which causes issues because they are considering the point in which the certifications begin as their in-service date but aren't recording it until the project plan has closed, many years later.

Staff notes that paragraph 34 of SFFAS 6 addresses CIP by indicating that the costs of constructed PP&E should be recorded in construction work in process until it is placed in service.

Respondents explained that it would be helpful for FASAB to provide guidance on the methodology to determine the timing for when CIP balances are transferred to PP&E and the method for establishing the asset in service date.

Complex systems

Respondents noted that FASAB should consider providing clarifying guidance on treatment of complex systems; for example, acquisition of IT hardware, data management, and network systems that are comprised of individual components that may or may not work collectively to form what may be characterized as a complete asset. SFFAS 6, paragraph 22 discusses base unit to categorize what constitutes a category of PP&E, providing illustrations such as a large building or a small computer. However, unlike building systems that support a particular facility or similar supporting systems for a given item of personal property, large networks and data management system hardware arrangements are often constructed with large arrays of servers, routers, and other components that can make determining what should be defined as the individual asset challenging. This is further complicated by the fact that the individual components or a varying array of components upon which a system (asset) may or may not rely can be introduced to or taken from the system incrementally without a meaningful way to describe when the system is placed into service or impacts to system capacity. Additional clarity on the treatment of complex systems (e.g., IT hardware and similar networked system) would be helpful in application of the standard to this category of PP&E and help ensure accurate recognition and measurement.

Staff was unable to obtain any further information from the respondent regarding the materiality or specific examples beyond what is included above. Additional information would be necessary for an understanding and to further assess the issue. Although this was an issue presented under SFFAS 6 in the ITC response, staff notes that certain aspects of SFFAS 10 and perhaps the current intangible and software project may need to be considered.

Other

As explained, there were few significant issue areas within SFFAS 6 identified for reexamination. Staff notes that other feedback from respondents appeared to involve smaller discreet areas or specific isolated questions¹⁰ and do not relate to a consistent recurring issue identified by the respondents to indicate the pervasiveness of the issue amongst federal entities. In addition,

Staff suggests that these types of questions be considered after the Board completes the prioritized issue areas. Also, some questions may be introduced as appropriate in an approved reexamination projects as appropriate. In addition, staff would keep these on internal schedules as staff monitors Board progress towards a comprehensive assessment of topics. As discussed in April, once all identified issue areas within a topic have been addressed, the expectation would be to ensure that the topic is reexamined in its entirety. With proper planning and review of progress, staff believes the Board could address the prioritized issues areas while also ensuring a full reexamination of each standard.

Staff Note: This paper provides a summary of the preliminary research. Staff is not requesting Board deliberation on any of the specific technical issues presented, as this is preliminary research to facilitate the prioritization of reexamination topics. As such, there are no specific recommendations by staff.

¹⁰ An example includes when and how to report demolition costs.