

Memorandum

Non-Agenda Topics

May 31, 2024

To: Members of the Board
From: Monica R. Valentine, Executive Director
Subject: **Non-Agenda Project Updates** (Topic F)

INTRODUCTION

Staff is providing project updates on all active projects currently on the Board's technical agenda that will not be discussed at the June 2024 meeting.

Attachment 1 of this memo includes brief project updates on the following topics.

- Commitments Research
- Intangible Assets Guidance
- Land Implementation
- Leases
- Omnibus Amendments 2024
- Public-Private Partnerships
- Software Technology

REQUEST FOR FEEDBACK

These topics do not include any questions for the Board or requests for member feedback. These topics will not be on the Board's discussion agenda for June. Members may provide input and submit follow-up questions on any of these projects to the related staff member at any time.

ATTACHMENTS

1. Project updates

Project Updates

Non-Agenda Topics

May 31, 2024

Attachment 1

COMMITMENTS RESEARCH

At the February 2024 meeting, the Board discussed staff's research on the similarities and differences between commitments and contingencies. The Board generally agreed on the general direction of the research, with one member partially agreeing. The Board discussed whether to amend SFFAS 5 to include commitments as part of an annual omnibus or as part of the SFFAS 5 reexamination project.

Staff is currently researching further on differentiating between commitments and contingencies and on defining and classifying federal commitments.

INTANGIBLE ASSETS GUIDANCE

At the February 2022 meeting, staff proposed a non-authoritative definition of intangible assets for the Board's internal use. The Board overwhelmingly supported the proposed definition while providing thoughts and suggested edits that generally related to potential reporting requirement concerns. Staff is currently researching cost and benefit options for an intangible asset guidance framework for the Board to consider at a future meeting.

LAND IMPLEMENTATION

On May 9th during the FASAB Annual Update, staff conducted a focused session on SFFAS 59's (Accounting for Government Land) implementation. The session included preparers from the Departments of Defense (Navy), Energy, Interior, Veteran's Affairs, and General Services Administration. Discussion topics included, but were not limited to, general property, plant, & equipment (G-PP&E) land and stewardship land definitions, outer-continental shelf/submerged lands, estimating acreage and predominant use. Although not indicative of the entire government, entities have reported the following during this year's implementation: positive data-cleansing results; subcategory clarifications concerning land usage; system integration concerns; and GAO audit guidance and U.S. Standard General Ledger (USSGL) FY 2026 journal entry concerns.

LEASES

In January, staff provided technical comments to OMB. Staff will continue to provide technical assistance to OMB on draft Circular A-136 requirements related to leases during the development of the fiscal year 2024 circular, if requested.

The volume of technical inquiries on leases remains considerably lower than expected. As of March 25, 2024, staff has received 1 technical inquiry on leases during the fiscal year. The volume of leases-related inquiries is expected to increase as auditors begin interim testing later in the third and fourth quarters of fiscal year 2024. The Board's post-issuance activities and pronouncements appear to be addressing many of the anticipated implementation topics that may have otherwise resulted in additional technical inquiry volume. During the FASAB spring training season, staff will focus training content on recently issued pronouncements affecting implementation, including SFFAS 62, *Transitional Amendment to SFFAS 54*, and Technical Bulletin 2023-1, *Intragovernmental Leasehold Reimbursable Work Agreements*.

OMNIBUS AMENDMENTS 2024-1

The Board issued Statement of Federal Financial Accounting Standards (SFFAS) 63, *Omnibus Amendments 2024-1: Amending SFFAS 38, 49, and Technical Bulletin 2011-1* on April 12, 2024

SFFAS 63 retains the reporting of federal oil and gas and other natural resource information as required supplementary information per SFFAS 38, *Accounting for Federal Oil and Gas Resources*, and Technical Bulletin (TB) 2011-1, *Accounting for Federal Natural Resources Other than Oil and Gas*. The Statement also eliminates an exception provided in SFFAS 49, *Public Private Partnerships: Disclosure Requirements*, to avoid reporting inconsistencies and to increase comparability.

PUBLIC-PRIVATE PARTNERSHIPS

On May 8th, staff, along with several task force members briefed the AAPC regarding the Board's decision to issue implementation guidance in the form of a Technical Release. Specifically, the proposed questions and answers and flowchart were presented for review. The following key AAPC comments were made:

- Misconceptions regarding materiality may be contributing to presumptions of under-reporting. The Board approved addressing remote risk and materiality through training and outreach given the complexity in assessing risk and the Board's long-standing practice concerning materiality.
- Removing the case studies and treating them as educational materials not only simplifies the draft guidance but avoids an inappropriate reliance on complex illustrations.
- It's difficult to say that an entity has captured all of its P3s because program personnel are dealing with private partnerships that the financial personnel are unaware exist.

Financial reporting should build bridges to program managers who have more of an understanding as to the agreements existing with private industry. Different definitions for P3s exist and the draft guidance will assist preparers in identifying the types of agreements that meet the SFFAS 49 criteria.

- Risk to the federal government may not be reported because of the FASAB P3 definition or application of the risk-based characteristics, or materiality. Remote risks may be best reported in RSI. P3 risks are not limited to financial risks, but entities also share reputational risks and programmatic risks. Risks should be reviewed holistically and not isolated to the conclusive or suggestive characteristics.
- Usefulness of current disclosures to users should be considered. The draft guidance will be helpful addressing implementation issues even concerning leases.
- The Board's approach concerning harmonizing SFFAS 49 to SFFAS 47 requires greater clarity in the draft guidance via additional Q&As.
- In some cases, auditors are issuing notice of findings and recommendations (NFRs) regarding measurement and recognition matters.
- Ascertain if any of the SFFAS 49 reporting requirements could be treated as a contingent liability.

At the conclusion of the discussion, staff summarized its next steps with which the Committee generally agreed. Staff will work with the AAPC to (1) further develop and explain the flowchart instructions (e.g., adopting a waterfall approach); (2) include additional Q&As concerning what we mean by harmonization; (3) incorporate an exposure draft question for respondents concerning contingent liabilities guidance and its relationship to SFFAS 49.

SOFTWARE TECHNOLOGY

At the April 2024 meeting, the Board discussed financial statement recognition options for implementation costs associated with cloud-service arrangements. Staff is coordinating with the working group and other stakeholders to research characteristics of software licenses that federal entities acquire and plans to present financial statement recognition options on software licenses for the Board's consideration at a future meeting.