Memorandum

Reexamination

August 2, 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 focus of this agenda session will be the Board's prioritization of the reexamination issue areas.

REQUEST FOR FEEDBACK BY August 12th

Prior to the Board's August meeting, please review the attached staff recommendations and analyses and respond to the ensuing questions by August 12th. 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 will facilitate the Board's prioritization of reexamination issues during the meeting. It is important that the prioritization be completed so the results can be used in the technical agenda setting session that will occur on the second day of the Board meeting.

ATTACHMENTS

1. Staff Recommendations and Analyses
2. Preliminary Revenue (SFFAS 7) Research- ***Listing and Analysis of Issue Areas***
3. Reexamination Prioritization Matrix
4. Reference Materials (Preliminary Research provided for the April 2024 and June 2024meeting.)

Staff Analysis
Reexamination
August 2, 2024

CONTEXT

The Board is discussing and prioritizing reexamination issue areas based on information received through the ITC and preliminary staff research. The prioritized issue areas will be considered in the technical agenda setting session.

BACKGROUND

During 2023, FASAB issued an Invitation to Comment (ITC), *Reexamination of Existing Standards* to FASAB to obtain input from stakeholders on the Board's project to reexamine existing standards. The Board discussed the comment letters, staff's initial analysis, and staff's recommendations based on the responses to the ITC. 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 disclosures[1] and second tier topics.[2] The Board agreed that preliminary research was needed to prioritize issues.

During 2024, the Board discussed the preliminary research on the issue areas.[3] The preliminary research consisted of outreach and communication with stakeholders as well as considering FASAB historical files and other 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. Generally, the respondents reiterated the feedback provided in their ITC responses on the topic areas.

The Board determined that a priority approach to reexamination would be most beneficial to stakeholders because it would be most responsive to critical issues. 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. Although the priority approach is appropriate and will provide the

[1] There were few 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] 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.

[3] It is important to be mindful that the preliminary research is exactly that—preliminary, and that research was limited. Staff notes that only after a project has been added to the research or technical agenda would full 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 research or technical agenda. Research at that time would be more in depth and include a broader audience.

most benefit to stakeholders, staff previously explained that addressing prioritized issue areas[4] would not result in a comprehensive reexamination as envisioned.

Staff believes planning may allow the prioritized approach and full topic reexamination to be accomplished in tandem. Meaning, once all the prioritized issues are addressed within a topic, the expectation would be to ensure that the topic has been reexamined in its entirety. Accordingly, staff believed it appropriate to include an issue area for each of the reexamination topics broadly. For example, staff included SFFAS 5/Liabilities Broadly. This is discussed further in staff's explanation of the prioritization matrix.

RECOMMENDATIONS AND ANALYSES OF REQUEST FOR FEEDBACK

RECOMMENDATION

Revenue Issue Areas

The Board should review the Revenue paper that provides reexamination issue areas for prioritization. See attachment 2, Preliminary Revenue (SFFAS 7) Research- Listing and Analysis of Issue Areas.

ANALYSIS

At the December 2023 meeting, the Board tentatively agreed to consider revenue as a priority topic for reexamination. At the April 2024 and June 2024, staff provided additional preliminary research that supported revenue should remain a priority topic. Certain members requested additional information to inform prioritization discussions during the August meeting.

Specifically, there was concern with the notion that SFFAS 7 should be reviewed in its entirety versus considering the discrete issue areas. A member explained that a comprehensive revenue project could take years and therefore, may result in potentially critical issues not being addressed until the entire Statement is reexamined. In response, the briefing materials provide the comments raised by ITC respondents and additional analysis, organized by individual reexamination issue areas (that will be included in the reexamination prioritization. See Attachment 2, Preliminary Revenue (SFFAS 7) Research- Listing and Analysis of Issue Areas. The paper provides a listing and analysis of issue areas under the revenue topic with respondent feedback and staff research.

When considering the revenue issue areas, staff determined:

[4] Staff views the priority approach of addressing issue areas is like the current technical clarifications of existing standards project (and now-archived evaluation of existing standards project) that addresses requests to clarify portions of existing standards.

- Certain integral or core revenue issues have complex interdependencies that are conducive to and would be more effectively reexamined together in one issue area,
- Certain issues could be separable projects,
- Certain issues could be accomplished through a post-implementation review of the existing standard. These areas could be tabled for later phases of the revenue reexamination.

Staff recommends prioritizing core and interdependent revenue issues into the following issue areas:

- Core/Integral Revenue issues
    - Tax revenue recognition/measurement and compliance assessments
    - Clarifying accounting and reporting of contra-revenue accounts, including those affecting intragovernmental transactions
    - Clarifying accounting and reporting of private debt collections and related custodial activity
    - Clarifying accounting and reporting of custodial activities.
- Separable revenue issue area (projects)
    - Intragovernmental transactions, including debt cancellation and financing sources
    - Accounting changes, error corrections, and changes within and among reporting entities
- Post-implementation reviews that can be accomplished in later phase of revenue reexamination
    - SFFAS 27/43 (dedicated collections)
    - SFFAS 31 (fiduciary activities)
    - SFFAS 52 (tax expenditures), and
    - SFFAS 53 (budget and accrual reconciliation)

Staff recommends including post-implementation reviews of SFFAS 27/43, SFFAS 31, SFFAS 52, and SFFAS 53 under the umbrella revenue reexamination project, while reexamining these issue areas in a later phase of the project. Such reviews are not expected to require significant time and resources. The reviews will help the Board understand whether the requirements in these revenue- and collection-related pronouncements are meeting their intended objectives and identify opportunities to potentially clarify certain requirements and/or opportunities to reduce burden. Inclusion of these issue areas under the umbrella revenue reexamination project could facilitate coordination and consistency across revenue- and collection-related pronouncements and areas of interdependencies while also allowing the Board to prioritize core revenue issue areas.

This information (including recommendations) is on the prioritization matrix to assist the Board with prioritization of reexamination issue areas.

Questions for the Board:

1. Does the Board have any specific questions or comments regarding the Revenue paper with issue areas for reexamination?

RECOMMENDATION

Reexamination Prioritization

The Board should determine the prioritization of the reexamination issue areas. The results will be used in the technical agenda setting session.

ANALYSIS

The ITC was an excellent tool to accumulate an inventory of the specific issues for reexamination. The Board considered preliminary research on the top and second tier reexamination topics[5] at the April and June 2024 Board meetings. The preliminary research provided the Board a better understanding of the reexamination issue areas identified through the ITC responses.

The Board agreed that taking a priority approach to address the ITC issues would have the most benefit for stakeholders. 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.[6]

Prioritization Factors

The Board discussed the importance of determining the priority order of specific issues areas (narrow scope projects) that should be added to the technical agenda. At the June 2024 meeting, the Board discussed staff's suggested factors for prioritizing the specific issue areas. The Board provided comments during the meeting that staff incorporated. The Board generally agreed with the following four factors for prioritization of reexamination issues:

- **Clarifying the standards (including addressing gaps in standards.)**
  Clarifying the standards is used broadly to include various improvements to the

[5] As presented at the December 2023 meeting, staff used a weighted model to prioritize the topics based on the priority assessment of the ITC respondents. These results provided a ranking of reexamination topics and staff further segregated the ranked topics into three tiers. The top tier included Topic 7 (SFFAS 7), Topic 6 (SFFAS 6), Topic 15 (SFFAS 34), Topic 8 (SFFAS 10), Topic 5 (SFFAS 5) and the second tier included Topic 1 (SFFAS 1), Topic 21 (SFFAS 49), Topic 3 (SFFAS 3), Topic 9 (SFFAS 17), and Topic 14 (SFFAS 33).The Board requested staff to perform preliminary research on the issue areas in the top tier and second tier.

[6] Consistent with Board discussions, staff will monitor and track progress on the reexamination of each standard, including respondent issues, so assessments can be made on what remains for a comprehensive review of a particular standard.

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.

- **Streamlining and burden reduction.** Cost 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 or that may be provided through other sources. It includes streamlining authoritative guidance and other similar improvements such as overlaps or redundancy in requirements that may need to be streamlined or 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 Financial Report of the U.S. Government. Another consideration is that some issues may appear to be quantitatively immaterial to agencies but could in fact be quantitatively/qualitatively material when compiled/consolidated for either recognition or disclosure in the Financial Report of the U.S. Government.

Staff notes that there is some overlap among the four factors because certain information provided in the prioritization matrix fit criteria in meeting more than one factor. Staff notes that the Board recognized the four factors may provide some overlap when finalizing the factors. Members also noted that the order of prioritization, as well as the members approach to the prioritization, is subjective as it involves the judgments of each member.

Reexamination Prioritization Matrix

To assist the Board, staff prepared a **Reexamination Prioritization Matrix** (see Attachment 3.) The matrix includes the reexamination issue areas with an assessment against each of the four prioritization factors, along with staff notes.

Each of the issue areas correspond to the issue areas provided in the preliminary research for each reexamination topic. For the Board’s reference, Attachment 4 contains the preliminary research provided at the April and June meetings. This includes the preliminary research on the priority top tier topics SFFAS 5, 7 and 34. It also includes the preliminary research on issue areas in the other ITC top tier and second tier topics—SFFAS 1, SFFAS 3 and SFFAS 6. In addition, the attachment includes the preliminary research on SFFAS 2 loan note disclosures. Staff notes that the issue areas for revenue for the prioritization were presented as Attachment 2 to these (August 2024) briefing materials.

In addition to the issue areas, as discussed earlier in the memo, staff believed it appropriate to include an issue area for each of the reexamination topics broadly. For example, staff included SFFAS 5/Liabilities Broadly. The broad issue areas for each reexamination topic would be considered once all the issues within the topic have been addressed. Staff believes including the broad areas will ensure that a full reexamination of the topic is completed. This would also include addressing more broad and general comments identified by respondents. It would address more global issues raised with organization of the handbook and generally modernizing the standards. As explained, consideration of the broad topics would come after all the specific issue areas have been addressed. Although the broad issue areas for each topic are included on the prioritization matrix, these broad topics may be excluded from prioritization at this time.[7]

Staff notes that the Board discussed the importance of considering FASAB's resources, as this will ultimately determine what projects can be added. Although the Board agreed that resources should *not* be a decision factor for prioritization, it is a constraint that must still be considered. When considering which projects to add to the technical agenda, the Board may have to adjust due to resources.[8]

Considering the resource constraints, staff believed it important to include a resource gauge for members to consider. Specifically, staff provided an assessment of the estimated time frame for completion of a project as more or less than 24 months[9] for each of the issue areas. Staff notes that the time frames are for the Board's general understanding of the estimated resource requirements based on the degree of difficulty or complexity of each issue area.

Along with indicating resource requirements, staff notes that certain issues may be most appropriately dealt with through lower-level generally accepted accounting principles or other avenues, such as guidance issued by central agencies. Further, other areas may be most appropriately addressed through a streamlined post-issuance review (PIR) process when addressing issues related to more recent standards. It is important that all potential remedies be considered. Staff has included notes in the matrix to indicate when these types of things should be considered.

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[7] Staff believes it important to maintain a schedule of all areas to be reexamined to ensure all are addressed and a full reexamination of topics.

[8] For example, the Board may need to consider whether to add one large project versus three smaller projects.

[9] 24 months appeared to be a reasonable cutoff to distinguish the time necessary for more difficult and complex issue areas. Staff notes that some projects may be much lower than 24 months and some projects may be longer than 24 months.

The Reexamination Prioritization Matrix is to assist the Board in the prioritization of reexamination issue areas. Considering that there are only a select number of projects that can be added to the agenda in the next few years, staff believes it appropriate for the Board to determine approximately five issue areas (potential projects) for consideration in the technical agenda setting session. To facilitate the Board prioritization, staff requests that each member submit their top three issue areas among the complex (more than 24 months) projects and their top three issue areas among the smaller, discrete issue areas (less than 24 months) projects.

Staff is providing a discussion of staff's steps in prioritizing the reexamination issue areas. While members may not agree with all aspects of staff steps and staff's analysis, it is provided so members understand the steps leading to staff's recommendation. As noted above, staff will use the issue areas submitted by members to facilitate a member prioritization.

Staff Prioritization

Staff believed it important to begin the prioritization by considering if there were certain issue areas that could be removed from the prioritization at this time. Staff viewed removing areas that should be delayed or deferred as a step towards a simpler prioritization. The prioritization exercise would be more focused if issue areas that should be removed from the prioritization at this time are identified.

Exclusions from prioritization.

Staff notes that when the Board considered the preliminary research for the prioritization issue areas, the Board did not deliberate the technical merits. For example, the Board did not discuss if or what level of Board action would be appropriate. Likewise, the Board did not assess if certain issue areas should be deferred until other areas within a particular topic have been addressed. Staff believes that this information is important and impacts the prioritization. For example, staff believes that if it is more appropriate to defer an area, this would lead to excluding that issue area from prioritization. Therefore, staff updated the prioritization matrix to show issue areas that should be deferred until a later time.[10] Areas that are shaded gray on the prioritization matrix represent issue areas excluded from the prioritization. Staff explained the reason for excluding in the staff notes on the matrix. There are two different shades of gray to note that an issue area was excluded:

Light gray shading corresponds to Broad topic areas that are included to ensure all issue areas are addressed and full reexamination of topics. However, these broad areas need not be prioritized until all issue areas are completed and therefore are excluded.

[10] As discussed later in the memo, staff believes the Board should revisit the prioritization periodically. The Board may consider updating the prioritization of issues so issues deferred at this time would be considered in future prioritizations.

Medium gray shading corresponds to issue areas where staff believed the issue area did not possess all the prioritization attributes. Considering the Board's priority approach, staff does not believe these issue areas should be included in the prioritization at this time. For example, staff determined that certain areas are addressed adequately through the GAAP hierarchy. Staff believes these areas do not rank as high as other areas that may not adequately be addressed the GAAP Hierarchy. Another way to consider this is if an issue area did not possess attributes for a particular prioritization factor, this was a reason for exclusion from prioritization at this time. Specific explanations about the exclusions are in the staff notes column on the prioritization matrix. It is important to note that staff is not suggesting that these areas be removed from our schedule or further consideration, staff is suggesting that it be excluded from prioritization at this time.

Orange shading corresponds to issue areas that should be deferred until other areas within a particular topic have been addressed and therefore should be excluded from prioritization. In some instances (in the complex revenue topic), certain issue areas would be best addressed with a streamlined post-implementation review (PIR). Staff suggests that SFFAS 27/43 (dedicated collections), SFFAS 31 (fiduciary activities), SFFAS 52 (tax expenditures), and SFFAS 53 (budget and accrual reconciliation) be addressed through PIR. The Board may wish to prioritize the order of the PIR when appropriate.

In addition, staff believes the remaining revenue areas (C2 Revenue-Intragovernmental transactions and C3 Accounting changes, error corrections, changes in the reporting entity) should be deferred until the Core revenue project is completed. Staff believes this research may inform staff on issues that may be related or have importance. These decisions may be reassessed once the revenue research is complete. As such, staff used orange shading on the prioritization areas (C2 and C3) to show they are deferred. Considering these areas should be deferred until the core revenue areas are addressed, staff believed excluding these from the prioritization to be appropriate.

Sub-topic assessments

Staff notes that certain issue areas include sub-topics (projects) that the Board may determine to prioritize separately or within a larger project. For example, staff notes that Environmental Liabilities, Revenue, and Construction in Progress contain sub-topics. Staff believes that a decision regarding if it is more appropriate to combine the sub-topic areas or address them separately was needed to finalize the issue areas for prioritization. Staff explains how staff assessed each below:

B1 Environmental Liabilities
B1.1 Subtopic Environmental liabilities and legal claims when there are multiple parties involved

Although the subtopic Environmental liabilities and legal claims when there are multiple parties involved could be addressed in the broader Environmental liabilities, staff believes there are advantages to addressing this sub-topic separately. Staff believes this area could be addressed through lower-level guidance, such as an Interpretation. Staff notes that Interpretation 9, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & SFFAS 6* provides clarification and guidance regarding cleanup cost liabilities when the component reporting entity responsible for reporting on an asset during its useful life is different from the component reporting entity that will eventually be responsible for settling the liability for the cleanup cost of that asset. Interpretation 9 focuses on assets that have a liability, but the asset and disposal responsibility is *transferred* to another entity.

Although DoD explained the Interpretation 9 guidance has been helpful in situations with an asset that is transferred, the guidance does not fit other situations when the asset is not transferred, and it relates to damages on a military base. In finalizing Interpretation 9, the Board believed there may be other scenarios and examples in the future that may need to be addressed. (Please see Attachment 4 for the preliminary research presented on this issue area.)

Staff believes that this issue should be addressed separately from the broader environmental liabilities because this may be accomplished through lower-level guidance. Addressing this particular area would be responsive to stakeholders whereas including it in the broader environmental liabilities project would take much longer.

C1 Core Revenue
C1.1 Subtopic Recognition/ measurement of non-exchange revenue
C1.2 Subtopic Contra-revenues
C1.3 Subtopic Private debt collections
C1.4 Subtopic Custodial activities

As explained in previous meetings and in the revenue materials for this meeting, staff firmly believes and continues to recommend that core revenue principles (along with the sub-topic issues identified within) should be addressed together.[11] Therefore, staff believes C1 and C1.1-C1.4 should be assessed in one project. As a result of combining those areas, C1.1-C1.4 do not need to be considered further in the prioritization because they would be grouped with C1. Accordingly, staff shaded those areas green on the prioritization matrix to show they are considered together.

D1 Construction in Progress (CIP)
D1.1 Subtopic CIP in Establishing Opening Balances

Similarly, staff notes that the Subtopic CIP in Establishing Opening Balances may be considered as a separate project or addressed within the broader CIP project. As explained in the preliminary research, it appears the significant audit issue has been resolved with the FASAB staff TI response. Although FASAB staff acknowledges the standards could be clarified to address CIP more specifically, staff does not see an

[11] As explained in Attachment 2, staff identified certain revenue issue areas that could be accomplished separately, but the core revenue principles issue areas should be considered together.

urgent need to address the CIP opening balance issue separately because the immediate audit issue has been resolved. Further, with the other issues presented regarding CIP, staff believes the Board should consider addressing CIP more broadly by addressing D1 and D1.1 under a comprehensive CIP pronouncement. As such, staff shaded those areas green on the prioritization matrix to show they are considered together. As a result of combining those areas, D1.1 will no longer be considered in the prioritization because it is grouped with D1.

Issue areas for staff's prioritization

After removing the excluded issue areas from the reexamination prioritization, the following nine issue areas remain for prioritization:

A Federal GAAP Hierarchy (<24 months)
B1 Environmental Liabilities
B1.1 *Subtopic* Environmental liabilities and legal claims when there are multiple parties involved (<24 months)
B2 Pensions, ORB, other postemployment benefits and veteran benefits
B3 Commitments (<24 months)
C1 Core Revenue[12]
D1 Construction in Progress (CIP)[13] (<24 months)
F2 Purchase v Consumption Method (<24 months)
G1 Direct Loan & Loan Guarantee Disclosures (<24 months)

While members may determine a different analysis and method for their prioritization, staff believes these are the issue areas the Board should focus on for their prioritization. Members should carefully assess these areas and the information on the prioritization matrix. Staff notes when considering the prioritization factors, there was a range in attributes, but all issue areas contained attributes for each factor.

Without question, staff believes the reexamination of the GAAP Hierarchy should be the first project added to the technical agenda. Most Board members agreed that it should be the first reexamination project when the preliminary research for the GAAP Hierarchy was discussed.

Staff believes that the level of resources is an overarching constraint that must be considered. Of the remaining projects, several projects would be complex and anticipated to last more than two years. Staff included the resource gauge from the prioritization matrix above so members it may be considered.

Staff also believes that certain complex projects would be best moved to the research agenda. Staff believes these issue areas would be complex projects and would take considerable time (more than 24 months.) Staff notes the issue area requires a broader

12 This includes the four sub-topics presented in the core revenue area.

13 This includes the CIP sub-topic for establishing opening balances.

audience of input, including SMEs, and best handled through a task force. Staff believes the following three areas should be moved to the research agenda before being placed on the active project agenda:

B1 Environmental Liabilities
B2 Pensions, ORB, other postemployment benefits and veteran benefits
C1 Core Revenue

When determining the priority order of the projects that should begin in the research phase, staff believes the Core Revenue project that includes the various sub-topics should be first. SFFAS 7 was the highest rated topic in need of reexamination by stakeholders. Staff believes it important that research begin as soon as staff is available.

Environmental Liabilities and Pensions should also be moved to the research agenda and remain until staff becomes available. Research topics will remain active until the Board either (1) elevates the topic to an active project or (2) decides to stop research on the topic in favor of committing resources towards more pressing issues.

Staff notes the remaining issue areas[14] are the more discrete issue areas identified during preliminary research. It appears that these potential projects are narrow scope and can be accomplished within 24 months:

- *Subtopic* Environmental liabilities when there are multiple parties involved
- Commitments
- Construction in Progress (CIP)
- Purchase v Consumption Method
- Direct Loan & Loan Guarantee Disclosures

While all the issue areas identified above are important and should be addressed as staff are available, staff understands that the issues must be further prioritized based on the Board's priority approach. Although all areas possess all four prioritization attributes and are candidates for reexamination, certain issues appeared to do so in an overwhelming or exceeding manner when compared to the other issue areas.

Although staff believes all of these areas are viable new projects, staff believes the remaining areas should be prioritized as follows:

1. Direct Loan & Loan Guarantee Disclosures

Although most major credit agencies did not respond directly to the ITC, this issue area was identified as an area of concern by the Board and FASAB staff. Staff discussions with ITC and roundtable respondents revealed areas where stakeholders believe guidance can be improved or streamlined. Staff finds that this issue area overwhelmingly possesses all four prioritization attributes and may be ranked first for streamlining and burden reduction. Staff believes the project length is dependent on the scope. If a narrow scope project that

[14] Remaining areas after removing those slated for research projects and GAAP hierarchy.

focuses on improving note disclosures is maintained, it may be completed in less than 24 months. (Please see Attachment 4 for the preliminary research presented on this issue area.)

2. *Subtopic* Environmental liabilities and legal claims when there are multiple parties involved

As explained earlier in the memo, staff believes that this issue should be addressed separately from the broader environmental liabilities because this may be accomplished through lower-level guidance. Staff believes addressing this particular area would be responsive to stakeholders whereas including it in the broader environmental liabilities project would take much longer. Further, in finalizing Interpretation 9, the Board noted there may be other scenarios that may require assessing in the future. (Please see Attachment 4 for the preliminary research presented on this issue area.)

3. Construction in Progress (CIP)

Staff notes that the CIP topic also includes *Subtopic* CIP in Establishing Opening Balances may be considered as a separate project or addressed within the broader CIP project. As explained in the preliminary research, it appears the significant audit issue has been resolved with the FASAB staff TI response. Although FASAB staff acknowledges the standards could be clarified to address CIP more specifically, staff does not see an urgent need to address the CIP subtopic (opening balances) separately because the immediate audit issue has been resolved. Further, with the other issues presented regarding CIP, staff acknowledges the standards could be clarified to address CIP. (Please see Attachment 4 for the preliminary research presented on this issue area.)

4. Purchase v Consumption Method

The consumption method 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. Certain respondents suggested that the Board reconsider current requirements and clarify certain requirements. (Please see Attachment 4 for the preliminary research presented on this issue area.)

5. Commitments

FASAB does not have standards on commitments, and OMB is requiring federal agencies to report significant commitments. Commitments is currently on the research agenda, which thereby indicates that this is a priority of the Board. Although this issue area was not based on ITC respondent comments, the Board agreed that it should be assessed further in the reexamination project. Therefore, staff believed it appropriate to include.

As noted, it will take several years to address the reexamination issues. The Board may consider ways to update the reexamination assessment in the future. For example, the Board may consider updating the prioritization of issues.

Staff Recommendations

Considering the Board's priority approach to reexamination, staff recommends:

1. The GAAP Hierarchy should be the first project added to the technical agenda.

2. The Core Revenue project (that includes sub-topics) should be the first research project when staff are available. In addition, Environmental Liabilities and Pensions, ORB, other postemployment benefits and veteran benefits should also be moved to the research agenda and considered when staff are available.

3. Staff notes all remaining projects should be considered for moving to the technical agenda so they may begin when staff are available. These issue areas should be prioritized as follows:

    1. Direct Loan & Loan Guarantee Disclosures
    2. Subtopic Environmental liabilities when there are multiple parties involved
    3. Construction in Progress (CIP)
    4. Purchase v Consumption Method
    5. Commitments

4. The Board should determine how often they want to revisit the prioritization. Staff will monitor progress on the reexamination issue areas.

Questions for the Board:

2. Does the Board generally agree with staff recommendations for the prioritization of reexamination issues?

3. For purposes of facilitating Board member prioritization[15], please submit your top three issue areas that are estimated to be over two years and top three issue areas estimated to be less than two years.

[15] The Board may agree with the staff recommendation, however; this information is being requested to facilitate a prioritization by members.

Attachment 2 - Revenue (SFFAS 7 etc.)

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 and June 2024 Board meetings, staff provided preliminary research that supported revenue should remain a high-priority topic. Certain members requested additional information to inform prioritization discussions during the August meeting. In response, staff is providing additional information on the revenue issues raised by ITC respondents and additional analysis, organized by revenue issue areas.[1]

Staff discussion and analysis of revenue topic reexamination issue areas

Each of the revenue issue areas (red headers) are listed below. Due to the complexities and interdependencies within and among certain issues that respondents identified, certain issue areas include further explanation of the specific issues (blue headers).

Some respondents provided more general comments on the revenue topic. Many of these comments were consistent with major themes related to consistency, comparability, and clarity of the standards. Further, respondents explained the importance of modernizing the standards because of changes to the government environment since 1996.

It is important to note that there may also be opportunities to clarify the authoritative or non-authoritative nature of certain SFFAS 7 guidance during reexamination and make any necessary updates or rescissions to such guidance that may be appropriate. For example:

- SFFAS 7 includes concepts (par. 88-103) that amended SFFAC 2, *Entity and Display*.
- SFFAS 7 includes an authoritative appendix.
- In 1996, the Board issued a document titled “Implementation Guide, Accounting for Revenue and Other Financing Sources.” The non-authoritative guide presents illustrations and explanations intended to help practice and understanding.
- In 2002, the Board issued a document titled “Implementation Guide to Statement of Financing in Statement of Federal Financial Accounting Standards 7, Accounting for Revenue and Other Financing Sources: Detailed Information on the Statement of Financing.” Form and content guidance for the statement of financing is provide by OMB in Circular A-136. A call-out box on the second page of this guide has not been updated to conform to the GAAP hierarchy under SFFAS 34.)

As noted in the revenue issue areas below, SFFAC 2 includes certain concepts that may be beneficial to include or expand upon in clarifying updates to SFFAS 7, such as guidance pertaining to the budget and accrual reconciliation and custodial activities.

As noted, the below table provides a staff analysis and commentary on the listing of issues, along with excerpts of ITC responses (denoted with headers and italicized text) that staff found to be especially relevant to each. For a few issues with relevant technical inquiries, staff also provides a summary of those inquiries, dates of submission, and the status of the inquiries.

[1] The issue areas for revenue (and all issue areas for the first and second tier topics) are considered for reexamination prioritization.

Staff reminds members that some respondents provided more general comments regarding modernization of the standards and opportunities to provide additional guidance based on changes in the federal environment since the issuance of SFFAS 7 in 1996. Staff will ensure these comments are considered as appropriate in the respective revenue project(s).

Core revenue issues

Revenue is an inflow of resources that the Government demands, earns, or receives by donation. Revenue comes from two sources: exchange transactions and nonexchange transactions. There were numerous issues presented by respondents regarding core notions from SFFAS 7, including exchange and non-exchange revenues. Staff continues to believe that assessing the core or integral revenue matters would be most efficient by considering them together. Moreover, there are certain audit-related matters that appear to remain unresolved that relate to core revenue standards. Reexamination of the core SFFAS 7 standards could resolve those matters. Staff believes this project should be moved to the research agenda to allow staff more time to develop a project plan that would reassess opportunities to clarify the core principles. Below are specific issues presented by respondents that would be addressed.

Tax revenue recognition/measurement / compliance assessments

The Department of the Treasury (Treasury) and the Internal Revenue Service (IRS) expressed a position in their ITC responses that SFFAS 7 should be reexamined to allow compliance assessments to be recognized as taxes receivable to the extent that such amounts are identifiable and legally enforceable, probable of collection, and reasonably estimable.

Federal taxes receivable are unpaid assessments in which the taxpayer or court *have agreed* to the amount. These are reported on the balance sheet. Compliance assessments are unpaid assessments in which the taxpayer or court *have not agreed* to the amount; these are reported in RSI and not reported on the balance sheet. Compliance assessments that have *no future collection potential* are written off; these are reported in RSI and not reported on the balance sheet / recognized as non-exchange revenue.

The IRS expressed concern in their ITC comments that not reporting compliance assessments and the related federal taxes receivables will lead to financial statements that are materially misleading. Based on the comment letters submitted by KPMG and GAO, it appears that the auditors of Treasury and IRS agree that this issue warrants Board reexamination. Staff notes that SFFAS 7 does provide for required supplementary information on this matter. Accordingly, the IRS reports total unpaid assessments and the related adjustments for uncollectible amounts and compliance assessments in RSI. Neither auditor expressed positions on the matter, given their roles. Note 1.E of IRS's fiscal year 2023 agency financial report highlights this area of accounting. GAO's audit report includes an emphasis of matter paragraph on this issue as well.

Staff received a technical inquiry on this matter in 2021 and informed IRS that the matter would be referred to the Board for potential reexamination.

Paragraph 187.4 (basis for conclusions) of SFFAS 7 provides that "Some or all of these potential accounts receivable [potentially accruable revenue] and payable [potential refunds] may become measurable by the collecting entities, and the Board may require their accrual when the collecting entities' management systems are improved." The IRS appears to be indicating in its ITC comments that they may have sufficiently improved their systems and that the issue is significant enough to warrant reexamination research on the topic.

Excerpt from independent auditor's report on IRS FY 2023 financial statements:

"Emphasis-of-Matter: Federal Taxes Receivable

This matter deserves emphasis to put the information in IRS's financial statements into context. As discussed in note 1.E., Federal Taxes Receivable, Net, taxes receivable consist of unpaid assessments (taxes, associated penalties, and interest) due from taxpayers. The existence of a receivable is supported by a taxpayer agreement, such as filing of a tax return without sufficient payment, or a court ruling in favor of IRS. Consistent with federal accounting standards, IRS's financial statements do not include an estimate for the annual tax gap—the difference between the amount of tax that taxpayers owe and the amount they actually pay voluntarily and on time,[10] nor do they include information on tax expenditures.[11] Further detail on the tax gap and tax expenditures, as well as the associated dollar amounts, is provided in the unaudited other information included with the financial statements. Our opinion on IRS's financial statements is not modified with respect to this matter."

This issue area interacts with other issue areas raised by respondents, including custodial activity, contra-revenue account guidance, and other presentation issues.

ITC respondent comments

"Compliance assessments vs. federal tax receivables" …

"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." …

"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."
– Respondent #16 (Treasury/IRS)

Contra-revenue account guidance

The AGA Financial Management Standards Board and Department of Defense expressed a position that the requirements for contra-revenue accounts and revenue allowance are unclear. The Department of Defense suggested providing clarification regarding the presentation of allowance amounts in the financial statements and note.

This issue area interacts with other issue areas raised by respondents, including custodial collections, taxes receivable measurement, and presentation issues.

ITC respondent comments

"…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."
- Respondent #6 (AGA FMSB)

"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."
- Respondent #9 (DOD)

Private debt collections and related custodial activity

The Department of the Treasury and the Internal Revenue Service seek further clarification regarding the classification of private debt collections as exchange or non-exchange revenue.

The independent auditors of Treasury and IRS agree that this issue warrants Board reexamination. Neither auditor expressed positions on the matter, given their roles, in their respective ITC comments. Staff received and responded to a technical inquiry on this matter in 2021.

Staff's technical inquiry response provided for the following:

A. The custodial collection of all private debt collections would be recognized as non-exchange revenue on the IRS Statement of Custodial Activities of the IRS in accordance with SFFAS 7, paragraph 49, and as non-exchange revenue on the government-wide reporting entity's Statement of Net Cost.

B. *Retained* private debt collections, which IRS distributes to itself in a custodial capacity on behalf of the government-wide reporting entity, would also be recorded on the IRS Statement of Custodial Activities as a distribution to itself.

C. Only funds retained by the IRS under 6306(e)(1) of the Internal Revenue Code, which expressly provides that such amounts are "for the costs of services performed," would be recognized as exchange revenue on the IRS Statement of Net Cost in accordance with SFFAS 7, paragraph 60.3, which calls for such treatment when collecting entities are legally entitled to retain revenue "as a reimbursement of the cost of collection." Funds retained by the IRS under 6306(e)(2) of the Internal Revenue Code "to fund the special compliance personnel program" are a transfer of assets from the government-wide reporting entity and an other financing source of the IRS, as provided by SFFAS 7, paragraphs 70 and 74.

   The exchange revenue recognized by IRS would not affect the recognition of the initial collections on the IRS Statement of Custodial Activities as non-exchange revenue, nor would it affect the custodial distributions, a portion of which is distributed by IRS to itself (items A and B above).

Although staff considers the matter to be addressed for purposes of the initial inquiry, staff also believes that the revenue classifications and custodial activity accounting could be better clarified in the standards.

The issue area interacts with other issue areas raised by respondents, including exchange and nonexchange revenues, custodial activity, and other presentation issues.

ITC respondent comments

"…we suggest the Board reexamine SFFAS 7 and consider whether clarity 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."
\- Respondent #10 (KPMG)

"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."
\- Respondent #16 (Treasury/IRS)

"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."
- Respondent #26 (GAO)

Custodial Activity

Some respondents provided feedback indicating that custodial activity accounting could be better clarified in SFFAS 7.

In general, staff has found that the SFFAS 7 standards are not particularly clear regarding custodial activity recognition, classification, presentation, and disclosure issues. The Statement appears to allude to or work in tandem with Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*. SFFAC 2 provides concepts (emphasis added) for reporting entities functioning in a custodial capacity reporting such activities "in a flow statement that provides an understanding of from whom the taxes or other monies were collected and to whom they were distributed." (par. 61) SFFAC 2 further provides that "the statement should display the sources and amounts of the collections of custodial revenues, any increases or decreases in amounts collectable but not collected, the disposition of the collections through transfers to other entities, the amounts retained by the collecting entity, and any increase or decrease in the amounts to be transferred (par. 101).

Staff believes that additional recognition, classification, presentation, and disclosure standards may be appropriate in this area.

The issue area interacts with other issue areas raised by respondents, including exchange and nonexchange revenues, and other presentation issues.

ITC respondent comments

"…we suggest the Board reexamine SFFAS 7 and consider whether clarity 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."
- Respondent #10 (KPMG)

"The Board may also consider clarifying the accounting and reporting requirements relating to custodial activity, including custodial distributions."
- Respondent #26 (GAO)

FY 2023 Annual Report respondent comment

"Support on DoD's intended approach for Medicare-Eligible Retiree Health Care Fund (MERHCF) reporting of custodial activity. Department of Treasury USSGL Issue Resolution Committee (IRC) has engaged FASAB staff to opine on DoD's proposed approach for MERHCF expense recognition process for healthcare costs. DoD has provided a white paper to FASAB to explain our position and proposed accounting. DoD has received concurrence on our proposed approach from OMB and IRC, and a favorable reaction from our auditor, and receiving FASAB support on our proposed approach is the last step in resolving a long-standing audit issue for one of DoD's largest components in terms of asset value."
- Respondent #3 (DOD)

Staff note: According to DOD, MERHCF is the fourth largest component holding about 10% of DoD's total assets. MERHCF currently has a qualified audit opinion, and one of the major issues the IPA is concerned about is MERHCF's revenue and expense recognition process for healthcare costs.

MERHCF is responsible for providing funds to cover the health care of all Medicare-eligible uniformed services retirees, whether a third party or DoD provides the care. Such health care includes purchased care managed by Contract Resource Management (CRM) and direct care managed by DoD Medical Treatment Facilities (MTFs).

DoD currently treats the financial transfer to the MTFs for direct care as a reimbursable transaction for proprietary reporting (an expense to MERHCF and revenue for the DHA). This accounting treatment has resulted in repeat notice of findings and recommendations (NFR) for the DHA.

Because of the NFR, DoD reviewed current policy for transactions between MERHCF and DHA. DoD is considering proposing a change in the accounting principle (by implementing an SCA) that they believe would resolve concerns.

FASAB staff notes that this a very complex issue that involves multiple DoD component reporting entities. At present, DOD is working with their auditor on the specifics of the proposal. There is no current technical inquiry[2] for FASAB staff as DoD works through the issue; however, FASAB anticipates there may be specific GAAP related questions specific to revenue and custodial activity regarding the DoD proposed accounting change.

Staff notes that certain revenue issue areas could be separable projects, such as accounting changes, error corrections, and changes within and among reporting entities.

Intragovernmental transactions issue areas

Debt cancellation (nonexchange transaction—intragovernmental gains/losses)

The Bureau of the Fiscal Service noted in their comments that differences between cancellation of debt, borrowing authority with no repayment required, forgiveness, and elimination of debt have led to confusion over the nature of debt cancellation and the applicability of Interpretation 11.

The Board could potentially integrate Interpretation 11 into SFFAS 7 guidance while also providing additional guidance on debt cancellation issues to the extent necessary.

This issue area interacts with other issue areas raised by respondents, including intragovernmental elimination issues and modernization of guidance to address classes of transactions in the current federal environment.

ITC respondent comments

"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…"
- Respondent #17 (HHS)

"Differences between "Cancellation of debt", "borrowing authority with no repayment required", "forgiveness", and/or "elimination of debt", can lead to confusion over the nature of debt cancellation and the applicability of SFFAS 7, Par. 13 and Interpretation 11..."
- Respondent #22 (Fiscal Service)

Other financing sources (intragovernmental)

The Bureau of the Fiscal Service, along with other respondents, noted in their comments that there are opportunities to clarify terminology and presentation requirements to help users understand the nature of various financing sources of federal entities.

[2] Staff notes that there have been several TIs on the MERHCF matter over the past 10 years.

This issue area interacts with other issue areas raised by respondents, including intragovernmental elimination issues, debt cancellation, presentation and disclosure issues, and modernization of guidance to address classes of transactions in the current federal environment.

ITC respondent comments

"… we think it would be helpful and appropriate to provide expanded prescriptive guidance for intragovernmental transactions."

- Respondent #6 (AGA FMSB)

"…we suggest the Board reexamine SFFAS 7 and consider whether clarity 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."

- Respondent #10 (KPMG)

"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…"

- Respondent #17 (HHS)

"… During the past fiscal year NPS encountered an issue where BLM transferred capitalized GPPE to NPS. The asset would have been expensed as heritage on NPS' books. As a result, the transfer accounting resulted in an elimination imbalance between the two bureaus. SFFAS 7 Par 346 and 359 implies there would be an elimination issue, but doesn't provide sufficient guidance for how it should be handled or potential resolved. NPS suggests FASAB provide some additional guidance on how this type of transaction should be accounting for with the goal of removing the elimination imbalance."

- Respondent #18 (Interior)

"Significant confusion remains within SFFAS 7 on perceived differences between "Financing Sources" and "Other Financing Sources."

The confusion appears to stem from the presentation of SFFAS 7, Par. 70, in which a header is titled "Other Financing Sources", but the paragraph provides guidance on "Financing sources, other than exchange and nonexchange revenues, that provide inflows of resources that increase results of operations during the reporting period include appropriations used, transfers of assets from other Government entities, and financing imputed with respect to any cost subsidies." The Board may consider language for the most meaningful term, in order for financial statement users to understand the nature of these financing sources to the federal government."

- Respondent #22 (Fiscal Service)

Accounting changes, error corrections, changes in the reporting entity (SFFAS 21) issue areas

KPMG noted in its comments that SFFAS 21—which provides guidance on accounting changes and error corrections—does not provide specific guidance on changes in accounting estimates and changes in the reporting entity.

It is also important for the Board to consider that, from time to time, the Congress may pass legislation that could reorganize reporting entities, create new reporting entities, and transfer functions among them. For example, the Department of Energy Organization Act of 1977 and the Homeland Security Act of 2002. Staff believes it would be prudent to provide guidance on changes in the reporting entity for agency reorganizations.

Staff has observed instances of reporting entities appearing to misapply SFFAS 21, classifying corrections of errors as changes in accounting principles.

This topic interacts with SFFAS 7 issue areas mentioned above. For example, revaluations are a common component of net cost that is not part of net outlays on the statement of budgetary resources (see par. 97 of SFFAS 7). As another example, special adjustments—including prior period adjustments due to corrections of errors—represent other temporary timing differences between net cost and net outlays (see par. 99 of SFFAS 7). Despite these limited interactions, staff views this particular issue area as a separable reexamination project.

> <u>ITC respondent comments</u>
>
> *“Currently, SFFAS 21 … does not provide specific guidance on changes in accounting estimates and changes in the reporting entity. Given that both the FASB and GASB prescribe guidance on these topics, we recommend that the Board develop guidance to eliminate the gap in extant standards.”*
> - Respondent #10 (KPMG)

Staff notes that certain revenue issues could be accomplished through a post-implementation review of the existing standard. These areas could be tabled for later phases of the revenue reexamination. Post-implementation reviews that can be accomplished in a later phase of revenue reexamination include SFFAS 27/43 (dedicated collections), SFFAS 31 (fiduciary activities), SFFAS 52 (tax expenditures), and SFFAS 53 (budget and accrual reconciliation).

Dedicated collections (SFFAS 27/43) issue areas

DOD requested additional Board guidance on mixed or co-mingled funds to identify a mechanism to reflect mixed or co-mingled funds in its financial statements more clearly. Staff has not investigated the matter raised by DOD. This matter was addressed under SFFAS 43, which provides for classification based on “predominant sources of revenue and other financing sources.” Specifically, the SFFAS 43 amendments to SFFAS 27, and the Board’s basis for these amendments (see par. A23-A24 of SFFAS 43) address this issue. However, it appears that there may continue to be implementation issues in this area.

In the basis for conclusions of SFFAS 43, the Board also noted that a broader study of fund reporting was needed to address the question of whether consolidated or combined amounts are more useful when reporting on a specific class of funds. The Board, therefore, provided an option to report either consolidated or combined amounts. In practice, OMB and Treasury have elected to require consolidated reporting of these amounts through their administrative directives.

The Board may wish to perform a post-implementation review of the implementation of SFFAS 27, as amended by SFFAS 43, to determine whether the standards is achieving its desired objectives and identify opportunities to clarify any implementation issues identified.

A post-implementation review of SFFAS 27/43 could be a separate project. There may, however, be project synergies associated with performing reexamination of all revenue- and collection-related pronouncements under an umbrella revenue and collections reexamination project. This would allow for coordinated and consistent reviews of SFFAS 7, SFFAS 27/43, and SFFAS 31. The Board may also wish to table post-implementation review of SFFAS 27/43 and SFFAS 31 for a later phase of the revenue reexamination project.

> <u>ITC respondent comments</u>
>
> *“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.*
>
> *Consider the following scenario: US Army Corps of Engineers (USACE) has the authority to receive reimbursement from the Harbor Maintenance Trust Fund and Inland Waterways Trust Fund to cover the costs of approved projects that are initially expended from the General Fund appropriations (3112, 3122, and 3123). Essentially, projects are executed in the General Fund (operating accounts) and reimbursed via dis-investments and transfers from the Trust Funds.*

These funds are transferred from the Parent accounts (8863_X and 8861_X), to the child accounts (8863_XT and 8861_XT), and then ultimately transferred from the child accounts to the operating accounts. There is not a question that while in the trust fund, these are Funds from Dedicated Collections (FDC), as they represent excise tax collections and other tax collections. However, once transferred to the operating accounts, it is unclear whether these funds have met the definition of FDIC while in the child account, and are no longer considered FDC once in the operating accounts (to reimburse the expenditures)…"
- Respondent #9 (DOD)

Fiduciary activities (SFFAS 31) issue areas

GAO suggested in its comments that the Board research whether this standard is achieving its intended objectives.

Under the standards, issued in 2006, fiduciary collections are an inflow to the federal entity or its non-federal designee (such as a commercial bank) of cash or other assets that are and remain the property of non-federal parties. In other words, the federal entity collects, receives, and subsequently manages the cash or other assets that the non-federal entities have an interest in. Reporting entities are required to report fiduciary activity in a financial statement note displaying a schedule of fiduciary net assets for the current and prior period.

Assenting Board members generally supported the standard on the basis that citizens and beneficiaries of fiduciary funds may otherwise lack access to the information provided by the standard. Dissenting members noted that the disclosures of fiduciary activities were not designed to be the primary source of information that owners/beneficiaries of these non-federal entities would use.

Dissenting Board members had several other concerns. Two of the four dissenting members did not believe the Board should impose requirements on reporting information related to non-federal entities. These members had concerns with presenting activities of non-federal entities on a GAAP basis. Three of the four dissenting members did not believe the requirements were sufficiently demonstrated as being cost-beneficial. These members also shared concerns regarding the reliability of certain accrual amounts that would need to be reported for certain fiduciary funds.

The standard affects SFFAS 7 standards that deal with fiduciary activity and fiduciary relationships. These interactions are limited, and a post-implementation review of SFFAS 31 could be a separate project. There may, however, be project synergies associated with performing reexamination of all revenue- and collection-related pronouncements under an umbrella revenue and collections reexamination project. This would allow for coordinated and consistent reviews of SFFAS 7, SFFAS 27/43, and SFFAS 31. The Board may wish to table post-implementation review of SFFAS 27/43 and SFFAS 31 for a later phase of the revenue reexamination project.

ITC respondent comments

"We suggest that FASAB research whether the standard is achieving its intended objectives."
- Respondent #26 (GAO)

Tax expenditures (SFFAS 52) issue areas

A few respondents encouraged the Board to do a post-implementation review of this standard. SFFAS 52, which provides requirements for reporting certain required supplementary information in the consolidated financial report, has limited interactions with SFFAS 7. Paragraph 69.3 of SFFAS 7 encourages reporting entities to report information on tax expenditures that they consider relevant to the performance of their programs.

This issue area does not have significant interactions with SFFAS 7, however. Accordingly, a post-implementation review of SFFAS 52 could be tabled for a later phase of the revenue reexamination or separately prioritized.

ITC respondent comments

"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."
- Respondent #11 (Deloitte)

"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 basis financial statements of the federal financial report."
- Respondent #25 (Truth in Accounting)

Budget and accrual reconciliation (SFFAS 53) issue areas

The Bureau of the Fiscal Service noted in its comments that SFFAS 7, as amended by SFFAS 53, *Budget and Accrual Reconciliation,* relies significantly on Treasury-issued guidance for the budget and accrual reconciliation. Fiscal Service raised several significant and complex implementation challenges that have persisted since the implementation of the standard in fiscal year 2019.

Many of the SFFAS 53 amendments to SFFAS 7, paragraphs 88-103, affect the conceptual framework—specifically, SFFAC 2. The authoritative or non-authoritative nature of these paragraphs should be clarified. Generally, the conceptual framework is used to inform the Board in setting accounting standards but the conceptual framework itself is not authoritative. Certain guidance in paragraphs 88-103, such as paragraphs 93 and 101, should be further studied in light of respondent comments. Paragraph 93, for example, directs OMB to "provide guidance regarding the details of the display for the Budget and Accrual Reconciliation," while paragraph 101 instructs preparers to "present material amounts separately in the reconciliation and discuss these in the narrative."

The Board may wish to perform a post-implementation review of SFFAS 53 given the considerable challenges noted. The issue area is generally consistent with other themes raised by respondents, such as presentation and consistency issues that affect the consolidation process.

ITC respondent comments

"SFFAS 53 Budget and Accrual Reconciliation requires agencies to explain the relationship between their budgetary net outlays and their net cost of operations. The standard requires information to be presented in a way that clarifies the relationship between the outlays reported through budgetary accounting and proprietary accounting.

SFFAS 53 did not outline explicit steps to lead agencies towards implementation. Rather, the stand mentions in several areas that Treasury-issued guidance would facilitate implementation, and that OMB/Treasury have the flexibility to determine specific reconciliation requirements in the future…

… Consequently, the lack of clarification and inconsistencies amongst agencies contributed to implementation challenges throughout the first year of implementation. For example:

A. The BAR reconciles the governmentwide Net Cost of Operations to the Budget Deficit on the Treasury-produced Monthly Treasury Statement (MTS.) The calculation of the MTS's Budget Deficit for each agency and their SBR Net Outlays calculation rarely (if ever) match.

B. The MTS excludes various proprietary and budgetary elements and does not easily correspond to the balances found in the agency BAR reconciliations.

C. Reconciliation is dependent upon unique agency activities, making standardization across government a challenge.

Deferrals to OMB and Treasury for implementation guidance offer agencies flexibility to meeting reporting requirements. However, authoritative guidance within the GAAP Hierarchy

should stand alone, without external references to administration directives…"
- Respondent #22 (Fiscal Service)

"… According to OMB Circular A-136, Agencies are to use the TFM Crosswalk to reconcile their [BAR] footnote. However, this 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 footnoted in the audited/published statements. It would be beneficial if FASAB included more extensive information on each section of the BAR, what's expected under each section, etc."
- Respondent #9 (DOD)

Reexamination Prioritization Matrix

Ref. >24 months ≤ 24 months	Tier[1]	Topic	Issue area Exclude / Broad area Combine / Defer	Clarifications (including gaps)	Criticality	Pervasiveness	Streamlining & burden reduction	Other staff notes for consideration
A	1	GAAP Hierarchy SFFAS 34	Federal GAAP Hierarchy	Priority Topic[2] Top 5 Technical Inquiry Issue Area[3] More than half of the ITC respondents provided comments and suggested improvements to the hierarchy. Respondents identified that most aspects of SFFAS 34 should be reexamined and clarified. Respondents believed the Board should revisit the need for four levels of the hierarchy and suggested several ways that the current hierarchy could be simplified. Respondents suggested removing AICPA Industry Audit and Accounting Guides from the hierarchy because the intended purpose of AICPA audit guides is to provide audit guidance – not financial reporting guidance. Respondents suggested the Board clarify “practices that are widely recognized and prevalent in the federal government” because it is vague and could allow for many interpretations. Therefore, it should either be removed from the hierarchy or significantly clarified. There is diversity in the views of preparers and auditors about which practices are part of the existing hierarchy.	Priority Topic More than half of the ITC respondents provided comments and suggested improvements for the hierarchy. The majority of members agreed that the hierarchy should be one of the first priorities in the reexamination.[4] There is diversity in the views of preparers and auditors about which practices that are widely recognized and prevalent in the federal government are part of the existing hierarchy.	Priority Topic Top 5 Technical Inquiry Issue Area More than half of the ITC respondents provided comments and suggested improvements for the hierarchy. Respondent concerns during the due process for SFFAS 34 remain. Difficult to assess the pervasiveness in the terms of financial statement preparation and audit.	Respondents recognized the importance of consistency in the application of accounting principles, and it is an opportunity for the Board to update and simplify the hierarchy so that it may be more practical. Respondent concerns during the due process for SFFAS 34 remain. A goal is to make the standards more user-friendly. There are opportunities to make it more user-friendly by simplifying and clarifying aspects of the hierarchy. There is diversity in the views of preparers and auditors about which practices that are widely recognized and prevalent in the federal government are part of the existing hierarchy. Practitioners may not have a thorough understanding of the hierarchy, especially as it relates to application of the different levels	**Given the importance of the hierarchy, staff believes this should be the first reexamination project added to the technical agenda.** Staff finds that this issue area possesses all four prioritization attributes. Although a comprehensive reexamination of SFFAS 34, staff does not anticipate task forces or other SME. Staff believes this project could be completed within 24 months.

[1] As presented at the December 2023 meeting, staff used a weighted model to prioritize the topics based on the priority assessment of the ITC respondents. These results provided a ranking of reexamination topics and staff further segregated the ranked topics into three tiers. The top tier included Topic 7 (SFFAS 7), Topic 6 (SFFAS 6), Topic 15 (SFFAS 34), Topic 8 (SFFAS 10), Topic 5 (SFFAS 5) and the second tier included Topic 1 (SFFAS 1), Topic 21 (SFFAS 49), Topic 3 (SFFAS 3), Topic 9 (SFFAS 17), and Topic 14 (SFFAS 33).
[2] At the December 2023 meeting, the Board agreed that topic 7 (SFFAS 7), topic 5 (SFFAS 5), topic 15 (SFFAS 34) should be **priority topics** for reexamination and research. (Footnote will not be repeated but is applicable in references to Priority Topic.)
[3] Staff reviewed the TI quarterly reports13 from 2021-2023 to assess the topics that received the most TIs. Excluding leases, the top five SFFASs topics for the TIs received during 2021-2023 were: SFFAS 5, SFFAS 7, SFFAS 1, SFFAS 34, and SFFAS 6. (Footnote will not be repeated but is applicable in references to the Top 5 Technical Inquiry Issue Area.)
[4] See the December 2023 minutes at https://fasab.gov/board-activities/prior-calendar-years/.

Reexamination Prioritization Matrix

Ref. (>24 months / ≤ 24 months)	Tier 1	Topic	Issue area (Exclude / Broad area / Combine / Defer)	Clarifications (including gaps)	Criticality	Pervasiveness	Streamlining & burden reduction	Other staff notes for consideration
				Respondents suggested the Board clarify Other Accounting Literature and how it fits into the hierarchy because it is largely disregarded because of the difficulty of applying. Practitioners may not have a thorough understanding of the hierarchy, especially as it relates to application of the different levels.				
B		Liabilities SFFAS 5 & 6	Liabilities Broadly	Priority Topic Top 5 Technical Inquiry Issue Area.[5]	Priority Topic Top 5 Technical Inquiry Issue Area. The broad area of “Liabilities and Commitments and Contingencies” was a material weakness that contributed to the disclaimer on the Financial Report of the United States Government.	Priority Topic Top 5 Technical Inquiry Issue Area. The broad area of “Liabilities and Commitments and Contingencies” was a material weakness that contributed to the disclaimer on the Financial Report of the United States Government.		Staff believes once all issue areas within Liabilities has been addressed, the Board should consider if any other changes are necessary to SFFAS 5 or other liability related pronouncements so the reexamination of SFFAS 5 is complete. **This area should not be considered for prioritization—it is an area that would be done once all issue areas within liabilities have been addressed.**
B1	1	Liabilities SFFAS 5 & SFFAS 6	Environmental Liabilities	Priority Topic Top 5 Technical Inquiry Issue Area. Respondents requested clarification regarding the use of contingencies in estimates of environmental liabilities. Respondents noted that environmental liabilities are not provided as an example of a contingent liability.	Priority Topic Top 5 Technical Inquiry Issue Area. The broad area of “Liabilities and Commitments and Contingencies” was a material weakness that contributed to the disclaimer on the Financial Report of the United States Government. The audit report included “For example, DOD’s auditor was not able to substantiate the completeness and accuracy of	Priority Topic Top 5 Technical Inquiry Issue Area. The broad area of “Liabilities and Commitments and Contingencies” was a material weakness that contributed to the disclaimer on the Financial Report of the United States Government. The audit report included “For example, DOD’s auditor was not able to substantiate the completeness and	This issue was presented by both preparers and auditors. Guidance to clarify would resolve, thereby decreasing the overall costs to prepare and audit this issue area.	Staff believes this would be a complex project and would take considerable time. Staff notes the issue requires a broader audience of input, including SMEs, and best handled through a task force. Staff finds that this issue area possesses all four prioritization attributes. **This project should be moved to the research agenda.**

[5] Except for leases, liabilities received the most technical inquiries from 2021-2023.

Reexamination Prioritization Matrix

Ref. (>24 months / ≤ 24 months)	Tier 1	Topic	Issue area (Exclude / Broad area / Combine / Defer)	Clarifications (including gaps)	Criticality	Pervasiveness	Streamlining & burden reduction	Other staff notes for consideration
				Respondents requested clarification on what defines "best estimate" and what is considered a "completed study upon which to base an estimate?" Respondents would like additional guidance on determining reasonable estimates. Respondents requested additional environmental liability examples in FASAB guidance.	DOD's environmental and disposal liabilities." The report also explained "deficiencies in internal control related to estimating environmental and disposal liabilities could result in improperly stated liabilities.	accuracy of DOD's environmental and disposal liabilities." The report also explained "deficiencies in internal control related to estimating environmental and disposal liabilities could result in improperly stated liabilities.		
B1.1	1	Liabilities SFFAS 5 & SFFAS 6	*Subtopic-* Environmental liabilities and legal claims when there are multiple parties involved.	Priority Topic Top 5 Technical Inquiry Issue Area. Respondents explained there is no clear guidance directing which reporting entity should report the related environmental liability when there are multiple parties involved in the responsibility for and/or resolution of the liability. When finalizing Interpretation 9, the Board believed there may be other scenarios and examples in the future that may need to be addressed and included this in the BFC.	Priority Topic Top 5 Technical Inquiry Issue Area. The broad area of "Liabilities and Commitments and Contingencies" was a material weakness that contributed to the disclaimer on the Financial Report of the United States Government. The audit report included "For example, DOD's auditor was not able to substantiate the completeness and accuracy of DOD's environmental and disposal liabilities." The report also explained "deficiencies in internal control related to estimating environmental and disposal liabilities could result in improperly stated liabilities.	Priority Topic Top 5 Technical Inquiry Issue Area. Issue was brought up by DoD. DoD accounts for approximately 15% of the reported environmental and disposal liabilities. The broad area of "Liabilities and Commitments and Contingencies" was a material weakness that contributed to the disclaimer on the Financial Report of the United States Government. The audit report included "For example, DOD's auditor was not able to substantiate the completeness and accuracy of DOD's environmental and disposal liabilities." The report also explained "deficiencies in internal control related to estimating environmental and disposal liabilities could result in improperly stated liabilities.	This issue was presented by both preparers and auditors. Based on discussion and examples, much time is spent determining the appropriate treatment. Guidance to clarify would resolve, thereby decreasing the overall costs to prepare and audit this issue area.	Staff finds that this issue area possesses all four prioritization attributes. Staff notes that this is considered a sub-topic of Environmental Liabilities. **Staff believes that this issue should be addressed separately from the broader environmental liabilities because this area could be addressed through lower-level guidance, such as an Interpretation.** Alternatively, the Board may determine that including this in the overall Environmental Liabilities is appropriate.
B2	1	Liabilities SFFAS 5 & SFFAS 33	Pensions, other retirement benefits, other postemployme	Priority Topic Top 5 Technical Inquiry Issue Area.	Priority Topic Top 5 Technical Inquiry Issue Area.	Priority Topic Top 5 Technical Inquiry Issue Area.	Respondents suggested FASAB engage the federal government's actuarial community to discuss whether changes in FASAB standards	As part of an Omnibus, the Board considered amending SFFAS 33 paragraph 30 and 32 to acknowledge preparer flexibility to accommodate for the inability of

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			nt benefits and veteran benefits	Respondents conveyed that there was difficulty with the requirements of SFFAS 5 as it related to the pension actuarial liability processes. Respondents suggested FASAB engage the federal government's actuarial community to discuss whether changes in FASAB standards would improve the financial reporting of pension, other retirement benefits, and veteran benefits because actuarial practices have evolved and greatly changed. Respondents believe that FASAB should consider whether the AEAN actuarial cost method is the most appropriate method for valuing related liabilities and costs. GAO-19-195R, *Military Retirement: Service Contributions Do Not Reflect Service Specific Estimated Costs and Full Effect of Proposed Legislation is Unknown*, report addresses whether the current method used to calculate DOD retirement contributions reflects estimated service retirement costs. GAO's analysis indicated that the mandated single, aggregate contribution rate does not reflect service specific retirement costs. The report noted there have been significant advances in technology and computing power, making alternative actuarial cost methods more feasible. Respondents believe FASAB should consider clarifying the wording in SFFAS 33 relating to the selection of discount rates because the guidance has been interpreted inconsistently, raising issues about comparability across government entities. Respondents suggested reviewing the valuation date guidance in SFFAS 33 for pension benefits, other retirement benefits, and other postemployment benefits. Respondents suggested the Board consider whether additional disclosures related to pension and other retirement benefits in employer entities is appropriate. While most	The broad area of "Liabilities and Commitments and Contingencies" was a material weakness that contributed to the disclaimer on the Financial Report of the United States Government. The audit report included DOD's auditor reported that DOD could not support a significant amount of its estimated military postretirement health benefits liabilities included in federal employee and veteran benefits payable. These unsupported amounts relate to the cost of direct health care that DOD-managed military treatment facilities provided.	The broad area of "Liabilities and Commitments and Contingencies" was a material weakness that contributed to the disclaimer on the Financial Report of the United States Government. The audit report included DOD's auditor reported that DOD could not support a significant amount of its estimated military postretirement health benefits liabilities included in federal employee and veteran benefits payable. These unsupported amounts relate to the cost of direct health care that DOD-managed military treatment facilities provided.	would improve the financial reporting of pension, other retirement benefits, and veteran benefits Because actuarial practices have evolved and greatly changed. Staff notes that GAO-19-195R, *Military Retirement: Service Contributions Do Not Reflect Service Specific Estimated Costs and Full Effect of Proposed Legislation is Unknown*, report noted there have been significant advances in technology and computing power, making alternative actuarial cost methods more feasible.	having a Treasury year-end discount rate available in time for financial reporting purposes. However, members were concerned about doing so in a piecemeal manner. Members noted that a more comprehensive approach through the reexamination would serve practitioners best given that other aspects of SFFAS 33 may warrant additional changes. Staff believes this would be a complex and resource intensive project. Staff notes the issue requires a broader audience of input, including SMEs, and best handled through a task force. Staff finds that this issue area possesses all four prioritization attributes. **This project should be moved to the research agenda**.

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Ref. (>24 months / ≤ 24 months)	Tier [1]	Topic	Issue area (Exclude / Broad area / Combine / Defer)	Clarifications (including gaps)	Criticality	Pervasiveness	Streamlining & burden reduction	Other staff notes for consideration
				federal employer entities disclose the key attributes of pension and other retirement benefits provided to their employees, the accounting standards currently do not have a requirement for these entities to make such disclosures. Respondents noted the Board should reconsider VA health care. Although it might appear that medical benefits provided by the Department of Veterans Affairs should be treated like other retirement or medical benefits, the Board noted differences. The Board believed that VA medical benefits, for both mandatory and discretionary programs, are best measured by the annual cost incurred rather than by actuarially determined charges during the veteran's military service.				
B3	NA[6]		Commitments	FASAB does not have standards on commitments, and OMB is requiring federal agencies to report significant commitments. OMB Circular A-136 requires the disclosure of significant commitments without detailed guidance, which may result in inconsistency in reporting commitments among federal agencies. FASAB guidance on commitments would increase consistency and comparability among agency reporting.	The broad area of "Liabilities and Commitments and Contingencies" was a material weakness that contributed to the disclaimer on the Financial Report of the United States Government. FASAB does not have standards on commitments, and OMB is requiring federal agencies to report significant commitments. Both FASB and GASB have issued standards on the topic.	The broad area of "Liabilities and Commitments and Contingencies" was a material weakness that contributed to the disclaimer on the Financial Report of the United States Government. Commitments reporting affects agencies and governmentwide.	Guidance on commitments would streamline agency reporting.	Commitments is currently on the research agenda, which thereby indicates that this is a priority of the Board. Staff finds that this issue area possesses all four prioritization attributes. **This area should be considered for prioritization.**
C		Revenue SFFAS 7	Revenue Broadly **Note: There are four sub-topics within the core revenue that follow. The attributes included under the core revenue area would also**	Priority Topic Highest ranked topic area in need of reexamination by ITC respondents Top 5 Technical Inquiry Issue Area.	Priority Topic Top 5 Technical Inquiry Issue Area. Audit-related disputes appear to remain unresolved.	Highest ranked topic area in need of reexamination by ITC respondents Certain themes were relatively consistent across this issue area among respondents: clarification and modernization.	Issued were presented by both preparers and auditors. Guidance to clarify would resolve, thereby decreasing the overall costs to prepare and audit this issue area.	Staff believes once all issue areas within Revenues has been addressed, the Board should consider if any other changes are necessary to SFFAS 7 or other revenue related pronouncements, so the reexamination of revenue is complete.

[6] Commitments is currently on the research agenda. At the February 2024 meeting, the Board was split on whether to amend SFFAS 5 to include commitment as part of the annual omnibus or to consider it as part of the SFFAS 5 reexamination project. Staff has included the issue area for the Board's consideration.

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			be applicable but are not repeated for each of the sub-topics.	Pronouncements under this topic may have gaps for certain classes of transactions and balances, as reflected in certain respondent comments. Respondents indicated that clarification of revenue issue areas would facilitate resolution of audit issues, address gaps in the standards, and contribute to consistent reporting. Pronouncements under this topic may not be sufficiently responsive to changes in legislative authorities; 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.	Authoritative nature of various SFFAS 7 guidance	A considerable number of reporting entities report revenue in their financial statements (see FY 2023 CFR p. 57).	ITC comments indicate that the organization, navigability, and clarity of SFFAS 7 guidance could be improved.	**This area should not be considered for prioritization**—it is an area that would be done once all issue areas within revenue have been addressed.
C1	1	Revenue SFFAS 7	Core Revenue	Priority Topic Highest ranked topic area in need of reexamination by ITC respondents Top 5 Technical Inquiry Issue Area. Pronouncements under this topic may have gaps for certain classes of transactions and balances, as reflected in certain respondent comments. Pronouncements under this topic may not be sufficiently responsive to changes in legislative authorities; 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.	Priority Topic Top 5 Technical Inquiry Issue Area. Audit-related disputes appear to remain unresolved. Authoritative nature of various SFFAS 7 guidance ITC comments indicated that numerous items under this issue area would facilitate financial statement preparation, improve fair presentation and consistency in reporting, and contribute to the resolution of material audit findings for certain reporting entities.	Highest ranked topic area in need of reexamination by ITC respondents Certain themes were relatively consistent across this issue area among respondents: clarification and modernization. A considerable number of reporting entities report revenue in their financial statements (see FY 2023 CFR p. 57).	Opportunities to modernize and clarify existing requirements, thereby decreasing the overall costs to prepare, provide, consolidate, and audit this issue area.	Staff finds that this issue area possesses all four prioritization attributes. Staff believes this would be a complex project and would take considerable time. Staff notes the issue requires a broader audience of input, including SMEs, and best handled through a task force. **Staff recommends the core sub-topics be included as one core revenue project. The core revenue project should be the first project moved to the research agenda. Staff believes research on the core revenue issues and related issues will allow staff to provide a more detailed project plan of this complex area.**
C1.1	1	Revenue SFFAS 7	*Subtopic* Recognition/ measurement of non-exchange revenue	Tax revenue recognition/measurement and compliance assessments (determining whether updates to related standards are appropriate, considering IRS system modifications) SFFAS 7, par. 187.4 (basis for conclusions), notes that "Some or all of these potential accounts receivable [potentially accruable revenue] and payable [potential	Note 1.E of the IRS financial statements highlights this issue, as does an emphasis of matter paragraph by GAO in its FY 2023 audit of the IRS.			

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				refunds] may become measurable by the collecting entities, and the Board may require their accrual when the collecting entities' management systems are improved." The IRS appears to be indicating that they may have sufficiently improved their systems and that the issue is significant enough to warrant reexamination research on the topic.				
C1.2	1	Revenue SFFAS 7	*Subtopic* Contra-revenues	Clarifying accounting and reporting of contra-revenue accounts, including those affecting intragovernmental transactions (determining whether additional standards or guidance would be beneficial)	ITC comments indicate that this issue area would facilitate financial statement preparation.			
C1.3	1	Revenue SFFAS 7	*Subtopic* Private debt collections	Clarifying accounting and reporting of private debt collections	ITC comments indicate that this issue area would facilitate financial statement preparation.			
C1.4	1	Revenue SFFAS 7	*Subtopic* Custodial activities	Clarifying accounting and reporting of custodial activities, including (but not limited to) material MERHCF transactions.	ITC comments indicate that this issue area would facilitate financial statement preparation. The DOD MERHCF custodial inquiry is material, based on information provided to FASAB staff to-date.			
C2	1	Revenue SFFAS 7	Intragov. transactions	Priority Topic Highest ranked topic area in need of reexamination by ITC respondents Top 5 Technical Inquiry Issue Area. Pronouncements under this topic may have gaps for certain classes of transactions and balances, as reflected in certain respondent comments. Respondents indicated that clarification of revenue issue areas would facilitate resolution of audit issues, address gaps in the standards, and contribute to consistent reporting. Pronouncements under this topic may not be sufficiently responsive to changes in legislative authorities; 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.	Priority Topic Top 5 Technical Inquiry Issue Area. Audit-related disputes appear to remain unresolved. Authoritative nature of various SFFAS 7 guidance ITC comments indicated that numerous items under this issue area would facilitate financial statement preparation, improve fair presentation and consistency in reporting, enhance consistency in reporting, and intragovernmental eliminations.	Certain themes were relatively consistent across this issue area among respondents: clarification and modernization.	Issues were presented by both preparers and auditors. Guidance to clarify would resolve, thereby decreasing the overall costs to prepare and audit this issue area. Opportunities to modernize and clarify existing requirements, thereby decreasing the overall costs to prepare, provide, consolidate, and audit this issue area.	Staff finds that this issue area possesses all four prioritization attributes. **Staff believes this area should be deferred until the core revenue research is complete.**

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				Respondents indicated that clarification of intragovernmental transactions issue areas would facilitate resolution of audit issues, address gaps in the standards, and contribute to consistent reporting, including: • Debt cancellation practice issues • Intragovernmental financing sources				
C3	1	Revenue SFFAS 7 SFFAS 21	Accounting changes, error corrections, changes in the reporting entity	Respondents and staff research indicate that clarification of the standards would facilitate prevention and resolution of audit issues, address gaps in the standards, and contribute to consistent reporting, including: • Changes in accounting estimates • Changes in the reporting entity • Clarifying existing requirements	ITC comments indicate that this issue area would facilitate financial statement preparation, enhance consistency and reliability of reporting, and provide critical information to users of federal financial statements.	This particular issue area can apply to all federal entities that prepare general purpose federal financial reports.	Opportunities to clarify the standards, enhance consistency, and provide additional guidance, thereby decreasing the overall costs to prepare, provide, disclose, and audit this issue area.	Staff recommends separately prioritizing and addressing accounting changes, error corrections, and changes within and among reporting entities. Staff views this area as an important issue, given the practice issues that have and may continue to arise in this area. Staff finds that this issue area possesses all four prioritization attributes. **Staff believes this area should be deferred until the core revenue research is complete.**
C4	1	Revenue SFFAS 7 SFFAS 27 SFFAS 43	Dedicated collections	Respondents and staff research indicate that clarifications of the standards would facilitate prevention and resolution of audit issues surrounding mixed and comingled funds. The Board may wish to update the guidance to align with Treasury and OMB administrative directives regarding presentation basis.	ITC comments indicate that this issue area would facilitate financial statement preparation.	Unknown. Further staff research would be needed to understand pervasiveness of the issues identified by the respondent.	Opportunities to clarify the standards, enhance consistency, and provide additional guidance, thereby decreasing the coverall costs to prepare, provide, disclose, and audit this issue area.	**Staff recommends including post-implementation reviews** of SFFAS 27/43 (dedicated collections), SFFAS 31 (fiduciary activities), SFFAS 52 (tax expenditures), and SFFAS 53 (budget and accrual reconciliation). Such reviews are not expected to require significant time and resources. The reviews will help the Board understand whether the requirements in these revenue- and collection-related pronouncements are meeting their intended objectives and identify opportunities to potentially clarify
C5	1	Revenue SFFAS 7 SFFAS 31	Fiduciary activities		Respondents and staff research indicate that post-implementation review of this standard may provide useful information to the Board regarding the extent to which SFFAS 31 is achieving its objectives.			
C6	1	Revenue SFFAS 7 SFFAS 52	Tax expenditures			Reporting entities are not generally disclosing information on tax expenditures relevant to the performance of their programs.		

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						Such disclosures are permissible as other accompanying information under SFFAS 7, should reporting entities elect to do so based on the needs and interests of users and the availability of data (par. 69.3).		certain requirements and/or opportunities to reduce burden. When considering revenue these issues should be deferred for a later phase of the overall revenue reexamination. **Staff believes this area could be deferred until the core revenue research is complete.**
C7	1	Revenue SFFAS 7 SFFAS 53	Budget and accrual reconciliation	Respondents indicated that clarification of budget to accrual reconciliation standards would facilitate resolution of audit issues, address gaps in the standards, and contribute to consistent reporting.	ITC comments indicated that this issue area would facilitate financial statement preparation, enhance consistency in reporting, and facilitate consolidations of these reconciliations.	Certain comments indicated inconsistencies in practice across government in this area, indicating that inconsistencies in how budget to accrual reconciliations are prepared is a pervasive issue.	Opportunities to clarify the standards, enhance consistency, and provide additional guidance, thereby decreasing the overall costs to prepare, provide, consolidate, and audit this issue area.	
D	1	PP&E SFFAS 6	PP&E Broadly	Although SFFAS 6 was a top tier topic, environmental liabilities was a key area identified by respondents in SFFAS 6 and this area is being considered under liabilities. Respondents noted the topic should be reexamined because PP&E is significant for most federal reporting entities. Respondents indicated the Board should consider streamlining and presenting the guidance for PP&E in a format that is easier to reference because of the general difficulty of applying the FASAB guidance because it is spread among different pronouncements. Staff notes that there were few significant issue areas within SFFAS 6 identified for reexamination.[7]	PP&E is significant for most federal reporting entities. The broad area of “property, plant, and equipment (PP&E) and inventories and related property” was a material weakness that contributed to the disclaimer on the Financial Report of the United States Government. Most of the PP&E and inventories and related property are the responsibility of the Department of Defense (DOD).	PP&E is significant for most federal reporting entities. The broad area of “property, plant, and equipment (PP&E) and inventories and related property” was a material weakness that contributed to the disclaimer on the Financial Report of the United States Government. Most of the PP&E and inventories and related property are the responsibility of the Department of Defense (DOD). Most feedback regarding streamlining SFFAS 6 were consistent among respondents.	Respondents indicated the Board should consider streamlining and presenting the guidance for PP&E in a format that is easier to reference because of the general difficulty of applying the FASAB guidance because it is spread among different pronouncements.	Staff notes that other feedback from respondents appeared to involve smaller discreet areas and do not relate to a consistent recurring issue identified by the respondents to indicate the pervasiveness of the issue amongst federal entities. Staff would suggest that once all issue areas are addressed that the Board consider streamlining SFFAS 6. **Staff believes once all issue areas within PP&E have been addressed**, the Board should consider if any other changes are necessary to SFFAS 6 or other PP&E related pronouncements so the reexamination of SFFAS 6 is complete.

[7] As explained, many of the SFFAS 6 comments related to environmental liabilities that is being addressed in the liability area. Other comments focused on streamlining existing guidance.

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								This area should not be considered for prioritization—it is an area that would be done once all issue areas within PP&E have been addressed.
D1	1	PP&E SFFAS 6 & SFFAS 3	Construction in Progress (CIP)	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. 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. There are many different circumstances that should be considered. A respondent noted that questions and concern come up because CIP accounts were getting to be quite large. As noted above, FASAB staff acknowledges the standards could be clarified to address CIP more specifically. CIP was identified for both SFFAS 3 and SFFAS 6. The CIP issue is included under SFFAS 6.	PP&E is significant for most federal reporting entities. The broad area of "property, plant, and equipment (PP&E) and inventories and related property" was a material weakness that contributed to the disclaimer on the Financial Report of the United States Government. Most of the PP&E and inventories and related property are the responsibility of the Department of Defense (DOD).	CIP was identified for both SFFAS 3 and SFFAS 6. The CIP issue is included under SFFAS 6. PP&E is significant for most federal reporting entities. The broad area of "property, plant, and equipment (PP&E) and inventories and related property" was a material weakness that contributed to the disclaimer on the Financial Report of the United States Government. Most of the PP&E and inventories and related property are the responsibility of the Department of Defense (DOD).	This issue was presented by both preparers and auditors. Guidance to clarify would resolve, thereby decreasing the overall costs to prepare and audit this issue area.	Staff finds that this issue area possesses all four prioritization attributes. Staff believes the Board should consider addressing CIP more broadly by addressing D1 and D1.1 under a comprehensive CIP pronouncement. **This area should be considered for prioritization.**
D1.1	1	PP&E SFFAS 6	*Subtopic* CIP in Establishing Opening Balances	DoD suggested that SFFAS 50 does not specifically address the transition from the use of deemed cost as the opening balance for CIP to 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. 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).	PP&E is significant for most federal reporting entities. The broad area of "property, plant, and equipment (PP&E) and inventories and related property" was a material weakness that contributed to the disclaimer on the Financial Report of the United States Government.	CIP was identified for both SFFAS 3 and SFFAS 6. The CIP issue is included under SFFAS 6. PP&E is significant for most federal reporting entities. The broad area of "property, plant, and equipment (PP&E) and inventories and related property" was a material weakness that contributed to the disclaimer on the Financial Report of the United States Government.	This issue was presented by both preparers and auditors. Guidance to clarify would resolve, thereby decreasing the overall costs to prepare and audit this issue area.	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. The Board may wish to consider addressing this subtopic through an Interpretation. Considering the IPA questions have been resolved, staff does not view this area as needing to be done immediately. **Staff believes the Board should consider addressing CIP more**

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				The issue was submitted to FASAB through a Technical Inquiry (TI.) FASAB staff responded to the TI. 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. CIP was identified for both SFFAS 3 and SFFAS 6. The CIP issue is included under SFFAS 6.				**broadly by addressing D1 and D1.1 under a comprehensive CIP pronouncement.** Staff finds that this issue area possesses all four prioritization attributes.
D2	1	PP&E SFFAS 6	Complex Systems & Other	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. 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.	The broad area of “property, plant, and equipment (PP&E) and inventories and related property” was a material weakness that contributed to the disclaimer on the Financial Report of the United States Government.			Staff was unable to obtain any further information from the respondent regarding the materiality or specific examples. 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. **Staff finds the issue does not possess all the prioritization attributes. Staff does not believe this issue should be included in the prioritization at this time.**
E	2	SFFAS 1	SFFAS 1 Broadly					**This area should not be considered for prioritization—it is an area that would be done once all issue areas within SFFAS 1 have been addressed.**
E1	2	SFFAS 1	Investments in other than Treasury securities	FASAB standards lack guidance on accounting and reporting for investments in other than Treasury securities. 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.				The Board previously considered a project plan for Investments and Other Equity Interests in Non-Federal Entities to address the valuation of non-Federal entity investments. However, the project was eventually deferred due to

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				OMB A-136 includes guidance on non-federal securities by referring to relevant standards issued by the FASB. Federal reporting 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.				resource (staffing) constraints. Although the Board has considered a project in this area, other competing demands took priority. 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. Considering this, **staff does not view the issue as critical.** **Staff finds the issue does not possess all the prioritization attributes. Staff does not believe this issue should be included in the prioritization at this time.**
E2	2	SFFAS 1	Intragovernmental Receivables	Respondents indicated they would benefit from increased clarity on guidance for loss allowance for intragovernmental receivables. Different interpretations about whether TB 2020-1 applies to Loans Receivable and if Intra-governmental Loans Receivable should be subject to the same allowance measurement and recognition criteria as Intra-governmental Accounts Receivable. specifically, whether Intra-governmental Loans Receivable should be subject to the same allowance measurement and recognition criteria as Intra-governmental Accounts Receivable.		Intragovernmental transactions involve all reporting entities. Intragovernmental transactions are eliminated in the government wide.		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 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. Considering the above, **staff does not view the issue as critical. Staff finds the issue does not possess all the prioritization attributes. Staff does not believe**

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								this issue should be included in the prioritization at this time. If the Board believes this should be clarified, staff believes it could be addressed swiftly through lower-level guidance.
E3	2	SFFAS 1	Fund Balance with Treasury	Respondents suggested that the Board should provide guidance, such as scenarios when the agency's FWBT 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. Also related, DoD requested that FASAB provide an alternative approach to establish an opening balance for FBWT.	Staff notes that material weaknesses regarding FBWT was included in several audit reports.	Staff notes that material weaknesses regarding FBWT was included in several audit reports.	Treasury, Bureau of Fiscal Service provides guidance on FBWT in the Treasury Financial Manul Chapter. Perhaps they should consider whether an update is warranted to address issues presented in this area.	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 Manul Chapter 5100. See https://tfx.treasury.gov/tfm/volume1/part2/chapter-5100-fund-balance-treasury-accounts. DoD submitted a technical inquiry on this issue in November 2022. FASAB 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. Staff believes **this area should be removed from reexamination consideration. This area may be considered further by central agencies to determine if additional guidance from them is needed.**

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E4	2	SFFAS 1	Contingent assets	Respondent explained 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 contingent assets issue was only brought up by one ITC respondent, so it does not appear to be pervasive.		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. Staff believes **additional research would be required to determine the nature and extent of contingent assets that may exist. Staff does not view the issue as critical.** **Staff finds the issue does not possess all the prioritization attributes. Staff does not believe this issue should be included in the prioritization at this time.**
F	2	SFFAS 3 broadly	Inventory and Related Property					**This area should not be considered for prioritization—it is an area that would be done once all issue areas within SFFAS 3 have been addressed.**
F1	2	Inventory SFFAS 3	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. 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 broad area of "property, plant, and equipment (PP&E) and inventories and related property" was a material weakness that contributed to the disclaimer on the Financial Report of the United States Government. Most of the PP&E and inventories and related property are the responsibility of the Department of Defense (DOD). DOD comprises over 80 percent of the government's inventory and related property, net as of September 30, 2023.	The broad area of "property, plant, and equipment (PP&E) and inventories and related property" was a material weakness that contributed to the disclaimer on the Financial Report of the United States Government. Most of the PP&E and inventories and related property are the responsibility of the Department of Defense (DOD). DOD comprises over 80 percent of the government's inventory and related property, net as of September 30, 2023.		Paragraphs 29-31 of SFFAS 3 discusses excess, obsolete and unserviceable inventory. 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 GAAP

Reexamination Prioritization Matrix

Ref. (>24 months / ≤ 24 months)	Tier 1	Topic	Issue area (Exclude / Broad area / Combine / Defer)	Clarifications (including gaps)	Criticality	Pervasiveness	Streamlining & burden reduction	Other staff notes for consideration
								hierarchy in SFFAS 34 to recognize and report material items that are not addressed in FASAB's existing standards. Considering this, staff does not view the issue as critical. **Staff finds the issue does not possess all the prioritization attributes. Staff does not believe this issue should be included in the prioritization at this time**
F2	2	OM&S SFFAS 3	Purchase v Consumption Method	The consumption method[8] 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.[9] Respondents suggested that the Board reconsider current requirements and clarify certain requirements. 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. 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.	The broad area of "property, plant, and equipment (PP&E) and inventories and related property" was a material weakness that contributed to the disclaimer on the Financial Report of the United States Government. Most of the PP&E and inventories and related property are the responsibility of the Department of Defense (DOD). DOD comprises over 80 percent of the government's inventory and related property, net as of September 30, 2023. DoD was unable to support a material portion of its Inventory and Stockpile Materials balance and this was reported as a material weakness.	The broad area of "property, plant, and equipment (PP&E) and inventories and related property" was a material weakness that contributed to the disclaimer on the Financial Report of the United States Government. Most of the PP&E and inventories and related property are the responsibility of the Department of Defense (DOD). DOD comprises over 80 percent of the government's inventory and related property, net as of September 30, 2023. DoD was unable to support a material portion of its Inventory and Stockpile Materials balance and this was reported as a material weakness.	DoD explained it is a huge burden and resource intensive to prove the cost-beneficial criteria and thus they are not permitted to apply the purchases method based. DoD also questioned the usefulness of the cost-benefit analysis. This issue was presented by both preparers and auditors. Guidance to clarify would resolve, thereby decreasing the overall costs to prepare and audit this issue area	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. With its narrow scope, it would be preferred to address through lower-level guidance. However, staff believes it would be difficult to address without amending standard language. Staff finds that this issue area possesses all four prioritization attributes. **This area should be considered for prioritization.**

[8] 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)
[9] 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)

Reexamination Prioritization Matrix

Ref. (>24 months / ≤ 24 months)	Tier [1]	Topic	Issue area (Exclude / Broad area / Combine / Defer)	Clarifications (including gaps)	Criticality	Pervasiveness	Streamlining & burden reduction	Other staff notes for consideration
F3	2	OM&S SFFAS 3	OM&S Held for Repair	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. DoD explained that the issue was elevated to FASAB based on the different interpretations of the guidance.	The broad area of "property, plant, and equipment (PP&E) and inventories and related property" was a material weakness that contributed to the disclaimer on the Financial Report of the United States Government. Most of the PP&E and inventories and related property are the responsibility of the Department of Defense (DOD). DOD comprises over 80 percent of the government's inventory and related property, net as of September 30, 2023. DoD was unable to support a material portion of its Inventory and Stockpile Materials balance and this was reported as a material weakness.	The broad area of "property, plant, and equipment (PP&E) and inventories and related property" was a material weakness that contributed to the disclaimer on the Financial Report of the United States Government. Most of the PP&E and inventories and related property are the responsibility of the Department of Defense (DOD).DOD comprises over 80 percent of the government's inventory and related property, net as of September 30, 2023. DoD was unable to support a material portion of its Inventory and Stockpile Materials balance and this was reported as a material weakness.		Interpretation 7, *Items Held for Remanufacture* 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. 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. Considering this, **the issue would not be critical**. **Staff finds the issue does not possess all the prioritization attributes. Staff does not believe this issue should be included in the prioritization at this time.**
G	3[10]	Loan Disclosures SFFAS 2, 18 &19	Direct Loan & Loan Guarantee disclosures	Roundtable participants explained that the required narrative portion of the disclosures should be reassessed because agencies are having difficulty preparing narratives to comply with the disclosure requirement. Roundtable participants noted a gap in guidance regarding negative loan guarantees. Roundtable participants explained the Board consider providing more guidance on the intended objectives of the loan note disclosures. This guidance would improve the understanding and help the preparer's increase the meaningfulness of the information.	The federal government could not reasonably estimate or adequately support amounts of loans receivable and loan guarantees. The broad area of Loans Receivable and Loan Guarantees was a material weakness that contributed to the disclaimer on the Financial Report of the United States Government. The following agencies received a disclaimer of opinion on its fiscal year	The federal government could not reasonably estimate or adequately support amounts of loans receivable and loan guarantees. The broad area of Loans Receivable and Loan Guarantees was a material weakness that contributed to the disclaimer on the Financial Report of the United States Government.	Note disclosures for Direct Loan & Loan Guarantee are 5-10 pages composed of schedules and narratives that are burdensome and should be reassessed. Roundtable respondents explained that credit reform is a complicated area and there are few subject matter experts. Therefore, there is a burden on those few subject matter experts.	Although most major credit agencies did not respond directly to the ITC, this issue area had been identified as an area of concern by the Board and FASAB staff. Staff finds that this issue area possesses all four prioritization attributes. Staff believes the project length is dependent on the scope. If a

[10] There were few 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.

Reexamination Prioritization Matrix

Ref. (>24 months / ≤ 24 months)	Tier 1	Topic	Issue area (Exclude / Broad area / Combine / Defer)	Clarifications (including gaps)	Criticality	Pervasiveness	Streamlining & burden reduction	Other staff notes for consideration
				Roundtable participants would like more explicit materiality guidance and its application in the Direct Loan & Loan Guarantee note disclosures. Roundtable participants note that FASAB loan guidance currently does directly discuss fraudulent loans' impact in SFFAS 2. Roundtable participants suggested the Board consider activity on loans that have been approved, but not yet disbursed. Participants believe not including these costs on the financial statement may be misleading to the users of the reports.	2023 balance sheet with issues in this area contributing: -Small Business Administration -Department of Education The following agencies received a qualified opinion on its fiscal year 2023 balance sheet with issues in this area contributing: -Department of Labor -Department of Agriculture	The following agencies received a disclaimer of opinion on its fiscal year 2023 balance sheet with issues in this area contributing: -Small Business Administration -Department of Education The following agencies received a qualified opinion on its fiscal year 2023 balance sheet with issues in this area contributing: -Department of Labor -Department of Agriculture	The required subsidy cost allowance reconciliation is cumbersome to prepare. It could be streamlined to provide more concise information. Roundtable participants noted that the pre-1992 loan balances are mostly immaterial and adds to the entities' note disclosures. Roundtable participants believe that the Board should reexamine the need for pre-1992 loan note disclosures. Roundtable participants 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 Budget. Roundtable participants suggested that some of the required disclosures for loan modifications could be streamlined or eliminated. Roundtable participants suggested that the subsidy expense by component schedule could potentially be a candidate for removal.	narrow scope of disclosures is maintained, it may be completed in less time. **This area should be considered for prioritization.**

ATTACHMENT 4

Reference Materials

(Preliminary Research provided for the April 2024 and June 2024meeting.)

Preliminary GAAP Hierarchy (SFFAS 34) Research

During the December 2023 meeting, the majority of members agreed SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles for Federal Entities, Including the Application of Standards Issued by the Financial Accounting Standards Board* should be one of the first priorities in the reexamination. SFFAS 34 incorporates the hierarchy of generally accepted accounting principles (GAAP) into FASAB's authoritative literature.

SFFAS 34 was issued in 2009 and generally carried forward the hierarchy as set forth in Statement of Auditing Standards (SAS) 91, Federal GAAP Hierarchy. At that time, the Board recognized that users would be familiar with this approach, and it would not significantly affect practices.

Although this was an efficient and effective way for the Board to incorporate the hierarchy, there have been many technical inquiries related to this topic, as well as small projects that resulted in the issuance of FASAB guidance.[1] This is consistent with the feedback received in response to the ITC.

Over half of the respondents to the ITC provided comments and suggested improvements for the federal GAAP hierarchy. Most respondent comments were centered on the following areas: simplifying the GAAP hierarchy, clarifying level D GAAP (including the areas of "practices that are widely recognized and prevalent in the federal government" and administrative directives), and revisiting Other Accounting Literature. The Board asked staff to research and reach out to respondents for a better understanding of the issues conveyed in the ITC responses.

SFFAS 34 provides the sources of accounting principles in descending order of authority as follows:

a. Officially established accounting principles consist of FASAB Statements of Federal Financial Accounting Standards (Standards) and Interpretations. FASAB Standards and Interpretations will be periodically incorporated in a publication by the FASAB.

b. FASAB Technical Bulletins and, if specifically made applicable to federal reporting entities by the AICPA and cleared by the FASAB, AICPA Industry Audit and Accounting Guides.

c. Technical Releases of the Accounting and Auditing Policy Committee of the FASAB.

d. Implementation guides published by the FASAB staff, as well as practices that are widely recognized and prevalent in the federal government.

Staff's December 2023 summary and initial analysis of the SFFAS 34 comments was comprehensive that stakeholders believed there would be benefit to the reexamination of SFFAS 34. Respondents recognized the importance of consistency in the application of accounting principles, and it is important that the Board reexamine SFFAS 34. Staff's outreach and research of the SFFAS 34 ITC comments provided consistent feedback. Staff discussions with respondents confirmed the areas of concern and that stakeholders identified that most aspects of the federal GAAP hierarchy should be reexamined and clarified.

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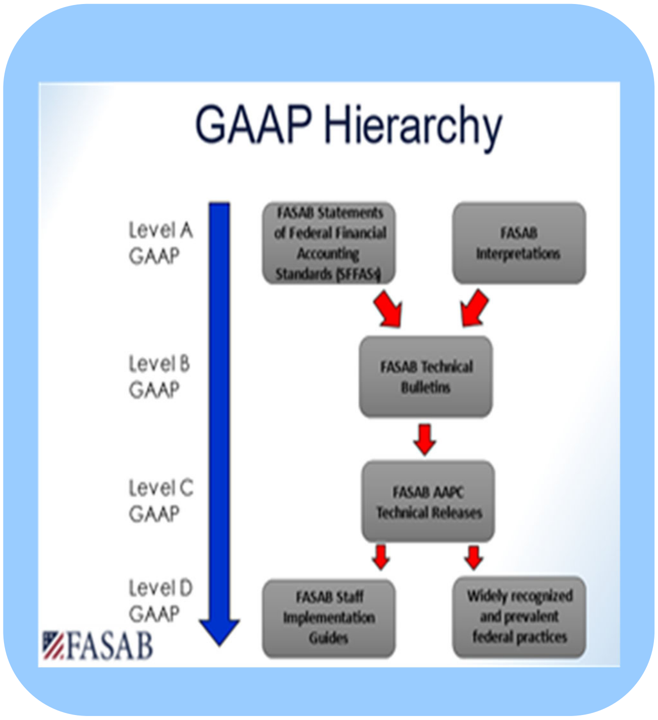
[1] Staff notes that SFFAS 34 was one of the top five SFFASs that received technical inquiries from 2021-2023. For example, TB 2020-1, *Loss Allowance for Intragovernmental Receivables* was issued after questions related to the GAAP hierarchy and clarification of SFFAS 1.



Simplify the GAAP Hierarchy

Stakeholders believe that this is an opportunity for the Board to update and simplify the GAAP hierarchy so that it may be more practical. Respondents believed the Board should revisit the need for four levels of the GAAP hierarchy. Stakeholders believe that simplification would facilitate transition to a codification of the accounting literature in the future. Further support for simplifying the GAAP hierarchy is demonstrated by observations of the respondents. A respondent explained that practitioners do not follow the hierarchy consistently. Often practitioners go from level (a) straight to level (d). Another respondent explained that often not enough attention is paid to technical bulletins, technical releases, and implementation guidance in the current four level hierarchy. Further, staff discussions and consideration of comments demonstrated that there may be an issue with understanding the hierarchy.

Respondents suggested several ways that the current GAAP hierarchy could be simplified that are discussed below.

<u>Authoritative and Non-authoritative</u>

Stakeholders suggested the Board evaluate whether simplifying the hierarchy into ‘authoritative’ and ‘nonauthoritative’, as used by the FASB and GASB, would reduce complexity and diversity in practice. Stakeholders believed simplifying the hierarchy into ‘authoritative’ and ‘nonauthoritative’ would improve the usefulness of financial statement information. Respondents emphasized the need for the level of authority to be based on the rigor of due process.[2] Respondents explained that clarifying authoritative vs non-authoritative is vital to ensure all parties are clear.

<u>Two levels of authoritative GAAP</u>

Certain respondents suggested that the hierarchy be revised to two levels of authoritative GAAP as follows:

1. The first level would include Standards, Interpretations and Technical Bulletins (current level A and B.) The respondent believed all sources for the suggested first level are authoritative and should be treated with equal weight as the highest level of GAAP.

2. The second level would include Technical Releases and Implementation Guides published by the FASAB staff (current level C and D.) The respondent believed all sources all sources for the suggested second level to be important for interpreting and

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[2] If the Board instead decides to maintain the current hierarchy, certain respondents suggested the Board eliminate “practices that are widely recognized and prevalent in the federal government” from Level D of the GAAP hierarchy. This is discussed in more detail in the section Level D Clarification below.

> implementing standards. Further, all sources for the suggested second level are authoritative and should be treated with equal weight. The respondent viewed these sources as authoritative due to (a) their intended purpose, (b) inclusion in the FASAB Handbook of Federal Accounting Standards and Other Pronouncements, and (c) their issuance under the oversight and authority of the FASAB. However, these sources should be lower than the first level of the hierarchy due to (a) their role in providing implementation guidance and clarification for existing standards, rather than establishing new guidance and (b) being attributed to a committee or staff rather than the Board.

Several years ago, both FASB and GASB revisited their respective four-level GAAP hierarchies and addressed the use of "authoritative" and "nonauthoritative" literature[3] in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. For example, GASB updated its GAAP hierarchy in GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and explained:

> The requirements in this Statement improve financial reporting by (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in nonauthoritative literature. As a result, governments will apply financial reporting guidance with less variation, which will improve the usefulness of financial statement information for making decisions and assessing accountability and enhance the comparability of financial statement information among governments.

Remove AICPA Industry Audit and Accounting Guides

Stakeholders suggested removing AICPA Industry Audit and Accounting Guides from the GAAP hierarchy. Currently, level B includes AICPA Audit and Accounting Guides specifically cleared by the FASAB, and further defines "specifically cleared" as meaning the FASAB does not object to the pronouncement's issuance. The respondent explained they were not aware of any such AICPA Audit and Accounting Guides, or how a person could conclusively determine whether or not there is any such applicable guidance, or where to look to determine whether the FASAB has objected to them or not.

It was noted that the intended purpose of AICPA audit guides is to provide audit guidance - not financial reporting guidance. It was also noted that inclusion of industry practices in the hierarchy is a departure from FASB and GASB practices. Further, AICPA audit guides represent a private source of guidance that can only be accessed for a subscription fee and generally accepted accounting principles for federal reporting entities should be publicly available, for free, and located all in one place. Further, if there's something in the AICPA audit guides that the Board considers necessary for federal general purpose financial reporting, then the FASAB should simply incorporate it into its own standards.

[3] With respect to GASB, sources of nonauthoritative accounting literature include GASB Concepts Statements; pronouncements and other literature of the Financial Accounting Standards Board, Federal Accounting Standards Advisory Board, International Public Sector Accounting Standards Board, and International Accounting Standards Board, and AICPA literature not cleared by the GASB; practices that are widely recognized and prevalent in state and local government; literature of other professional associations or regulatory agencies; and accounting textbooks, handbooks, and articles.

Level D Clarification[4]

SFFAS 34, Par. 5d, states "Implementation guides published by the FASAB staff, as well as practices that are widely recognized and prevalent in the federal government" is part of the GAAP Hierarchy. Respondents suggested the Board clarify "practices that are widely recognized and prevalent in the federal government" because it is vague and could allow for many interpretations. A respondent explained that phrase is too vague and contradicts the purpose of the GAAP hierarchy to allow for any widely used accounting practice to set accounting policy. This may affect consistency and comparability, when two or more agencies have varying methods of accounting for the same activity based on interpretations of "prevalent in the federal government" and "fair presentation."

Overwhelmingly, respondents were clear that they believe the Board should reexamine "Practices that are widely recognized and prevalent in the federal government" to determine the intent and that it should either be removed from the GAAP hierarchy or significantly clarified. Given the breadth of activities and historical practices in the federal government, there could be several different methods that are "widely recognized and prevalent" which could lead to a lack of standardization and clarity.

A respondent was firm that if the Board decides to maintain the present hierarchy, the Board should eliminate "practices that are widely recognized and prevalent in the federal government" from Level D of the GAAP hierarchy. Currently, such practices do not go through the necessary due process and criteria do not exist to identify when a practice is considered widely recognized and prevalent. Consequently, there is diversity in the views of preparers and auditors about which practices are part of the existing hierarchy.

Most respondents suggested the Board clarify the administrative directives' placement. Respondents believe that the current language in SFFAS 34 allows for a more open interpretation and should be clarified. Stakeholders believe that being silent about universally applicable administrative directives (OMB Circulars and the TFM) from the FASAB GAAP hierarchy creates an opportunity for different interpretations of the authoritative weight of the administrative directives. Furthermore, respondents explained there are difficulties when there is a perceived or actual difference between FASAB guidance and OMB or Treasury guidance.

Given the importance and prominence of OMB and Treasury administrative directives and guidance, several respondents believed it necessary to directly address and clarify the role of this guidance in the GAAP hierarchy. Directly addressing administrative directives and clarifying the role of this guidance in the GAAP hierarchy would be beneficial because questions regarding the place in the hierarchy leads to inconsistency in application by preparers. It would help remove opportunities for differing interpretation and disagreements between entities and their auditors. Respondents explained that auditors assert professional discretion differently and do not always rely on or weight administrative equally resulting in audit recommendations that satisfy a high-level interpretation of FASAB guidance, but not the administrative directives. This results in reporting entities in a position to try to adjudicate different auditor positions on the same issue, and/or request FASAB provide confirmation of interpretation.

Respondents voiced much concern and requested the Board specifically clarify the placement of OMB Circular No. A-136, *Financial Reporting Requirements* in the GAAP hierarchy. OMB

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[4] *Level D Clarification* may also be considered an example of simplifying the GAAP hierarchy, but staff believed it appropriate to include as its own separate section due to the extent of comments. Further, staff notes the Board could decide to clarify Level D separately from decisions to simplify the GAAP hierarchy.

publishes an annual update to A-136 as part of its responsibilities for prescribing the form and content of financial statements of executive agencies under 31 U.S. Code §3515, Financial statements of agencies. It is understood that the Board defers to OMB for form and content of financial statements as stated in Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*. One respondent suggested that the Board consider whether OMB A-136 should be a part of the hierarchy. It was suggested that the Board collaborate with OMB to incorporate the form and content requirements of OMB A-136 into the hierarchy, following the necessary due process of the Board.[5] Certain respondents noted that including form and content guidance in the GAAP hierarchy would facilitate ease of use by preparers and auditors and improve the clarity of the guidance. A respondent suggested that the Board consider whether administrative directives would be best suited for Other Accounting Literature.

A respondent explained that gray areas exist between the nature of information to be included in accounting standards and what information should be provided by sponsor agencies to assist agencies in the implementation of new standards. In their explanations, respondents explained that lack of clarity and standardization in this area have resulted in inconsistent application. A respondent explained that guidance from sponsors (specifically OMB circulars, TFM guidance, etc.) is not Level D GAAP. Instead, the respondent explained that sponsor agency guidance is meant to enforce and clarify GAAP.[6]

Another respondent suggested that it would be best for the hierarchy to be parallel with GASB--with FASAB sources identified as authoritative and OMB and Treasury guidance identified as nonauthoritative for purposes of defining GAAP for general purpose financial reporting. This emphasizes the need for one clear source of authority for GAAP. (See Authoritative and Non-authoritative discussion above.) However, as part of the reexamination, the Board would need to consider the legal authority of OMB to specify the form and content of agency financial statements may impact being considered non-authoritative.

Based on staff's outreach and research, stakeholder concerns expressed during the due process for SFFAS 34 remain. In the basis for conclusions to SFFAS 34, the Board acknowledged that some respondents to the exposure draft believed it would be useful to discuss the location of administrated directives within the hierarchy (such as those from OMB, GAO, and Treasury). The Board declined to do so, noting that there are multiple sources of administrative directives, many different types of directives, and varying processes for developing those directives. Paragraph A15. in the basis for conclusions of SFFAS 34 explains:

> A15. In addition, while some respondents believed that it would be useful to discuss the location of administrative directives within the hierarchy, the FASAB believes that incorporating the GAAP hierarchy in the accounting standards should be accomplished expeditiously due to the AICPA's planned removal of the hierarchy from the auditing standards. Since FASAB is unaware of any practice problems arising due to the absence of explicit guidance placing each type of administrative directive within the hierarchy, immediate action on this request is not warranted. FASAB also notes that there are multiple sources of administrative directives, many types of

[5] Staff notes that there are many relevant factors that must be considered if the Board determines that an assessment of OMB A-136 is appropriate. This paper does not provide a discussion of the factors but notes that it would be provided during the project. Among others, factors for consideration would include: A-136 is a reference point summary of GAAP, but not the source of GAAP FASAB's due process; OMB A-136 requirements are beyond the scope of GAAP; and OMB has not been designated by AICPA Council as a body that can promulgate GAAP. In addition, the Board would require a better understanding of the A-136 update process and potential implications.

[6] There was noted concern with the fact that Level A GAAP includes references that additional guidance would come from the sponsors. The respondent explained that this could lead an impression that guidance from sponsor agencies is also a level within the GAAP hierarchy.

directives, and varying processes for developing directives. Resolving placement for all administrative directives may require significant study. Therefore, the Board is acting to adopt the GAAP hierarchy essentially as it currently exists in the AICPA audit literature and does not intend to change current practices.

Other Accounting Literature Clarification

Several respondents suggested the Board clarify Other Accounting Literature and how it fits into the GAAP hierarchy. Certain respondents explained that they observe that the Other Accounting Literature category specified in SFFAS 34 paragraph 8 is largely disregarded. Respondents believe this is because of the difficulty of applying this vague category and the need to incorporate any relevant matters into authoritative standards.

Certain respondents indicated other accounting literature should be included in the GAAP hierarchy because it helps clarify other accounting literature can be utilized when FASAB guidance does not address a particular accounting scenario. A respondent suggested an order of precedence be included for other available guidance. In addition, a respondent explained that OMB Circulars and TFM should be best placed within Other Accounting Literature.

Other SFFAS 34 Comments and Observations

Staff notes the Board should also consider that practitioners may not have a thorough understanding[7] of the federal GAAP hierarchy, especially as it relates to application of the different levels. This observation (practitioners lacking a clear understanding) may be an indicator that practitioners believe the federal GAAP hierarchy should be simplified and clarified, which is consistent with the feedback received. Based on outreach, several stakeholders expressed the need for “working level guidance” to assist with application of the GAAP hierarchy.[8] There were several examples or challenges that respondents believed would be best addressed through guidance. Issues affecting multiple agencies on which FASAB is silent merit an appropriate hierarchy of guidance. For example, SFFAS 34 describes when it may be acceptable for agencies to present financial statements on a FASB basis. A respondent explained that agencies still need a starting point and an order of priority to ensure that all agencies are referring to the most consistent and relevant source of guidance. The risk is that agencies with similar activities are not applying guidance from other standard setters consistently, and thus risking consistency within the federal government.

While most of the respondents suggested a simplified hierarchy, two respondents suggested that they prefer the flexibility that is afforded with the with the four levels of GAAP in SFFAS 34. For example, one respondent explained they specifically like the flexibility provided in paragraph 5.D. ("as well as practices that are widely recognized and prevalent in the Federal government".) While the respondent agreed that it is unclear, it allows the agency to adopt common practices. The agency explained if the flexibility is removed, auditors may request a change, which would affect customers of the agency.

[7] During FASAB trainings offered on SFFAS 34 (conducted between 2017 and 2019), students representing preparers and auditors at various levels of experience could not correctly sequence the pronouncement types in the correct a-d levels during pre-training class exercises.
[8] Staff notes that this could be accomplished through illustrations or implementation guidance by the AAPC.

A respondent noted the Board should consider incorporating relevant laws and regulations into the GAAP hierarchy in SFFAS 34 to ensure there is consistency between the accounting standards and laws.

Staff Notes

This paper provides a summary of the preliminary research and outreach on the SFFAS 34 priority topic. Staff is seeking Board questions and comments about the high-level research provided and whether members would like additional information that would be necessary for technical agenda setting and prioritization decisions.

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 Liability (SFFAS 5) Research

During the December 2023 meeting, a majority of the members agreed SFFAS 5 and related pronouncements should be a priority topic for reexamination. SFFAS 5 establishes accounting standards for liabilities of the federal government **not** covered in SFFAS 1, *Accounting for Selected Assets and Liabilities*, and in SFFAS 2, *Accounting for Direct Loans and Loan Guarantees*. (SFFAS 1 addresses only those selected liabilities that routinely recur in normal operations and are due within a fiscal year.) SFFAS 5 defines "liability" and the recognition points for liabilities associated with different types of events and transactions. In addition to discussing the general liability recognition, SFFAS 5 provides specific liability accounting standards[1] for contingencies, federal debt, and pensions (including other retirement benefits, and other postemployment benefits.)

Broad View of Liabilities

Consistent with the Board's determination of priority topics, GAO's Independent Auditor's Report for the FY2023 Financial Report of the United States Government included a material weakness[2] related to "Liabilities and Commitments[3] and Contingencies" that contributed to the disclaimer of opinion on the U.S. government's accrual-based consolidated financial statements. The report described that the auditor was not able to substantiate the completeness and accuracy of DOD's environmental and disposal liabilities. Deficiencies in internal control related to estimating environmental and disposal liabilities could result in improperly stated liabilities and could adversely affect the federal government's ability to determine priorities for cleanup and disposal activities and to appropriately consider future budgetary resources needed to carry out these activities. The GAO report also explained that DOD's auditor reported that DOD could not support a significant amount of its estimated military postretirement health benefits liabilities included in federal employee and veteran benefits payable. In addition, auditors reported internal control deficiencies at several other federal entities that related to material

GAO's FY2023 Audit Report excerpts:

Liabilities and Commitments and Contingencies

"The federal government could not reasonably estimate or adequately support amounts reported for certain liabilities…"

"Problems in accounting for liabilities could affect the federal government's ability to determine the full cost of the federal government's current operations and the extent of its liabilities…"

"In addition, to the extent disclosures of commitments and contingencies are incomplete or incorrect, reliable information is not available about the extent of the federal government's obligations."

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[1] Capital leases and insurance programs were previously included in SFFAS 5, but they are now covered in standalone SFFASs (SFFAS 54, *Leases* and SFFAS 51, *Insurance Programs*.) In addition, social insurance is considered a separate program type and not included within insurance and guarantee programs. See SFFAS 17, *Accounting for Social Insurance*.

[2] A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

[3] Staff notes that commitments are not specifically defined or described in FASAB guidance. In August 2023, the Board added commitments to the technical agenda as a research topic. At the December 2023 meeting, the Board agreed on continuing the research to develop a working definition for commitments to help distinguish from contingencies.

liabilities. Further, the federal government could not determine whether commitments and contingencies, including any related to treaties and other international agreements, were complete and properly reported.[4]

The Board agreed that staff should take a broad view of the liability topic because it would better inform the Board of liability related issues. Staff discussions with respondents confirmed the areas of concern and that stakeholders and provided consistent feedback of issues presented in December 2023. Based on staff's limited research, environmental liabilities and pensions (including other retirement benefits, and veteran benefits) are the main issue areas. There have been recurring concerns, including technical inquiries, in these two significant areas. Stakeholders would benefit from reexamination and clarification. There were also some general comments about the general liability principles and other requested guidance areas.

Environmental liabilities

Environmental and disposal liabilities are estimated costs for anticipated remediation, cleanup, and disposal costs resulting from the use of the governments assets or operations. Estimated costs for environmental and disposal liabilities can change over time because of laws and regulation updates, technology updates, inflation or deflation factors, and disposal plan revisions. Accruals for environmental cleanup costs are the cost of removing, containing, and/or disposing of hazardous wastes or materials that, because of quantity, concentration, or physical or chemical characteristics, may pose a substantial present or potential hazard to human health or the environment. Cleanup costs include, but are not limited to decontamination, decommissioning, site restoration, site monitoring, closure, and post-closure costs.

Excerpt from FY2023 Financial Report of the United States Government FY2023 Note 14

Environmental and Disposal Liabilities as of September 30, 2023, and 2022

(In billions of dollars)	*2023*	*2022*
Department of Energy	*534.3*	*519.7*
Department of Defense	*93.8*	*90.6*
All other entities	*17.2*	*16.0*
Total	*645.3*	*626.3*

Existing GAAP Guidance

Stakeholders identified environmental liabilities as an issue area in the ITC responses for SFFAS 6, *Accounting for Property, Plant, and Equipment*[5] and staff suggested, and the Board agreed that it appropriate to address environmental liabilities with reexamination of SFFAS 5.

SFFAS 6, chapter 4: Cleanup Costs provides the definition of cleanup costs and provides that cleanup costs meet the definition and criteria for recognition of liabilities included in SFFAS 5. SFFAS 6 supplements SFFAS 5 by providing additional guidance regarding cleanup costs. SFFAS 6 associates the recognition of cleanup costs with the life of the related general PP&E. Paragraph 94 provides for the estimation of cleanup costs when the associated general PP&E is

[4] See https://fiscal.treasury.gov/reports-statements/financial-report/current-report.html for the Financial Report of the United States Government that includes GAO Auditor's report.

[5] 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.

placed in service. Paragraph 97 provides for the recognition of a portion of the estimated total cleanup costs as an expense during each period that the general PP&E is in operation.

Staff notes that Interpretation 9, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & SFFAS 6* provides clarification and guidance regarding cleanup cost liabilities when the component reporting entity responsible for reporting on an asset during its useful life is different from the component reporting entity that will eventually be responsible for settling the liability for the cleanup cost of that asset. In addition to Interpretation 9, there have been other pronouncements related to environmental liabilities, including TB 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*. In addition, there are several Technical Releases on this topic: TR 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*, TR 10, *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment* and TR 11, *Implementation Guidance on Cleanup Costs Associated with Equipment.* Although Technical Releases will not be a part of the reexamination, it is important to know implementation guidance has been provided through TRs.

Despite the guidance that has been issued, staff research and outreach to respondents show issues remain and there is a need for additional guidance.

<u>Environmental liabilities and legal claims when there are multiple parties involved.</u>

Based on outreach to respondents, certain issues relate to the appropriate reporting of environmental liabilities and legal claims when there are multiple parties involved in the responsibility for and/or resolution of the liability. In certain situations, there is no clear guidance directing which reporting entity should report the related environmental liability. Staff discussed the issue further with DoD representatives and an IPA firm that conducts audits of DoD components. All parties conveyed that additional guidance would assist in this area because it is difficult delineating which entity should record a liability in situations where the entity that may be considered the source of a liability differs from the entity assigned to provide legal counsel (and the cost thereof) and/or ultimate funding of any loss from adjudication.

Examples

The spills at Red Hill and Camp Lejeune are examples of scenarios that may require additional FASAB guidance to determine which entity should record a liability. The Red Hill incident and the Camp Lejeune claims are significant events that raised concern at DoD. In these scenarios, the cause of the spills may be one entity but the responsibility for cleanup and damages to the community have been assigned to other entities. DoD explained that these incidents required a great deal of legal and budgetary discussion as part of their internal processes to make the determinations regarding the liability as there wasn't clear GAAP guidance.

The Red Hill incident involved fuel spills from the Red Hill Bulk Fuel Storage Facility that contaminated the Red Hill drinking water well.[6] In summary, the Red Hill incident involved the physical facility that belongs to Navy but the fuel that spilled (and some of the funding to cleanup that fuel) comes from DLA. The Navy had an existing liability to clean up the environmental damage once the facility was de-commissioned. The fuel spill made that cleanup far more urgent and extensive. Although the fuel that spilled did not belong to Navy, the cause

[6] For more information regarding the Red Hill incident, please see https://www.epa.gov/red-hill/about-red-hill-fuel-releases

of the spill (i.e., the handling of the fuel) is arguably Navy. The funding for the cleanup will come from a variety of sources. Some direct, some from traditional cleanup and some from DLA who generally takes responsibility of spillage of DLA fuel. The Navy is overseeing the majority of the cleanup work and arguably is in the best position to oversee an estimate of the liability related to the incident. Navy, as owner of the facility had a pre-existing liability recorded for an estimate of the shutdown cost of the facility. However, consistent with previous policy DoD agreed that DLA had responsibility for the environmental damage caused by the spillage would be theirs as the owner of the fuel that spilled. As such, the disclosure and liabilities have been split between the two entities based upon that resolution.

The Camp Lejeune claims is a similar type issue involving the Navy and Marine Corps. In 1982, the Marine Corps discovered specific volatile organic compounds in the drinking water provided by two of the eight water treatment plants on base.[7] The spill occurred on a USMC base, but the Navy was assigned the administrative responsibility for gathering, defending/processing the claims and is in the best position to support a calculation of the liability. Funding was provided in a separate bill that was neither Navy or USMC. It was difficult to reach a conclusion and agreement over who should carry the liability because the Navy has the data to establish the liability, but the spill occurred on a USMC base, and the funding for payments will come out of the Judgment Fund. For Camp Lejeune, DoD determined that the Marines should record/disclose the liability and that Navy would collaborate with them to estimate the amounts involved. For the most recent fiscal year it was determined that the liability was not estimable and a disclosure of the contingency and the state of progress on it was included in the USMC footnotes.

DoD explained that existing GAAP does not clearly address scenarios when multiple reporting entities are involved. In both cases DoD interpreted SFFAS 5 as supporting that the entity at which the event occurred had responsibility for the disclosure and reporting related to the event. However, DoD noted that there was pushback and differing opinions from lawyers involved in administration, those arranging funding related to the events and also from those focusing on the budgetary/funding perspective. The differing view supported no disclosure until the funding was in place and then having the liability following the funding decisions. DoD believes that approach would delay recognition possibly for years until the funding decisions were completely known.

DoD noted that they believed their approach is consistent with the handling of judgement fund cases because the funding source should *not* be the deciding factor in whether a liability should be recorded. It was suggested that guidance provided in Interpretation 2, *Accounting for Treasury Judgment Fund Transactions: An Interpretation of SFFAS 4 and SFFAS 5* be expanded for environmental liabilities and legal claims when there are multiple parties involved. Specifically, the guidance could be expanded to responsibilities that are split between other operating entities. Doing so would address other funding sources and provide a more direct accounting assignment related to liability source regardless of funding source.

Staff notes that Interpretation 9, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & SFFAS 6* provides clarification and guidance regarding cleanup cost liabilities when the component reporting entity responsible for reporting on an asset during its useful life is different from the component reporting entity that will eventually be responsible for settling the liability for the cleanup cost of that asset. Interpretation

[7] For more information regarding the Camp Lejeune incident, please see https://www.atsdr.cdc.gov/sites/lejeune/overview.html

9 focuses on assets that have a liability, but the asset and disposal responsibility is *transferred* to another entity. Although DoD noted the Interpretation 9 guidance has been helpful in situations with an asset that is transferred, the guidance does not fit the situations above because the asset is not transferred—it relates to damages on a military base.

Staff notes the Exposure Draft for Interpretation 9, *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*[8] addressed contingent liabilities when multiple component reporting entities are involved. The ED provided the following:

> 7. To recognize and disclose contingent liabilities in accordance with SFFAS 5, a component reporting entity must have information about ongoing litigation and be able to exercise judgment regarding the possible outcomes. When a single component reporting entity is the defendant in a case, that entity will likely have the needed information even in the event any ultimate claim will be paid by the Treasury Judgment Fund. Interpretation 2, *Accounting for Treasury Judgment Fund Transactions: An Interpretation of SFFAS 4 and SFFAS 5*, provides guidance regarding recognition in such cases.
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> 8. When multiple sub-component reporting entities are involved, one or more sub-component reporting entities within a single component reporting entity may be designated to manage litigation and/or pay any resulting liabilities on behalf of one or more other sub-component reporting entities. Specifically, sub-component reporting entities within a single component reporting entity may be designated to manage litigation of a certain type or within a certain geographic region for other sub-component reporting entities. The same or a different sub-component reporting entity may be designated to pay resulting liabilities. In such cases, not all involved sub-component reporting entities would likely have the information needed to apply the provisions of SFFAS 5. Generally, the sub-component reporting entity responsible for managing litigation would have the information needed to recognize or disclose contingent liabilities and should report information in accordance with SFFAS 5. Other involved sub-component reporting entities should not report information on contingent liabilities managed by another sub-component reporting entity.
>
> 9. For example, sub-component reporting entity A is responsible for managing litigation for an entire geographic region even though the litigation may be due to the actions of sub-component reporting entities B and C. Sub-component reporting entity A that is designated to manage the litigation should recognize any resulting contingent liabilities. The sub-component reporting entities B and C whose actions gave rise to the litigation should not recognize or disclose information regarding the litigation.
>
> 10. If a sub-component reporting entity is designated to pay claims but not to manage litigation, the general provisions of Interpretation 2 should be extended to the entity designated to pay claims. Once a settlement is reached or a judgment is ordered by a court and a specific sub-component reporting entity is determined to be the appropriate source for the payment of the claim, the liability should be removed and an other financing source recognized in the financial statements of the sub-component reporting entity that managed the litigation. The sub-component reporting entity that will pay the claim would then recognize an expense and liability (or a cash outlay) for the full cost of the loss. The other financing source amount recognized by the sub-component reporting entity that managed the liability and the expense recognized by the sub-component reporting entity that paid the liability would be eliminated at the consolidated report level.

[8] Please see https://fasab.gov/projects/archived-projects/evaluation-of-existing-standards/ to view the exposure draft *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*.

Most respondents to the ED disagreed with the proposal, but staff believes there may have been some confusion with the language because there was not a universal or common theme from the respondents, and responses were general. Certain respondents noted concern about the effect on reporting for responsibility segments within their consolidated financial statements. The proposal was not intended to affect disaggregated information within a single audited financial statement. From the comments, it appeared that the proposed contingent liability guidance may not have provided clarification but rather led to greater ambiguity and questions. Further, DoD determined at that time that the effect of receiving contingent liability guidance would be immaterial or minimal.[9] Based on this (comments and DoD discussions) the Board determined that there was no need for guidance in the contingent liability area.[10]

It is important to note that in finalizing Interpretation 9, the Board believed there may be other scenarios and examples in the future that may need to be addressed. As discussed in the basis for conclusions to Interpretation 9, paragraphs A36-37 provide:

> A36. The Board recognizes the potential complexities in reporting and recognizing information in accordance with SFFAS 5 when multiple component reporting entities are involved. The Board requested feedback on the possibility of other similar liability situations or scenarios for consideration and whether an additional general liability principle should be included to address multiple component reporting entities. Respondents did not identify additional examples. Therefore, the Board concluded it is not necessary to provide a general principle.
>
> A37. Although the scope of this Interpretation is only related to cleanup costs, the Board recognizes the potential for other liability issues involving multiple component reporting entities to arise in the future. The Board will consider other specific situations as they arise.

<u>Other Environmental Liability Comments</u>

There were several other comments and suggestions received regarding environmental liabilities during staff's outreach. Staff notes that some of these comments may also involve additional research, including assessing implementation guidance and other factors. Comments from respondents were centered on the estimation process and issues, as well as the need for more examples. Staff believes sorting through these issues would take considerable time and best handled during an approved project. The issues would involve delineating management policy, implementation issues and a variety of things. Staff notes these types of issues would require a broader audience of input, including SMEs, and best handled through a task force during an approved project.

Estimates[11]

Stakeholders requested clarification regarding the use of contingencies in estimates of environmental liabilities. For example, if an environmental liability is probable but not currently measurable, it may more accurately meet the definition of a contingent liability (e.g., liability to remediate environmental contamination pending litigation). Stakeholders noted that environmental liabilities are not provided as an example of a contingent liability. Paragraph 38 of

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[9] With the examples provided in this discussion, DoD now believes this is a material area and guidance would assist.

[10] Interpretation 9, paragraphs A24-A29 include a summary of the Board's reason for not including guidance in the contingent liability area in Interpretation 9.

[11] Staff notes that the request for guidance on estimates was broader than environmental liabilities. It appears that respondents believe that additional guidance on what agencies should consider when estimating liabilities is needed.

SFFAS 5 discusses the criteria for recognition of a contingent liability. Footnote 19 to paragraph 38 provides:

> In the case of government-acknowledged events giving rise to nonexchange or exchange transactions, there must be a formal acceptance of financial responsibility by the federal government, as when the Congress has appropriated or authorized (i.e., through authorization legislation) resources. Furthermore, exchange transactions that arise from government-acknowledged events would be recognized as a liability when goods or services are provided. For nonexchange transactions, a liability would then be recognized at the point the unpaid amount is due. Therefore, government-acknowledged events do not meet the criteria necessary to be recognized as a contingent liability.

Stakeholders requested clarification on what defines “best estimate” and what is considered a “completed study upon which to base an estimate?” A respondent explained that issues stem from the need to estimate so far in advance and that when the actuals occur it results in adjustments. For example, as new cost information becomes available, if actuals differ, it may show that there was a problem with the estimation. During outreach, respondents recognized that determining reasonable estimates often relates to issues identified with internal controls and the associated methodology and processes, but respondents identified this as an area that requires additional guidance.

Respondents explained the need for clarifications on the time period for which cleanup liabilities are deemed to be reasonably estimable. Due to the multiple regulatory and statutory requirements governing environmental liabilities and other complexities in meeting the 'reasonably estimable' criteria, stakeholders explained it may take multiple reporting periods (typically quarters) for a liability to be recognized. Paragraph 29 states "Government-related events resulting in a liability should be recognized in the period the event occurs if the future outflow or other sacrifice of resources is probable and the liability can be measured, or as soon thereafter as it becomes probable and measurable." Staff’s outreach provided that users would like clarity on what reporting period (e.g. quarterly or annual) to recognize the liability and more specific guidance of what "soon after" means and, if acceptable, how to report a liability which may require multiple reporting periods.

Stakeholders also requested clarity on the measurement attributes. Paragraph 34 of SFFAS 5 states "Several different measurement attributes are used for different items in present practice (e.g., fair market value, current cost, present value, expected value, settlement value, and historical cost)." Based on staff’s outreach, respondents explained that some environmental liabilities require more complex measurement and professional input to quantify the liability estimate than what is referenced in paragraph 34. Stakeholders described that multiple measurement attributes may be used for a single cost or in select instances, require use of specialists outside the accounting field to include environmental engineers or other professions. It was suggested that the guidance include reference to a combination of measurement attributes and estimations by accredited professions. Stakeholders also explained that the liability measurement may change over reporting periods due to changes in the governing environmental regulations or statutes. Additionally, the estimate may change due to inflation, deflation, changes in regulations, operating plans, and/or technology.

Examples

Staff’s outreach to respondents also identified that there is a need for additional environmental liability examples in FASAB guidance:

- For example, respondents requested that FASAB consider including an appendix in TB 2006 that list examples of materials that would not be reasonably expected to include asbestos.
- Hazardous waste spill is included as an example of government related events; however, this is only a small example of the many different types of environmental damages that can occur or may be reportable or E&DL. Respondents recommend using the terms 'spills, releases, contamination, or other environmental damage' to refer to a broader scope of events.
- Lack of reference or example of post closure or environmental restoration provided in the paragraph 28 defining what government-related events includes. Respondents recommend adding post closure (RCRA or CERCLA) or environmental remediation/restoration (CERCLA or SARA) as examples of government-related events to further describe "event-driven" liabilities relative to governing environmental law.

Pensions, other retirement benefits, other postemployment benefits and veteran benefits

SFFAS 5 provides specific liability accounting standards for pensions (including other retirement benefits, and other postemployment benefits). SFFAS 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates* was issued in 2008 and applies to federal entities that report liabilities and expenses for federal employee pensions, other retirement benefits (ORB), and other postemployment benefits (OPEB) in general purpose financial reports.

Excerpt from FY2023 Financial Report of the United States Government Note 13

Federal Employee and Veteran Benefits Payable as of September 30, 2023, and 2022

	Totals	
(In Billions of Dollars)	*2023*	*2022*
Pension benefits	*5,373.2*	*5,069.5*
Veterans compensation and burial benefits	*7,095.8*	*5,965.1*
Post-retirement health benefits	*1,521.9*	*1,472.4*
Veterans education and training benefits	*197.5*	*170.0*
Life insurance benefits	*69.9*	*66.8*
FECA benefits	*33.8*	*33.0*
Unfunded leave	*27.2*	*26.9*
Liability for other benefits	*8.1*	*8.2*
TOTAL BENEFITS PAYABLE	*14,327.4*	*12,811.9*

As discussed in the 2023 Financial Report of the United States Government (Note 13), the government offers its employees retirement and other benefits, as well as health and life insurance. The liabilities for these benefits, which include both actuarial amounts and amounts due and payable to beneficiaries and health care carriers, apply to current and former civilian and military employees. The actuarial accrued liability represents an estimate of the PV of the cost of benefits that have accrued, determined based on future economic and demographic assumptions. Actuarial accrued liabilities can vary widely from year to year, due to actuarial gains and losses that result from changes to the assumptions and from experience that has differed from prior assumptions. OPM administers the largest civilian pension and post-retirement health benefits plans. DOD and VA administer the military pension and postretirement health benefit plans. Other significant pension plans with more than $10.0 billion in actuarial accrued liability include those of Foreign Service (State), TVA, and HHS's Public Health Service Commissioned Corps Retirement System.

Existing GAAP Guidance

SFFAS 5 provides that pension benefits, OPEB, and ORB are exchange transactions because the employee performs service in part to receive the deferred compensation provided by the plans (such as future pension and medical care benefits). The liability and associated expense for pensions and other retirement benefits (included health care) should be recognized at the time the employee's services are rendered. The expense for postemployment benefits should be recognized when a future outflow or other sacrifice of resources is probable and measurable based on events occurring on or before the reporting date. Any part of that cost unpaid at the end of the period is a liability. The aggregate entry age normal actuarial cost method should be used to calculate the expense and the liability for the pension and other retirement benefits for the administrative entity financial statements, as well as the expense for the employer entity financial statements.

SFFAS 33 requires gains and losses from changes in long-term assumptions used to estimate federal employee pension, ORB, and OPEB liabilities to be displayed on the statement of net cost separately from other costs. SFFAS 33 requires disclosure of the components of the expense associated with federal employee pension, ORB, and OPEB liabilities in notes to the financial statements. SFFAS 33 also provides a standard for selecting the discount rate assumption for present value estimates of federal employee pension, ORB, and OPEB liabilities. There is currently uncertainty in practice in this regard. It also provides the valuation date for measuring pension, ORB, and OPEB liabilities, which will establish a consistent method for such measurements. SFFAS 33 does not apply to the Federal Employees Compensation Act (FECA) program.

In addition, Interpretation 4, *Accounting for Pension Payments in Excess of Pension Expense* provides guidance regarding accounting at the agency level for employer agencies' payments to the pension trust fund when they exceed pension expense (based on an allocation of the total service [or "normal"] cost by the Office of Personnel Management).

Based on staff's research and outreach, stakeholders conveyed that there was difficulty with the requirements of SFFAS 5 as it related to the pension actuarial liability processes.

Actuarial cost method

Because actuarial practices have evolved and greatly changed, stakeholders suggested FASAB engage the federal government's actuarial community[12] to discuss whether changes in FASAB standards would improve the financial reporting of pension, other retirement benefits, and veteran benefits.

For example, respondents suggested that FASAB consider whether the aggregate entry age normal (AEAN) is the most appropriate actuarial cost method. An actuarial cost method is a method for allocating the cost of future retirement benefits over time, generally in some manner

[12] Staff agrees that a roundtable meeting with the actuarial community would be beneficial. Staff did not have an opportunity to coordinate the roundtable meeting during the research, but it would be an appropriate next step that would be done as part of a project on pensions.

over the working years of those expected to become eligible for benefits.[13] Attributes of different actuarial cost methods include whether the calculation methodology is “individual” or “aggregate”; and whether costs are allocated as a percentage of pay, as an amount per active participant, or in a pattern that matches some aspect of the plan’s benefit formula.

SFFAS 5 provides that the “aggregate entry age normal” (AEAN) actuarial cost method should be used to calculate the pension expense, the liability for the administrative entity financial statements, and the expense for the employer entity financial statements. The AEAN method is one under which the actuarial present value of projected benefits is allocated on a level basis over the earnings or the service of the group between entry age and assumed exit ages; and it should be applied to pensions on the basis of a level percentage of earnings. The portion of this actuarial present value allocated to a valuation year is called the “normal cost” and the portion not provided for at a valuation date by the actuarial present value of future normal cost is called the “actuarial accrued liability.”

SFFAS 5 provides that the plan may use other actuarial cost methods if it explains why AEAN is not used and if the results are not materially different. Stakeholders believe that FASAB should consider whether the AEAN actuarial cost method is the most appropriate method for valuing related liabilities and costs. Respondents explained that the AEAN includes certain complexities and may limit comparability. For example, AEAN may limit comparability with the more commonly used Projected Unit Credit method directed by FASB. GASB standards for pension accounting specifies that the actuarial cost method should be the entry age normal method and that it should be applied on an individual basis.

Staff notes that various actuarial cost methods exist and as provided in SFFAS 5, the plan may use other actuarial cost methods if it explains why AEAN is not used and if the results are not materially different. Acceptable methods recognize the cost of an employee’s pension benefits during the employee’s years of service, but the different actuarial methods recognize the cost in different patterns over time. The AEAN method is intended to produce a periodic pension cost that is a level percent of payroll.

The basis for conclusions for SFFAS 5 paragraphs 149-155 provides information explaining why FASAB specified the AEAN. Specifically, paragraph 153 provides:

> 153. FASAB specified the AEAN for several reasons. First, as stated, AEAN is a reasonable and systematic way of allocating costs evenly over the service lives of employees. Second, the major federal retirement systems [the Military Retirement System (MRS), the Civil Service Retirement System (CSRS), and the Federal Employees Retirement System (FERS)] use AEAN, and in two cases (FERS and MRS) charge “full cost” in the budget under a statutory requirement. [FN59] Finally, exact comparability with private-sector entities is not relevant. Minor differences in the size of the pension liability and expense calculated pursuant to this Statement and SFAS 87 clearly would not have a material impact on investor’s assessment of the credit-worthiness of the U. S. government.
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> FN59 The CSRS statute calls for procedures that are generally construed as entry age normal. “Full cost,” of course, depends on the method selected. For example, prior service cost is amortized in FERS over 30 years pursuant to the funding method; it would be recognized over a shorter period (years of expected future service of the group or 15 years) under SFAS 87. It should be recognized in full immediately under the terms of this standard, but only in financial reports of the agency that administers the pension plan and in the consolidated financial statements of the United

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[13] 26The Actuarial Standards Board defines an actuarial cost method as a procedure for allocating the actuarial present value of projected benefits (and expenses, if applicable) to time periods, usually in the form of a normal cost and an actuarial accrued liability.

States, not in the employer agency's financial statements. Thus, "full cost" in this sentence must be read in a generic way, that is, as a statement of the general intent underlying the law.

Staff notes that GAO-19-195R, *Military Retirement: Service Contributions Do Not Reflect Service Specific Estimated Costs and Full Effect of Proposed Legislation is Unknown,* report addresses whether the current method used to calculate DOD retirement contributions reflects estimated service retirement costs. GAO's analysis indicated that the mandated single, aggregate contribution rate does not reflect service specific retirement costs. The report explained the actuarial valuation results that go into the development of military retirement contribution rates are most sensitive to changes in economic (e.g., long-term interest assumption) and retention assumptions (i.e., the active and reserve duty probabilities of continuation in service).

The report also explained that a DoD-led assessment identifies concerns with the current method "(1) produces "inaccurate" marginal cost estimates at the service level; (2) creates large cross-subsidies among the services; (3) generates inefficiencies in the allocation of resources; and (4) does not provide clear signals and incentives for shaping an efficient experience mix of personnel." The report noted there have been significant advances in technology and computing power, making alternative actuarial cost methods more feasible.

Discount Rate

Stakeholders believe FASAB should consider clarifying the wording in SFFAS 33 relating to the selection of discount rates because the guidance has been interpreted inconsistently, raising issues about comparability across government entities.

Consistent with the feedback received during research and outreach, staff notes that there have been questions and technical inquiries specific to the interpretation of the selection of discount rates. Questions relate to the interpretation of SFFAS 33 paragraph 30 (see highlighted text):

> 30. In developing average historical Treasury rates, a minimum of five historical rates as of the reporting date (e.g., at the current and four prior fiscal year ends) should be used for each maturity. The historical rates used to calculate the average should be sequential (e.g., 2003-2007). For example, for an average historical Treasury rate to be used as the discount rate as of the end of fiscal year 2007 for a payment due in 10 years (i.e., in fiscal 2017), a minimum of the five most recent fiscal year-end historical rates on 10-year Treasury securities should be used. Thus, the rate on 10-year Treasury securities as of the end of fiscal year 2007 would be one of the five historical rates used in the average, the rate on 10- year Treasury securities as of the end of fiscal year 2006 would be another rate, etc., until, at a minimum, the rates on 10-year Treasury securities as of the end of fiscal years 2003 through 2007 would be included in the average.

There are differing opinions on whether paragraph 30 requires year-end discount rate information. In April 2023, FASAB staff proposed an amendment to SFFAS 33 as part of an omnibus amendments document. Staff research provided that SFFAS 33 and the discount rate requirement in particular, was meant to provide flexibility to preparers and actuaries. Staff noted that a narrow and strict reading of paragraph 30 creates a dilemma wherein year-end discount rate information, which is not available at year-end, forces a preparer to be in noncompliance with the standard in order to comply with an entity's November 15th financial reporting deadline.

Staff recommended amending SFFAS 33 paragraph 30 and 32 to acknowledge preparer flexibility to accommodate for the inability of having a Treasury year-end discount rate available in time for financial reporting purposes. Although members recognized that timely guidance could be provided to practitioners by clarifying certain language in the existing SFFAS, members were concerned about doing so in a piecemeal manner. As explained in the April 2023 minutes, "members noted that a more comprehensive approach through the reexamination of existing standards project would serve practitioners best given that other aspects of SFFAS 33 could warrant additional changes."[14]

Valuation Date

Stakeholders suggested reviewing the valuation date guidance in SFFAS 33 for pension benefits, other retirement benefits, and other postemployment benefits. There was noted concern because of the complexity. Stakeholders believed it may be helpful to achieve further consistency government-wide and align with the time needed to prepare and audit the actuarial calculations.

Disclosures

Stakeholders suggested the Board consider whether additional disclosures related to pension and other retirement benefits in employer entities is appropriate. While most federal employer entities disclose the key attributes of pension and other retirement benefits provided to their employees, the accounting standards currently do *not* have a requirement for these entities to make such disclosures.

In addition, a respondent noted that GASB's post-implementation review of GASB Statement 68 found that some users appreciated the discount rate sensitivity disclosure and 10-year contribution and net pension liability information, which is also consistent with FASB requirements, but not currently included in federal disclosures.

VA Health Care

As discussed in the Basis for Conclusions to SFFAS 5, the Board concluded that ORB are similar to pension benefits and should be accounted for in a similar way unless differences in substance dictate otherwise. The predominant other retirement benefit in the federal government is health care benefits for retirees. These are long-term and require actuarial estimation. The Board recognized that future health care benefits present unique measurement problems because they are more uncertain than pensions since they depend on the changing patterns of health care delivery and utilization, on the price trends for medical care, and on the benefits provided by social insurance programs like Medicare.

The Board recognized that some federal retiree health benefits are provided directly in federal government hospitals and facilities. The Board explained the liability in these cases also depends on the amount that the Congress will appropriate in the future to pay for the benefits, so the expense and liability are more difficult to measure. The Board explained in paragraph 176 that "Notwithstanding the measurement difficulties, because of the importance of approximating the cost of services rendered at the time the service is rendered, FASAB believes that in most cases, the ORB costs and liabilities should be measured for federal programs."

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[14] Please see the April 2023 staff paper proposing the amendment to SFFAS 33 and Board minutes at https://fasab.gov/board-activities/prior-calendar-years/

However, VA medical care cost would be recognized in the period medical care service is rendered. The Basis for Conclusions of SFFAS 5 provides the following discussion regarding the Board's conclusion on VA health care:

> 182. Although it might appear that medical benefits provided by the Department of Veterans Affairs should be treated like other retirement or medical benefits, there are significant differences between the two. Most often retiree medical benefits are provided through a health insurance provider, which receives premium payments from the former employer. But, with VA medical benefits, the former employer (the government) provides the medical services through VA facilities to veterans on an "as needed" and an "as available" basis versus payment of health insurance premiums for each veteran.
>
> 183. Eligibility for VA hospital care and nursing-home care is divided into mandatory and discretionary categories. VA must provide hospital care to veterans with service-connected disabilities and others in the mandatory category. Hospital care is considered discretionary if the veteran has income above a specified limit and a non-service-connected injury. Veterans in the discretionary category may be required to pay fees to receive VA hospital care. In addition, VA medical care is financed by annual appropriations. The entitlement to receive care does not guarantee any particular level of care. The Congress decides annually how adequately VA medical care will be funded.
>
> 184. The Board believes that VA medical benefits, for both mandatory and discretionary programs, are best measured by the annual cost incurred rather than by actuarially determined charges during the veteran's military service. Medical care for veterans does not satisfy the probability or reasonably measurable criteria in this standard at earlier dates, and therefore future medical benefits do not constitute a long-term liability to be recognized in the Balance Sheet. The Board believes VA medical benefit liability and related expenses should be recognized in the period medical care service is rendered. The entity should consider, however, what disclosures would be appropriate for these costs under the contingency standard.

Based on discussions, this was one of the more controversial decisions when the Board deliberated SFFAS 5. Staff notes the current Board may want to reassess this based on changes in the environment.

<u>Other Pensions, ORB, OPEB and veteran benefits comments</u>

- Pension & OPEB standards do not directly address contractual obligations that an agency may have to contribute to contractor pension & OPEB plans. Stakeholders recommended that this should be addressed because there are instances where this is occurring.

- DOI/NPS noted the challenges in accounting for the United States Park Police (USPP) pension. NPS must hire an actuary to perform many of the tasks needed which is at a cost to NPS. They view OPM as the expert that already has many of these tools at their disposal.

- Paragraph 14 of SFFAS 33 provides that "This Statement does not apply to the Federal Employees Compensation Act (FECA) program." The Board's reasoning is provided in the Basis for Conclusions paragraph A19: "The Board considered the applicability of this standard to the Federal Employees Compensation Act program. The Board concluded that it was not appropriate or necessary for the Department of Labor to provide the information concerning gains and losses from changes in assumptions to the employer agencies, nor for the employer agencies to separately report or disclose such information. Under the particular circumstances of FECA accounting and reporting, the Board decided that the value of the FECA information provided pursuant to this standard would not offset the burden and cost of providing it.

DOL requested the Board to clarify that SFFAS 33 in its entirety should not apply to the FECA program and that SFFAS 33 should not be applied selectively, e.g., discount rates. DOL also requested the Board to clarify that SFFAS 33 applies to those programs/funds that are predominantly pensions, ORB, and OPEB (these are benefits for former Federal employees) and that DOL does not have to split out the small portion for Federal employee benefits from the Energy program/fund and apply SFFAS 33 to that portion.

Additional Comments

Based on staff research, several issues included in ITC responses were considered resolved and no further consideration by the Board was necessary. See the Staff notes column on the Table of SFFAS 5 Responses and Staff Notes that follows this preliminary research paper.

In addition, certain suggestions and observations provided in the ITC responses were observations for the Board's awareness, the respondents did not believe immediate Board action was necessary.

- **Obligations of safekeeping digital currencies and the associated risks.** A respondent noted that FASB issued official guidance (ASU 2023-04) for entities safekeeping cryptocurrency/digital assets to record a liability to reflect their obligation to safeguard the crypto-assets held for its platform users. It does not affect those agencies with the rights to crypto, but those safekeeping/providing custody services for it. Based on research and outreach, the respondent does not believe the obligations of safekeeping digital currencies is a high priority but suggested that it may need to be addressed in the future if federal agencies have more responsibilities for safekeeping CBDCs.

- **Risk reporting.**[15] A respondent explained that during the Board's current "Climate" project, Board Members agreed that climate could serve as a "starting point" for examining other risks. The respondent explained that risk reporting in the federal government should be balanced and reference other potential risks (e.g., COVID/pandemic, foreign policy, terrorism, etc.) During research and outreach to the stakeholders, the respondent noted the comments regarding balanced risk reporting is a general observational comment for the Board's consideration and not a priority.

[15] Staff notes that there was a FASAB "Risk Reporting" project from 2016-2019, but the Board agreed that it would address risk reporting through the MD&A and Note Disclosure projects. Staff notes the MD&A project addressed risk in the recent ED and it is currently going through the Board's due process. The Note Disclosure project was closed in 2021 because it was agreed that it could be addressed through the Reexamination project.

Staff Notes

This paper provides a summary of the preliminary research and outreach on the liabilities priority topic. Staff is seeking Board questions and comments about the high-level research provided and whether members would like additional information. As such, there are no specific recommendations by staff.

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.

Table of SFFAS 5 Responses and Staff Notes

SFFAS 5, *Accounting for Liabilities of The Federal Government* AS AMENDED BY: SFFAS 12, SFFAS 25
Interpretation 2, *Accounting for Treasury Judgment Fund Transactions: An Interpretation of SFFAS 4 and SFFAS 5*
Interpretation 4, *Accounting for Pension Payments in Excess of Pension Expense*
TB 2002-1, *Assigning to Component Entities Costs and Liabilities that Result from Legal Claims Against the Federal Government*
TB 2017-1, *Intragovernmental Exchange Transactions*

Respondent	Response	Staff Notes
DOD	DoD components submitted the following areas for improvement of this standard: - The definition of "client" is important to lawyers in responding to audit legal request letters. Some attorneys have a difficult time delineating who their client is in situations where the entity that may be considered the liability source differs from the entity assigned to provide legal counsel (and the cost thereof) and/or ultimate funding of any loss from adjudication. For example, the spills at Red Hill and Camp Lejeune where the cause of the spills may be one entity but the responsibility for cleanup and damages to the community have been assigned to other entities. It may be helpful to expand guidance beyond the Judgement Fund to address any other funding source so that one doesn't have to site a parallel example in the standards vs. a more direct accounting assignment related to liability source regardless of funding source. - The AICPA clarified exchange vs non-exchange transactions for non-profit accounting. Consider adding language similar to ASU-2018-08 clarifying that if the benefit is received by the general public and not the government entity itself, it is a non-exchange transaction. - Many federal agencies are moving to electronic financial interface systems which may warrant a revision of the standard to address the responsibilities and accountability of those Transactions by Others (TBO) and Transaction for Others (TFO).	*Staff notes the ED for Interpretation 9 addressed contingent liabilities when multiple component reporting entities are involved. During due process, the Board determined that there was no need for guidance in the contingent liability area. However, it appears that there is now a need for this type of guidance for environmental liabilities.* *After follow-up, DoD determined this was an internal issue that would not be addressed in GAAP. No FASAB action necessary.*
Ernst & Young	Overall, we believe Topic #5 is understandable and clear to apply. However, we recommend the Board clarify the appropriate reporting of environmental liabilities and legal claims when there are multiple parties involved in the responsibility for and/or resolution of the liability. For instance, when the agency that triggered the liability/legal claim isn't the same one that manages the liability/legal claim or funds the liability/legal claim, there can be diversity in	*Staff notes the ED for Interpretation 9 addressed contingent liabilities when multiple component reporting entities are involved. During due process, the Board determined that there was no need for guidance in the contingent liability area.*

Respondent	Response	Staff Notes
	practice when determining which entity reports the liability and when the liability is reported. We believe additional guidance on this topic would help reduce that diversity and provide useful information to the users of the financial reports.	*However, it appears that there is now a need for this type of guidance.*
GAO	We suggest engaging the federal government's actuarial community to discuss whether changes in FASAB standards would improve the financial reporting of pension, other retirement benefits, and veteran benefits. For example, FASAB might consider whether the Aggregate Entry Age Normal (AEAN) actuarial cost method is the most appropriate method for valuing related liabilities and costs. AEAN includes certain complexities and may limit comparability with the more commonly used Projected Unit Credit method. In addition, it may be helpful to review the guidance for recognition and disclosure of certain pension benefits; other retirement benefits; and veteran benefits, including education and training that have become more significant over time. (Also see related discussion in topic 14 below.) Also, FASAB may consider whether additional disclosure related to pension and other retirement benefits in employer entities is appropriate. While most federal employer entities disclose the key attributes of pension and other retirement benefits provided to their employees, the accounting standards currently do not have a requirement for these entities to make such disclosures.	*Based on staff research, stakeholders would benefit from reexamination of SFFAS 33 to consider whether changes in standards would improve financial reporting of pension, other retirement benefits, and veteran benefits. Staff notes that the Board considered an omnibus amendment at the April 2023 meeting. Although members recognized that timely guidance could be provided to practitioners by clarifying certain language in the existing SFFAS, members were concerned about doing so in a piecemeal manner. As explained in the minutes, "members noted that a more comprehensive approach through the reexamination of existing standards project would serve practitioners best given that other aspects of SFFAS 33 could warrant additional changes."*
DOI	DOI has been able to accommodate the requirements of SFFAS 5 with some difficulty and audit scrutiny; in particular the USPP Pension Actuarial Liability processes.	*NPS noted the challenges in accounting for the United States Park Police (USPP) pension. NPS must hire an actuary to perform many of the tasks needed which is at a cost to NPS. They view OPM as the expert that already has many of these tools at their disposal.*

Respondent	Response	Staff Notes
DHS	DHS is seeking clarification on when the recognition of a liability should or should not impact the availability of budgetary resources, depending on the existence (or lack thereof) of a legal obligation per 31 USC 1501. Specifically, DHS is requesting a review of paragraphs 24, 28-34, and 38 taking into consideration natural disasters.	*Based on research and outreach to the respondent, the issue related to the impact on the availability of budgetary resources when the federal government accepts responsibility for a disaster. However, it was noted that the updated OMB A-11 clarified this and the issue was resolved.*
NASA	The standard is clear on what a Contingent Liability is and when it should be recorded. However, the interpretation provides scenarios as to how to handle when a contingent liability is incurred, no longer pending, and paid by Judgment Fund, and when Treasury pays the contingency. The issue is the scenario is referring to how the Agency records the transaction, but it used the SGL logic for what Treasury would record based on the definition of the Imputed Financing Source account. FASAB/Treasury need to update the SGL logic to show what the federal agencies should post; given that the scenario is related to the agencies. From a non-accountant, this would help Federal agencies to get their financial statements completed and ready for audit.	*Based on staff research, the issue related to SGL logic and Fiscal Service addressed the issue and it is considered resolved.*
Fiscal Service	1) SFFAS 5 does not specifically address treaties and other international agreements, which establish frameworks that govern cooperative activities with other countries, but leave to the discretion of the parties whether to engage in any such activities. Treaties and International Agreements are not "assigned" to a specific federal reporting entity. Therefore, there is no clear path to determining which entity is responsible for the treaty, associated claim, or any corresponding liability recognition and/or disclosures. 2) SFFAS 5 does not address the obligations of safekeeping digital currencies to provide services and the associated risks. FASB issued official guidance (ASU 2023-04) for entities safekeeping cryptocurrency/digital assets to record a liability to reflect their obligation to safeguard the crypto-assets held for its platform users. It does not affect those agencies with the rights to crypto, but those safekeeping/providing custody services for it. A) The ability of an entity's platform users to obtain future benefits from crypto-assets in digital wallets in which the safekeeping entity holds the cryptographic key information is dependent on the actions of that entity to safeguard those assets, including an increased risk of financial loss. (Technological, Legal, & Regulatory Risks)	*Fiscal Service management no longer believes that FASAB needs a project related to treaties and other international agreements.* *Fiscal Service management does not believe the obligations of safekeeping digital currencies is a high priority but suggested that it may need to be addressed in the future if federal agencies have more responsibilities for safekeeping CBDCs.*

Respondent	Response	Staff Notes
	B) Those actions include securing the crypto-assets and the associated cryptographic key information and protecting them from loss, theft, or other misuse. 3) During the Board's current "Climate" project, Board Members agreed that climate could serve as a "starting point" for examining observational risks, and other risks could be examined at a later date. Two sponsor-agency Board members advised the Board to exercise caution about considering relevance to GAAP and the broader picture of risk. Fiscal notes that the Terrorism Risk Insurance Program Reauthorization Act of 2019 and the related the Terrorism Risk Insurance Program is disclosed under the "Contingencies" note of the Financial Report of the U.S. Government. Risk reporting in the federal government should be balanced and reference other potential risks (e.g., COVID/pandemic, foreign policy, terrorism, etc.)	*Staff notes that there was a FASAB "Risk Reporting" project from 2016-2019, but the Board agreed that it would address risk reporting through the MD&A and Note Disclosure projects. The Note Disclosure project was closed in 2021 because it was agreed that it could be addressed through the Reexamination project. Fiscal Service management noted the comments regarding balanced risk reporting is a general observational comment for the Board's consideration.*
VA	Expand on standard to assist agencies on the steps to recognize, measure, and account for liabilities accurately. Within the existing standard, it is recommended to include a section on what agencies should consider when estimating liabilities. It is recommended to remove information on capital leases from SFFAS 5 since it is discussed in depth in SFFAS 54. FASAB can briefly mention capital leases then refer the reader to SFFAS 54.	*Staff notes that VA's SMEs did not have additional comments to provide. Staff notes that issues with estimating liabilities appears to be a common theme among stakeholders.* *Staff notes SFFAS 5 was updated in the last HB update.*
Deloitte & Touche	(1) Potential Improvement: Clarifying the standards (including addressing areas where the standards are difficult to apply (2) Potential Improvement: Eliminating or revising unclear requirements	*The respondent did not have additional comments to provide.*

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

<table>
<tr><th>SFFAS</th><th>Section / sub-topic area</th><th>Detailed issue areas identified by respondents (respondent number) and/or staff</th></tr>
<tr><td rowspan="5">SFFAS 7</td><td>Exchange revenue (rec/meas/dis)</td><td rowspan="5">• 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)</td></tr>
<tr><td>Nonexchange revenue (rec/meas/dis)</td></tr>
<tr><td>Other financing sources (rec/meas/dis)</td></tr>
<tr><td>Budgetary information</td></tr>
<tr><td>Guidance for the classes of transactions ✂</td></tr>
<tr><td>SFFAS 21</td><td>Accounting changes, error corrections ✂</td><td>• 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)</td></tr>
<tr><td>SFFAS 27
SFFAS 43</td><td>Dedicated collections ✂ ✱</td><td>• Co-mingled funds, dedicated collections classification and subsequent measurement (9)
• Inconsistencies in practice / comparability (staff-identified issue)</td></tr>
<tr><td>SFFAS 31</td><td>Accounting for fiduciary activities ✂ ✱</td><td>• Post-implementation review of the standard (12, 26)</td></tr>
<tr><td>SFFAS 52</td><td>Tax expenditures ✂ ✱</td><td>• Extending requirements to certain component reporting entities (11)
• More transparency on the basic financial statements (25)</td></tr>
<tr><td>SFFAS 53</td><td>Budget and accrual reconciliation ✂</td><td>• Budget-to-accrual reconciliations (9, 22)</td></tr>
</table>

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	*"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)	• Generally consistent with other ITC comments and staff analysis regarding modernization and expansion of guidance to improve consistency and reduce cost.
	"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)	• Generally consistent with other ITC comments requesting additional guidance for intragovernmental transactions.
	"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." *"The FISC also recommends that the Board reexamines [sic] the disclosure requirements to ensure that it provides useful information for the decision makers."* (7)	• 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 and staff analysis regarding reexamination of topic area disclosure requirements.
	"DOD components identified the following areas of the standard for revision: - *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.* - *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.*	• 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.

	Overall DoD components said that the standard can be confusing and difficult to follow because of the numerous amendments from subsequent SFFASs." (9)	
	"Accounting for revenue and other financing sources *… 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…"* *"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)	• 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.
	"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)	• Generally consistent with a few other ITC comments requesting expansion of guidance to improve consistency and reduce cost. • Comment relates to debt cancellation issues.
	"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] 1. *"Compliance assessments vs. federal tax receivables"* *"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."* *"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."* 2. *"Exchange/ nonexchange revenue"*	• 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.

	"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." (16)	
	"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. (17)	• Generally consistent with a few other ITC comments requesting improvements to presentation consistency and guidance on debt cancellation.
	Respondent comments describe certain elimination issues related to transfers of assets. (18)	• Generally consistent with other ITC comments requesting additional guidance for intragovernmental transactions.
	"Fiscal recommends the following: [Abridged by staff to summarize] 1. *…Significant confusion remains within SFFAS 7 on perceived differences between "financing sources and "other financing sources"…* 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 statuory 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:* 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…"* B) *Differences between "Cancellation of debt," "borrowing authority with no repayment required," "forgiveness," and/or "elimination of debt" can lead to confusion…"* C) *Energy savings performance contracts (ESPCs) under the National Energy Conservation Policy Act…"* 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."* (22)	• 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.
	"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." (26)	• 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)	• 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	*"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.* *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)	• 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)	• 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)	• 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	*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)	• 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.
	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)	• 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

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[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 (**X**) 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

<u>Complexity</u>

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 reconciliation[4] 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

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[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 modifications[5] 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.

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[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 guarantees[7]. 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

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[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.

<u>Increasing Preparer Flexibilities</u>

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 FWBT 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 Manul 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. FASAB[2] 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

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[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
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> 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 significant[6] 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 capacity[8] 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 not 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 expense[4] 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

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[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 method[6] 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 Releases[8] 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.

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[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 questions[10] 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.