

Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313

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Q1. Statement of Federal Financial Accounting Standards (SFFAS) 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, paragraph 313 provides:

Cancellation of debt.—The debt that an entity owes Treasury (or other agency) may be canceled by Act of Congress. The amount of debt that is canceled (including the amount of capitalized interest that is canceled, if any) is a gain to the entity whose debt is canceled and a loss to Treasury (or other agency). The purpose of borrowing authority is generally to provide an entity with capital rather than to finance its operations. Therefore, the cancellation of debt is not earned by the entity's operations and is not directly related to the entity's costs of providing goods and services. As a result, the cancellation is a nonexchange gain to the entity that owed the debt and a nonexchange loss to the lender.

Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, paragraph 100 provides that nonexchange activity is reported on the statement of changes in net position (SCNP).

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This proposed Interpretation would clarify that the standards provide that debt cancellation is a nonexchange activity and should be reported on the SCNP. This proposed Interpretation would also clarify that paragraph 313 of SFFAS 7 should not be interpreted to require that a particular line item¹ “gain” or “loss” be displayed on the SCNP. In addition, reporting entity management is responsible for determining the most appropriate line item presentation and display and related disclosures, such as information about the debt cancellation. Refer to paragraphs 2-8 and A6-A18.

Do you agree or disagree with the guidance?

NASA Response: Agree

Please provide the rationale for your answer.

Because the cancellation of the debt is not directly earned nor directly related to costs, by the nonexchange definition, this guidance clarifies why the cancellation of debt is treated as a nonexchange activity and should be reported on the SCNP. Agree because debt cancellation is a nonexchange activity and should be reported on the statement of changes in net position (SCNP) and the responsibility for determining the most appropriate line item presentations, displays and related disclosures, such as information about the debt cancellation should be required as a standard for every reporting Agency so that reporting is consistent.

All debts closed out and written off are considered a loss to NASA and are reported on the Treasury Report on Receivables in Section E below.

TROR Section E – Disposition of Closed – Out Debts captures information on the number and dollar amount of closed- out delinquent debts. Section E captures information on the final close out of delinquent debt and reporting of debts to IRS as potential income on IRS Form 1099-C (Cancellation of Debt), once the agency determines that no further collection action will be taken. Section E also collects information on debts closed out during the previous calendar year where the debt was not reported to the IRS. This section reports on the close out of all delinquent debts, including debt that may have been previously classified as Currently Not Collectible (CNC).

- Q2. Paragraph 3 of the proposed Interpretation refers to “other financing sources” as defined by SFFAS 7. Under SFFAS 7, financing sources are divided into three categories: exchange revenue, nonexchange revenue, and “other.” As discussed in paragraph A22, FASAB coordinated with the Office of Management and Budget (OMB) and determined that certain changes to the form and content requirements provided for the statement of

¹ While in certain standards, the Board may have determined that requiring a specific line item for display was appropriate, most standards do not prescribe a specific reference or line item display because items may need to be displayed separately or be included with other items due to materiality.

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changes in net position (SCNP) in OMB Circular A-136 would ensure clarity and consistency with generally accepted accounting principles (GAAP). Specifically, eliminating the sub-categories “Budgetary Financing Sources” and “Other Financing Sources (Nonexchange)” presented under the Cumulative Results on the SCNP would simplify the presentation and thereby enhance the clarity. In the next update to the [FASAB Handbook of Accounting Standards and Other Pronouncements, as Amended](#), FASAB plans to make similar changes to non-authoritative illustrative financial statements presented in SFFAS 27 and SFFAS 43. Refer to paragraphs 9 and A22.

- a. Is there a need for additional clarity or consistency with respect to the definition or use of the term “other financing sources” in FASAB documents or other guidance?

NASA Response: No.

- Q3. Do you believe that the proposed Interpretation clarifies ambiguity regarding debt cancellation and would resolve any existing or anticipated issues? If not, please provide detail about other specific clarifications required regarding debt cancellations. Please also provide any other comments and other suggestions on the Interpretation. Please provide the rationale for your answer.

NASA Response: Yes, because debt cancellations although rare can be confusing. This clarification should help with reporting the activity. An illustration of this accounting treatment would be helpful as well.