

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).

This proposed Interpretation would clarify that the standards provide that debt cancellation is a nonexchange activity and should be reported on the SCNP. This

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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.

- a. Do you agree or disagree with the guidance? Please provide the rationale for your answer.

Agree. When considering SFFAS 7, paragraph 313 and SFFAC 2 together, this proposed Interpretation would clarify that the standards provide that debt cancellation is a nonexchange activity that should be reported on the SCNP.

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 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?

Agreed. In fact, the latest A-136 draft for FY 2021 illustrates changes to the SCNP whereby “Other Financing Sources (Nonexchange)” is removed and “Budgetary Financing Sources” is revised to just “Financing Sources”.

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.

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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Yes, the proposed Interpretation clarifies ambiguity regarding debt cancellation and would resolve any existing or anticipated issues. However, other specific clarifications, regarding debt cancellations, would include the following:

- 1. Since the “requirements of this Interpretation are effective upon issuance”, and issuance will probably be in FY 2021, please clarify with OMB that their current draft of A-136 incorporates all the required updates of this Interpretation for FY 2021 reporting. (It does “appear” that the current draft incorporates these changes.) If not, I’m not sure OMB will have time to update A-136 with additional FY 2021 changes to comply with the interpretation effective in FY 2021.*
- 2. Some agencies may not have treated material debt cancellation as a nonexchange revenue in FY 2020. This Interpretation does not address the restatement of FY 2020 statements in those situations. Recommend adding guidance since it is the intent of FASAB to “facilitate consistent accounting and reporting of debt cancellation on the SCNPs.” (I did notice that OMB added verbiage in their latest A-136 draft (pages 64-65) to address changes in accounting principles (prospective or retrospective) include those resulting from the adoption of new FASAB standards.*
- 3. Although not discussed in this interpretation, I do not foresee any reporting issues of the “parent” agency if the “child” agency incurred debt cancellation. Just mentioning for others to consider issues, if any.*
- 4. While the draft Interpretation just focuses on consistent accounting and reporting of debt cancellation on the SCNPs, several pre- and post-credit reform accounting issues may arise with the respective potential debt cancellation including, but not limited to, use of appropriations to finance pre-credit reform loans, reversal of allowances before debt cancellation, and changes in subsidy rate calculations for Credit Reform debt.*