



July 21, 2021

Mr. George A. Scott
 Chair
 Federal Accounting Standards Advisory Board
 441 G Street, NW, Suite 1155
 Washington, DC 20548

RE: Proposed Interpretation titled Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313

Dear Mr. Scott:

We appreciate the opportunity to respond to the exposure draft (ED) of the proposed interpretation titled *Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313*. We have the following observations and suggestions for consideration.

Paragraphs 2 – 7

We support the Board's efforts to clarify existing standards when needed; however, we do not believe that paragraphs 2 – 7 improve the understandability of SFFAS 7 and SFFAC 2, which we believe already provide clear guidance that debt cancellation is a nonexchange activity that should be reported on the Statement of Changes in Net Position (SCNP). We recommend that the Board not move forward with these paragraphs.

Paragraph 8

We appreciate the clarification that paragraph 313 of SFFAS 7 should not be interpreted to require that a particular line item "gain" or "loss" be displayed on the SCNP. We also agree, and believe it is widely understood, that management is responsible for the fairness of presentation of the financial statements. However, we believe that the last sentence in paragraph 8 is overly broad and could be interpreted to permit material debt cancellation to be presented as nonexchange revenue or appropriation used on the SCNP. We believe these presentations would not be appropriate based on the guidance in SFFAS 7 Appendix B. We suggest the following changes to the paragraph (added text underlined, deleted text struck-through,):

Paragraph 313 of SFFAS 7 provides, "As a result, the cancellation is a nonexchange gain to the entity that owed the debt and a nonexchange loss to the lender." This proposed Interpretation would clarify that paragraph 313 of SFFAS 7 should not be interpreted to require that a particular line item⁵ "gain" or "loss" be displayed on the SCNP. Rather, the proposed Interpretation requires that debt cancellation activity be included on the SCNP and that its line item presentation be consistent with the guidance in Appendix B in SFFAS 7. ~~Reporting entity management is responsible for determining the most appropriate line item presentation and display⁶ and related disclosures, such as contextual information about the debt cancellation (for example, the statutory authority cancelling the debt or the reason for the debt), if appropriate.~~

Paragraph 9

The last sentence in paragraph 9 states "This Interpretation does not provide guidance on budgetary accounting, which is issued by central agencies." Footnote 2 defines central agencies as the Department of the Treasury (Treasury), the Office of Management and Budget (OMB), and the Government

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Accountability Office (GAO). We believe that this sentence and the footnote are inconsistent with SFFAS 7 paragraph 78, which states that "Recognition and measurement of budgetary resources should be based on budget concepts and definitions contained in OMB Circulars A-11 and A-34." Because SFFAS 7 does not state that budgetary accounting guidance is provided by the Department of the Treasury or GAO, and because the Department of the Treasury is a preparer of the government-wide financial statements and GAO is the auditor of the government-wide financial statements, we suggest the following changes to the last sentence of paragraph 9:

"This Interpretation does not provide guidance on budgetary accounting, which is issued by ~~central agencies~~ the Office of Management and Budget (OMB)."

Due to the placement of the footnote, it is unclear if it is intended to be included in the final Interpretation. Based on our changes to paragraph 9, footnote 2 would no longer apply.

If you have questions about our response, please contact Ms. Amanda Nelson at 202-533-5560 or aenelson@kpmg.com.

Sincerely,

A handwritten signature in black ink that reads "KPMG LLP". The letters are stylized and slanted to the right.

KPMG LLP