

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
Board Meeting Minutes
December 17-18, 2019
Room 7C13
441 G Street, NW
Washington, D.C. 20548

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For research purposes, please see the briefing materials at www.fasab.gov. Briefing materials for each session are organized by tab; references to these tabs in the minutes are hyperlinked.

Tuesday, December 17, 2019

Attendance

The following Federal Accounting Standards Advisory Board (FASAB or “the Board”) members were present throughout the meeting: Mr. Scott (chair), Mr. Bell, Ms. Bronner, Mr. Dacey, Ms. Harper, Messrs. McNamee, Patton, and Smith. Mr. Soltis was present except for Tuesday afternoon, when he was represented by Ms. Johnson. The executive director, Ms. Valentine, and general counsel, Ms. Motley, were also present throughout the meeting.

Administrative Matters

- **Approval of Minutes**

The Board approved the October meeting minutes prior to the meeting.

- **Updates and Clippings**

Mr. Scott asked members if they had comments or questions on any of the clippings. Mr. Smith noted that the Government Accountability Office (GAO) report on disaster resilience framework was interesting.

Agenda Topics

- **Leases Deferral, Implementation**

Mr. Perry, senior analyst, directed members to [tab A](#) of the briefing materials.

Question 1 – Do members wish to discuss any of the tracked pre-ballot edits or other matters?

Mr. Perry summarized a few minor editorial changes made in response to pre-ballot edits and during final proofreading. Members discussed two changes:

- Members agreed to streamline a paragraph in the executive summary.
- Members agreed to a minor editorial change in basis for conclusions, paragraph A7 and a matching paragraph in the executive summary.

Question 2 – Do members have any questions or concerns regarding the staff-recommended 45-day comment period?

Staff recommended a 45-day exposure period. Such a timeline would allow staff to return to the Board for the February meeting to discuss comment letters. Contingent upon the results of the public comment period, remaining Board deliberations, and sponsor reviews, the Board would then be able to issue a final pronouncement as early as June 2020. Although a 90-day comment period would provide additional time for respondents to draft and submit their comments, it would result in staff returning to the Board at the April meeting and not issuing a final pronouncement until at least August 2020. The current effective date for SFFAS 54 is for reporting periods beginning after September 30, 2020.

Board members agreed that the limited scope of the proposal and the need for the community to receive a final pronouncement in a timely manner served as appropriate rationale for a 45-day exposure period.

Balloting Results

With nine affirmative votes, the Board approved the exposure draft (ED), *Deferral of the Effective Date of SFFAS 54*, to be released for public comment.

Updates on Leases Implementation Projects

Staff provided a brief update to the Board regarding Accounting and Auditing Policy Committee (AAPC) progress surrounding the (1) finalization phase of the conforming amendments to existing technical releases for leases project and the (2) research and development phase of the implementation guidance for leases technical release project. These projects remain on schedule. Ms. Valentine and Mr. Perry also updated members on ongoing efforts to bring a detailee on board to help with these projects.

Next Steps: Staff will provide analysis and a compendium of comment letters to the Board for review and discussion at the February 2020 meeting.

- **Evaluation of Existing Standards – Debt Cancellation**

Ms. Batchelor, assistant director, explained the objective of this session was to consider a potential Interpretation that addresses debt cancellation, which is part of the evaluation of existing standards project. The materials for the session were provided in [tab B](#) of the briefing materials.

Ms. Batchelor explained that at the October 2019 meeting, staff presented paragraph 313 of Statement of Federal Financial Accounting Standards (SFFAS) 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, which pertains to debt cancellation, to determine if it needed to be revised. Members agreed that the paragraph needed clarification and that it should be addressed with the lowest level of generally accepted accounting principles (GAAP) guidance that would resolve the issue.

The Board believed that terms "gain and loss" may need clarification or an explanation that those terms are not required for presentation. In addition, the more important fact is that debt cancellation activity is reported on the statement of changes in net position. Therefore, Ms. Batchelor recommended an Interpretation be used to resolve the issue. She explained that several members had indicated support for the Interpretation. However, two members suggested amending SFFAS 7.

The Board asked the members who disagreed with an Interpretation to provide more information as to why they would prefer an amendment. Mr. Bell explained that he believed an amendment to SFFAS 7 was more appropriate because there is explicit terminology—gain or loss—that is in the standards that leads to confusion within the preparer community, and an Interpretation may not clarify it. Mr. Soltis concurred with the explanation and added that the federal government does not make gains or losses on intragovernmental debt.

Mr. Scott asked members if an Interpretation could clarify those points. Other Board members agreed that this is an extremely narrow issue that rarely occurs and SFFAS 7

is very clear in that debt cancellation activity is nonexchange. In addition, other Board members agreed that the cancellation of debt should be reported on the statement of changes in net position.

Mr. Bell suggested that a question be included in the ED that requests feedback on whether the proposed Interpretation resolves any ambiguity and provides the necessary clarification. The members agreed it would be helpful to get feedback to determine if this would have been helpful with the scenario that prompted the request for guidance.

Question 1 – Does the Board agree with the staff recommendation to issue an Interpretation to address the debt cancellation issue?

After discussing the topic, Mr. Scott polled the members; the Board agreed that an Interpretation should be the GAAP vehicle to address the SFFAS 7 paragraph 313 debt cancellation issue. A question will be included to ensure that the Interpretation resolves any ambiguity regarding debt cancellation.

Next steps: The Board agreed that an Interpretation would be the appropriate GAAP vehicle to address the SFFAS 7, paragraph 313 debt cancellation issue. Staff will begin drafting the Interpretation before February Board meeting. Mr. Scott indicated that a future project could entail reviewing the older standards, which would provide an opportunity to review SFFAS 7 in its entirety, including paragraph 313.

- **Materiality**

Ms. Wu, assistant director, introduced the materiality discussion from [tab C](#) of the briefing materials. The objective of the discussion was to review and approve the ballot Statement of Federal Financial Accounting Concepts (SFFAC) titled *Materiality*. Based on comments from members on the pre-ballot draft dated November 1, 2019, staff had prepared the ballot SFFAC *Materiality*.

Question 1 – Does the Board approve the Statement of Concepts: *Materiality*?

This Statement was approved unanimously.

Next steps: This SFFAC will be submitted to the Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General for the 90-day sponsor review. If, within 90 days after its submission, neither the Director of OMB nor the Comptroller General objects to the SFFAC titled *Materiality*, then it will be released as final, announced in the *Federal Register*, and published by FASAB.

- **Evaluation of Existing Standards – Non-Entity Cash**

The objective of this session was to consider an Interpretation that addresses non-entity cash, which is part of the evaluation of existing standards project. The materials for the

session were provided in [tab B](#) of the briefing materials. Ms. Batchelor explained that technical inquiries are often received by staff for guidance. Staff is providing a brief overview of a topic that was submitted to staff via a technical inquiry; the issue is related to SFFAS 1, *Accounting for Selected Assets and Liabilities*, paragraph 31.

SFFAS 1, paragraph 31 provides:

A federal entity's fund balance with the Treasury (FBWT) is the aggregate amount of funds in the entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. FBWT is an intragovernmental item, except for fiduciary or other non-federal non-entity FBWT. From the reporting entity's perspective, the reporting entity's FBWT is an asset because it represents the entity's claim to the federal government's resources. However, from the perspective of the federal government as a whole, it is not an asset; and while it represents a commitment to make resources available to federal departments, agencies, programs and other entities, it is not a liability. In contrast, fiduciary and other non-federal non-entity FBWT is not intragovernmental, and it represents a liability of the appropriate Treasury component and of the federal government as a whole to the non-federal beneficiaries.

The technical inquiry was received after the 2018 audit cycle from the National Security Agency (NSA) regarding a difference between NSA management and their auditor, KPMG, in the application of SFFAS 1. The issue related to how monies received in deposit funds from non-federal sources in anticipation of an order should be reported and presented on the financial statements. The non-entity funds are held in deposit at the General Fund of the U.S. Government. After further discussion, the National Geospatial-Intelligence Agency (NGA) also joined NSA on the inquiry because this issue was presented in their Management Letter by KPMG.

The agency's management and the auditor agree that the deposits are non-federal, non-entity assets. The disagreement is with the presentation of the asset on the balance sheet. The auditor believes the deposits should not be an intragovernmental (FBWT) asset but instead should be reclassified to a non-federal line on the balance sheet.

Staff researched the issue and met with all pertinent parties in March 2019 to discuss the topic. Ms. Batchelor provided a staff paper that detailed the history of paragraph 31 and what appeared to be the Board's intent to resolve the issue. Ms. Batchelor noted that FBWT is an intragovernmental aggregate account between federal agencies and the General Fund of the U.S. Government, and it is where funds are kept until needed to fulfil the non-entity orders. In addition, the amendments to SFFAS 1 by SFFAS 31, *Accounting for Fiduciary Activities*, contributed to the lack of clarity and differences regarding application of the intragovernmental classification in SFFAS 1. Further, inclusion of "other non-federal non-entity deposit funds" in paragraph 31 of SFFAS 1 was to provide similar treatment for activities that were very closely aligned with fiduciary activity rather than to require similar treatment for activities that were explicitly excluded from the provisions of SFFAS 31.

Ms. Batchelor explained the fiscal year (FY) 19 financial statement audits; the NSA Inspector General and KPMG issued a “Notification of Finding and Recommendation (NFR)” to NSA regarding the topic. This is the second straight year NGA received an NFR from KPMG.

Therefore, it appears the FASAB staff position paper and related meeting with NSA, NGA, Office of the Inspector General, and KPMG in March 2019 did not bring resolution to the matter. KPMG did not accept the staff paper as resolution because the staff position paper does not clarify the application of GAAP to the presentation of NSA’s deposit fund asset.

Therefore, Ms. Batchelor explained that she believed GAAP-level guidance would be necessary to resolve this issue and an Interpretation would be the most appropriate GAAP vehicle.

Question 2 – Does the Board agree with the staff recommendation to propose an Interpretation to address the nonfederal non-entity FBWT issue?

After discussing the topic, Mr. Scott polled the members. The Board agreed an Interpretation should be the GAAP vehicle to address the SFFAS 1, paragraph 31 non-entity FBWT issue.

Next steps: The Board agreed that an Interpretation would be the appropriate GAAP vehicle to address the SFFAS 1, paragraph 31 non-entity FBWT issue. Staff will begin drafting the Interpretation for the Board’s consideration at a future Board meeting.

- **Steering Committee**

The Steering Committee discussed personnel matters.

The Board meeting adjourned for lunch.

- **Reporting Model Collaboration Briefing**

Mr. Simms and Mes. Gilliam and Wu, assistant directors, introduced the discussion on the reporting model from [tab F](#) of the briefing materials. The objective of the discussion was to discuss

- the interrelationships among the current reporting model phase II, note disclosures, and management’s discussion and analysis (MD&A) amendments projects;
- common objectives; and
- next steps.

The assistant directors discussed the objective and status of their projects and noted areas where there may be similar topics among them. For instance, each project will contribute to similar reporting objectives, especially budgetary integrity and operating performance. Staff will be collaborating on issues related to these objectives.

Question 1 – Does the Board agree with the staff recommendation to combine the reporting model phase II, note disclosures, and MD&A projects?

The Board did not agree to combine the financial statements component of the reporting model phase II project with the note disclosures project or combine the RSI component of the reporting model phase II project with the MD&A project. Members expressed concern that combining the projects would stall progress. In the past, the Board had attempted to conduct the reporting model improvement initiative as a single project; however, the Board found this approach challenging to manage.

Question 2 – If the Board does not agree with the staff recommendation, how would the Board like to proceed with the reporting model phase II, note disclosures, and MD&A projects?

The Board agreed to maintain the current approach, conducting the reporting model phase II, note disclosures, and MD&A projects concurrently. Members concluded that more progress could be made using this approach. Also, members noted that staff should collaborate when similar topics among the projects arise. In addition, members noted that staff should refine the objective for each project to ensure agreement on the desired “end state” and help determine the specific steps that would be needed to achieve the objective. For instance, the project objective could be developed to complete a sentence such as:

“When a user finishes reading the MD&A or budgetary information, the reader will understand_____.”

Also, preparing a diagram to illustrate the interrelationships among the projects, timelines, and deliverables would be helpful to members. In addition, to help collaborate on similar issues among the projects, the staff briefing memo could discuss how an issue affects the other projects.

Question 3 – Does the Board agree with the staff recommendation with respect to electronic reporting and data quality and integration? If not, how would the Board like to address the evolution and impact of data and technology in financial reporting?

The Board agreed with the staff recommendation to consider electronic reporting and data quality and integration as integral parts of its standards-setting and related efforts in general rather than initiating distinct projects regarding those topics. The Board encouraged staff to continue providing education sessions to help the Board stay abreast of technological innovations relevant to accounting and financial reporting.

Next steps: For the February 2020 meeting, staff will provide revised objectives and work plans.

Adjournment

The Board meeting adjourned for the day at 4:30 p.m.

Wednesday, December 18, 2019

Agenda Topics

- **Land**

Mr. Savini, assistant director, directed the Board to [tab D](#) containing (1) the dissent of Messrs. Soltis and Bell on the draft SFFAS 58 titled *Accounting and Reporting of Government Land* and (2) the draft SFFAS. Prior to reviewing [tab D](#), staff provided an overview of the objectives underlying the Board's current proposal and SFFAC 6, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*.

The principal provisions of the proposed Statement involve replacing the requirement to report general property, plant, and equipment (G-PP&E) land on the balance sheet at historical cost with a requirement to disclose estimated acres of land (non-financial information) for both G-PP&E land and stewardship land in three discrete predominant land use sub-categories. Effective in FY 21, the estimated acre information initially would be presented as required supplementary information (RSI) with an expected transition to note disclosures in FY 24.

Messrs. Soltis and Bell explained their reasons for their dissent. The major concern is that not enough is known about the cost of preparing and auditing the non-financial acre information to ascertain whether the benefit of moving the information from RSI to note disclosures is greater than the cost of doing so. In their opinion, both acres and predominant use classifications have not been previously audited, and the amount of precision needed around them has not been sufficiently established. As such, they believe the Board needs to make a firm commitment, explicitly referenced in the standards, to reassess the costs and benefits of the information before determining a date for the transition from RSI to note disclosures.

The Board discussed these concerns and the reasons for proceeding with the requirements in the draft Statement. These reasons included:

- Remembering the ongoing responsibility of FASAB to monitor all issued guidance and implementation challenges and to respond accordingly
- Communicating clearly to interested parties the Board's responsibility for such monitoring

- Remembering GAO's commitment to issue audit guidance relative to non-financial information as appropriate
- Using working groups to monitor and address implementation issues as they arise during the transition period
- Considering extending the transition period before acre information would be reported in the notes to the financial statements
- Retaining a date-certain to encourage deployment of preparer resources during the transition period in a timely and prudent manner
- Remembering that Statements do not require unanimous Board member approval

As such, members seemed reluctant to remove the specific requirement for transitioning from RSI to note disclosures in the standard. However, they were open to extending the transition period, and some members suggested conditioning the transition on a reassessment of the guidance. Messrs. Soltis and Bell appeared open to alternatives that would clearly communicate and ensure that the Board will revisit implementation challenges during the transition period.

Next steps: Staff will consider the feedback from the Board members and suggest alternatives at the February 2020 meeting for finalizing the Statement.

Adjournment

The Board meeting adjourned at 11:00 a.m.