

QUESTIONS FOR RESPONDENTS

The Board encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also welcomes your comments on other aspects of the proposed Statement. Because the proposals may be modified before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

The questions in this section are available in a Word file for your use at <http://www.fasab.gov/documents-for-comment/>.

Your responses should be sent by e-mail to fasab@fasab.gov. If you are unable to respond by e-mail, please fax your responses to (202) 512-7366. Alternatively, you may mail your responses to:

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Federal Accounting Standards Advisory Board
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All responses are requested by July 30, 2018.

Q1. The Federal Accounting Standards Advisory Board (FASAB or “the Board”) proposes reclassifying general property, plant, and equipment (G-PP&E) land as a non-capitalized asset with no dollar amounts reported on the balance sheet. Any future acquisitions of land would be expensed on the statement of net cost. Disclosures regarding G-PP&E land would be required. For the proposed amendments, refer to paragraphs 8-10 (for component reporting entities) and 16 (for the consolidated financial report of the U.S. Government). For a detailed discussion and related explanation refer to paragraphs A9–A16, A21–A24, and A39–A41 in Appendix A: Basis for Conclusions.

- a. **Do you agree or disagree with the Board’s proposal to reclassify G-PP&E land as a non-capitalized asset with no dollar amounts reported on the balance sheet and expense future acquisitions on the Statement of Net Cost? Please provide the rationale for your answer.**

Disagree – The Board’s proposal is inconsistent with existing financial reporting frameworks. The International Public Sector Accounting Standards (IPSAS) require capitalization of land. The European Union is pursuing introduction of harmonized European Public Sector Accounting Standards (EPSAS) based on IPSAS. For example, the following countries currently already include capitalized land in their financial statements:

- Canada
- United Kingdom
- Germany
- Australia
- France
- Japan
- India.

The International Monetary Fund (IMF) placed significant importance on land to governmental financial reporting in its 2013 working paper, entitled “Another Look at Governments’ Balance Sheets: The Role of Nonfinancial Assets.” The working paper emphasized the significance of non-financial assets, including land, to the financial condition of the reporting Government. The working paper also highlighted the recent trend of increasing reporting of non-financial assets in countries’ financial statements.

Local Government and commercial accounting frameworks, including the Government Accounting Standards (GASB), Financial Accounting Standards Board (FASB), and the International Financial Reporting Standards (IFRS), all require the capitalization of land in the basic financial statements.

Moreover, the vast majority of United States Federal Government reporting entities have been able to successfully comply with the requirements of Statements of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment*.

Given the preponderance of financial reporting frameworks which require the capitalization of land, the Board does present a clear case that the users of Federal financial statements have different needs than other world-wide users of financial statements and would benefit from the Board’s proposed change.

The Board also cites that the inconsistency in reporting standards mandates this change. Those inconsistencies resulted from changes in FASAB standards subsequent to SFFAS No. 6, and changes which moved away from the approach of substantially all other financial reporting frameworks.

Most of those inconsistencies could be resolved with two simple changes: 1) allow asset classification to be determined based on predominant current period use under SFFAS No. 6, and provide a valuation methodology; and 2) eliminate the option to exclude land from the beginning balance of PP&E, and provide valuation methodology options (i.e., buildings and land are a combined set which should not be unbundled).

The Board believes that the proposed changes would reduce preparer burden. For substantially all Federal reporting entities which have successfully implemented SFFAS No. 6, the preparer burden is virtually nil. They currently have financial systems that accurately capture and report this information. Given that land transactions are generally not high-volume, those agencies experience little reporting burden.

Conversely, the Board's proposed changes would increase the reporting burden for those agencies. Besides having to restate financial statements, reporting agencies would need to assess, identify, and capture three new sub-categories. For many Federal reporting entities, these reporting changes are not easily incorporated into their existing financial information systems.

These entities would also need to track and compile acres of land, physical quantity information, estimated acres held for disposal or exchange, and predominant land use. These new reporting requirements will necessitate new financial reporting processes. They will also encounter the previously discussed limitations of existing financial reporting systems. If agencies are forced to develop "one-off" or "cuff systems" to address these new reporting requirements, the risk of reporting errors greatly increases.

b. Do you agree or disagree that land information should be presented as basic information in the G-PP&E note disclosure? Please provide the rationale for your answer.

Agree – Land should be a component of the G-PP&E. For reasons discussed in the preceding section, reporting entities may not easily capture some of the new reporting elements in the proposed change. This would increase preparer burden, as well as the risk of errors.

- Q2. The Board has developed uniform disclosure requirements for G-PP&E land and stewardship land (SL). Both G-PP&E land and SL would be further disaggregated into three predominant use sub-categories. For each of the sub-categories, the following disclosures would be required from each component reporting entity: (1) a description of the entity's policies, (2) physical quantity information, (3) estimated acres of land, (4) estimated acres of land held for disposal or exchange, (5) a general description of the types of land rights acquired by the entity, and (6) a reference to deferred maintenance and repairs information. Required disclosures for the government-wide financial statements include items (1), (3),

and (4) above, as well as a general reference to agency reports for additional information. For the proposed amendments, refer to paragraphs 10, 13, 15, and 16. For a detailed discussion and related explanation refer to paragraphs A25, A33–A41, and A53–A54 in Appendix A: Basis for Conclusions.

- a. Do you agree or disagree with the Board’s proposed component reporting entity disclosure requirements for G-PP&E land and SL? Please provide the rationale for your answer.**

Disagree – The proposed information would be insightful to financial statement users. However, if one objective of the proposed changes is to reduce “preparer burden”, the new reporting requirements greatly increase “preparer burden.” For example, agencies will be required SL land acreage between Conservation and Preservation and Commercial Use. Most agencies do not have financial reporting processes and infrastructure to support these new requirements. Because this information is dynamic, these new requirements would become an ongoing activity of the financial reporting cycle. As previously discussed, most agencies’ financial reporting systems are not designed to capture the new required information; therefore, they will be forced to develop labor-intensive and error-prone manual workarounds.

- b. Do you agree or disagree with the Board’s proposed government-wide financial statement disclosure requirements for G-PP&E land and SL? Please provide the rationale for your answer.**

We disagree with the Board's proposal for reasons discussed in Q2.a. above.

- Q3. The Board proposes retaining both the G-PP&E land and SL categories for an entity’s land holdings. For the proposed amendments, refer to paragraphs 8–14. For a detailed discussion and related explanation refer to paragraphs A17–A24 in Appendix A: Basis for Conclusions.

Do you agree with retaining the G-PP&E land and SL categories? Please provide the rationale for your answer.

We agree. Substantially all agencies currently use these categories to report land, and the characterization is beneficial to financial statement users.

We disagree with not capitalizing land with building cost as discussed in Q1.a.

- Q4. The Board proposes to revise the G-PP&E land and permanent land rights definitions. In addition, the Board proposes definitions for the following terms: acres of land held for disposal or exchange, commercial use land, conservation and preservation land, and operational land. For the proposed amendments, refer to paragraphs 8–11. For a detailed discussion and related explanation refer to paragraphs A9–A16 and A25–A33 in Appendix A: Basis for Conclusions.

Do you agree or disagree with the Board’s proposed G-PP&E land and permanent land rights definition and the related sub-category definitions? Please provide the rationale for your answer.

We disagree with the Board's proposed sub-category definitions for reasons discussed in Q2.a.

We agree with the Board's proposed G-PP&E land and permanent land rights definition as they more closely resemble in use and characteristic SL.

- Q5. The Board proposes amendments to the current definition of SL including footnote 16 and definitions for the following terms: acres of land held for disposal or exchange, commercial use land, conservation and preservation land, and operational land. For the proposed amendments, refer to paragraphs 12–14. For a detailed discussion and related explanation refer to paragraphs A9–A16, A21–A24, and A26–A33 in Appendix A: Basis for Conclusions.

Do you agree or disagree with the Board's proposed definition of SL, including footnote 16 and the related subcategory definitions? Please provide the rationale for your answer.

We disagree for reasons discussed in Q1.a, Q1.b, and Q2.a, most agencies do not have the processes, people, and information infrastructure to accurately and efficiently report the new disclosure requirements. These standards would increase—*not decrease*—“preparer burden.”

- Q6. The Board is proposing a two-year implementation period, which would make the proposed requirements effective for reporting periods beginning after September 30, 2021. For a detailed discussion and related explanation refer to paragraphs 19, A9–A12, A42–A45, and A51–A52 in Appendix A: Basis for Conclusions.

Do you agree or disagree with the proposed effective date? Please provide the rationale for your answer.

We disagree for reasons discussed in Q1.a, Q1.b, and Q2.a, we do not agree with the proposal and do not believe that, in the current constrained budget environment, most agencies can develop the processes, hire and train necessary people, and create and/or modify information infrastructure within the proposed timeframe.

- Q7. The Board has continually noted the fundamental challenges associated with developing and documenting information regarding historical assets like land. Technical Release (TR) 9, *Implementation Guide for Statement of Federal Financial Accounting Standards 29: Heritage Assets and Stewardship Land*, paragraph 85 states in part that a methodology needs to be employed to develop documentation to support management's assertions of federal ownership. For a detailed discussion and related explanation refer to paragraphs A51–A54 in Appendix A: Basis for Conclusions.

- a. Would incorporating any of the guidance contained in TR 9 in the proposed accounting standards facilitate the preparation and auditing processes? For example, should the list of examples of the supporting documentation contained at paragraph 85 in TR 9 be incorporated, changed, or expanded to facilitate implementation of the proposed requirements? Please provide the rationale for your answer.**

Agree – Examples provide useful guidance but will never be all-inclusive. From that perspective, they can only be presented as examples and not prescriptive.

Ultimately, management needs to conclude if they have reasonable support for their position.

- b. What type of implementation guidance should FASAB provide that enables (1) flexibility for supporting estimated acres of land and (2) assistance in identifying predominant use as well as selecting appropriate physical unit categories? Please provide the rationale for your answer.**

See discussion in Q7.a above.

- Q8. The Board encourages respondents to not only provide input concerning any and all aspects of the proposed changes, but also other matters that may not have been specifically addressed in this exposure draft. In addition, the Basis for Conclusions explains the Board's goals for this proposal (see discussion beginning at par. A1) and also discusses other issues raised by task force members, as well as experts and practitioners both within and external to government (as an example, see par. A1–A12, A42–A45, and A46–A50). Moreover, the Board is interested in receiving comments specific to the following matters:
- (1) Its proposed use of non-financial information (NFI) as a means to provide information more relevant than the financial recognition and measurement of land
 - (2) Whether requiring the disclosure of “estimated acres of land” instead of “acres of land” would provide preparers greater flexibility and reduced burden while still ensuring that user needs are met
 - (3) The determination and application of materiality to NFI (that is, the appropriate considerations for NFI)
 - (4) Whether materiality is affected by the presentation of land information as basic, required supplementary information, or other information. For example, identify challenges in estimating the NFI in each of the three categories identified above.

- a. Please provide your thoughts and rationale concerning the four areas noted above.**

NFI can certainly present other useful information to the financial statement users. Reporting requirements must be balanced against “preparer burden,” as discussed in Q1.a, Q1.b, Q2.a, Q5, and Q6.

Please provide any other comments or suggestions you have regarding the goals for this project, other issues identified in the Basis for Conclusions, or other areas that have not been addressed.