Federal Accounting Standards Advisory Board

OMNIBUS AMENDMENTS

RESCINDING STATEMENT OF FEDERAL FINANCIAL ACCOUNTING STANDARDS 8
AND AMENDING
STATEMENTS OF FEDERAL FINANCIAL ACCOUNTING STANDARDS 5, 6, AND 49

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by April 23, 2019

February 22, 2019

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

Accounting standards are typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. FASAB publishes the proposed standards in an exposure draft for public comment. In some cases, FASAB publishes a discussion memorandum, invitation for comment, or preliminary views document on a specific topic before an exposure draft. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standards with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information and other items of interest are available at www.fasab.gov:

- Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board
- Mission statement
- Documents for comment
- Statements of Federal Financial Accounting Standards and Concepts
- FASAB newsletters

Contact Us

Federal Accounting Standards Advisory Board
441 G Street, NW
Suite 1155
Washington, D.C. 20548
Telephone 202-512-7350
Fax 202-512-7366
www.fasab.gov

Federal Accounting Standards Advisory Board

February 22, 2019

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or "the Board") requests your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards, entitled *Omnibus Amendments*. Specific questions for your consideration appear on page 3, but you are welcome to comment on any aspect of this proposal. If you do not agree with specific matters or proposals, your responses will be most helpful to the Board if you explain the reasons for your positions and any alternatives you propose. Responses are requested by April 23, 2019.

All comments received by FASAB are considered public information. Those comments may be posted to FASAB's website and will be included in the project's public record.

Mail delivery is delayed by screening procedures. Please provide your comments by email to fasab@fasab.gov. If you are unable to email your responses, we encourage you to fax comments to 202-512-7366. Alternatively, you may mail your comments to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 1155
Washington, D.C. 20548

We will confirm receipt of your comments. If you do not get a confirmation, please contact our office at 202-512-7350 to determine if your comments were received.

FASAB's rules of procedure provide that the Board may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft.

FASAB will publish notice of the date and location of any public hearing on this document in the Federal Register and in its newsletter.

Sincerely,

D. Scott Showalter
Chair

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

This proposal would:

- eliminate the required supplementary stewardship information (RSSI) category by rescinding Statement of Federal Financial Accounting Standards (SFFAS) 8, *Supplementary Stewardship Reporting*, and
- update references to leases in SFFAS 5, *Accounting for Liabilities of the Federal Government*, SFFAS 6, *Accounting for Property, Plant, and Equipment,* and SFFAS 49, *Public-Private Partnerships: Disclosure Requirements,* and make a minor change for clarity.

HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

Stewardship information includes data on the investments the government makes to benefit the nation in the future. Stewardship investments include investments in roads and bridges, human capital, and research and development. However, other definitions of investments encompass additional programs benefiting the nation in the future, and outreach to users revealed a preference for investment information readily available from the Office of Management and Budget. Rescinding SFFAS 8 would remove a reporting requirement that users have not relied upon while clarifying that reporting entities have the option to present stewardship investment information in categories more known to users.

References in SFFAS 5, 6, and 49 to "capital" and "operating" leases may be confusing in light of lease accounting standards promulgated in SFFAS 54. Under SFFAS 54, leases will no longer be categorized as "capital" or "operating." This proposal would make conforming changes to terminology related to leases. In addition, SFFAS 6 contains a list of the types of costs to be capitalized as general property, plant, and equipment. One item in the list refers to "material amounts" and some find it confusing to identify only one of the example cost with the "material amounts" qualifier and not the others. For clarity, the Board proposes to remove the phrase "material amounts."

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QUESTIONS FOR RESPONDENTS

The Federal Accounting Standards Advisory Board (FASAB or "the Board") encourages you to become familiar with all proposals in the Statement before responding to the questions below. In addition to the questions below, the Board also welcomes your comments on other aspects of the proposed Statement. Because FASAB may modify the proposals 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 are especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to 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 regarding implementing this proposal.

The questions in this section are available in a Microsoft Word file for your use at https://www.fasab.gov/documents-for-comment/. Your responses should be sent to fasab@fasab.gov. If you are unable to respond by email, please fax your responses to 202-512-7366. Alternatively, you may mail your responses to:

> Wendy M. Payne, Executive Director
> Federal Accounting Standards Advisory Board
> Suite 1155
> 441 G Street, NW, Suite 6814
> Washington, D.C. 20548

All responses are requested by April 23, 2019.

Q1. The Board is proposing to rescind Statement of Federal Financial Accounting Standards (SFFAS) 8, *Supplementary Stewardship Reporting*, in its entirety. SFFAS 8 designated the required supplementary stewardship information (RSSI) category for reporting stewardship investments; therefore, rescinding SFFAS 8 would eliminate the RSSI category and reduce confusion caused by the unique category designation. Refer to paragraph 2 and Appendix A, paragraphs A1-A3.

Do you agree or disagree with the Board's proposal to rescind SFFAS 8 and eliminate the RSSI category? Please provide the rationale for your answer.

Q2. Reporting entities have broad responsibilities and are called upon to report their goals, accomplishments, and costs in management's discussion and analysis (MD&A). For some reporting entities, stewardship investments are significant and warrant discussion in the MD&A. The Board believes reporting entities will present information on stewardship investments in the basic financial statements and MD&A when such activities are significant. No guidance or requirements are proposed in this exposure draft (ED), but the Board may propose requirements in a later ED. Refer to Appendix A, paragraph A4.

Do you agree or disagree that guidance is needed in the future? If so, please provide your suggestions regarding future guidance. Please provide the rationale for your answer.

Q3. SFFAS 54, *Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government, and SFFAS 6, Accounting for Property, Plant, and Equipment*, amended the lease standards in SFFAS 5 and 6, including references to “capital” and “operating” leases. SFFAS 5, 6 and 49 include references to language amended by SFFAS 54. These proposed amendments further clarify the revised lease accounting standards by eliminating outdated references used in the standards. Refer to paragraphs 3-12.

Do you agree or disagree with the proposed amendments to SFFAS 5, 6 and 49? Please provide the rationale for your answer.

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PROPOSED STANDARDS

SCOPE

1. This Statement applies to federal entities that present general purpose federal financial reports (GPFFRs), including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

ELIMINATING THE REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION CATEGORY

2. This paragraph rescinds SFFAS 8, *Supplementary Stewardship Reporting*, in its entirety, including the requirement for reporting information in the required supplementary stewardship information (RSSI) category.

AMENDMENTS TO SFFAS 5, 6 AND SFFAS 49

3. SFFAS 54, *Leases: An Amendment of Statement of Federal Financial Accounting Standards (SFFAS) 5, Accounting for Liabilities of the Federal Government, and SFFAS 6, Accounting for Property, Plant, and Equipment,* amended the lease standards in SFFAS 5 and 6. This Statement amends certain references to leases affected by SFFAS 54 as well as other minor changes to improve clarity of existing Statements.

4. Specifically, this Statement amends the following documents:

   - SFFAS 5, *Accounting for Liabilities of the Federal Government*
   - SFFAS 6, *Accounting for Property, Plant, and Equipment*
   - SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*

5. This paragraph amends paragraph 15 of SFFAS 5 to remove a reference to capital leases:

   15. This section presents a definition and criteria for recognizing a liability and related disclosure requirements. It also provides specific standards for contingencies, ~~capital leases,~~ federal debt, pensions, other postemployment and retirement benefits, and insurance (other than social insurance) and guarantees.

6. The revised paragraph 15 of SFFAS 5 is as follows:

   15. This section presents a definition and criteria for recognizing a liability and related disclosure requirements. It also provides specific standards for contingencies, federal debt, pensions, other postemployment and retirement benefits, and insurance (other than social insurance) and guarantees.

7. This paragraph amends paragraph 18 of SFFAS 6 by revising the first bullet as follows:

   18. Property, plant, and equipment also includes:

- assets ~~acquired through capital~~ recognized as a result of leases (see SFFAS 54: *Leases,* for guidance regarding leases to be recognized as PP&E assets) ~~(See paragraph 20), including~~ and leasehold improvements;

- property owned by the reporting entity in the hands of others (e.g., state and local governments, colleges and universities, or Federal contractors); and

- land rights.[footnote omitted]

8. The revised paragraph 18 of SFFAS 6 is as follows:

   18. Property, plant, and equipment also includes:

   - assets recognized as a result of leases (see SFFAS 54: *Leases,* for guidance regarding leases to be recognized as PP&E assets) and leasehold improvements;

   - property owned by the reporting entity in the hands of others (e.g., state and local governments, colleges and universities, or Federal contractors); and

   - land rights.[footnote omitted]

9. This paragraph amends paragraph 26 of SFFAS 6 by revising the final bullet to remove a reference to "material amounts" because materiality applies to all of the bulleted items:

   26. All general PP&E shall be recorded at cost. Although the measurement basis for valuing general PP&E remains historical cost, reasonable estimates may be used to establish the historical cost of general PP&E, in accordance with the asset recognition and measurement provisions herein. Cost shall include all costs incurred to bring the PP&E to a form and location suitable for its intended use. For example, the cost of acquiring property, plant, and equipment may include:

   - amounts paid to vendors;

   - transportation charges to the point of initial use;

   - handling and storage costs;

   - labor and other direct or indirect production costs (for assets produced or constructed);

   - engineering, architectural, and other outside services for designs, plans, specifications, and surveys;

   - acquisition and preparation costs of buildings and other facilities;

   - an appropriate share of the cost of the equipment and facilities used in construction work;

   - fixed equipment and related installation costs required for activities in a building or facility;

- direct costs of inspection, supervision, and administration of construction contracts and construction work;
- legal and recording fees and damage claims;
- fair value of facilities and equipment donated to the government; and
- ~~material amounts of~~ interest costs paid.[footnote omitted]

10. The revised paragraph 26 of SFFAS 6 is as follows:

26. All general PP&E shall be recorded at cost. Although the measurement basis for valuing general PP&E remains historical cost, reasonable estimates may be used to establish the historical cost of general PP&E, in accordance with the asset recognition and measurement provisions herein. Cost shall include all costs incurred to bring the PP&E to a form and location suitable for its intended use. For example, the cost of acquiring property, plant, and equipment may include:

- amounts paid to vendors;
- transportation charges to the point of initial use;
- handling and storage costs;
- labor and other direct or indirect production costs (for assets produced or constructed);
- engineering, architectural, and other outside services for designs, plans, specifications, and surveys;
- acquisition and preparation costs of buildings and other facilities;
- an appropriate share of the cost of the equipment and facilities used in construction work;
- fixed equipment and related installation costs required for activities in a building or facility;
- direct costs of inspection, supervision, and administration of construction contracts and construction work;
- legal and recording fees and damage claims;
- fair value of facilities and equipment donated to the government; and
- Interest costs paid.[footnote omitted]

11. This paragraph amends footnote 7 of paragraph 15.b in SFFAS 49 by revising the footnote to remove the reference to capital and operating leases:

15. The following arrangements and transactions are not subject to the provisions of this Statement:

a. Non-lease acquisitions of property, plant, and equipment (PP&E) that are subject to the Federal Acquisition Regulations (FAR) and the private entity is not directly financing, operating, or maintaining the PP&E as part of an overall risk-sharing arrangement or transaction

b. Leases[7] that are not bundled[8] and are entered into using General Services Administration (GSA)-delegated authority (This Statement does not amend existing standards applicable to leases and those standards remain applicable to all such arrangements/transactions.)

FN 7 – The term leases includes enhanced use leases and ~~both capital and operating~~ other leases, as defined under current FASAB standards.

FN 8 – A bundled lease typically arises when parties to a leasing arrangement agree to include additional products or services in the leasing arrangement, some of which might be related or tied directly to the underlying leased product or services (for example, ~~software~~ product updates or maintenance). Although these additional products or services are not always expressly identified in the underlying lease agreement and may be documented in other agreements, they are nonetheless considered "bundled" with the underlying lease agreement.

12. The revised footnote 7 of paragraph 15.b in SFFAS 49 is as follows:

15. The following arrangements and transactions are not subject to the provisions of this Statement:

a. Non-lease acquisitions of property, plant, and equipment (PP&E) that are subject to the Federal Acquisition Regulations (FAR) and the private entity is not directly financing, operating, or maintaining the PP&E as part of an overall risk-sharing arrangement or transaction

b. Leases[7] that are not bundled[8] and are entered into using General Services Administration (GSA)-delegated authority (This Statement does not amend existing standards applicable to leases and those standards remain applicable to all such arrangements/transactions.)

FN 7 – The term leases includes enhanced use leases and other leases, as defined under current FASAB standards.

FN 8 – A bundled lease typically arises when parties to a leasing arrangement agree to include additional products or services in the leasing arrangement, some of which might be related or tied directly to the underlying leased product or services (for example, product updates or maintenance). Although these additional products or services are not always expressly identified in the underlying lease agreement and may be documented in other agreements, they are nonetheless considered "bundled" with the underlying lease agreement.

EFFECTIVE DATE

13. Paragraph 2 of this Statement is effective upon issuance.

14. The requirements of paragraphs 3 through 12 of this Statement are effective for reporting periods beginning after September 30, 2020. Early adoption is not permitted.

APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

This Statement may be affected by later Statements. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent Statements that amend this Statement. The authoritative sections of the Statements are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Statement for the rationale for each amendment.

PROJECT HISTORY

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

A1. SFFAS 8 established the required supplementary stewardship information (RSSI) category to distinguish information about the government's stewardship from basic financial statements and required supplementary information (RSI). The Federal Accounting Standards Advisory Board (FASAB or "the Board") reasoned that information about the government's stewardship may include non-financial data, may be based on projections or assumptions, and may not articulate with basic financial statements.[1] In addition, the importance of stewardship information needed to be highlighted[2] and receive more audit scrutiny than RSI.[3]

A2. Audit guidance for RSSI, however, was never developed. The Board consequently began eliminating the category by reclassifying most of the RSSI elements to the basic financial statements or RSI. Only the stewardship investments information remains in RSSI and this proposal would eliminate the requirement to present stewardship investments trend information.

A3. While the Board believes that the RSSI category should be eliminated, stewardship investment information in some form would help users assess whether government operations have contributed to the nation's current and future well-being. Stewardship investments include expenses incurred for nonfederal physical property, such as highways and bridges; expenses incurred to increase or maintain national economic productive capacity—investments in human capital; and expenses incurred for research and development that are intended to provide future benefits or returns. However, outreach regarding this proposal revealed that users may define "investment" more broadly than SFFAS 8 and prefer cash basis data that the Office of Management and Budget reports annually.

[1] SFFAS 8, par. 20.
[2] SFFAS 8, par. 111.
[3] SFFAS 8, par. 111 and 114.

A4. Nonetheless, stewardship investments may be significant for some reporting entities and warrant discussion in the management's discussion and analysis (MD&A). SFFAS 15 states that MD&A should provide "a clear and concise description of the reporting entity and its mission, activities, program and financial performance, systems, controls, legal compliance, financial position, and financial condition."[4] The Board believes reporting entities will present stewardship investment information in the basic financial statements and MD&A when such activities are significant. In addition, the Board plans to consider the need for additional MD&A guidance on this topic. Question number 2 on page 3 seeks input from respondents to aid the Board in considering additional MD&A guidance.

LEASES

A5. The Board believes it is appropriate to amend the necessary standards to eliminate confusing references to "capital" and "operating" leases used prior to the amendments in SFFAS 54. The terms "capital" and "operating" leases were eliminated with the issuance of SFFAS 54. This proposal provides conforming amendments to the following statements:

- SFFAS 5, *Accounting for Liabilities of the Federal Government*
- SFFAS 6, *Accounting for Property, Plant, and Equipment*
- SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*

CLARITY AMENDMENTS

A6. Paragraph 26 of SFFAS 6 provides a list of example costs that may be capitalized in the cost of acquiring PP&E. One item listed specifies, "material amounts of interest cost paid." Some find it confusing to identify only one of the example costs with the "material amounts" qualifier and not the others. The Board believes the minor edit to remove an unnecessary reference to "material amounts" will not change existing practice while improving the clarity of existing standards.

[4] SFFAS 15, par. 1.

APPENDIX B: ABBREVIATIONS

CFR	Consolidated Financial Report of the U.S. Government
FASAB	Federal Accounting Standards Advisory Board
GAAP	Generally Accepted Accounting Principles
GPFFR	General Purpose Federal Financial Report
MD&A	Management's Discussion and Analysis
OMB	Office of Management and Budget
RSI	Required Supplementary Information
RSSI	Required Supplementary Stewardship Information
SFFAS	Statement of Federal Financial Accounting Standards

FASAB Members

D. Scott Showalter, Chair

R. Scott Bell

Gila J. Bronner

Robert F. Dacey

George A. Scott

Michael H. Granof

Patrick McNamee

Graylin E. Smith

Timothy F. Soltis

FASAB Staff

Wendy M. Payne, Executive Director

Ross Simms, Assistant Director

Monica R. Valentine, Assistant Director

Federal Accounting Standards Advisory Board

441 G Street, NW

Suite 1155

Washington, D.C. 20548

Telephone 202-512-7350

Fax 202-512-7366

www.fasab.gov