

**FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD**  
**Board Meeting Minutes**  
**August 28-29, 2019**  
**Room 7C13**  
**441 G Street, NW**  
**Washington, D.C. 20548**

**Wednesday, August 28, 2019** ..... 1

**Attendance** ..... 1

**Administrative Matters** ..... 2

        • Approval of Minutes ..... 2

        • Updates and Clippings ..... 2

**Agenda Topics** ..... 2

        • Land ..... 2

        • Annual Report ..... 4

        • MD&A ..... 5

        • Software Licenses and Leases Implementation ..... 8

**Adjournment** ..... 10

**Thursday, August 29, 2019** ..... 10

**Agenda Topics** ..... 10

        • Reporting Model ..... 10

        • Note Disclosures (NODI) ..... 11

        • Materiality ..... 15

**Adjournment** ..... 16

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

**Wednesday, August 28, 2019**

**Attendance**

The following Federal Accounting Standards Advisory Board (FASAB or “the Board”) members were present throughout the meeting: Messrs. Scott (chair) and Bell, Mss. Bronner and Harper, and Messrs. Patton and Smith. Mr. Dacey was represented by Mr. O’Neill. Mr. McNamee was present on August 29. Mr. Soltis was present on August 29 and represented by Ms. Johnson on August 28. The executive director, Ms. Valentine, and general counsel, Ms. Motley, were present throughout the meeting.

## Administrative Matters

- **Approval of Minutes**

The Board approved the June meeting minutes prior to the meeting and confirmed that no new edits were necessary at the meeting.

- **Updates and Clippings**

Between the June and August meeting, the Steering Committee approved FASAB's budget for fiscal year 2020.

Mr. Scott welcomed everyone, including the two new members, Ms. Sallyanne Harper and Mr. Terry Patton. Mr. Scott encouraged the members to express their views and work together to continue improving FASAB's standards. Ms. Valentine welcomed Mr. Scott as the new chair and said that she looked forward to working with him.

Mr. Scott noted that staff had added the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board to the standards-setters' updates along with the Governmental Accounting Standards Board (GASB) and the International Public Sector Accounting Standards Board. He stated that the updates assist the Board with keeping current on the projects and discussions of the other standards-setters and making connections with current FASAB projects or potential projects. There were no other comments on the clippings or updates.

## Agenda Topics

- **Land**

Mr. Domenic Savini, assistant director, directed the Board to the draft Statement of Federal Financial Accounting Standards (SFFAS) on land from [tab B](#). Members discussed temporary land rights, the required supplementary information (RSI) transition period and effective date language, and the draft basis for conclusions.

**Question 1 – Do members believe that the revised basis for conclusions discussion adequately expresses its rationale relative to those factors the Board considered significant in reaching its conclusions? If not, what other discussion points would members wish to include?**

Members reviewed the revised draft basis for conclusions and, with no objections noted to the June edits, accepted the changes. In addition, members suggested the following substantive edits:

- Staff should state the Board's conclusion early in the basis for conclusions and clarify the proposed Statement's intent in the summary and in the basis for conclusions.

- At paragraph A1.d, staff should clarify that physical unit groupings do not contribute to either the operating performance or stewardship objectives. Acres do contribute to these reporting objectives.
- At paragraph A1.c, staff should supply a factual but general attribution.
- At paragraph A9.b, staff should clarify that the historical cost of land in the financial statements is of limited value, and the Office of Management and Budget (OMB) should provide language regarding “other sources.” This should be consistent with the Board’s conclusions surrounding the consistent availability of information and external user reliance on unaudited information.

**Question 2 – Do members agree with the suggested staff edits to SFFAS 6, *Property, Plant, and Equipment*, paragraph 40.f.i concerning temporary land rights? If not, please provide your rationale and any accompanying suggestions or edits.**

Members agreed to use the following language in lieu of the suggested staff edit at paragraph 40.f.i:

40.f.i. The reporting entity may exclude land and temporary land rights from the opening balance of general PP&E. If this alternative method is applied, in the future, the reporting entity should prospectively capitalize and depreciate or amortize newly acquired expense future land and temporary land rights acquisitions.

In addition, members agreed to a conforming edit (deletion) at paragraph 40.h.ii. The edits are to ensure that entities adopting to exclude land and land rights would need to prospectively capitalize and depreciate/amortize temporary land rights.

**Question 3 – Do members prefer the alternative structure and language over the current structure and language? If not, please provide your rationale and any accompanying suggestions or edits.**

Members preferred the alternate structure and language concerning the RSI transition and effective date. The alternate structure separates the transitional guidance from the disclosure requirements into two distinct paragraphs.

**Question 4 – Are there any remaining technical matters or suggested edits to the standards members wish to identify?**

Members did not identify any remaining technical issues, but the Department of the Treasury (Treasury) noted that additional issues might be identified in the review of the basis for conclusions.

## Next steps

- Staff will distribute via email a revised draft Statement incorporating the August meeting results.
- After staff has incorporated edits to this draft, a pre-ballot draft will be distributed so that the Statement can be balloted at the October meeting.

The Board meeting adjourned for lunch.

- **Annual Report**

Ms. Valentine presented the draft fiscal year 2019 FASAB annual report to the Board. She noted that the report will be released on November 15, 2019. She highlighted for the Board those sections of the report that are considered required by FASAB's rules of procedure. Additional information included in the report is the status of FASAB technical projects as of September 30, 2019, and a projected three-year plan of those projects.

Ms. Valentine informed the Board that the annual report had been scaled back to reduce redundancies. In June 2019, the Appointments Panel members had agreed to Ms. Valentine's recommendation to not include the potential projects section annually. Instead, this section will be included every other year at the most. Ms. Valentine explained that it would not be prudent of the Board to ask the community to comment on potential projects annually when it is evident that the Board will not be taking on any new projects in the coming year. However, the community is still being asked to comment on the Board's three-year plan.

Ms. Valentine noted that several members had provided editorial comments on the draft annual report that staff will make. One member suggested including an appreciation section in the report to recognize the many accomplishments of former FASAB executive director, Ms. Wendy Payne. All members agreed with the addition. Overall the new annual report format was well received by the members.

Ms. Johnson expressed concern over a comment in the performance survey about the Board's projects initiated by questions from the Department of Defense (DoD). She stated that her view of FASAB's work with DoD was not to ensure DoD obtains a "clean" audit opinion but to address unique circumstances and new issues not covered by the standards or due to gaps in the standards. It was also noted that the Board always considers how all federal entities are affected by issues raised by DoD.

Ms. Valentine informed members that they would have an opportunity to review the draft report again at the October meeting. The Appointments Panel will also review the report in October.

**Next steps:** Ms. Valentine noted that staff would update the draft annual report based on the comments received and bring the draft back to the Board in October for final review and approval.

- **MD&A**

Ms. Robin Gilliam, assistant director, presented [tabs C-1 and C-2](#). Ms. Gilliam first directed members to tab C-2 to review the background information. The management's discussion and analysis (MD&A) amendments project is a consolidation of the research conducted over the past 2+ years by the reporting model phase I: MD&A and stewardship investments improvements and risk reporting projects. As a result, the research phase is complete and the MD&A amendments project is in the development phase.

Ms. Gilliam also explained that the risk reporting project will remain active through the forward-looking and risk work being done for the MD&A amendments project and the future measurement uncertainty work that will be taken up in the note disclosures project. The reporting model: phase I project was subsumed by the MD&A amendments project and archived.

Ms. Gilliam presented the following to the Board.

#### **Tab C-1: Project Plan**

##### **Question 1 – Do members approve the proposed project plan for the MD&A amendments project?**

Because MD&A amendments is a new project, Ms. Gilliam requested that members turn to tab C-1 to review the proposed project plan. Some members were concerned about the time allocated to develop MD&A objectives. Ms. Gilliam explained that the timeline is an estimate and subject to change depending on how the work progresses.

Members did not object to the project plan.

#### **Tab C-2: Developing MD&A Objectives: Strategy and Budgetary Integrity Pilot**

Staff reviewed the Board's June 2019 decision to develop objectives for MD&A prior to developing standards. As a result, Ms. Gilliam presented a strategy using the reporting objectives found in Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*: budgetary integrity, operating performance, stewardship, and systems and control. Ms. Gilliam plans to use these as a framework to help members develop MD&A objectives.

The strategy includes a reporting objective analysis document for each reporting objective and a formula for writing objectives based on *Writing Clear Learning Objectives* from Boston University.

Ms. Gilliam explained that budgetary integrity was presented first due to its order in SFFAC 1 and not its relevance to MD&A. Due to past research by Mr. Ross Simms, assistant director, staff understands that operating performance and stewardship have more relevance than budgetary integrity and systems and control. However, to understand what members want to achieve in MD&A, it is necessary to walk through

each reporting objective. Therefore, staff used budgetary integrity as a pilot for the strategy.

Staff recommended that objectives be written to help preparers provide information that citizens want to know. Board members did not disagree. Members agreed that all objectives should be consistent and say “concisely explain” instead of interchanging with the verb “describe.”

### **Question 1 – Does the Board agree with the proposed budgetary integrity MD&A objectives?**

Members agreed that the following budgetary integrity objective addresses where resources come from and what they are used for:

**MD&A should concisely explain financing resources and the sources and status of budgetary resources.**

Members agreed that the following budgetary integrity objective addresses what happened during the reporting cycle to require a significant change in funding:

**MD&A should concisely explain why significant changes in budgetary and/or financing resources were needed during the reporting period.**

Members agreed that the following is a general characteristic, rather than an objective, that should lead to other objectives to encourage MD&A preparers to provide concise information in plain language. It should encourage preparers to only include information that will provide an easy to read story about the reporting entity. While standards cannot dictate how much a preparer should write, for example a couple paragraphs versus pages, members agreed that staff should continue working with OMB to update the A-136, *Financial Reporting Requirements*, to encourage a shorter, more concise MD&A.

**MD&A should concisely explain—in plain language—any budget and financial terms used, such as but not limited to, unfunded, unobligated, and net cost of operations.**

Members agreed that they did not want to include the following proposed objective because this information would not add value for a citizen’s understanding of how funding was received and how it was used:

~~**MD&A should concisely identify original legal authorities and what should be accomplished for budget and/or financing amount(s).**~~

### **Question 2 – Does the Board want to add any additional budgetary integrity MD&A objectives?**

Members agreed that the following objective should be considered as an operating performance objective or crosswalk between budgetary integrity and operating

performance. Therefore, the following objective will be discussed when members develop operating performance objectives.

**MD&A should concisely explain the relationships: (1) between the reported use of budgetary resources and the net cost of operations; and (2) between the status of budgetary resources and financial information, including assets and liabilities.**

Members agreed on the importance of providing information to communicate that fund balance with Treasury is an intragovernmental account with Treasury and does not represent true cash. However, members agreed that this objective was better suited for the significant accounting policy note and, therefore, should be referred to the note disclosure (NODI) project:

**The MD&A should concisely describe in plain language the relationship between budgetary resources and cash (and perhaps also fund balance with Treasury).**

### Next steps

- Members agreed to continue using the strategy to develop objectives for operating performance, stewardship, and systems and control.
- Members will determine when to call forth a **task force of agencies** to mock up MD&As according to the developed objectives and examples provided by staff. Members would then like to invite a **focus group of users**, particularly citizens, to determine the readability and understandability of the piloted MD&A.
- Members also agreed that—to improve reporting and reduce duplication—**implementation guidance and training** is needed to educate preparers on what content is more appropriate in MD&A than in notes, such as significant accounting policies.

### AGA-CEAR Request

Prior to closing the MD&A amendments session, Mr. Mark Reger, a previous OMB and Treasury Board member, briefed the Board as a representative of the Association of Government Accountants (AGA). Mr. Reger explained that he was sitting in for Mr. Hal Steinberg, also a former Board member, who wanted to address the Board in person about how the AGA Certificate of Excellence in Accountability Reporting (CEAR) program could assist the Board on the MD&A amendments project. Messrs. Reger and Steinberg want to continue the CEAR's goals of reporting citizen centric information that is consistent without limiting creativity.

FASAB thanked Mr. Reger for the AGA-CEAR's offer to help; however, the Board noted that there is much work to do in developing MD&A objectives before engaging a task force, which is where the AGA-CEAR's knowledge and connections might be utilized.

- **Software Licenses and Leases Implementation**

Mr. Ricky A. Perry, Jr., senior analyst, began the discussion by recapping the staff recommendation to develop a Technical Bulletin (TB) to clarify the accounting treatment for software licenses in tandem with the finalization of conforming amendments to Technical Release 16, *Implementation Guidance for Internal Use Software*, resulting from SFFAS 54, *Leases*.

Staff pointed out that a comment letter on the exposure document (ED) for the proposed Federal Financial Accounting Technical Release, *Conforming Amendments to Technical Releases for SFFAS 54, Leases*, identified the technical issues in the proposal (as summarized in [Tab G](#)). Similarly, staff has received numerous informal inquiries from the community regarding the treatment of software licenses.

Staff recommended using a TB (see [Tab G](#)), and indicated that such an approach would provide narrow guidance in a manner consistent with TB 2000-1, *Purpose and Scope of FASAB Technical Bulletins and Procedures for Issuance*, paragraphs 3-5.

**Question 1 – Does the Board agree with staff's recommendation to promulgate guidance on software licenses through use of a Technical Bulletin?**

**Question 2 – Do Board members wish to share their observations and views regarding how software licenses are handled in current guidance?**

Ms. Johnson, in response to the last bullet under the basis for staff's recommendation to issue a TB, questioned whether SFFAS 6 and SFFAS 10, *Accounting for Internal Use Software*, would ultimately need to be revisited at a later time.

Mr. Perry highlighted potential benefits of amending and/or revisiting those standards:

- The Board may wish to look at software-related issues more broadly, as opposed to specifically reviewing the treatment of software licenses.
- The Board may wish to consider intangible assets guidance.
- The Board may wish to make clarifying edits to existing language in these standards.

Staff explained that the TB approach provides a timely, viable solution, and the Board can revisit broader software- or intangible-asset-related accounting issues as a second step.

Mr. Smith observed that Board members did not disagree with the TB approach and encouraged the Board to proceed with the project to address the matter in a timely manner prior to fiscal year 2021.

Mr. Patton concurred with Mr. Smith's observation but noted—apart from the timing issue—it would be preferable, in some respects, to address intangibles as a whole; however, he acknowledged that the Board needs to develop timely guidance.

Ms. Harper expressed the importance of maintaining updated and relevant internal use software guidance, noting that changes in technology, subscription-based technology services, and operational practices may warrant revisiting these standards.

The Board agreed that issuance of a TB is appropriate, given the pending rescissions to paragraphs in existing guidance—SFFAS 5, *Accounting for Liabilities of the Federal Government*, and SFFAS 6—that take effect in fiscal year 2021 as a result of SFFAS 54. Board members agreed that the intent of the rescissions, which are currently used by the community as criteria for capitalizing and amortizing software licenses in a manner consistent with tangible assets that exceeds capitalization thresholds, was not to discontinue current practice. The Board agreed that a TB is the appropriate vehicle for addressing the matter.

Mr. Scott asked whether Board members were amenable to considering future projects on software issues and intangible assets more broadly. Members generally agreed that these topic areas serve as viable candidates for potential project opportunities. Members asked that staff conduct preliminary research on such opportunities for discussion at a future meeting to inform future technical agenda-setting discussions.

### **Question 3 – Do Board members agree with the proposed project plan for the leases implementation guidance project?**

Mr. Perry noted that Board members were generally supportive of the plan when providing their advanced responses to [Tab G](#); however, he noted certain members had concerns about the project plan timeline.

Some members expressed concerns that the project plan timeline for issuing implementation guidance four months prior to the beginning of fiscal year 2021 may result in challenges for agencies; particularly if there are delays to the project. Mr. Bell also noted that the Bureau of the Fiscal Service, as is typical, produces implementation guidance for the Treasury Financial Manual. He asked that staff coordinate efforts with the Bureau of Fiscal Service working group that is developing implementation guidance for federal financial managers.

Ms. Johnson demonstrated interest in learning more about whether a June 1, 2020, timeline for issuing guidance would provide sufficient time for agencies to consider such guidance in their implementation efforts. Mr. Bell agreed that this would be informative, but the Board would also likely need to learn more about the scope and extent of the guidance needed.

Mr. Perry recognized that the timeline may be challenging but noted that certain conditions may work in favor of a relatively efficient draft timeline. For example, staff is working with the task force to identify implementation issues in a systematic manner by (1) performing a content analysis of analogous GASB implementation issues and (2) surveying task force members and their constituents regarding issue areas that may be candidates for guidance. He pointed out that the recent issuance of GASB Implementation Guide 2019-3, *Leases*, is informative to the project and beneficial to the project timeline, given the similarities between SFFAS 54 and GASB Statement No. 87, *Leases*, in certain topic areas.

Members confirmed that they were comfortable with the timeline for the time being and asked that staff gather information from the task force regarding the present status of implementation efforts and the scope and extent of implementation issues. Staff will return to brief the Board on the state of such at the October 2019 Board meeting.

## **Adjournment**

The Board meeting adjourned for the day at 3:00 p.m.

***Thursday, August 29, 2019***

## **Agenda Topics**

- **Reporting Model**

Mr. Simms introduced the discussion on the reporting model from [tab E](#) of the briefing materials. The objective of the discussion was to approve the reporting model project plan so that staff may take action on the next agreed-upon step. The proposed project plan discussed enhancing component reporting entity budgetary and performance information in the federal government's open data environment and reporting concerns that have evolved since the Board developed the reporting model in the 1990s.

### **Question 1 – Does the Board agree with the proposed project plan, overall?**

Board members noted that, while the project is in the early stages, additional details regarding the planned research and possible outputs should be discussed in the plan. Given the rapid changes in technology, members discussed the need for more timely results than communicated in the plan. Also, although the proposed plan was intended to focus on component reporting entity issues, members agreed that the project should consider a framework that includes the government-wide perspective as well as component reporting entities. In addition, members volunteered to assist with identifying potential users to include in user needs research.

### **Question 2 – Do members have suggestions for enhancement to the plan?**

Board members suggested that staff consider the following:

- Ways to make the budgetary and performance information more meaningful to users
- Topics that could be addressed in tandem and considered in a single focus group to gain synergy
- The type of statement that could be developed and the steps needed to develop the statement
- The risks of a project that involves improving both budgetary and performance reporting and the need to focus on budgetary reporting, which is more in FASAB's purview than performance reporting
- Focus groups with external, non-government users, as well as internal users
- Education sessions that demonstrate the art of the possible
- Innovative practices of other sovereign government reporting models and state and local government models

**Next steps:** For the October 2019 meeting, staff will provide details for the first quarter of the project's research phase and incorporate members' suggestions in a revised plan.

- **Note Disclosures (NODI)**

Ms. Grace Wu, assistant director, and representative members from the NODI working group, including Mr. David Allen from Deloitte, Mr. Brian Casto from Treasury/Fiscal, Mr. Noah Hertach from Veteran's Affairs, Ms. Patricia Layfield from the Election Assistance Commission, and Ms. Debbi Thomas from 11<sup>th</sup> Hour Service, introduced the discussion on NODIs from [tab F](#) of the briefing materials. The objective was to obtain feedback on the NODI working group's research regarding the proposed decision questions to be used by the Board when establishing disclosure requirements of proposed standards.

### **Question 1– Does the Board agree with the proposed decision questions?**

At the August 2018 meeting, the Board agreed to the development of decision questions similar to FASB's Statement of Financial Accounting Concepts (SFAC) No.8, *Notes to Financial Statements, Appendix A Decision Questions to Be Considered in Establishing Disclosure Requirements*. As a result, the NODI working group reviewed and considered the applicability of FASB's decision questions to the federal environment. Using the FASB questions, the working group developed questions relevant to the federal environment.

Members of the working group presented a first draft of proposed NODI decision questions by topic. They discussed the following three areas for each topic: (1) proposed NODI questions for FASAB, (2) applicability to the federal environment, and (3) examples that may apply. They also discussed the reasons why they kept or changed FASB's decision questions, why they added new federal related questions, and why the questions were important in the federal environment. The Board generally agreed with the proposed decision questions and the method to categorize the questions by topic. Board members' feedback on each topic is summarized below:

- **Topic 1 – New or modified accounting pronouncements: evaluation of disclosures addressing new/modified accounting pronouncements.** Changes in pronouncements may have a direct or indirect effect on the information reported in federal financial statements and the related notes. Pronouncement changes should be communicated to provide the reader with an understanding of the influence on current and future year reports. Board members noted the term “cash flow” that is used by FASB is not a fundamental element to federal financial reporting. Instead, multiple factors related to federal proprietary and budgetary financial resources should be considered. The working group suggested using “financial resource” to replace “cash flow” in the decision questions. Board members generally agreed with the suggested term and the proposed questions.
- **Topic 2 – Alternative generally accepted accounting principles (GAAP): evaluation of the impact of alternative GAAP methods on disclosures.** As the Board has issued pronouncements that allow alternative methods, additional disclosures will help readers to understand the reasons for using an alternative method. Board members agreed with the proposed questions discussed in this topic.
- **Topic 3 – Line item considerations: evaluation of the disclosures regarding the impact to financial statement line items.** There may be instances where underlying changes for particular line items are non-routine due to changes in accounting, economic conditions, the composition of the entity, or contractual obligations or rights. Also, a line item with a direct relationship to another financial statement line item should be apparent. Board members discussed the possibility of consolidating the four questions in this topic into one question with wording like, “Is there any information within a line item that may impact the financial results due to measurements or other unique aspects of the line item?”
- **Topic 4 – Budgetary/proprietary impact considerations: evaluation of the budgetary/proprietary relationship and the impact on disclosures.** In some instances, the budgetary and proprietary relationship may not be completely understood by the user. Therefore,

relationships, whether direct or indirect, should be made known. Information should be provided to assist the user to make any assessments needed. One member suggested that the question in this topic could be reworded as, “Is the budgetary and proprietary relationship evident?”

- **Topic 5 – Method of measurement: evaluation of application of the measurement methods and the implications on disclosures.** Financial statements at both the component entity and consolidated levels include estimates based on assumptions, judgments, or other internal input. Although the federal environment likely has fewer instances for which alternative measurements could occur, there are some federal activities and types of transactions where alternative measurement methods apply. Board members discussed the need to disclose the impact of federal policies and events. They suggested combining topic 5, method of measurement, with topic 3, line item considerations, since they are connected. The Board also suggested adding another topic on the impact of federal policies/events.
- **Topic 6 – Uncertainties: evaluation of the uncertainty disclosures around assets, liabilities, and potential litigation.** Uncertainty is likely to impact the financial report user’s opinion of the entity’s ability to continue to support its operations, performance, and service. Disclosures provide a general catch-all analysis of any unusual events or circumstances that may not be easily categorized. Board members discussed the potential to align the questions with the risk project disclosure considerations and suggested staff collaborate on development questions on this topic.
- **Topic 7 – Phenomenon: evaluation of unusual or extraordinary activity and the applicable disclosures.** Phenomena in the federal environment may come in the form of shutdowns, government bail-outs, or extreme natural disasters. These phenomena are rare but do affect financial resources. Members noted that this topic could be connected with topic 6 (uncertainty); however, more specific descriptions should be added to differentiate it from topic 6.
- **Topic 8 – Binding arrangements/obligations: evaluation of disclosures applicable to legally binding agreements and obligations.** Reporting entities should disclose the impact of future outlays of financial instruments, contracts, or other types of binding agreements that impact future outlays. Board members agreed with the proposed questions discussed in this topic.
- **Topic 9 – Changes to nonfinancial assets: evaluation of disclosures impacted by changes in nonfinancial assets.** Reporting entities should disclose the change in the value of significant nonfinancial assets, as well

the entity's ability to complete its mission. Board members asked if the term "nonfinancial asset" was defined or used previously in existing standards. However, this term may be used in some federal reports for a meaning other than what the question refers to as depreciable, amortizable, or consumable nonfinancial asset. The Board directed staff to consider combining this topic with policy impact in topic 5.

- **Topic 10 – Stewardship: evaluation of disclosures applicable to stewardship transactions.** The function and mission of the federal government is to be a steward of taxpayers' dollars. The Board agreed that stewardship is an important federal responsibility, as the stewardship topic covers all government activities; therefore, it should be considered with all other topics rather than treated as a standalone topic.
- **Topic 11 – Categorization: evaluation of the disclosures that explain the categorization of items.** Users of the financial statements and any related disclosures could be impacted by the type of disclosure, whether it is basic, RSI or other accompanying information. One Board member pointed out that this topic is a question of placement rather than content. However, it can be included to see if it is an appropriate decision question.

### **Question 2 – Do members have any suggestions on the proposed decision questions?**

The Board generally agreed with the scope of the questions and suggested staff consider consolidating or streamlining decision questions in the next update. Members also noted that the current, substantial collection of well-researched NODI information now includes several principles, as well as 18 decision questions across 11 topics. Clarifying the topics and their interrelationships can facilitate the Board's broader discussion on NODIs.

### **Question 3 – Does the Board wish to discuss any other matters not identified in the proposed decision questions?**

The Board also briefly discussed the updated draft NODI principles. They provided suggestions about highlighting the core principles and connecting the principles to the supporting decision questions in a later draft.

### **Next steps**

- Staff and the working group will update the NODI decision questions based on the Board's feedback.
- Staff will continue to develop draft NODI principles based on the feedback received.

- **Materiality**

Ms. Wu introduced the discussion on an updated draft SFFAC titled *Materiality* from [tab A](#) of the briefing materials.

The Board discussed a few edits and comments on the updated draft Statement.

Mr. McNamee indicated his intent to dissent on the document due to his concern regarding the term “could reasonably be expected” in the materiality definition. He believes that the Board should defer action on this Statement until the Auditing Standards Board (ASB) completes its project on materiality. In its recently issued ED, the ASB changed the term used in the definition of materiality from “could reasonably be expected” to “substantial likelihood.” According to Mr. McNamee, if the ASB maintains this change in definition, FASAB should then seek public input on the implications of differences between the definitions of materiality in federal financial accounting concepts and auditing standards applied in the federal government.

“Substantial likelihood” was changed to “could reasonably be expected” based on discussion at the June 2018 Board meeting. At that time, the ASB was using “could reasonably be expected” in its materiality definition and had not issued its materiality ED. Mr. McNamee noted that one reason the Board changed the term at the June 2018 Board meeting was to be consistent with the auditing standards.

Staff reviewed the history of the terms used in the materiality definition. The other Board members also believe that alignment with the ASB definition was not a primary reason for the change in terminology in June 2018. Rather, the term “substantial likelihood” was replaced with “could reasonably be expected” because the Board noted that “substantial likelihood” had not been previously used by FASAB and would require a specific definition that could inhibit the preparer’s judgment when applying materiality. Members agreed that the term “could reasonably be expected” reflects a materiality level that this Board is comfortable with. In addition, the Board proposed “could reasonably be expected” in its ED and received positive feedback on the proposed materiality concepts.

The Board discussed the possibility of waiting for the ASB materiality standards to become final before proceeding with its final materiality concepts. One member asked if there was a compelling reason to issue the statement immediately. Another member noted that the statement was not time-sensitive. The Board considered the merits of convergence with the audit literature but ultimately decided that aligning the materiality definitions was not paramount. Several members agreed that the final outcome of the ASB standards would not change the Board’s current stance on using “could reasonably be expected” in its definition of materiality.

The Board members also discussed that materiality definitions vary among other standards-setters. The International Accounting Standards Board utilizes the term “could reasonably be expected” and FASB utilizes “probable.” A member noted that there is also the possibility that the ASB may decide to change its definition again. The

member stated that every standards-setter sets standards for the unique characteristics of its jurisdiction.

The Board agreed that the accounting and auditing materiality issues are different and therefore there was not a need to align the definitions. It was also noted that the Board could set an unusual precedent by waiting for the outcome of another standards-setting body's guidance before setting its own standards. The Board concluded that "could reasonably be expected" is appropriate in assessing materiality in the federal financial reporting environment.

The members suggested several edits to paragraph A13 to more clearly express the Board's views. The Board members other than Mr. McNamee agreed to proceed with the draft materiality concepts as updated based on the meeting discussions. The Board will move forward with an updated draft, followed by a pre-ballot, and a ballot Statement. Mr. McNamee will provide a dissent.

### **Next steps**

- Before the October Board meeting, staff will distribute an updated draft Statement based on the August Board meeting discussion.
- Staff will incorporate Mr. McNamee's dissent into the updated draft Statement and then distribute a pre-ballot based on the feedback received.
- Staff will prepare a ballot draft for consideration at the October meeting.

### **Adjournment**

The Board meeting adjourned at 12:45 p.m.