



FASAB Newsletter Federal Accounting Standards Advisory Board

April-May 2019 TABLE OF CONTENTS

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Staff News

Disclaimer

The staff of the Federal Accounting Standards Advisory Board publishes the FASAB newsletter following Board meetings to provide highlights of recent Board actions and issues. When an article refers to a Board decision, it should be understood that this is tentative until FASAB issues a Statement of Federal Financial Accounting Concepts (SFFAC) or Statement of Federal Financial Accounting Standards (SFFAS).

Please direct newsletter editorial questions to Leigha Kiger at 202-512-7358 or kigerl@fasab.gov.

Please direct FASAB and AAPC administrative questions to Romona Parker at 202-512-7350 or parkerr1@fasab.gov.

FASAB Bids Farewell to Wendy Payne

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) bids a fond farewell to Ms. Wendy Payne after her 28 years of service to the Board. Ms. Payne began her career with FASAB at its inception in 1991 as a project manager. In 1997, she became FASAB’s second executive director, assuming the responsibilities of helping to develop accounting standards for the federal government, resolving technical accounting issues, and managing the FASAB research staff. Throughout her time at FASAB, Ms. Payne exemplified outstanding financial management leadership and an indefatigable level of commitment to the federal financial management community. FASAB thanks Ms. Payne for her thoughtfulness, commitment, and kindness, which brightened the FASAB office and helped FASAB staff and the Board to accomplish so much.

Current Board Projects

(For more information, click on the title of the project to be directed to the related active project page.)

Accounting and Reporting of Government Land

At the April meeting, members discussed the draft basis for conclusions to ensure its sufficiency in communicating the Board's rationale regarding key matters deliberated. Members focused on three areas: project history, incorporation of the conceptual framework, and summary of outreach efforts.

Project History

Members generally agreed to rearticulate and reinforce some of the more important details of what led the Board to certain decisions concerning the land project. Additionally, members agreed to further increase transparency by adding a task force participant list (as used in the exposure draft [ED]) as an appendix to the draft Statement of Federal Financial Accounting Standards (SFFAS).

Incorporation of the Conceptual Framework

Members generally agreed to incorporate Statement of Federal Financing Accounting Concepts (SFFAC) 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*, specifically paragraph 9. The Board's decision concerning land is wholly consistent with FASAB's conceptual framework. In addition, FASAB can improve transparency with the disclosures.

One member summarized that the vast holdings of land in the federal government cannot adequately be conveyed to the public by trying to value land. This is due to the inherent limitations in valuation attributes and methods and the complexity of keeping said valuations relevant and reliable in a portfolio of over 622 million acres.

Summary of Outreach Efforts

Members clarified the intent of the Statement to better summarize key points made by the additional subject matter experts invited to the October 2018 meeting.

The Board also discussed a technical issue concerning temporary land rights (proposed amendment to SFFAS 6, *Accounting for Property, Plant, and Equipment*). The proposed amendment addresses entities adopting the guidance in SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35*. The amendment would allow entities opening balances pursuant to SFFAS 50 to expense future acquisitions of temporary land rights. Entities not adopting SFFAS 50 would be required to capitalize and amortize temporary land rights.

Next Steps

The Board asked staff to incorporate a revised basis for conclusions pursuant to Board re-deliberations and address the technical issue raised concerning temporary land rights.

Evaluation of Existing Standards

Assigning Liabilities

At the April 2019 meeting, the Board discussed responses to the ED, *Guidance on Recognizing Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*, and considered the staff analysis and recommendations.

The majority of respondents *generally disagreed* with the proposal that the sub-component reporting entity responsible for managing litigation would have the information needed to recognize contingent liabilities and should report information in accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*. In addition, the agency that requested guidance in this area determined that the impact of not including guidance would be immaterial or minimal. No other contingent liability examples have been provided for consideration.

The Board agreed with staff's recommendation to remove guidance for contingent liabilities from the proposed interpretation because there does not appear to be a need for guidance in the contingent liability area.

The majority of respondents *generally agreed* that the SFFAS 5 liability recognition criterion that "[a] future outflow or other sacrifice of resources is probable" should be considered met by the component reporting entity that recognizes the general property, plant, and equipment (PP&E) during its useful life. In that case, the liability should be reported on the balance sheet of the component reporting entity recognizing the general PP&E until the general PP&E and the associated liability are transferred to another entity for cleanup.

The Board agreed with staff's recommendation to move forward with the proposed Interpretation that addressed the cleanup costs. Staff will provide a draft proposed Interpretation before the June 2019 Board meeting for member comments. Staff will incorporate Board member comments with the goal of providing a pre-ballot proposed Interpretation at the June 2019 meeting.

Intragovernmental Allowances for Losses

At the April 2019 Board meeting, Treasury's Bureau of the Fiscal Service representatives provided the Board their perspective on the intragovernmental allowances for losses issue. Treasury had previously raised the concern regarding the recognition of losses against intragovernmental receivables among federal entities. Treasury does not believe it is appropriate for an agency to record a loss allowance for intragovernmental receivables, particularly in cases where the balances are required by statute to be repaid.

The Treasury representatives presented an overview of the intragovernmental allowances for losses, focusing on the history and composition of the intragovernmental differences. The presentation also provided detail regarding the Treasury Judgement Fund, one of the largest material allowances.

Treasury also discussed that it issued policy and made system changes to require no allowance for losses of intragovernmental receivables and to ensure consistent treatment government-wide. However, Treasury's Deputy Chief Financial Officer did not believe there was adequate justification to change the accounting for the Treasury Judgment Fund as suggested by the policy. Treasury believes SFFAS 1, *Accounting for Selected Assets and Liabilities*, paragraph 44 is not clear on whether it applies to intragovernmental receivables, implying that there could be delineation in the application of doubtful accounts against "public" and "intragovernmental" receivables.

The Board discussed whether the intragovernmental allowances for losses issue needed to be addressed. Certain members believed that the issues were bookkeeping or not within FASAB's purview. In addition, some believed it could be resolved without FASAB actions, either through the closing package, top level journal vouchers, or simply through judgment. The Board also noted that the allowance approach is not actually a "write-off" of a receivable; it is an adjustment to estimate the amount that is realizable.

However, the Board agreed that there appeared to be uncertainty regarding the language related to intragovernmental allowances for losses in SFFAS 1. The Board will determine how to clarify in the appropriate document according to the generally accepting accounting principles (GAAP) hierarchy.

Point of Contact: Melissa Batchelor, 202-512-5976, batchelorm@fasab.gov

Materiality

At the April 2019 Board meeting, staff presented a summary of comment letters from the materiality ED. Nearly all 19 respondents agreed with the proposed materiality guidance and its placement in SFFAC 1, *Objectives of Federal Financial Reporting*. The respondents agreed that the proposed materiality guidance provides a helpful discussion of users, scope, and factors to consider in the federal government environment. A number of respondents raised concerns about materiality differences by line item. The Board agreed to eliminate the line item discussion from the guidance.

Some respondents suggested different placement for the proposed materiality guidance in SFFAC 1. The Board agreed to insert a chapter titled *Materiality* between the current chapter 6: *Qualitative Characteristics of Information in Financial Reports* and chapter 7: *How Accounting Supports Federal Financial Reporting*. Members agreed not to add a detailed discussion on quantitative and qualitative considerations for materiality. The Board believes that its emphasis on the importance of evaluating both quantitative and qualitative factors in the determination of materiality, without providing specifics, allows entities broader flexibility in exercising materiality judgments.

The Board agreed not to reference other existing literature. The Board noted that the information would not be valuable and it is not the Board's intent to endorse or prioritize these sources. Staff will make other minor updates to the proposed guidance based on the feedback from the comment letters.

The Board agreed to forgo a hearing and proceed with finalizing the concepts statement.

Point of Contact: Grace Wu, 202-512-7377, wug@fasab.gov

Note Disclosures

The working group, in conjunction with staff, continues its research on developing the note disclosure principles, specifically questions for the Board to consider with developing note disclosure requirements.

Point of Contact: Grace Wu, 202-512-7377, wug@fasab.gov

Reporting Model Phase I: MD&A and Stewardship Investments Improvements

The Board considered a proposal to amend SFFAS 15, *Management's Discussion and Analysis*. Paragraph 2 of SFFAS 15 states that "MD&A should contain sections that address the entity's mission and organizational structure; performance goals, objectives, and results; financial statements; and systems, controls, and legal compliance." The proposed amendments would rescind the paragraph and references to the format requirements and permit reporting entities to structure MD&A in a manner most appropriate for communicating with general purpose federal financial report users.

The Board agreed to consider the amendments along with other amendments discussed in the risk reporting project.

Point of Contact: Ross Simms, 202-512-2512, simmsr@fasab.gov

Risk Reporting

At the April 2019 Board meeting, staff presented preparer interview responses. Staff also recommended amending SFFAS 15, instead of proposing an Interpretation. An amendment would be necessary to provide the additional guidance about financial effects of risk events. This is because "financial effects" is not specified in the standards. Staff also emphasized that SFFAC 3, *Management's Discussion and Analysis*, is written like an SFFAS, so portions of SFFAC 3 should be incorporated into SFFAS 15.

Ms. Payne shared the history of the Board's development of SFFAC 3 and SFFAS 15.

The Board originally worked on MD&A during the window in which it was seeking GAAP recognition from the American Institute of CPAs. SFFAC 3 is written more like an SFFAS to holistically describe MD&A even though it was exposed as a concepts statement.

During the response period, the audit and preparer community said that if FASAB wanted to achieve a GAAP-based statement that always included MD&A, the Board must create standards that required it. The Board, therefore, quickly used the MD&A outline from SFFAC 3 and proposed SFFAS 15 as required supplementary information.

In Ms. Payne's opinion, the guidance in SFFAC 3 is not concepts-based but standards-based and should be read by preparers to understand what to include in MD&A.

The Board agreed to amend SFFAS 15 with guidance from SFFAC 3. Members agreed that SFFAS 15 should be principles-based and risk reporting should be agency specific.

Therefore, staff will

- present options for how to discuss "financial effects" in MD&A;
- work on amendments for SFFAC 3 and SFFAS 15 simultaneously;
- include a definition that distinguishes between risks versus problems and financial versus non-financial effects of risk; and
- present amendments to SFFAS 15 that allow for MD&A discussion to improve in relation to an agency's enterprise risk management process.

If you are interested in joining a future working group for this project, please contact Ms. Robin Gilliam.

Point of Contact: Robin Gilliam, 202-512-7356, gilliamr@fasab.gov

[Accounting and Auditing Policy Committee](#)

April 1, 2019, was the comment deadline for the ED of a proposed Federal Financial Accounting Technical Release titled *Conforming Amendments to Technical Releases for SFFAS 54, Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment*. Staff is currently compiling comment letters for AAPC review.

Point of Contact: Monica Valentine, 202-512-7362, valentinem@fasab.gov

FASAB Meeting Schedule

June 26-27
August 28-29
October 23-24
December 17-18

Unless otherwise noted, FASAB meetings begin at 9 a.m. and conclude before 5 p.m. Meetings are held at the Government Accountability Office (GAO) at 441 G Street, NW in room 7C13. Agendas and briefing materials are available at <https://www.fasab.gov/briefing-materials/> approximately one week before the meetings.

AAPC Meeting Schedule

August 15
November 21

Unless otherwise noted, AAPC meetings begin at 1 p.m. and conclude at 3 p.m. Meetings are held at GAO at 441 G Street, NW in room 7C13. Agendas are available at <https://www.fasab.gov/aapc-activities/> approximately one week before the meetings.

Security Notice

If you wish to attend a FASAB or an AAPC meeting, please pre-register on our website at <https://www.fasab.gov/pre-registration/> **no later than 8 a.m. the Tuesday before the meeting to be observed.** GAO, which provides space for our meetings, has increased its security procedures, and your name must be provided in advance to the GAO security force before you can enter the building. **When you arrive, please advise the security officer that you are attending either a FASAB or an AAPC meeting. Doing so will assist the officer in locating the correct security list.** Thank you.