

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
Board Meeting Minutes
June 29-30, 2016
Room 7C13
441 G Street, NW
Washington, D.C. 20548

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Wednesday, June 29, 2016

Attendance

The following Federal Accounting Standards Advisory Board (FASAB or “the Board”) members were present throughout the meeting: Mr. Showalter, Ms. Bronner, Messrs. Dacey, Granof, McCall, Scott, and Smith. Ms. Ho was represented by Ms. Davis and Mr. Reger was represented by Ms. Kearney. The executive director, Ms. Payne, and general counsel, Ms. Motley, were also present throughout the meeting.

Administrative Matters

- **Approval of Minutes**

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

- **Updates and Clippings**

Mr. Showalter reported that both the American Institute of CPAs (AICPA) and the Association of Government Accountants have increased coverage of the Board's activities. He acknowledged Messrs. Granof and Bell for drafting an article that will likely be published in the *Journal of Accountancy*. Also, the tax expenditure project generated Twitter coverage.

Members viewed a video regarding the March 2016 public sector standards-setters forum hosted by the International Public Sector Accounting Standards Board (IPSASB) and the Governmental Accounting Standards Board (GASB).

Messrs. Granof and Dacey provided updates on the activities of GASB and IPSASB. Both boards are considering revenue and lease accounting as a result of the recent changes in nongovernmental standards. In addition, IPSASB is addressing heritage assets, social benefits, public sector financial instruments, and nonexchange expense recognition. GASB is addressing the reporting model, asset retirement obligations, and omnibus amendments. Members noted several projects relevant to ongoing FASAB efforts and encouraged monitoring these projects.

Agenda Topics

- **Risk Assumed—Insurance Phase**

Mr. Showalter opened the session on insurance programs by reminding members that pre-ballot is scheduled for the August 2016 meeting and to please address all concerns at this meeting to meet this deadline. Robin Gilliam, assistant director, reminded members that staff had presented an analysis of the responses to the first two exposure draft (ED) questions at the April meeting with proposed edits accepted by the Board through email. These changes were included in the June briefing materials at tab A as Attachment 1, Insurance Programs, Exposure Draft to SFFAS.

Ms. Gilliam referred the members to tab A and noted that the goal for this session was to review revisions based on responses to questions for respondents three through eight and paragraph ten—exclusions. The memorandum presented 16 questions for Board discussion.

Exchange Transaction and Nonexchange Transaction Categories (memo question #1)

- The Board discussed the distinction between exchange and nonexchange programs. If a program has any exchange transactions then it is considered an exchange program. Some Board members were concerned with the word “any,” noting that this is not consistent with other standards that reference “little to no” or “majority.”
- Ms. Payne explained that classifying based on majority would introduce uncertainty about classification from year to year. For example, a devastating year with low yield crops may drive the need for an influx of emergency appropriations to pay for the Federal Crop Insurance Corporation’s losses. In addition, a Katrina-type hurricane may cause the National Flood Insurance Program to finance losses through borrowing, which may mean less than a majority of the funding was from exchange revenue. Because this type of uncertainty can cause a “majority” of nonexchange transactions one year and exchange transactions the next, staff recommended that “any” exchange transaction revenue determine an exchange classification. Board members accepted this explanation and made no changes to the wording.
- A couple members asked that staff reach out to the Department of Health and Human Services to see why it felt disclosures were excessive and what solutions the agency would be willing to offer.

The Board agreed to update the following to address respondents’ issues with consistency and clarity:

- Replace “A series of events” with “A single-occurring event or a series of events” in paragraph 30.a.iii to match the adverse event definition (memo question #2)
- Add a definition for insurance portfolios, remove footnote12, and use “insurance portfolios” instead of “group(s) of arrangements” in paragraphs 30.c.i and 34 for consistency (memo question #3)
- Add “as a component” in paragraph 39 to match the language regarding claims expense in paragraph 31(memo question #6)
- Replace “A narrative discussion should be provided to include the following:” with “Provide the following information for each material insurance portfolio, and/or in aggregate for all remaining insurance portfolios, and/or individual insurance contracts:” to allow preparers to determine how to present information—not restrict them to a narrative discussion—and to better link the factors in determining disclosures to the list of disclosures (memo question #6 and #7)

- Add “such as buying treasury securities” to investing activities in paragraph 42.c and the basis for conclusions to provide more clarity (memo question #10)
- Rewrite the disclosure for insurance in-force in paragraph 42.g, 67.f, and 69.e, and the basis for conclusions to provide more clarity (memo question #12)

Subsequent Events, paragraph 32 and 35 (memo question #4)

- The Board agreed with respondents to only provide a reference to SFFAS 39, *Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statement on Auditing Standards* for recognized and nonrecognized subsequent events to avoid supplementing or adding to SFFAS 39. Therefore, staff will remove additional detail and discussion from the standards and basis for conclusions.
- Some members also requested that the scenarios in the basis for conclusions focus on major events instead of individual claims. Staff will provide updates for the August meeting.

Recognition and Measurement of Losses on Remaining Coverage (memo question #5)

Staff noted that the Board members who had responded prior to the meeting preferred option A for paragraphs 33 through 37.

Staff presented an additional modification to option A at the meeting to incorporate language similar to the recent credit losses standards from the Financial Accounting Standards Board (FASB), which Mr. Dacey had sent to staff just prior to the meeting.

Mr. Dacey agreed that the modified option A did capture both his concerns and those from respondents who were auditors. His main goal with option B was to include the word “reasonable” for consistency with other standards. He noted that the language in paragraph 33—“the estimated amounts to be paid to settle future claims”—does require a reasonable estimate and should be the benchmark against what should be accrued.

A number of members also wanted assurance that the standards in the remaining paragraphs (34-37) would be broad enough to allow flexibility in measurement and continue to support the preparers’ current modeling methodologies. Staff assured Board members that it was the original goal to support the varied methodologies utilized by preparers to address their unique risks and uncertainties.

The Board approved the following additional edits:

- Adding the phrase “a reasonable estimate of expected...” in the first sentence in paragraph 36

- Adding the phrase “the availability of relevant information to select a method” in paragraph 37

The Board also directed staff to provide discussion in the basis for conclusions on the reasonable estimate concept found in paragraph 33 for the August meeting.

Gross Costs, paragraph 42.b (memo question #9)

One Board member recommended using the term “full cost” as defined in SFFAS 4, *Managerial Cost Accounting Standards and Concepts* instead of “gross cost.” Staff noted that gross cost is a line item presentation for the statement of net cost, which might cause preparers not to provide all of the information that the Board intended to capture.

The Board agreed that staff would research and provide the recommended update for the August meeting.

Uncertainty and Shared Risks, paragraph 42.f (memo question #11)

One Board member requested that the “trend” standard in paragraph 42.f.iv be merged with 42.f.ii because trends are not necessarily “collected” but rather considered in relation to risk assumptions and factors. The Board agreed and also requested adding “significant” to risk assumptions and “relevant” to trend information for consistency with other standards.

Claims Adjustment Expense, paragraph 43 (memo question #13)

One member recommended defining “incurred claims.” The Board discussed that defining incurred claims would be difficult because there are new claims incurred during the current year, cumulative claims incurred from the time of the adverse event until the end of the reporting period, and claims incurred but not yet reported.

The Board agreed that it only wanted to capture new claims incurred in the current year with adjustments to previous claims. Therefore, the Board agreed to change the term from “incurred claims” to “claims expense” with a footnote about claims adjustment expenses.

Life Insurance (memo question #14)

The Board agreed that changes were unnecessary for life insurance programs.

Effective Date (memo question #15)

The Board agreed to change the effective date to September 30, 2018, to allow agencies enough time for implementation.

Entitlement Exclusion, paragraph 10.d (memo question #16)

The Board did not agree with removing entitlement programs as an exclusion.

After significant discussion, the Board determined that it was important to exclude entitlement programs that are not insurance programs, so all entitlement programs are not swept into reporting under this Statement. To accomplish this, the Board recommended that staff succinctly describe the relationship between the definition of entitlement programs (not already captured in another exclusion) and the definition of an insurance program. Members agreed that insurance programs have a pre-determined arrangement for claims related to losses resulting from a future event, whereas entitlement programs provide benefits once an event, such as a financial hardship, has occurred based on certain criteria.

The Board directed staff to provide options in August to address

- which types of entitlement programs should be excluded and
- possibly updating the insurance program definition to clarify the notion of a pre-existing arrangement.

Some members also requested that staff reach out to the entities that this exclusion might impact and report these findings in August.

Members were concerned with the possibility of re-exposing if there is a substantial technical change to the insurance program definition. Staff explained that a re-analysis of responses to the first two questions for respondents is necessary to support the extent of any additional changes to the definition. Staff noted that one change had already been made and approved but was not technical in nature.

Ms. Payne and Mr. Showalter explained that a re-exposure would be decided in August based upon the information presented by staff. If a re-exposure is necessary, a short window, such as 15 days may be appropriate.

Land

Domenic Savini, assistant director, presented at tab B an update on the progress of the Accounting and Reporting of Government Land project and also sought approval of the proposed next steps, including the most efficient and economical use of the task force, identification of issues best suited for Board deliberations as opposed to task force deliberations, and a proposed timeline.

Although the Board was generally satisfied with the project plan's next steps, members asked staff for continued updates to ensure that options, along with associated benefits and drawbacks, be brought to the Board for discussion.

In particular, the Board asked staff to

- consider user information needs,

- explore and identify what information agencies use to manage land,
- identify types of information, such as acreage, that would help demonstrate the government's stewardship and accountability over federal lands,
- address whether land held for disposal (for example, sale, public-private partnerships, donated to state and local governments) should be valued, and
- consider whether a uniform land accounting policy is a viable option given initial agency and task force feedback that current land classifications of stewardship land (SL) and general property, plant, and equipment (G-PP&E) land be retained.

Concerning this last point, Ms. Davis reminded members that the Department of the Treasury did not support initiating the land project primarily due to cost-benefit concerns and has continued reservations. Specifically, land is a nondepreciable asset and has no direct impact on costs. Retaining the current distinctions of SL and G-PP&E land seems contrary to an "all land is land" approach. This contradiction prompts the question as to how this project's outcome will differ from existing guidance in SFFAS 29, *Heritage Assets and Stewardship Land*. Generally, members felt this concern was premature considering the early stages of the project and that SFFAS 29 does not discuss potential land valuation attributes, which will be covered in this project.

The Board discussed the remaining three items staff had proposed to exclude from additional agency fact finding within the project: land rights, land improvements, and land impairment. Members generally agreed with staff's recommendations not to pursue these matters with the task force at this time but reserved these items for future research and Board deliberations.

The meeting adjourned for lunch.

- **Reporting Model**

The Board and Ross Simms, assistant director, discussed enhancements to a draft ED concepts statement on financial statements and required supplementary information (RSI). The draft ED, located at tab C, proposes concepts regarding the role of financial statements and RSI and their relationship to other information presented to help achieve the reporting objectives. The proposed concepts will address current and evolving reporting needs and capabilities and will assist the Board in developing reporting models for the government-wide and component reporting entities.

The Board discussed whether the ED should define financial condition or include a reference to a discussion on financial condition presented in Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*. The Board determined the ED should 1) include language that distinguishes financial

condition from financial position; 2) reference the discussion of financial condition in SFFAC 1; and 3) discuss that sustainability is one indicator of financial condition.

The Board also agreed that the ED would present aspirations for the types of information that government-wide and component reporting entities should present, including performance information. The Board discussed the performance results section of the ED and determined the focus should be on addressing the operating performance objective and its relationship to the stewardship objective, rather than focusing solely on the stewardship objective. Focusing solely on the stewardship objective may suggest the need for information on broad outcomes for the nation. The Board also reviewed other sections of the ED and planned to review a pre-ballot draft ED during the August 2016 meeting. Additional discussions regarding the ED follow.

Financial Condition

The Board agreed to revise the discussion of financial condition in the draft ED. After the April 2016 meeting, staff replaced the definition of financial condition with references to the discussion of financial condition in SFFAC 1. Paragraph 51 and 52 of this earlier draft ED attempted to distinguish the government's "financial position" from the government's "financial condition" and introduced a definition of financial condition. The proposed definition of financial condition stated:

Financial condition is a projection of the change in debt held by the public over time resulting from the monies coming in and the monies going out and is often measured as a percent of gross domestic product (GDP).

Staff believed that this definition of financial condition primarily focused on sustainability while, according to SFFAC 1, reporting on financial condition requires multiple indicators in addition to indicators of sustainability.

Ms. Davis noted that she preferred a definition and suggested adding the following sentences from SFFAC 1, paragraph 144:

Financial condition is a broader and more forward-looking concept than that of financial position. Reporting on financial condition requires financial and nonfinancial information about the national economy and society, as well as about the government itself.

Ms. Davis noted that the sentences help distinguish financial condition from financial position. Mr. Dacey noted that referencing SFFAC 1 would be better than summarizing

SFFAC 1's discussion of financial condition. The ED should also state that information on sustainability is one of the indicators of financial condition. Board members agreed with the suggested changes.

In response to whether the Board has defined financial condition, Ms. Payne stated that although the Board does not have an operational definition of financial condition, SFFAC 1 provides a conceptual discussion of the term. To develop an operational definition, the Board would need to determine what indicators should be included.

Government-wide Reporting Entity Financial Statements and RSI

Ms. Davis noted that paragraph 48.b requires the government-wide reporting entity to provide performance information. However, the government-wide reporting entity does not prepare a performance plan. Mr. Dacey added that the ED is a concepts statement. Thus, the introduction to paragraph 48 should be revised to indicate that the text provides aspirational guidance rather than requirements.

In addition, Board members discussed other possible text for paragraph 48.b, such as

- the government's performance in achieving key outcomes;
- the government's performance in achieving its objectives;
- the government's performance in achieving established goals; and
- the government's performance over time.

Board members determined the concepts should solely focus on the government's performance rather than the performance of both the government and the nation. Mr. Dacey noted that the Board needs to consider what performance information the financial statements of the government-wide reporting entity should present. Today, the government-wide reporting entity provides high-level performance information on specific important issues. In contrast, an agency might present performance measures for specific programs. The Board agreed that the concept for reporting performance information should be broad and thus revised paragraph 48.b as follows:

48. Given the operations of the government-wide reporting entity, ideally financial statements and RSI ~~should~~ collectively provide information to assist users in assessing understanding...

b. the government's performance ~~in achieving outcomes (national indicators);~~

Component Reporting Entity Financial Statements and RSI

Paragraph 51.a of the ED indicated that financial statements and RSI ideally would provide information on the relationship between the component reporting entity and the government-wide reporting entity, as well as risks provided by the component reporting entity. The Board discussed the relationship between the government-wide reporting entity and component reporting entities and noted that risks flow in both directions. The government-wide reporting entity has broad responsibilities for the nation's welfare that could pose risks to the financial position of a component. Likewise, the mission of a component reporting entity may pose risks to the government-wide reporting entity.

Board members noted that the reader of a component reporting entity's financial statements should understand the entity is a component of the U.S. government. The Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements* provides language regarding the limitations of a component reporting entity's financial statements. The Board agreed to revise paragraph 51.a to suggest information that would inform the reader of limitations of the component reporting entity's financial statements.

Performance Results

Ms. Davis noted that Ms. Ho supports including the performance results section in the ED and proceeding with a performance reporting project. However, Ms. Davis discussed Ms. Ho's concern that the performance reporting project might indicate that concepts discussed in the ED are impractical. Ms. Payne explained that the concepts in the ED would guide the detail for the project, rather than the project determining the concepts. Mr. Granof also noted that concepts guide the development of the standards.

Mr. Dacey noted that the beginning of the performance results section of the ED discusses the stewardship objective and then the operating performance objective. However, the flow should be reversed. Operating performance should be the primary objective for the section, and if the Board wants to include stewardship, the section should clarify its relationship to performance results.

Summary Level Information

Paragraph 72 of the ED indicated that FASAB may require summary level information. Given that the ED is intended to provide aspirational guidance, paragraph 72 could be clarified to discuss why summary level information may be important to users, rather than what FASAB might require or has required for presentation.

Paragraph 73 presented a list of items that ideally would be included in summary level information. The Board asked staff to review the "net cost" and "results of operations" line items. Members noted that the distinction between the two might not be clear and information on the components of net cost—gross cost and exchange revenue—may be important to users.

Paragraph 74 of the ED was revised to provide aspirational guidance. The revisions are as follows:

To assist users in understanding the summary level information presented, ideally financial information should be presented in relation to performance goals and measures.

Introduction and Scope

The Board reviewed the introduction and scope sections of the ED and had no concerns. Ms. Davis commented that paragraph ten of the ED was helpful. The paragraph provides the reason for the Board's current budget to accrual reconciliation project.

Italicized Summary Text

The Board agreed to remove italicized summary text that introduced each section of the ED. The italicized summaries simply restated the guidance presented in each section. The summaries did not provide additional concepts and removing them reduces the likelihood that readers consider the text authoritative.

Conclusion: Mr. Simms will present a draft ED during the August 24, 2016, meeting and, at that time, Board members will discuss any additional changes. On August 25, 2016, staff plans to present a pre-ballot ED.

• **Handbook Options**

Melissa Batchelor, assistant director, explained that the objective of the session was for the Board to review and approve an outreach plan, located at tab D, to evaluate alternatives for providing accounting standards to the community. She explained such outreach would seek the views of those using the standards and would aid in making the final decision whether to continue with the current FASAB Handbook or consider a topical arrangement through a codification.

Ms. Batchelor explained that she had received favorable feedback from members; she hoped this was an indication of support and Board approval of the outreach plan because staff had taken the initiative to set up two focus group meetings. Ms. Batchelor stated that the focus group meetings were set up for July 13, 2016.

Ms. Batchelor also noted that members had offered suggestions for topics of discussion, which were consistent with the planned agenda. Example topics from the focus group agenda include the following:

- FASAB Handbook

- What areas of the Handbook do you most often reference? For example, standards text, basis for conclusions, illustrations
- Working with other standard setters' codifications or the 2004 FASAB Volume II (a topical codification)
 - How does your experience with a codification compare with your experience with our Handbook? For example, do you favor one over another? If so, in what circumstances and why?
 - If you have little or no experience with a codification, what benefits or drawbacks would you expect to experience in using a codification?
- Format options
 - What features are most important in an electronic resource? For example, what search features, capabilities, or functions would you like for FASAB standards?

Mr. Showalter noted that the basis for conclusions is usually not included in codifications. He noted this option would affect how the Board proceeds because the Board often puts a lot of discussion or guidance in the basis for conclusions. He added that this may also affect how others refer to the basis for conclusions in researching technical issues. The direction the project goes could affect how the Board writes standards. Ms. Batchelor responded that this was included as a topic for discussion with the focus group, along with other specific items such as references, amendments, etc. Ms. Batchelor explained that moving to a topical codification would be a huge undertaking for staff, so it will be very helpful to gather feedback from others on the benefits and drawbacks.

Mr. Showalter also reminded members that FASAB is somewhat logistically limited to what the Government Accountability Office (GAO) can provide as a platform. Ms. Payne emphasized the importance of keeping this in mind, especially as the Board comes to a consensus.

Ms. Payne explained that this is more evident as staff is in the midst of the current Handbook update. GAO informed staff that the desktop publisher no longer supports the Handbook's current font, which resulted in a conversion to a different font and a subsequent review of the complete 2,300+ page document to ensure the conversion did not result in unwanted changes.

Mr. Showalter noted that it appears the Board is in favor of the outreach plan. Ms. Batchelor explained that she would summarize the findings of the focus group meetings and come back to the Board with recommendations in August.

Conclusion: The Board approved an outreach plan to evaluate alternatives for providing accounting standards to the community. Staff will conduct focus group meetings and report results at the August Board meeting.

- **Budget to Accrual Reconciliation**

The budget and accrual reconciliation working group has conducted research on the Statement of Financing note (SOF). Grace Wu, project manager, presented to the Board from tab E the following research conclusions on the SOF note:

- The current SOF note has established crosswalk/preparation processes by each agency, but these are time consuming to prepare.
- Due to the lack of crosswalk instruction on the SOF note, it is not comparable from one agency to another.
- The SOF note is too complex and not useful to users.

Based on the results of this research, the task force made the following recommendations to the Board:

- The current SOF note should be replaced due to its complexity and limited usefulness to the user.
- There is a need to research an alternative presentation format that would better relate with budgetary and accrual data, as well as support the government-wide reconciliation.

The Board concurred with the task force's recommendations.

In addition, the Board provided characteristics for which the task force should judge the alternative format's effectiveness:

- User-friendliness
- Clarity
- Ease of preparation
- Ability to support the government-wide's net cost to budget deficit reconciliation

Mr. Smith asked if the task force had attempted to create a more easily-understandable format and worked on sections to target this goal. Ms. Wu replied that the Board's expectations are similar to the goals raised by the task force members. The task force is in the process of drafting a new format considering the aforementioned goals. Ms. Kearney suggested using the same key budget definitions as defined in the OMB

Circular A-11, *Preparation, Submission, and Execution of the Budget* when the standards are updated with the new format.

Three task force members then presented a brief overview of the current budget and reconciliation process by discussing the introduction of the government-wide budget and accrual reconciliation, an overview of the current budget process, highlights of the current component-level SOF, and benefits of the reconciliation. They also explained some of the challenges in preparing and auditing the reconciliation from the net cost to the budget deficit, or the net obligation amount. Some of the challenges are due to the complexity of the budget process and the differences in terminology.

Acknowledging the complexity of the budgetary process, Mr. Showalter asked if the task force thought it possible for the new reconciliation to be both easily understood and utilize the budget terms. Mr. Dacey and Ms. Wu both stated that the new format with the outlay, rather than the net obligation, as a reconciliation target would look like a cash flow statement and thus be clearer to readers. Ms. Wu stated that the task force would continue developing a meaningful format and crosswalk for the reconciliation. The task force plans to present the proposed new reconciliation to the Board at the August 2016 meeting.

- **Three-Year Plan**

Wendy Payne, executive director, indicated that the briefing material located at tab I summarized Board discussions in February and April and laid out the performance reporting project objectives of highest interest to members. The next step would be to develop a plan to meet those objectives. She asked whether the draft performance reporting objectives reflect member views. Members offered the following comments regarding the draft reporting objectives:

- There are many other organizations addressing performance reporting, and we should not duplicate their efforts but might leverage them.
- OMB is required to define “program” and the second draft objective appears to conflict with that requirement by establishing a FASAB definition. Instead, accounting guidance might identify the desired qualities or characteristics useful in deciding how to aggregate and relate information. This effort could be aligned with OMB’s program definition. In fact, working together would be beneficial in describing the level of disaggregation at which performance information becomes useful.
- GASB has addressed performance reporting at the state and local level. In doing so, it has had many debates and learned a lot. FASAB should leverage what GASB and IPSASB have done.

Ms. Payne explained that educational sessions would be provided at each of the remaining 2016 meetings. She suggested that members convey any ideas for speakers or topics to her.

In response to a member's question regarding the final goal for the project, Ms. Payne noted the challenge that one of the reporting model task forces identified: the lack of integration across performance, budget, and accrual cost information. By addressing characteristics like level of disaggregation of financial and nonfinancial information, one could facilitate the desired integration. This could be an educational tool for nonfinancial staff charged with performance reporting because terms are often used differently.

Mr. Showalter recalled the numerous user studies continuing to point to this area. It is an area the Board has to address, but he likened the process to a journey, rather than a destination at this point.

Mr. Smith suggested that the Board define what success looks like because a theoretical discussion may not produce results that people find useful.

Ms. Payne agreed and indicated that the project plan would provide an opportunity to clarify what success would look like. Mr. McCall asked that the plan consider how cost accounting relates to success.

Ms. Payne noted that other projects, such as electronic and popular reporting, were of interest to some members. She did not recommend adding these to the research agenda at this time because they did not receive majority support and resources are not available to address them.

Mr. Granof noted, with regard to electronic reporting, that we are now in the year 2016, and the government still only prepares paper reports. He felt that this made little sense and that the Board should make progress in that area. He expounded that every project the Board undertakes should consider ways where FASAB can take advantage of electronic reporting. With USASpending.gov presenting transaction data, the ultimate goal is that one can drill down from one level to another level and eventually get to that transaction data. The question is where does the Board start?

Mr. Showalter noted that the AICPA has a task force beginning to explore the assurance of information through links. There is now some movement on the assurance side that may make the Board feel more comfortable about moving the requirement into the reporting side. He suggested that staff monitor these efforts.

Ms. Payne noted the third item in her memo related to the conceptual framework projects. When the conceptual framework started, there were clear voids in the concepts; definitions of elements and measurement attributes did not exist but now do. The reporting model piece is the last piece needed to complete the conceptual framework. However, the framework has evolved over 25 years.

She noted that the framework has inconsistencies due to evolving terminology as well as stale references. She proposed that staff develop an ED to improve the conceptual framework's consistency and flow. She suggested that staff would not treat it as a traditional project where alternatives are deliberated. Instead, it would be an up or down vote on the proposed changes.

Some members expressed concerns about resources, given competing priorities and the need to revise how FASAB produces the Handbook. Ms. Payne noted that the project could be taken as slowly as needed to avoid impacting other efforts. A proposed timeline will be provided for consideration at the August meeting.

Adjournment

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

Thursday, June 30, 2016

Agenda Topics

- **Leases**

Monica Valentine, assistant director, provided to the Board at tab H a draft ED on lease accounting and task force responses to several lease-related questions posed by staff. The objective of this session was to review responses to seven questions staff had posed to the lease task force related to issues in which the Board had requested additional information and review a draft Lease ED.

Probability Threshold

Staff asked the Board if it was comfortable with FASAB's definition of probable (more likely than not - >50%) for federal entities to assess the probability of lease term options as well as the funding clause in the lease ED. Staff also noted that both GASB and FASB had gone to a higher threshold of "reasonably certain" to assess probability. Staff's recommendation was to maintain FASAB's definition of probable.

Mr. Dacey asked staff about GASB's rationale for changing to "reasonably certain." Was it to gain greater certainty in the recognition of the liability and asset? Mr. Granof noted that GASB had debated extensively over the probability threshold issue. Mr. Smith stated that the difference between the two probability thresholds is whether the degree of certainty is recognized later with "reasonably certain" versus sooner with "more likely than not." He then asked the Board if there is a disadvantage to recognizing the options sooner rather than later.

Mr. Dacey stated he had two concerns with the lower threshold. The first deals with leases with multiple options and the uncertainty involved in assessing those options that would be exercised further out in time. His second concern was the cost associated with an earlier assessment. Mr. Smith noted that the higher threshold would likely generate a smaller liability and asset earlier.

Mr. Showalter stated that the level of effort is not a consideration in assessing lower versus higher threshold because the evaluation of probability has to be done in either

case. He further noted that the question is when the options should be recorded—sooner or later. Mr. Granof added that the definition of a liability and an asset are factors in determining when the options should be recorded.

Mr. Scott stated that he was concerned about the cost to federal entities implementing FASAB's probability threshold in the lease standard. Mr. Dacey suggested staff poll the lease task force on the cost associated with implementing the lower threshold.

Mr. Showalter concluded the topic discussion by asking the Board if there was a compelling reason to change from the Board's definition of probable.

The Board agreed with the staff recommendation to propose the use of FASAB's definition of probable (more likely than not) as the probability threshold in the lease ED. The Board also directed staff to include probability threshold as a question in the ED.

Lease Asset Classification

Staff asked the Board how it would like to propose the lease asset be classified—as an intangible asset, a property, plant, and equipment (PP&E) asset, or as a “lease asset” separately. Staff's recommendation was to classify the lease asset as its own line item on the balance sheet if considered material.

Mr. Dacey noted that internal use software is an intangible asset in PP&E and that he preferred PP&E as the classification for leased assets. Ms. Payne suggested adding PP&E to paragraph 21.

Mr. Dacey then suggested that the leased asset be classified with the nature of the underlying asset. Mr. Smith agreed with Mr. Dacey's suggestion. Mr. Scott noted that since other intangibles are classified with PP&E, the lease asset should also be classified as PP&E.

The Board agreed to propose that the lease asset be classified as PP&E unless the underlying asset is not PP&E, and in those cases the lease asset would be classified with the nature of the underlying asset.

Basis for Conclusions

Staff asked the Board if it agreed with how staff included excerpts from the GASB ED's basis for conclusions in FASAB's draft ED. Staff noted that the Board reviewed the GASB proposal on those specific sections and agreed with GASB and its rationale for the proposed guidance.

Ms. Payne noted that she had informally spoken with GASB staff and the GASB copyright team about FASAB's use of GASB's language in FASAB's basis for conclusions. The GASB team had no problems with how FASAB was using the language from the basis for conclusions. Mr. Showalter stressed that by including the GASB excerpts the Board is effectively stating that it agrees with what GASB is saying. Mr. Granof asked if the Board is taking the position that it has adopted GASB's

guidance. Ms. Payne stressed that was not staff's intent; staff's intent was to convey to the reader that FASAB chose to follow the same guidance as GASB and did so for the same reasons outlined in the basis for conclusions. She also noted that staff plans to revise paragraph A6 to further discuss how FASAB worked with GASB.

Mr. Showalter noted that paraphrasing GASB's basis for conclusions could be difficult; the Board would have to consider copyright matters and obtain permission to use GASB's material if needed. Mr. Dacey asked if the Board had expressed its views identically to GASB's views. Without referencing GASB, would it be inappropriate (cause copyright problems) to use the same language as GASB, considering that this is our shared reasoning?

Mr. Showalter asked Ms. Motley what level of paraphrasing was permissible without specifically citing GASB. Ms. Motley agreed to review the revised basis for conclusions and assess the need to cite GASB.

Ms. Bronner suggested using language in the basis for conclusions similar to paragraph A16, where the Board considered options similar to GASB's but came to its own conclusions. She also noted that some of our constituents would gain comfort knowing there was agreement between GASB and FASAB. Mr. Granof stressed that the Board should not note every instance where the Board diverged from GASB's guidance.

Mr. Showalter summarized the Board's conclusions on how the basis for conclusions should be written in reference to GASB. He stated that the basis for conclusions should tell more of a story of how the Board arrived at its conclusions and how it teamed with GASB. The Board should not specifically note when it diverges from GASB's guidance unless the Board deliberated on the GASB approach. The basis for conclusions should discuss the conclusions the Board agreed to and why. If the Board considered GASB's approach, the text should include the highlights of the discussion and how the Board came to its conclusions.

Rent Increases versus Lease Incentives and Lease Concessions

Mr. Granof asked about the differences between rent increases, lease incentives, and lease concessions. He also asked why they are accounted for differently and if they should be more clearly defined. Mr. Showalter noted that lease incentives and concessions are basically marketing cost, while rent increases are economic valuations. Ms. Payne added that preparer judgment and the specific terms of the lease agreement should determine whether the payments include rent increases, lease incentives, or concessions.

Mr. Dacey suggested referencing paragraphs 84-87 in paragraph 81, noting that paragraph 81 states the general rule for increases and paragraphs 84-87 outline the exceptions to the general rule.

Mr. Granof asked if the differences were not just market rate differentials. Mr. Dacey suggested that lease concessions would be rent discounts at substantially less than

market. Ms. Payne clarified that the discussion was about intragovernmental leases, which could have rents at below market prices. Mr. Smith further stated that federal lease rents may be below market for varying reasons, such as the ability to fill an office building for the length of the lease term.

Mr. Showalter concluded that based on the Board's discussion, staff should add some verbiage to the basis for conclusions on rent increases, lease incentives, and lease concessions, and include the references Mr. Dacey previously suggested.

Bargain Purchase Options

Mr. Granof asked if the ED should include some discussion on bargain purchase options (BPOs). Ms. Valentine stated that GASB had included a discussion on BPOs in its basis for conclusions, noting that a BPO should be viewed as any other lease option. Ms. Payne added that based on discussions with Hill staffers, many federal entities are offered BPO; however, due to funding concerns they are not exercised. Mr. Dacey requested staff ask the General Services Administration about the frequency of BPOs.

Mr. Showalter asked the Board members if they had any other comments on the lease draft ED—none were noted. Staff also asked members if they had editorial changes to please provide them in the next week.

Next steps: Staff will make the revisions discussed at the meeting and provide a pre-ballot draft for the August 2016 meeting.

Adjournment

The Board meeting adjourned at 10:45 a.m.