



FASAB News
Federal Accounting Standards
Advisory Board

December 2013/January 2014
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[FASAB Seeks Input on Three-Year Plan](#)

On December 16, 2013, the Chairman of the Federal Accounting Standards Advisory Board (FASAB), Tom Allen, published the FASAB's Annual Report for Fiscal Year 2013 and Three-Year Plan. The report highlights the Board's efforts and accomplishments for fiscal year 2013, provides information about current projects, describes research projects the Board hopes to address soon, and identifies potential projects considered by the Board but not rated a priority.

Your views regarding the content of the annual report and the Board's project priorities for the next three years are requested.

Please provide your comments by February 17, 2014 so that the Board may consider them in its agenda setting discussion in early March.

The report is available at http://www.fasab.gov/pdffiles/fasab_annual_report_2013.pdf

Current Board Projects

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

Disclaimer

The staff of the Federal Accounting Standards Advisory Board publishes FASAB News 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 Board decisions are 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 Melissa Loughan, 202-512-5976, loughanm@fasab.gov.

Please direct AAPC technical questions to Monica Valentine, 202-512-7362, valentinem@fasab.gov.

Please direct FASAB and AAPC administrative questions to Charles Jackson, 202-512-7352, jacksoncw1@fasab.gov.

Federal Reporting Entity

The Board is in the due process phase of the Federal Reporting Entity project. At this stage, the Board has considered the comment letters and public hearing testimony and will work through the issues and determine if any changes may be necessary to the proposed standards. The Board will continue this over the next several meetings. At the December 2013 meeting the Board discussed In the Budget, Misleading to Exclude, Applicability to Judicial and Legislative Branches, Term for Disclosure Organization, Notion of Temporary, FASB Based Information, and Central Bank Questions.

After discussing the issues the following decisions were made:

- retain the ‘in the budget’ as the first inclusion principle with modifications for clarity.
- retain the ‘misleading to exclude’ principle and with the revisions to the basis for conclusions.
- modify wording to explain applicability to the judicial and legislative branches.
- adopt the terms consolidation entity and disclosure entity.
- clarify how “temporary” relationships are to be considered.
- drop the requirement for the intra governmental note disclosure.

The Board asked for additional staff research regarding the disclosure requirements proposed for central bank activities and other matters.

Additional detail regarding these topics can be found in the detailed minutes of the meeting.

Point of Contact: Melissa Loughan, 202-512-5976, loughanm@fasab.gov

The Financial Report: MD&A, Statements, Notes, RSI and OAI

At this stage of the reporting model project, the Board sought to better understand the information needs of users and identify possible voids in meeting those needs. Because the financial reporting objectives provide a framework for discussing users’ needs, the Board began revisiting the four objectives of federal financial reporting –

Budgetary Integrity, Operating Performance, Stewardship, and Systems and Control. During the December 2013 meeting, the Board focused on the Stewardship objective which concerns providing information to assist users in assessing the impact on the country of the government's operations and investments and how the government's and the nation's financial condition has changed and may change in the future.

The Board noted that the objective involves 'financial reporting' versus 'financial statements' and that many sources other than financial statements contribute to achieving the objective. For instance, information about the national economy may be found in the President's Budget and Management's Discussion and Analysis (MD&A) provides performance information. The Board believed that any discussion of the reporting model should include an explanation of the Board's role and what it has accomplished with respect to the objective. The Board also discussed the topic of tax expenditures and noted that although the topic is complex and information is being provided by other sources, the reporting model should include a description of tax expenditures and a separate project should be initiated to study the topic.

In addition, the Board acknowledged that users seek cost and other information arrayed in different ways or aggregated at different levels, such as government-wide, agency, or program. Therefore, the question is how the Board might play a role in helping users obtain the information that would assist them in their assessments. For the March 2014 meeting, the Board will discuss the Operating Performance objective which concerns assisting users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities. To facilitate the discussion, FASAB staff will provide pictorial presentations to illustrate how the existing model contributes to this objective.

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

Leases

- ❖ Ms. Deborah Beams, GASB Practice Fellow (leading the leases project) and audit manager at the Dallas office of Grant Thornton, presented to the Board the tentative decisions discussed by GASB on the leases project to date. .

Ms. Beams identified the following GASB major tentative decisions on leases:

- The definition of a lease be revised to be "a contract that conveys the right to use an asset (the underlying asset) for a period of time in an exchange or exchange-like transaction"
- The scope of the Leases guidance continue to include contracts not identified as leases but that meet the definition of a lease
- A single accounting model be developed, potentially with exceptions for certain circumstances
- The lease term include:
 - The noncancellable period

- Periods covered by renewal options (or exclude periods covered by termination options) that are probable of being exercised based on an assessment of qualitative factors
- Periods covered by fiscal funding and cancellation clauses if the possibility of cancellation is remote (If the possibility of cancellation is more than remote, the period should be treated as any other termination option when determining the lease term.)
- The underlying assumption that leases are financings be the foundation for the governmental leasing model
- Leases that transfer ownership not qualify for the short-term lease exception, even if they meet the other criteria
- The right to use the underlying asset be recognized as an asset by the lessee
- The general approach to measuring lease assets and liabilities will be to measure the liabilities first and base the assets on that amount
- The general measurement approach for a lease liability be based on the present value of future payments
- Prepayments (amounts paid for the lease prior to measuring the lease liability) be included in the value of the recorded lease asset
- Lease incentives received be reductions in the cost of lease assets
- Initial direct costs be capitalized if they are ancillary charges to place the leased asset into use or expensed if they are other costs.

Ms. Beams also stated that the current GASB plan is to issue an exposure draft on leases at the end of November 2014 and a final statement in late 2015.

- ❖ Ms. Monica Valentine, FASAB Project Director for the leases project gave a brief overview of the responses to the ten-question federal lease activities questionnaire sent to several federal entities. The purpose of the questionnaire is to gather the necessary data on the leasing activities and practices of federal entities – the input will assist FASAB in developing new lease standards for the federal government. The following points were highlighted:
 - Federal agencies primarily serve as the lessee, however three federal entities noted substantial lessor activities
 - The list of leased items included facilities/office space, equipment, land, vehicles, and several other items.
 - Five federal entities noted enhanced use lease (EUL) activities

Staff noted that the responses highlight the need for comprehensive lease accounting standards for the federal government, especially now since FASB is actively working to modify its current lease standards.

- The Board noted the following comments based on the results of the lease questionnaire:
 - Focus in on the federal aspects of lease accounting
 - Highlight possible issues related to intra-governmental leasing activities
 - Identify the user needs as it relates to federal lease activities
 - Identify the cost-benefit of having different lease accounting recognition and lease budget scoring.
- ❖ An additional staff paper provided to the Board asked the following questions:

- Based on the [SFFAC 5] definition of an asset, does the Board believe that a federal entity's **right to use** a leased asset meets the definition of an asset to the entity?
- Based on the [SFFAC 5] definition of a liability, does the Board believe that a federal entity's **obligation to make lease payments** meets the definition of a liability to the entity?
- Based on the GASB staff paper, does the Board support the Type A and Type B consumption based distinction proposed by the FASB and the IASB?
- Does the Board believe there are other inherently different types of leases so that a different accounting treatment is needed?
- All of the members agreed to explore the single-model approach as opposed to the dual-model approach.
- The Board highlighted the following as it relates to the lease project:
 - It would be helpful to know the annual interest expense for federal entities' leases
 - The single model is preferred because it will be easier for agencies to have just one class of leases
 - The single-model approach is a practical expedient and is conceptually sound.
 - Articulation is necessary between the lessee and the lessor reporting because of significant intra-governmental leasing
 - Identifying any possible exceptions
 - Implementation issues should be addressed
 - The current two year useful life criteria used to determine capitalization of general property, plant & equipment should be considered as a possibility for lease balance sheet recognition.
 - Assess the cost-benefit of having two approaches to leasing analysis – one for budget purposes and the other for accounting purposes
 - The Board should be looking at providing decision useful information.
- ❖ The following are the next steps for the project.
 - Hold a task force meeting in late January 2014.
 - Prepare for the joint meeting with GASB in March 2014
 - Continue to follow the progress in both GASB and FASB's lease projects.
 - Survey the user community on the usefulness of the lease balance sheet recognition and the interest expense breakout

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

Risk Assumed

At the December 2013 Board meeting staff presented information collected from the following federal insurance/guarantee entities that primarily apply the Financial Accounting Standards Board's (FASB) standards (hereafter 'FASB GAAP'):

- Federal Deposit Insurance Corporation (FDIC)
- Pension Benefit Guarantee Corporation (PBGC)

- Farm Credit System Insurance Corporation (FCSIC)
- Overseas Private Investment Corporation (OPIC)

to assess the fit of the definition proposed in FASB's Insurance Contracts Proposed Standards [Topic 834 , Exposure Draft (ED) – issued June 27, 2013] for federal insurance programs. To determine this, staff focused on whether the FASB proposed insurance contracts definition was suitable for federal insurance programs.

FASB Proposed Definition of an Insurance Contract:

834-10-55-1 An insurance contract is a contract under which one party (the issuing entity) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or its designated beneficiary if a specified uncertain future event (the insured event) adversely affects the policy holder.

Staff opined that it would be difficult to apply this definition to federal insurance programs due to their regulatory nature. Throughout the history of the United States, Congress has established laws to create federal insurance/guarantee programs to provide economic stability for the country and its citizens. Due to the regulatory nature of some such programs, the FASB proposed insurance contracts definition may be difficult to apply to federal insurance programs.

Staff recommended and the Board agreed that more research was necessary through a task force of members representing all federal/non-loan guarantee insurance programs [those that follow FASAB GAAP as well as those identified above as following FASB GAAP] to develop a general definition. The Board discussed that this definition needs to be broad enough to encompass all existing and future federal insurance/guarantee programs government-wide.

The Board is also interested in understanding the present accounting models in use today by federal insurance/non-loan guarantee programs and the related challenges. This will be a future topic for the task force.

The first risk assumed – insurance/guarantee task force met on January 23, 2014, from 9:00am to 12noon to draft a general definition for presentation at the March 2014 Board meeting. FASAB thanks the above mentioned organizations and their auditors that have worked thus far with us on our initial research. If you are interested in joining this task force, please contact Ms. Robin Gilliam.

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

[Public-Private Partnerships \(P3\)](#)

At the December meeting staff briefed the Board concerning four matters: (1) an updated draft P3 definition, (2) inclusion of an introduction to precede the draft P3 definition, (3) suggested revisions to the P3-Centric reporting characteristics, and (4)

developing and harmonizing P3-Centric Disclosures in accordance with the Risk Disclosure Framework as presented at TAB B.

There was some discussion about whether the definition should refer to arrangements or transactions in which the government provides the financing as well as what constitutes multi-sector skills and expertise. Primarily because the definition is intended to be broad, without a formal vote, the Board agreed to proceed with the proposed definition as-is and the concept of including an introduction.

The Board then considered the example of an introductory section preceding the definition (as shown on pages 9 through 11 of TAB C) and discussed whether it is appropriate to refer to the concept of a legal liability as opposed to a concept referring to the acceptance of a responsibility that entities might not otherwise accept.

The Board also considered the content for the introduction; proposed to include the scope, general purpose, and general nature of P3s, as well as risks associated with them and the use of quantitative and qualitative disclosures. The discussion focused on how to determine when information should be disclosed based upon its qualitative aspects and whether auditors can attest to that information, such as the rationale for entering in to the P3. Staff reviewed two examples of potential qualitative disclosures and some members noted concern with how auditors might be perceived as needing to evaluate management's decisions.

The final area of discussion was the proposal to develop disclosures considering the views of the task force and with the application of the risk disclosure framework. There was a general discussion about the unique aspects of certain P3s, what risks are present, and what disclosures might be made about them. All Board members agreed to the proposal to develop and harmonize disclosure requirements in accordance with the framework presented at TAB B.

Staff will meet with the P3 Task Force to discuss these matters and to further develop and refine P3-Centric disclosures and characteristics, respectively. Should you be interested in joining the P3 Task Force, please contact Mr. Domenic N. Savini at 202-512-6841 or via email at savinid@fasab.gov.

Point of Contact: Domenic Savini, 202-512-6841, SaviniD@fasab.gov

FASAB Current Technical Agenda and Status of Projects

Project	Key Milestones	Quarter 4 CY2013	Quarter 1 CY2014	Quarter 2 CY2014	Staff Contact
The Reporting Entity		DP	DP	DP	Melissa Loughan (202-512-5976)
Risk Assumed		Research	Research	Research	Robin Gilliam (202 512-7356) Monica Valentine (202-512-7362)
Leases		Research	Research	Research	Monica Valentine (202-512-7362)
Financial Reporting Model		Research	Research	Research	Ross Simms (202-512-2512)
Public Private Partnerships		Research	Research	ED	Domenic Savini (202 512 6841)

Key Activities or Status - Note that all estimates of progress assume that exposure drafts are finalized as statements without re-exposure due to significant changes.

Research—Staff Research Phase of Project & Board Deliberations

ED—Exposure Draft Issued

DP—Board Due Process, including review of comment letters, etc.

PH—Public Hearing

PV—Preliminary Views Issued

UR—Under Review, document approved by FASAB and sent to sponsors for 90-day review

Final—Final Standard, Concept, Interpretation, etc. issued final.

Accounting and Auditing Policy Committee

The AAPC bids a fond farewell to two long time dedicated members, John Brewer and Donjette L. Gilmore. Mr Brewer is the Associate Chief Financial Officer - Financial Operations at the Department of Agriculture. Mr. Brewer has been a Chief Financial Officers Council (CFOC) member of the AAPC since January 2008 and has also served as Chair of the AAPC Agenda Committee since April 2012. Ms. Gilmore is the Director of Accounting & Finance Policy, Office of the Under Secretary of Defense (Comptroller)/DCFO at the Department of Defense. Ms. Gilmore has been a CFOC member of the AAPC since January 2008 and has also served as Chair of the AAPC G-PP&E Task Force since the beginning of her term in January 2008. As Chair of the task force Ms. Gilmore oversaw the development of four Technical Releases. Mr. Brewer and Ms. Gilmore's contributions to the AAPC have been numerous and will truly be missed.

The November 21, 2013 scheduled meeting of the AAPC was canceled. The next meeting of the AAPC is scheduled for Thursday February 27th, 2014 at 1:00 pm.

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

FASAB Meeting Schedule

Schedule for 2014 Meetings:

March 5th and 6th (Joint meeting with GASB)
April 23rd and 24th
June 25th and 26th
August 27th and 28th
October 22nd and 23rd
December 17th and 18th

Unless otherwise noted, FASAB meetings begin at 9 AM and conclude before 5 PM. Meetings are held at 441 G Street NW in room 7C13. Agendas and briefing materials are available at <http://www.fasab.gov/board-activities/meeting/briefing-materials/> approximately one week before the meetings.

AAPC Meeting Schedule

Schedule for 2014 Meetings:

Thursday, February 27
Thursday, May 15
Thursday, August 21
Thursday, November 20

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

Security Notice

If you wish to attend a FASAB or an AAPC meeting, please [pre-register](#) on our Web site at <http://www.fasab.gov/board-activities/meeting/information-for-observers/pre-registration/> **no later than 8 a.m. the Tuesday before the meeting to be observed.** The Government Accountability Office (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. Thank you.