FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
Board Meeting Minutes
June 24-25, 2020
WebEx and Teleconference

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

Wednesday, June 24, 2020

Attendance

The following Federal Accounting Standards Advisory Board (FASAB or "the Board") members were present virtually throughout the meeting: Messrs. Scott (chair) and Bell, Ms. Bronner, Mr. Dacey, Ms. Harper, Messrs. McNamee, Patton, Smith, and Soltis. The executive director, Ms. Valentine, and general counsel, Ms. Motley, were also present throughout the meeting. Ms. Valentine conducted a verbal roll call of the members.

Administrative Matters

- **Approval of Minutes**

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

- **Updates and Clippings**

Mr. Scott reviewed the protocol for the virtual meeting.

Ms. Valentine presented a new FASAB logo that will be introduced in conjunction with FASAB's 30th anniversary in late 2020. She acknowledged that Mr. Jason Kelly, Government Accountability Office (GAO) senior visual communications analyst, had been working with FASAB staff members Ms. Leigha Kiger and Mr. R. Alan Perry to develop the new FASAB logo.

Mr. Kelly noted that it has been a pleasure to help FASAB advance its mission and strengthen its brand. He stated that the new logo and accompanying brand information include an upcoming brand book with visual standards and guidelines, which should help elevate FASAB's look and feel. The hope is that the branding book will provide a comprehensive set of usage rules and guidelines that can ensure brand consistency across a variety of communication platforms.

Mr. Kelly went on to say that the colors and imagery are representative of the professionalism of FASAB, its unique and important role within government, and its 30-year tradition. He thanked members for their time and for the opportunity to contribute to the mission. The members were pleased with the new logo, and Ms. Valentine thanked Mr. Kelly for the great work.

Mr. Scott asked the members if there were any comments on the clippings. He made note of three interesting articles. He first mentioned the editorial on the soaring debt of the federal government. The second article discussed mandating some type of climate change disclosures at a corporate level. Mr. Scott wondered how this might relate to FASAB's management's discussion and analysis (MD&A) project. Lastly, Mr. Scott discussed an article by the International Public Sector Accounting Standards Board chair on how financial transparency will help with decisions ahead after Coronavirus Disease 2019 (COVID-19) and the long-lasting impact and challenges that it is going to create on all governments across the world.

Ms. Harper mentioned the *AGA Journal of Government Financial Management* article by Mr. Scott on implementing the lease standards. She said it was an excellent article and very clear. She also thanked Mr. Bell for sending the Board the report on land and land holdings across the federal government because it was very informative. Mr. Scott thanked Mr. Perry for his assistance writing the article.

Mr. McNamee mentioned an article by Paul Krugman in the *New York Times* that discusses how the federal government is not taking advantage of debt and should be borrowing more. Mr. McNamee went on to say there are a lot of economists that have not challenged this theory directly but he thinks one of FASAB's signature accomplishments is the Sustainability Report and the Board's comments about excessive borrowing not being sustainable. He would love to hear a debate or an education session by some of these economists to explain to the Board where they think the breaking point is because they seem to be supportive of borrowing. The Federal Reserve seems to be buying up debt as fast as Treasury can issue it. Mr. McNamee thought it would be an interesting perspective for the Board given that its standards have driven a lot of transparency and frank conversation about sustainability; however, others seem to be arguing a different view. Mr. Scott agreed with Mr. McNamee's perspective.

Ms. Reese, senior project manager, Governmental Accounting Standards Board (GASB), provided a brief overview of the GASB's recent activities. She noted that since FASAB's April meeting, GASB had issued three Statements. GASB issued Statement 95, *Postponement of Effective Dates*, in May. This was generally a one-year blanket postponement of the standards that had not been implemented. Unlike FASAB, GASB had a number of pronouncements with effective dates in that window that were appropriate to extend given the COVID-19 pandemic.

GASB also issued Statement 96, *Subscription-Based IT Arrangements (SBITA)*, in May. SBITAs are similar to the leases treatment.

GASB also issued Statement 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. That was a fast-tracked project. It dealt with an issue related to inclusion—whether different compensation plans should be reported as a component unit of a primary government.

At the June meeting, GASB approved an exposure draft (ED) on recognition of elements of financial statements, which will be available for comment shortly. The GASB is working on an ED on the financial reporting model improvements. There will be a special meeting to discuss the codification instructions for the financial reporting model proposals. GASB is also developing an invitation to comment on revenue and expense recognition, which was approved at the June meeting and will be released soon. GASB plans to hold public hearings and user forums on these three proposals in the spring of 2021 timeframe.

Lastly, GASB will be looking at issuance of a Technical Bulletin (TB) on current issues at the June 30 meeting. It provides guidance for how to account for certain state and local government programs under the CARES Act and other COVID-19 related issues, such as whether there are any expenses that are considered special or extraordinary.

On July 1, GASB will welcome Mr. Joel Black as the new GASB chair. In addition, Dr. Michael Granof's term on the GASB will end as of June 30. The new GASB member is Ms. Diane Ray. She is state auditor of Colorado.

Mr. Scott mentioned the four-page list of outreach efforts of the Board and staff. A number of education sessions, articles, university activities, and other events occurred since the April meeting. Mr. Scott applauded everyone's tremendous effort and outreach during this difficult time. Mr. Scott noted that this also shows the interest in the community for information from FASAB.

Ms. Valentine reviewed the planned 30th anniversary activities as follows:

- Montage YouTube video including clips from Board members reflecting on their experiences with FASAB
- 30th anniversary newsletter
- Article for the *AGA Journal of Government Financial Management*

Agenda Topics

- **Land Panel Discussion**

Mr. Domenic Savini, assistant director, directed the Board to tab A where he referred to the biographies of the three invited speakers as he introduced them. Staff had coordinated the panel discussion with key land-holding agencies to review the Board's proposed requirements of the pre-ballot draft Statement of Federal Financial Accounting Standards (SFFAS) 59, *Accounting and Reporting of Government Land*. The meeting's purpose was to discuss with the land-holding agencies (1) the Board's plans for ongoing monitoring of the Statement's implementation and any needed implementation guidance, (2) the major differences between the land ED and the current proposal, and (3) any possible misunderstanding preparers may have regarding the Board's proposal.

The representatives of the three agencies with significant land holdings included Mr. Douglas Glenn, Department of Defense (DoD); Ms. Lynn Moaney, United States Department of Agriculture (USDA); and Mr. Scott Cameron, Department of the Interior (DOI).

Staff first provided a summary of the project as follows:

- The major provisions are reclassifying general property, plant, and equipment (G-PP&E) land and permanent land rights as non-capitalized assets, disclosing the estimated acres of G-PP&E and stewardship land by three predominant use sub-categories, and reporting estimated acres of land held for disposal and land rights information.
- The major differences between the ED proposals and the June 2020 pre-ballot draft are (1) reduction in the disclosure requirements for land, (2) initially reporting the disclosures as required supplementary information (RSI) with a transition to reporting in notes to financial statements, and (3)

extension of the effective date including the date at which the land would be reported as a non-capitalized asset.

- The timeline of the four-year transition period (the period when the disclosures will be presented as RSI) includes identifying implementation issues, developing audit procedures, and reassessing issues identified through the implementation process. In 2026, the disclosures would move to the notes to financial statements and G-PP&E land would be derecognized.

- FASAB will create a task force to monitor implementation.

Through a series of ten questions posed to the panelists, the panelists expressed their views on the provisions in the pre-ballot draft beginning with question 1 as follows:

The Board has made some substantial changes to the draft standards since exposure, including a distinct, time-phased implementation period including an assessment discussed in the basis for conclusions. To what extent do these changes address any concerns your agency may have?

<u>Responses</u>:

Mr. Glenn indicated that the proposed Statement is cost-beneficial. DoD did express a few concerns (for example, the need for a multiple-use sub-category) with the provisions but was generally supportive. Mr. Glenn noted that he believes the provisions will resolve the agency's longstanding challenge of establishing the historical cost for land. He indicated that DoD might need additional guidance for reporting on specific types of land, such as submerged (outer continental shelf) land. DoD will need to implement systems changes to produce the predominant use information. He indicated that the adjusted four-year timeline for transitioning RSI information to notes is sufficient.

Mr. Cameron indicated that DOI sees substantial improvements in the requirements but significant issues remain. He expressed concern regarding the level of precision implied in estimating amounts of land and challenges with assigning land to predominant use sub-categories. He recommended adding classifications for multiple-use land, as DOI uses much of its land for both commercial and recreational purposes at the same time or for different purposes in different seasons. He also noted a concern with identifying predominant use for tribal lands. He indicated that DOI's multiple property management systems are not connected with financial reporting systems and that the cost to produce auditable information would be very high. He believes that the acreage and predominant use information should remain as RSI. He also noted that going from RSI to basic would pose significant costs to DOI. He indicated that DOI property management systems are generally not connected across the ten bureaus and the cost to convert them would be approximately $10 million a year.

Ms. Moaney indicated that the USDA also has challenges with the fact that there is no multiple-use land option and would incur significant costs to identify the land used for commercial purposes. USDA also will need to make significant and costly systems modifications to develop the acreage and predominant use information. She also believes that information should remain as RSI because auditors perform only limited procedures on RSI. The information would be available to the public for purposes of transparency, but the cost of RSI information would not be prohibitive (compared to basic, which would be prohibitive).

In response to the Board's question regarding how inclusion of a multiple-use classification could provide meaningful information, the DOI and USDA panelists agreed to develop a definition for multiple-use land for consideration by the Board.

The remaining questions and combined panelists responses follow:

Please explain your views on the proposed implementation approach, including timeframes, planned GAO audit guidance, and the Board's plans to help overcome implementation challenges.

Response: Agencies should report acreage to ensure accountability to the citizen, but placing it in RSI does not diminish its value to the user. Audit burden and system integration costs could be avoided by reporting acreage as RSI.

Concerns have arisen about system changes or interface developments needed to meet the proposed reporting requirements. As such, do you plan to satisfy the proposed reporting requirements through the development of new IT functionality/applications or by leveraging existing data collection methods?

Response: Potential system changes could range from adding data fields to existing property management systems, which would require comparatively limited resources, to total system rewrites and integration, which could result in substantially greater investment and issues. Panelists also noted the challenge of producing potentially decades-old, even centuries-old, documentation for audit purposes. USDA suggested that changes will be needed for the Forest Service to capture sub-categories.

Since key land-holding entities are required to report a portion of their total land holdings in acreage to the General Services Administration's (GSA) federal real property profile (FRPP), as well as provide the Congressional Research Service with an estimate of their total land holdings, please clarify how existing data collection procedures and systems used to collect such acreage information would be impacted by the proposed reporting requirements. Also, please explain what marginal challenges may exist, if any, and how existing data collection procedures and systems could be leveraged to create synergies to help meet the proposed reporting requirements.

Response: Agencies can use geographic information system data when there are boundaries, but not when the boundaries are not clearly identified. Accuracy of estimates depends on reference data points. Estimates for urban areas or areas where there have been recent transactions would be reasonably accurate, but for estimates for more remote or rural areas, there have been no recent transactions. The FRPP use-categories are not as broad as those being proposed.

Regarding compliance with GSA's FRPP reporting requirements specific to land, has your department (1) requested a consultation seeking an exception or deviation or (2) formally requested and/or received a deviation? If so, please explain.

Response: The panelists answered no.

Office of Management and Budget (OMB) Circular A-123 and its Appendix A focuses on enterprise risk management broadly as well as controls "necessary to achieve reasonable assurances over internal controls and processes that support overall data quality contained in agency reports." As such, are the systems maintaining land data that is not provided to the FRPP subject to the controls discussed in Appendix A to Circular A-123? If so, what is the gap between the objectives those controls address and the objectives that would be necessary to provide reasonable assurance of compliance with the FASAB land reporting standards? If not, why?

Response: Respondents said that their agencies would likely need new and different controls and, in some cases, they will be expensive.

Could you please identify any reporting requirements in the pre-ballot draft that will require systems changes? If so, please identify the nature of the change (for example, IT based, manual process, policy, etc.) and provide an estimate of how long it will take to make those changes?

Response: "All of the above" will be required—changes in systems, policies/directives, and processes. System changes will require new data fields to capture use information, resulting in having to update related policies and procedures. Agencies will have to coordinate numerous offices (for example, DoD has 400 installations, DOI has 2400 offices). It is difficult to estimate time required to make/implement changes, as the time it takes to make these changes will depend on the budget provided.

Have you held any preliminary discussions with your auditors concerning the proposed reporting requirements? If so, can you provide us with details concerning those discussions? For example, did they address how the proposed audit requirements might affect the audit process?

Response: DoD has not discussed this with its auditors. USDA and DOI have had preliminary discussions and have expressed concerns regarding how auditors, and in particular GAO, will evaluate non-financial information. DOI suspects that KPMG's biggest concern will be over ownership—land records, deeds, and surveys that may be either very old or non-existent. Related costs of any new audit procedures are uncertain at this point.

Concerning the three proposed sub-categories reflecting land use, what current processes exist to help identify the actual uses of land? For example, couldn't "predominant use" be captured in cost center/critical agency mission or other data points in the software?

Response: Some respondents noted that existing systems do not currently accommodate some of the required classifications. In addition, respondents said they need greater clarification regarding commercial use land. For example, if the intent is not to earn a profit but to defray costs, is such land still commercial? Respondents also noted that applying categories to tribal lands and obtaining sufficient documentation could be significant challenges. Introduction of a multiple-use category could mitigate a number of anticipated challenges, including statutory implications. For DOI, there may be some statutory requirements to consider with the categories.

Could you please identify any terms or paragraphs of the pre-ballot draft that you believe could benefit from additional clarification? Specifically, is there anything pertaining to estimating land acreage, permanent land rights, the subcategories to include predominant use, or land held for disposal/exchange that could benefit from additional clarification?

Response: While further clarifications would continue to be useful, there is a general understanding of the concepts and requirements in the draft standards—it is more a matter and question of agencies' ability to implement them in a cost-effective manner. Respondents also reiterated that focusing reporting on RSI would facilitate implementation.

Members asked additional questions. The following are highlights of the open discussion:

- Expectations or clarifications are needed regarding precisions of estimates, which can differ depending on geographic location and type of land being measured.
- Respondents reiterated the importance of a multiple-use category when determining predominant use. One Board member cautioned against the potential over-use of a multiple-use category, as currently defined, and proposed working with preparers to clarify its definition and application.
- Respondents noted that the additional audit rigor associated with basic presentation would pose a significant challenge. Board members noted that the purpose of the phased implementation period was to enable preparers to better understand the challenges and costs involved.
- The challenges discussed could affect agency audit opinions.

The meeting adjourned for lunch.

- **Debt Cancellation**

Ms. Batchelor, assistant director, explained the objective of this session was to review an updated draft Interpretation titled *Debt Cancellation: An Interpretation of SFFAS 7 paragraph 313* and staff's analysis of a proposal presented by the Department of the Treasury (Treasury) and OMB. Staff provided materials for the session in tab B of the briefing materials.

Ms. Batchelor explained that in April 2020, staff provided the Board with an update regarding the debt cancellation issue since it was not on the April 2020 meeting agenda. The memo provided the results of the research performed by Treasury and OMB as well as the outreach performed by FASAB staff. FASAB staff also wanted to confirm the Board's support to continue work on the draft Interpretation given the Board had decided to delay work pending the research.

Ms. Batchelor explained that staff believes that neither the feedback obtained from the reporting entities affected by the recent debt cancellation nor the additional research regarding previous debt cancellations should impede or prevent the Board from moving forward on the project.

Ms. Batchelor noted that there were diverse comments and views expressed by members to the questions included in the April 2020 staff update. Staff suggested that members summarize their general views before discussing the technical matters. Staff explained that, although there appears to be a majority that wants to move forward with the project, there are many different views among members. For example, as indicated in the briefing materials, Treasury and OMB proposed broadening the scope of the Interpretation. Later in the discussion, Mr. Bell proposed revising the Interpretation with the intent of not only resolving the current issue that precipitated this project, but also accommodating future debt cancellation activity. Certain members do not believe there is a need for FASAB action because they believe the standards are clear. Certain members are willing to move forward with an Interpretation if it can be done swiftly. In addition, certain members believe the circumstances are rare, and no action is required at this time because the Board can address the issue in the reexamination of existing standards project.

Question 1 – Are there specific topics related to the feedback summarized above or anything from the April 2020 update that members would like to discuss at the June 2020 meeting?

Various members provided the following comments:

- Treasury and OMB raised the issue so it must be important; therefore, moving forward with the draft Interpretation is appropriate.

- The project is very limited scope, and the Board should prioritize it as it considers it with the reexamination of existing standards project.

- The Board should broaden the project scope and address the issue in the reexamination project.

- The standards are clear and provide that non-exchange should be reported on the statement of changes in net position (SCNP). Further, the SFFAS 7 basis for conclusions provides that appropriations to repay debt are not considered budget authority; it is evident that absent an appropriation, that would also not be considered budget authority.

- Staff did an excellent job bringing together SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting,* and Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, into the draft Interpretation.

- The Treasury-issued posting logic departed from FASAB's generally accepted accounting principles (GAAP). (Mr. McNamee also stated he did not agree with the Treasury posting logic.)

- Ms. Harper supported issuing the staff draft Interpretation; it has improved greatly.

- Debt cancellations are rare, and there is no urgency to do the Interpretation at this time. It would be a better use of staff resources to consider the issue in the reexamination of SFFAS 7 project.

- Certain members expressed that they would be willing to go forward with the draft Interpretation as long as it would not take up too much additional time. If it appears that it will take up a lot more resources to finalize, then they would prefer to issue it in the reexamination project due to the limited scope.

- It might be advisable to review the terminology in the draft Interpretation to determine if the Board needs to define terms.

- Mr. Bell suggested that there could be short-term and long-term solutions. Specifically, the Board can arrive at short-term solutions through a limited-scope Interpretation and address other issues when the Board reassesses SFFAS 7 in the reexamination project.

After hearing the additional feedback, Ms. Batchelor noted the Board members have mixed views, ranging from a few members indicating support for the staff draft Interpretation, some members indicating a preference to wait for the reexamination project, some members indicating opposition, and some members indicating that they were ambivalent. The range of views notwithstanding, Ms. Batchelor noted a common theme among members—the Board should issue an Interpretation if it can accomplish this without significant additional resources.

Staff noted that the biggest difference between the OMB/Treasury proposal and the current draft is that the OMB/Treasury proposal provides flexibility to report debt cancellation activity as either a "budgetary financing source" or an "other financing source" on the SCNP, depending on the underlying statutory language, whereas the staff proposal provides that debt cancellation would exclusively be classified as an "other financing source."

Ms. Batchelor explained that, based on the SFFAS 7 basis for conclusions, which is non-authoritative, staff does not believe the draft Interpretation should allow flexibility to recognize debt cancellation as either a "budgetary financing source" or an "other financing source" on the SCNP. Paragraphs 209-212 of SFFAS 7 discuss the budgetary process and its linkage to accounting. Footnote 43 to paragraph 212 states, "Amounts appropriated to liquidate contract authority or repay debt are not available to incur new obligations and hence are not considered new budget authority." Likewise, debt cancellation activity would not be considered new budget authority or a budgetary financing source. As such, staff concludes that debt cancellations should be classified as an "other financing source" on the SCNP, whether an appropriation was received or not.

Ms. Batchelor explained that she believed the suggested flexibility in the Treasury/OMB proposal would not resolve the issue presented by the parties that initially raised the issue and whom are referenced in the Interpretation. Further, it is not supported by the basis for conclusions of SFFAS 7. Instead, if members prefer this alternative, the Board should consider pursuing it as part of a reexamination project of SFFAS 7 and not in the proposed Interpretation due to the inconsistency with the basis for conclusions.

Question 2 – Do members have any specific questions they would like to ask Treasury and OMB regarding their proposal? If so, staff will forward these to Treasury and OMB representatives before the meeting.

Prior to the meeting, Mr. Smith submitted a question (as requested in the Board briefing materials) that staff provided to Treasury (Mr. Bell) regarding the need for flexibility to report debt cancellation transactions as a budgetary financing source. Mr. Bell explained that Treasury had been researching the issue along with footnote 43 of SFFAS 7 and that he based his opinion and perspective on what the legislation provides and the potential for future legislation that forgives/cancels debt. If legislation provides for an appropriation to cancel or repay a debt, that qualifies and should be reported as a budgetary financing source. It may not be a new financing source, but it is a budgetary financing source. Differences in legislative language may precipitate different accounting treatment.

Mr. Dacey mentioned that there appears to be a difference between what other FASAB standards define as "budget authority" and "budgetary financing sources." These two terms are often intermingled but, in reality, are two very different concepts. The Board may need to consider defining these terms in a review of SFFAS 7 or in future pronouncements.

Ms. Harper asked Mr. Bell if he thought a negative surplus warrant would be a budgetary financing source. Mr. Bell confirmed that, based on Treasury's perspective of what qualifies as budget authority, a negative surplus warrant would be considered a budgetary financing source to repay the debt.

Mr. Bell reiterated that there are potentially short- and long-term solutions available, suggesting that the Board could potentially resolve the short-term debt cancellation reporting issue that precipitated this project, while acknowledging that longer-term need to address perceived inconsistencies and ambiguities in SFFAS 7. Specifically, Mr. Bell suggested the Board consider issuing the draft Interpretation through paragraph 9 to provide clarity and guidance on the issue regarding reporting a gain/loss in the context of debt cancellation activity. Mr. Bell indicated that those paragraphs would potentially resolve what he believed to be the major issue and that the subsequent paragraphs are more detailed than other FASAB guidance.

Ms. Batchelor explained that staff did not believe issuing an Interpretation through paragraph 9 (limited to the gain/loss clarification) would fully resolve the issue that occurred during fiscal year 2018 at the Department of Homeland Security (DHS) and contributed to the material weakness. The remaining paragraphs were necessary because the issue also pertained to the classification on the SCNP.

Mr. Bell proposed having Treasury and FASAB staff revisit the specifics with the agencies and their auditors to discuss the draft, confirm the issues, and assess whether the proposed limited-scope Interpretation would address the issues raised, as DHS's letter to Treasury referenced gain/loss reporting and asked for clarification to "resolve discrepancies in SFFAS 7." Mr. Scott noted that it is very important to ensure the guidance would resolve a problem and polled the members with respect to the Treasury proposal to issue the draft Interpretation through paragraph 9.

The members were agreeable to Treasury's short-term proposal to meet with all parties to assess whether the limited Interpretation would resolve the issues raised. Most members reiterated that they would like this accomplished without significant additional resources.

Ms. Valentine asked members if they would like staff to consider if lower level GAAP guidance, such as a technical inquiry or other staff level guidance, may be appropriate. Mr. Scott and other members were agreeable to providing lower level guidance if appropriate.

Ms. Batchelor explained that, based on the Board's directions to staff, the Board may not need to discuss the remaining questions. Mr. Scott agreed.

Question 3 – Do members agree with staff's analysis above? Alternatively, do you believe the Board should not issue any guidance?

Question 4 – Do members have any specific questions they would like to ask Treasury, Bureau Fiscal Service regarding the negative surplus warrant explanation? If so, staff will forward these to the appropriate representatives before the meeting.

Question 5 – Does the Board agree with the updated staff draft Interpretation, *Debt Cancellation: An Interpretation of SFFAS 7 paragraph 313*? If not, please explain or suggest an alternative.

Question 6 – Do members have any suggested edits or changes to the draft Interpretation?

The Board did not discuss questions 3-6.

> **Next steps:** The Board agreed to Treasury's short-term proposal to issue the draft Interpretation through paragraph 9 if it will resolve the debt cancellation issue. Treasury and FASAB staff will meet with all parties—DHS, Treasury deputy chief financial officer, and auditors—to ensure the draft Interpretation through paragraph 9 will fully resolve the debt cancellation issue that existed.
>
> Considering the Board's goal that work on the limited scope project be accomplished without significant additional resources, FASAB staff will consider if lower level GAAP guidance may be appropriate.

- **Software Licenses**

Mr. Perry, senior analyst, introduced the software licenses discussion from tab C of the briefing materials. Mr. Perry provided background on the project and introduced Mr. Brian Casto. Mr. Casto serves on the software licenses working group and summarized the views of the working group for the Board.

Messrs. Casto and Perry stated that the working group does not think the limited scope and purpose of the TB under the rules of procedure can fully address the nature of new/evolving software applications and all of the potential nuances for software. The working group found that accounting issues in the area of software extend to numerous other types of software arrangements, which continue to evolve with new technology. Staff shared concerns that this would result in preparers looking to various other sources for guidance. This could result in inconsistencies in accounting treatment for software licenses among agencies.

Staff recommended pausing the development of the TB and asked the Board to consider projects to address intangible assets and service-based IT arrangements (SBITAs). These broad projects would provide more clarity to the community and an opportunity to align with GASB. Staff expressed that the recent deferral of SFFAS 54, *Leases*, could allow additional time for these projects to progress.

Mr. Perry posed the following questions to the Board:

Question 1 – Does the Board agree or disagree with staff's recommendation to pause TB development and begin the process of considering projects on intangibles and SBITAs? This process would continue with the SBITA educational session.

Board members unanimously agreed with staff's recommendation for the same reasons discussed by Messrs. Perry and Casto, along with reasoning set forth in the briefing memorandum and staff analysis.

Question 2 – In the event that the Board *agrees with* staff's recommendation, do members have feedback on the contingency strategy suggested by staff under item D of the basis for recommendations?

The Board did not deem it necessary to develop a contingency strategy at this point. Once staff has developed a timeline for the new projects, the Board will review and assess if there are any critical issues at that time.

Question 3 – In the event that the Board *disagrees with* staff's recommendation, do members have feedback on the draft TB for the working group to consider when they reconvene and continue to develop the proposal?

Because the Board supported staff's recommendation, question 3 no longer applied.

> **Next steps:** Staff will invite GASB technical staff to present an educational session on GASB Statement 96 and Statement 51 at the August meeting.

Adjournment

The Board meeting adjourned for the day at 3:30 p.m.

Thursday, June 25, 2020

Agenda Topics

- **Leases Omnibus**

Mr. Perry and Ms. Dewhirst introduced the leases omnibus discussion from tab D of the briefing materials. Ms. Dewhirst provided background on the project and posed the following questions to the Board:

Question 1 – Are there matters members wish to discuss in response to staff's proposed amendments?

Question 2 – Are there any other matters that members would like for staff to research for potential inclusion in the omnibus amendments?

Question 4 – Does the Board wish to discuss staff's proposed next steps or provide additional considerations for staff as we move forward with the leases implementation project?

Mr. Dacey expressed concern over the proposed rescission of paragraph 5.a, which enumerated an exclusion of assets under construction from the scope of SFFAS 54. Ms. Dewhirst explained that staff's intent in removing this exclusion was to better align with GASB and to allow the guidance provided for in paragraph 49.b to be applied to assets under construction. Mr. Dacey understood staff's explanation and agreed to work with staff on wording that may better clarify the desired outcome. Ms. Valentine suggested that staff may be able to leave the exclusion in the Statement by modifying paragraph 5.a and including an explanatory footnote on applicability. Staff agreed to develop an alternative amendment to address Mr. Dacey's concerns and to work with members to ensure that their concerns are appropriately addressed.

Ms. Dewhirst and Mr. Perry initiated a discussion on the proposed amendments to paragraph 19.a, and Messrs. Dacey and Patton raised a concern that the proposed change to deter agencies from exploiting the provision by structuring contracts to avoid balance sheet recognition may have other adverse, unintended consequences. Although they agreed with the intent of the proposal, they feared that the proposed wording may unintentionally place undue burdens on preparers. Staff agreed that this should be avoided. Staff will revise the wording for the amendment to keep a bright line exclusion for holdover periods but require additional analysis for evergreen leases at the beginning of lease terms.

The Board tentatively agreed with staff's proposals to address step rent decreases; however, members requested some edits to the proposed amendments and an additional footnote to clarify the difference between step rent decreases and lease concessions.

Staff recommended several amendments to strike the term, "PP&E" from SFFAS 54. The Board supported these amendments but asked that staff prepare a discussion paper in their August meeting materials so that the Board can have a larger conversation about how to report lease assets.

The Board tentatively agreed with the other proposed amendments.

Question 3 – Does the Board agree with staff's recommendation to release a joint ED for the omnibus amendments and technical release implementation guidance?

Board members unanimously supported this recommendation for the same reasons set forth in the briefing memorandum.

Next steps: Staff will research the additional topics recommended by the Board and the task force and propose additional omnibus amendments under development. Staff will also edit the current amendments as discussed and provide an updated draft to the Board in August.

- **Land**

Mr. Savini reviewed progress of the land project to date, summarized a GAO report on the availability and reliability of land data elements, and outlined the Board's implementation monitoring plan. The information can be found at tab E. Additionally, staff advised that Ms. Harper had suggested conforming date change edits to the pre-ballot draft of SFFAS 59, *Accounting and Reporting of Government Land*.

Mr. Scott then polled the members for their comments concerning the prior day's panel discussion. As a result, the majority of the Board agreed to discuss the following topics before the document moves forward:

- Multiple-use classifications
- Tribal-use classifications – staff clarified, referencing SFFAS 6 and 29, that tribal lands were intended to be excluded from the proposed Statement
- Materiality – in particular – applying a traditionally financial concept of materiality to a non-financial unit of measure
- Definition of commercial use
- Definition of predominant use
- Uncertainty about quality and auditability of existing data
- Clarification that system integration is not required and that data from outside of a financial system is acceptable
- Uncertainty about the marginal/incremental cost of auditability
- Clarity with respect to land not on the continental shelf
- Easements
- Consideration whether part of nonfinancial data (predominant-use classifications) would remain in RSI
- Clarification with respect to land ownership records and title implications

- Clarity with respect to the application, use, and reporting of estimated acreage

Some members believe that the Board can address several of these issues through implementation guidance. One member noted that the role of audit guidance will also be important in alleviating concerns and uncertainty around audit costs.

One member noted that fiscal sustainability reporting provides a precedent for effective hybrid reporting of basic reporting elements and RSI.

Two members, referencing the current leases project, emphasized that the Board should endeavor to address as many concerns as possible in the draft standards currently under development to mitigate/minimize the need to consider amendments or additional guidance post issuance. One member noted that the lease implementation process has given way to extensive participation by the preparers and allows for opportunities to look at potential improvements to the standards as more information is gathered from users and preparers. The member also noted this is the normal process of deliberation when issuing principle-based standards. Standard-setters always have amendments and Interpretations, as well as implementation guidance, as a part of their overall process.

Next steps: Staff will present a revised draft document at the August meeting.

The meeting adjourned for lunch.

- **MD&A**

Ms. Robin Gilliam, assistant director, noted the next three sessions—MD&A, budgetary information, and note disclosures—are all part of the reporting model project. The objective of the reporting model project is to determine what type of information belongs where in the financial report. She presented tab F to begin the discussion about MD&A. Ms. Gilliam explained that members are currently identifying MD&A objectives according to the reporting objectives framework in SFFAC 1, *Objectives of Federal Financial Reporting*. To date, members have identified MD&A objectives for budgetary integrity and operating performance.

Ms. Gilliam noted that staff's goal for this meeting was to complete the objectives by identifying the stewardship and system and controls objectives. She noted that two objectives relate to the stewardship objective—one for financial position and one for financial condition. The third objective relates to the system and controls objective.

Staff will then consolidate the MD&A objectives into an MD&A vision framework, to present in August 2020, in preparation for the agency pilot. The pilot will help determine how well the agencies understand and can produce an updated MD&A according to the MD&A vision framework. The pilot will help members develop the standards and determine what terms to define.

Ms. Gilliam presented the following questions for the Board to consider for identifying the remaining three objectives.

Question 1 – Do members agree with the following MD&A stewardship objective? If yes, are there any recommended edits?

> *MD&A should concisely explain reasons for what caused changes in assets, liabilities, and/or net position from the prior year that had a significant positive or negative effect on the financial position of the reporting entity.*

Members discussed this stewardship, financial position objective and agreed on the following points:

- Financial position presents a historical view of financial statements.
- MD&A should include costs and/or revenues instead of net position.
- MD&A should include significant changes in balances from the prior year.
- MD&A should include trends to understand any changes over a series of past years in addition to changes from the prior year.

As a result, the objective for financial position is:

> *MD&A should concisely explain reasons for significant changes in assets, liabilities, costs, and/or revenues from the prior year and any significant trends.*

Question 2 – Do members agree with the following proposed MD&A stewardship objective? If yes, are there any recommended edits?

> *Management should discuss the reporting entity's financial condition by analyzing what actions the agency plans to take in the near and far future to address existing issues, challenges, and/or risks—financial and/or performance—to protect mission resources and major program investments.*

Members discussed this stewardship, financial condition objective and agreed on the following important points:

- Financial condition is forward looking but should encompass financial position.
- MD&A should focus on the future of potential significant changes to financial statement elements—assets, liabilities, costs and/or revenues.
- MD&A should explain current and future issues, challenges, and/or risks that may improve the mission.
- MD&A should include actions planned to address forward-looking activity.

- MD&A should explain significant expenditures and/or investments to address issues, challenges, and/or risks.

- MD&A should explain significant budgetary resources needed to maintain or improve the mission.

As a result, the objective for financial condition is:

MD&A should concisely describe planned agency actions to address current and prospective mission-related issues, challenges, and/or risks that could significantly affect assets, liabilities, costs, revenues, and budgetary resources.

Question 3 – Do members agree with the following MD&A systems and control objective? If yes, are there any recommended edits?

MD&A should provide a summary analysis of any system, control, and/or legal issue that has or could significantly affect the balance of any financial statement element of the reporting entity.

Members discussed the systems and control objective and agreed on the following important points:

- MD&A should discuss systems and controls and the ability to reliably report financial statement balances and address material weaknesses.

- MD&A should not include compliance information about systems, controls and legal compliance; compliance information may be included in another area of the financial report.

- MD&A should not include legal issues because a Statement exists that addresses potential losses related to litigation.

- MD&A should discuss and analyze abilities and limitations to properly collect data and accurately report financial information.

- MD&A should explain types of systems and controls, including automated and manual, to provide accurate financial information.

- MD&A should summarize plans and necessary investments to remediate any material weaknesses.

Pending further discussion of this objective at a future meeting, members agreed on the following potential objective for systems and controls:

MD&A should concisely describe the conditions of data, systems, and controls that affect the ability to produce reliable financial information.

However, a number of members agreed that MD&A should also include a summary discussion about ongoing and planned actions to address non-compliance and control weaknesses that may be causing material weaknesses. This includes references to other sections that have a more in depth discussion of those items.

Next steps: Members will review and discuss the MD&A vision framework—from the consolidated objectives—in preparation for the agency pilot. The pilot will determine how well agencies understand and can produce an updated MD&A according to the MD&A vision framework. The pilot will then help members to develop the standards and determine what terms to define.

- **Budgetary Information**

Mr. Simms, assistant director, introduced the discussion on budgetary information from tab G of the briefing materials. He noted that the budgetary information task force is considering retaining the existing statement of budgetary resources (SBR) as a basic statement and developing disclosures to improve its understandability.

Question 1 – What additional information does the Board need to determine whether to retain the SBR as a basic financial statement and focus on developing guidance for disclosures that would improve its understandability?

The Board preferred to develop alternatives to the SBR rather than develop disclosures to improve its understandability. Members noted that the statement was challenging to understand and disclosures may not be effective. In addition, GAO and OMB are considering alternative presentations, and members suggested engaging external users in discussing alternatives.

Question 2 – Do members have suggestions the task force should consider in developing disclosures or other approaches for improving the understandability of the SBR?

Because members preferred to develop alternatives to the SBR, the Board did not address this question.

Next steps: Staff will research alternatives to the SBR.

- **Note Disclosures**

Mr. Simms and Ms. Gilliam introduced the note disclosures discussion from tab H of the briefing materials. They noted that the project is currently in phase 1—developing concepts—to support phase 2—reexamination of note disclosures. Ms. Gilliam explained the goal for the meeting was to learn of any technical changes to the draft ED so that staff could prepare a pre-ballot draft for the August meeting.

The briefing materials included the following questions:

- **Question 1 – Do members have any comments or edits to the note disclosures draft ED regarding the purpose of note disclosures and their relationship to basic financial statements?**

- **Question 2 – Do members have any comments or edits about how the note disclosures draft ED codifies new note disclosure concepts in the conceptual framework?**

- **Question 3 – Do members have any comments or edits to the note disclosures draft ED about what types of information are appropriate for note disclosures?**

- **Question 4 – Do members have any comments or edits to the note disclosures decision tool?**

Due to time constraints, staff requested Mr. Scott to poll members to identify any technical changes to the draft ED.

Members agreed that the draft ED should discuss additional topics before proceeding to a pre-ballot draft. For instance, the draft needs to 1) explain the relationship between note disclosures and financial statements, elements, line items, and MD&A and 2) discuss the rationale for the types of information note disclosures should provide.

In addition, a couple of members requested that staff provide a mapping from the types of information listed in paragraph 6 of the draft ED to

- the August 2019 working group presentation, *Note Disclosure Proposed Decision Questions to be Considered in Establishing Disclosure Requirements*, and

- Other standard-setters' guidance, such as the Financial Accounting Standards Board and GASB's February 11, 2020, ED titled *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements an amendment of GASB Concepts Statement No. 3.*

Next steps: Staff will prepare a revised draft for the August 2020 meeting.

Adjournment

The Board meeting adjourned at 4:30 p.m.

Steering Committee *(July 9, 2020)*

Ms. Valentine presented her recommendation for the new FASAB senior analyst position, and the Committee approved the recommendation.

Ms. Valentine presented a proposed budget for FY 2021 to the Committee. The members of the Committee asked Ms. Valentine to provide additional information on some of the proposed amounts. The Committee plans to meet again in early August 2020.

Steering Committee *(August 7, 2020)*

Ms. Valentine presented an updated proposed budget for FY 2021 to the Committee. The federal members of the Committee noted they would seek approval from their respective leadership on the proposal.