FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
Board Meeting Minutes
June 27–28, 2018
Room 7C13
441 G Street, NW
Washington, D.C. 20548

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 27, 2018

Attendance

The following Federal Accounting Standards Advisory Board (FASAB or “the Board”) members were present throughout the meeting: Mr. Showalter (chairman), Mr. Bell, Ms.

Bronner, Messrs. Dacey, Granof, McNamee, Scott, and Smith. Ms. Johnson was present with the exception of brief absences during which she was represented by Mr. Soltis. 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.

Agenda Topics

- **Closed Session**

The Board met in closed session from 9:30 – 11:45 a.m. The reason for the closure was that matters covered by 5 U.S.C. 552b(c)(1) were discussed. The discussion involved matters of national defense concern that have been classified by appropriate authorities pursuant to Executive Order. A determination has been made in writing by the U.S. Government Accountability Office, the U.S. Department of the Treasury, and the Office of Management and Budget, as required by section 10(d) of the Federal Advisory Committee Act, 5 U.S.C. App., that the portion of the meeting may be closed to the public in accordance with 5 U.S.C. 552b(c)(1).

The Board meeting adjourned for lunch.

Administrative Matters

- **Updates and Clippings**

Mr. Timothy Soltis was welcomed as the new Office of Management and Budget (OMB) representative on the FASAB. His service will begin on July 1. For the month of June, Ms. Johnson will represent OMB.

Mr. Dacey provided an update regarding the International Public Sector Accounting Standards Board. He noted the following activity:

- Approved financial instruments standards similar to the International Accounting Standards Board's guidance

- Reviewed responses to the social benefits exposure draft (ED) and subsequently revised the definition of social benefits to limit it to cash transfers in preparation for finalizing a Statement in December

- Continued efforts in developing an ED on revenue recognition / performance obligations

- Developed public-sector measurement guidance that would consider conformity with current concepts

- Discussed nonexchange expenses

Mr. Granof provided an update regarding the Governmental Accounting Standards Board. He noted the following activity:

- Finalized standards removing requirements to capitalize interest cost during construction of an asset

- Developed a preliminary views document on the financial reporting model, scheduled to be issued in September and expected to include alternative views

- Initiated a project on public-private partnerships

- Evaluated comments on the revenue and expense proposals

- Made progress on proposed standards for conduit debt

Mr. Bell presented a Department of the Treasury (Treasury) concern. Treasury makes judgment claim payments on behalf of many federal agencies. Certain agencies are required, in many cases by statute, to reimburse Treasury for some payments; however, many of these reimbursements are not made in a timely manner—raising questions about collectability.

Statement of Federal Financial Accounting Standards (SFFAS) 1, *Accounting for Selected Assets and Liabilities,* indicates that losses should be recognized when it is more likely than not that the balance will not be totally collected. However, Treasury does not believe it is appropriate for an agency to record a loss allowance for intragovernmental receivables, particularly in cases where the balances are required by statute to be repaid. Recording an allowance may imply that the debtor agency is not required to satisfy its statutory obligation to pay the amount owed (relief from such a requirement can only be provided by Congressional action), and further, could potentially augment the debtor agency's appropriations in violation of the Antideficiency Act. In addition, recording a loss allowance has contributed to a government-wide imbalance, as agencies do not reduce their recorded liabilities in a corresponding fashion for the allowances Treasury has recorded upon auditor recommendation.

Treasury interprets that language in SFFAS 1, paragraphs 44 and 47, is sufficiently vague to provide that agencies should not record allowances for intragovernmental receivables in that

- these paragraphs do not distinguish between public versus intragovernmental transactions,

- the statutory requirement for agencies to reimburse is a distinguishing feature between the two, and further,

- Congressional action would be required to relieve an agency of the reimbursement requirement.

However, because many receivable balances have remained outstanding for an extended period of time and will not be paid until Congress appropriates agency funds for repayment; and because agencies generally do not appear to be seeking such appropriations,[1] an auditor may interpret SFFAS 1 differently and conclude that a loss allowance should be recorded. Treasury is seeking clarification from the Board to resolve this disagreement.

The Board discussed the issue, noting that there may be similar circumstances in other agencies and that Congress would have to take action to legally relieve an agency of the liability. One member provided examples including the Postal Service's debt to the Federal Financing Bank and the Office of Personnel Management and the National Flood Insurance Program's debts to Treasury. Allowances are not recognized on these amounts, but payment is sometimes guaranteed by the Secretary of the Treasury. While members noted some of the examples are loans rather than receivables, the general principles should be consistent.

Some members noted the need to assess whether amounts recognized are realizable. The allowance approach is not actually a "write-off" of a receivable. Instead, it is an adjustment needed to estimate the amount that is realizable. The legal requirement to pay exists for commercial entities as well; however, if the commercial entity legally required to pay a debt is unable to pay, then an allowance is recognized by the receiving entity to reduce the receivable to its realizable amount. Treasury maintained that the fact that the allowance amounts are not necessarily intended to ultimately result in "write-offs" precipitates the perception issue associated with recording the allowance in the first place.

Members expressed reluctance to revise current standards, noting that they did not wish to remove the element of judgment regarding collectability of receivables. Further, one member noted that avoiding incorrect perceptions or signals is not usually a reason to alter accounting standards. However, the Board generally agreed to consider providing criteria for evaluating collectability of intra-governmental receivables.

> **Next steps:** Staff will draft an Interpretation for the Board's consideration at the December 2018 meeting.

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[1] In some cases, agencies have funds available in their appropriation accounts to pay judgments without seeking additional appropriations but choose not to do so. When amounts are either too large to pay from available appropriations or not consistent with the purposes for which the agency's appropriations are available, an agency needs to seek specific appropriations to pay the judgment.

Agenda Topics

- **Classified Activities**

Ms. Monica Valentine, assistant director, stated that the Board had been in closed session to discuss revisions to the draft Classified Activities Statement that had been presented to the Board at tab F. The Board deliberated the disclosure options presented by staff and agreed to a middle ground disclosure requirement. The final disclosure requirement reads:

> All federal component reporting entities must include the following in the summary of significant accounting policies.
>
> > Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

The Board also agreed to edits clarifying the document, as well as revisions that further express the Board's basis for the conclusions reached in the Statement. Ms. Valentine noted staff will update the draft Statement with the edits agreed to by the Board and bring a revised draft back to the Board on Thursday in closed session.

One member asked staff to review the timeline for the project and the two drafts being reviewed. Ms. Valentine noted that if the Classified Activities Statement is approved by the Board on Thursday, staff will submit the document early next week to the classification authority to review its unclassified status. The Statement would then be submitted to the sponsors for the 90-day review period.

Ms. Valentine noted that the timeline for the Classified Activities Interpretation ED is as follows: the Board will review the latest draft, deliberate on the revisions, and come to a consensus on all editorial changes. If this is completed by Thursday, the members will then vote on the release of the ED. The ED will have a 30-day comment period and the responses will be presented to the Board in closed session during the August Board meeting.

- **Assigning Liabilities**

Ms. Melissa Batchelor, assistant director, explained the purpose of the session was to discuss options for guidance on selected liabilities. The materials were included in the briefing materials at tab A.

Staff explained the session continued the analysis of the issue area "assigning liabilities" that was presented at the April 2018 meeting. At the April meeting, staff recommended that additional guidance be provided to address issues identified with environmental liabilities but did not believe broad flexibility should be provided. The Board had requested staff to determine if there was a general liability principle that could be applied.

In determining whether a general liability principle could be applied, staff assessed existing FASAB generally accepted accounting principles (GAAP). FASAB GAAP provides two broad liability principles, and these broad principles have been augmented with specific principles through additional FASAB guidance such as Interpretations, Technical Bulletins (TBs), and Technical Releases (see June briefing materials at tab A for the broad principles and specific pronouncements that augmented them). Nonetheless, important considerations for the Board are the recent pronouncements (SFFAS 47, *Reporting Entity*; SFFAS 55, *Amending Inter-entity Cost Provisions*; and TB 2017-2*, Assigning Assets to Component Reporting Entities*) and the effects upon existing principles and guidance.

Staff explained that two specific principles are derived from existing guidance that relate to the Department of Defense's (DoD) issues. These notions, if articulated in a GAAP document, would augment the broad principles and clarify the standards:

- Reporting entities designated to settle certain liabilities generally do not have information needed to determine that a future outflow is probable and measurable until entities more directly involved communicate certain determinations to them. Therefore, reporting entities designated to settle liabilities need not recognize liabilities until designation of the amount and/or timing of settlement is made.

- Some reporting entities settle their liabilities by designating (either themselves or through law) another federal entity to assume responsibility for the liabilities. Such entities should recognize the liabilities until specific assets are transferred or the amount and timing of the settlement is determined.

Staff, therefore, recommended an Interpretation that would focus on these ideas and associated issues. The Interpretation would offer specific guidance to address environmental and contingent liabilities and augment the general liability standards and principles.

Because the guidance regarding the application of the general liability standards has been provided through other pronouncements, such as Technical Bulletins and Technical Releases, those pronouncements and related guidance may require updating to ensure conformance and consistency with new pronouncements. Necessary updates will be made to the affected GAAP documents. Those updates are considered exclusive of the liability issue presented within the Interpretation. Further, the updates must be made in separate GAAP documents to ensure the guidance is at the appropriate level of the GAAP hierarchy.

Prior to the meeting, six members had indicated support for staff's recommended approach and had provided preliminary feedback. The Board had a brief discussion regarding the conceptual basis and reasoning in the document. The proposed Interpretation would tie liability recognition with the component reporting entity that recognizes the asset during its useful life until it is transferred to the component reporting entity responsible for cleanup. This somewhat results in a two-tiered approach. Specifically, the entity using the asset would recognize the cost as the liability is recorded; this is what SFFAS 6, *Accounting for Property, Plant, and Equipment*, calls for. The proposed Interpretation prescribes guidance that is practical and can be implemented consistently.

Question 1– Does the Board agree or disagree with the staff recommendation to prepare an Interpretation? If not, Board members please identify your preferred alternative.

The Board agreed with staff's recommendation to prepare an Interpretation.

Question 2 – If in agreement, do Board members have any comments on the draft wording for the Interpretation?

The Board requested staff to expand on and clarify certain points. For example, members requested staff consider

- moving the discussion of the specific principles to the interpretation section and

- providing a more balanced discussion of contingent liabilities and environmental liabilities.

Next steps: Staff will provide a draft ED Interpretation before the August 2018 Board meeting for member comments. Necessary updates will be made to the affected GAAP documents in conjunction with this effort.

- **Materiality**

Ms. Leigha Kiger, communications specialist, and Mr. Ross Simms, assistant director, presented to the Board the briefing materials located at tab B. The goal of the session was to review changes to the draft materiality ED that were made since the April meeting.

Question 1 – Does the Board agree that "substantial likelihood" is appropriate in paragraph 191.b? If not, do you have any suggested improvements? Members reviewed the language surrounding material misstatements in paragraph 191.b and discussed whether "substantial likelihood" correctly captured the degree of certainty that members had intended. Various members expressed concern that materiality required a higher threshold of certainty than "substantial likelihood" communicated and stressed the importance of making this clear to readers. Mr. Dacey suggested adapting language used by both the Auditing Standards Board and the International Auditing and Assurance Standards Board. Both boards utilize "reasonably be expected" in their discussions surrounding materiality. The Board acknowledged the merits of using similar wording in the materiality ED. Ultimately, members decided to replace "substantial likelihood" with "reasonably be expected" in paragraph 191.b.

Staff will draft language to adapt the “reasonably be expected” threshold into paragraph 191.b. Staff will also expand paragraph A11 in the basis for conclusions to provide more background on the reasons the Board chose this language. Revisions will be available for the August meeting.

Question 2 – What additional comments do members have on the draft? The Board discussed paragraph 191.g, which addresses presentation of irrelevant information in disclosures. Some members questioned generally whether this was appropriate to include in the ED, especially given that other standards-setters do not address this. One member suggested including relevancy under the qualitative considerations. This led the Board to discuss levels of materiality in the context of reporting across the entity. The materiality considerations may change as financial information is rolled up into the reporting entity. Given these considerations, the OMB member will draft language regarding levels of materiality and relevance of financial information. After reviewing the language at the August meeting, the Board will make changes and determine whether the new text belongs in the proposed concepts or basis for conclusions.

In addition, members noted various editorial changes throughout the draft that staff will make before circulating the next draft of the ED.

> **Next steps:** Staff will make changes to the draft materiality ED and circulate it to the Board before the next meeting. Changes will include adapting “reasonably be expected” into paragraph 191.b, incorporating OMB’s paragraph on relevance into the ED, and making the various editorial changes noted at the meeting.

- **Steering Committee**

The committee reviewed budget estimates for fiscal years 2019 and 2020. No changes were proposed. Committee members are considering incremental funding to support 2019 transitions and will decide on funding at the next meeting.

Adjournment

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

Thursday, June 28, 2018

Agenda Topics

- **Closed Session**

The Board met in closed session from 9:00 – 10:15 a.m. The reason for the closure was that matters covered by 5 U.S.C. 552b(c)(1) were discussed. The discussion involved matters of national defense concern that have been classified by appropriate authorities pursuant to Executive Order. A determination has been made in writing by the U.S. Government Accountability Office, the U.S. Department of the Treasury, and the Office of Management and Budget, as required by section 10(d) of the Federal Advisory Committee Act, 5 U.S.C. App., that the portion of the meeting may be closed to the public in accordance with 5 U.S.C. 552b(c)(1).

- **MD&A Improvements**

To better reflect the objectives, the reporting model phase I: streamlining project was renamed to the reporting model phase I: MD&A and stewardship investments improvements project.

Mr. Ross Simms and Ms. Robin Gilliam, assistant directors, conducted the discussion on management's discussion and analysis (MD&A) improvements from tab D of the briefing materials. Mr. Simms began the discussion by reviewing the challenges users face:

- MD&A presents unnecessary information, such as details of performance measures.
- Some information is incomplete because performance measures are unavailable.
- Information is redundant because the MD&A guidance requires sections.
- Any significant changes in financial position are unclear.

As an example of the lack of risk and financial performance information in the MD&A, Ms. Gilliam presented Government Accountability Office (GAO) report number GAO-18-598T. *Medicaid: Actions Needed to Mitigate Billions in Improper Payments and Program Integrity Risks* was published on June 27, 2018. Ms. Gilliam also distributed the 2017 MD&A from the Department of Health and Human Services (HHS).

GAO-18-598T reports three broad areas of risk to Medicaid, including a 20% increase in improper payments from $29.1 billion to $36.7 billion. HHS notes the following in its MD&A: "HHS has shown tremendous leadership in the improper payments arena. … In addition, HHS is publishing improper payment estimates and associated information for nine high risk programs in this year's [agency financial report], of which six programs reported lower improper payment rates in FY 2017 compared to FY 2016."

HHS does not discuss in the MD&A the financial change for the six programs that improved. There is also no mention of the 20% increase in improper payments for the three programs—of which one is Medicaid, as disclosed in GAO-18-598T—and its cause.

HHS presents this information in accordance with the MD&A guidance that is currently discussed in two Statements—Statement of Federal Financial Accounting Concepts (SFFAC) 3, *Management's Discussion and Analysis*, and SFFAS 15, *Management's Discussion and Analysis*.

Question 1 – Does the Board agree with the proposed improvements? Staff proposed to rescind rather than amend SFFAC 3 and SFFAS 15 to improve MD&A reporting. Also, staff proposed and the Board discussed the following improvements.

<u>Improvement 1: FASAB explicitly states that management has the flexibility to either discuss performance plans and results in the MD&A or provide a reference to where users could access the information.</u>

The Board believed that component reporting entities should provide a summary about performance instead of details. The summary could include background information on the mission of the agency, management measures of strategic performance, and a high-level overview of major accomplishments. The summary could also include key risks associated with prior period performance and risk mitigation initiatives. Lastly, the summary could discuss how the user might access detailed performance information.

Members agreed that the new standards should endure any future performance reporting changes that OMB may require.

<u>Improvement 2: FASAB eliminates the requirement for information on compliance with laws and regulations and the adequacy of internal control.</u>

The Board believed that the requirement for information on compliance with laws and regulations and the adequacy of internal control should be retained. Members noted that management should provide a general discussion to address the requirement. For example, management should address material weaknesses that auditors identified and audit findings. In addition, the entity should address actions taken to mitigate any negative audit findings.

The Board suggested that revisions to OMB Circular A-136, *Financial Reporting Requirements,* (A-136) requirements could help reduce the volume of information component reporting entities are presenting. The Board requested that staff collaborate with OMB on this effort.

<u>Improvements 3 & 4: FASAB removes the requirement for sections in the MD&A to facilitate an integrated discussion and, for each responsibility segment, requires financial performance information, including forward-looking information about risks and risk mitigation strategies.</u>

Members had expressed concern that the umbrella diagram in the briefing materials was too prescriptive. Staff explained that the diagram should be a “framework” and not a prescribed “structure.” Staff sought a balance between principles-based guidance and prescriptive guidance.

Members agreed that standards should require a discussion about the rationale for material changes in accounting elements such as assets, liabilities, and/or net costs. Members also noted that key risk events may affect the entity as a whole and may not be associated with specific responsibility segments; therefore, the framework should not be restricted to a discussion by responsibility segment. It should be flexible enough to allow management to integrate risks that had or will have a significant financial impact at the level best defined by management.

Members requested principle-based standards to address the different types of risks that may have a significant financial impact on the government-wide financial position, condition, or results of operations. To tell the entire financial story, members believed that management should discuss the actions taken to address current and future risk drivers, as well as forward-looking information. Members requested more information/examples about risk types and forward-looking information.

> **Next steps:** Staff will present an analysis and examples for the proposed improvements. Staff will also work with OMB to update A-136 and reduce required information about laws and regulations and the adequacy of internal control. In addition, after the Board agrees on the required information for MD&A, staff will consider the need for implementation guidance.

The Board meeting adjourned for lunch.

- **Required Supplementary Stewardship Information**

Mr. Ross Simms requested the Board's input on alternatives for presenting stewardship investments (SI) information in MD&A. During the April 2018 meeting, the Board agreed to eliminate the required supplementary stewardship information (RSSI) category and present SI in MD&A. For additional background information on RSSI and a discussion on the possible alternatives for SI presentation, Mr. Simms referred Board members to tab E of the briefing materials.

Question 1 – Which alternative does the Board support? The Board agreed that SFFAS 8, *Supplementary Stewardship Reporting*, should be rescinded and that SI should be presented in the MD&A of government-wide and component reporting entity general purpose federal financial reports. The Board considered the following alternatives for presenting SI:

- FASAB limits SI reporting to the consolidated financial report of the U.S. Government (CFR). The CFR would include a general discussion of SI and a reference to more detail in the Budget of the U.S. ("the Budget").[2] SI would not be required for component reporting entities.

- FASAB allows reporting SI in the CFR and component reporting entity reports if it is significant.

[2] The Budget includes a volume titled "Analytical Perspectives." This volume complements information on the president's policies and priorities for the upcoming fiscal year and provides data and analyses that highlight specific subject areas. The chapter on federal investments presents annual spending on physical capital, research and development, and education and training. The Budget also includes "Historical Tables" that provide historical data on federal investments.

- FASAB moves all of the existing SI requirements to the MD&A of the CFR and component reporting entities.

- FASAB encourages component reporting entities to present SI in agency performance reports.

For each alternative, staff proposed to rescind SFFAS 8 and issue a new Statement.

Members noted that users of the CFR and component reporting entity reports need to know about the expenses that provide long-term benefits for the nation. However, the Board did not determine the level of detail that should be discussed.

Question 2 – What other suggestions do members have regarding guidance for presenting investments in MD&A?

Members discussed other alternatives, including the possibility of presenting information from the Budget in the MD&A; however, views were mixed. Members expressed concern about referring users to the Budget for investment information or incorporating information from the Budget in the MD&A. The Budget appears to define and measure investments differently and the differences could confuse users. For instance, the Budget presents public physical investment, while FASAB standards require reporting entities to present non-federal physical property. Also, FASAB standards require reporting entities to measure investments using the accrual basis of accounting, while the Budget presentation generally uses the cash basis.

> **Next steps**: Staff will develop illustrations of the information that could be presented in the MD&A regarding investments.

- **Closed Session**

The Board met in closed session from 1:45 – 2:45 p.m. The reason for the closure was that matters covered by 5 U.S.C. 552b(c)(1) were discussed. The discussion involved matters of national defense concern that have been classified by appropriate authorities pursuant to Executive Order. A determination has been made in writing by the U.S. Government Accountability Office, the U.S. Department of the Treasury, and the Office of Management and Budget, as required by section 10(d) of the Federal Advisory Committee Act, 5 U.S.C. App., that the portion of the meeting may be closed to the public in accordance with 5 U.S.C. 552b(c)(1).

- **Classified Activities**

Mr. Showalter stated that the Board had reviewed and deliberated on ballot drafts of both the Classified Activities Statement and the Classified Activities Interpretation ED. He asked staff to distribute the ballots to the members. The Board unanimously approved both documents.

Next steps: Staff will submit the Classified Activities Statement to the classification authority to review its unclassified status. The Statement will then be submitted to the sponsors for the 90-day review period. Staff will also submit the Classified Activities Interpretation ED to the classification authority for classification and subsequent release in a classified environment.

Adjournment

The Board meeting adjourned at 3:15 p.m.