FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
Board Meeting Minutes
February 22, 2017
Room 7C13
441 G Street, NW
Washington, D.C. 20548

Wednesday, February 22, 2017

Attendance

The following Federal Accounting Standards Advisory Board (FASAB or “the Board”) members were present throughout the meeting: Mr. Showalter (chairman), Ms. Bronner, Messrs. Dacey and Granof, Ms. Ho, Messrs. McNamee, Scott, and Smith. Mr. Reger was present with brief absences during which he was represented by Ms. Johnson. The executive director, Ms. Payne, and general counsel, Ms. Motley, were also present throughout the meeting.

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.

Administrative Matters

- **Approval of Minutes**

The Board approved the December 2016 meeting minutes prior to the meeting.

- **Updates and Clippings**

Ms. Payne announced that Ms. Grace Wu was recently promoted to assistant director in light of her excellent performance over the past two years as a project manager. Members and staff congratulated Ms. Wu on her promotion.

Mr. Showalter welcomed Mr. Patrick McNamee to his first meeting as a member of the Board. He then requested that Messrs. Dacey and Granof update members on progress at the International Public Sector Accounting Standards Board (IPSASB) and the Governmental Accounting Standards Board (GASB).

Mr. Dacey indicated that IPSASB had not met since the Board's December 2016 meeting. He remarked that the next IPSASB meeting would be held in Washington, D.C. in early March.

Mr. Granof noted the following progress by GASB:

- Fiduciary activities standards were finalized.
- Standards regarding leases are undergoing edit prior to being finalized.
- Deliberations continued regarding
    - revenue recognition (with the primary focus on exchange revenue);
    - reporting model matters such as classification on the operating statement (for example, operating versus non-operating activities, recurring versus nonrecurring activities);
    - debt extinguishments;
    - debt disclosures; and
    - omnibus improvements to existing standards.

Members briefly discussed the revenue recognition projects at IPSASB and GASB. Both are addressing exchange revenue. In some respects, the changes made to private-sector revenue standards led to those projects. Members noted that the vast majority of public-sector revenue is nonexchange and that changes to how exchange revenue is recognized may not lead to significant changes on government operating statements. Also, applying the performance obligation approach developed for the private sector raises conceptual issues, such as what performance obligations may exist for nonexchange revenues.

Some members indicated it may be beneficial to take stock of what IPSASB and GASB develop before undertaking a FASAB revenue project.

Mr. Showalter congratulated the federal members regarding the release of the fiscal year (FY) 2016 consolidated financial report of the U.S. Government (CFR). He asked the federal members to comment on the results.

These members noted the challenge of accelerating the release to January 12. In previous years, 23 of 24 Chief Financial Officers Act agencies had received clean opinions; however, two agencies with prior clean opinions have not maintained them. For 2016, there was improvement for both agencies, and there seemed to be progress at the Department of Defense (DoD). Overall, there seemed to be a stable reporting environment.

Members discussed the significant increase in net cost attributed to changes in actuarial assumptions. Past changes to the accounting standards require that such amounts be shown separately on the statement of net cost. This allows the amount to be identified easily, but the challenge of explaining such technical changes remains.

Ms. Ho noted that readership of the report remains low. It is not a citizen-friendly document and may not seem relevant to the general public. On April 18, U.S.A. Facts—a new nonprofit organization—plans to issue a report for the U.S. government modelled after the Form 10-K, which is issued by publicly traded companies to meet requirements established by the Securities and Exchange Commission. This report is intended to be understandable to a general audience. It will include federal, state, and local government information. Performance information will be provided as well as financial.

Mr. Showalter asked Mr. Dacey to comment on the Government Accountability Office (GAO) report on fiscal health. Mr. Dacey noted the report summarized information in other reports—including the CFR. There was significant press coverage, and GAO intends to continue issuing the report on an annual basis. He also noted that GAO created a video to reach a broader audience. Members viewed the video during the meeting.

Members discussed the variety of ways citizens want to receive information. The video is an effective tool for reaching some citizens. The Board discussed the challenge of creating awareness that such tools are available. Some members weighed whether it would be feasible to create a video to make the CFR clearer to citizens or whether other tools would be needed.

Agenda Topics

- **Reporting Model**

Mr. Showalter introduced the reporting model session and informed Board members that the project is approaching the pre-ballot stage. Therefore, Board members would need to present technical issues during today's discussion.

Mr. Simms, assistant director, referred Board members to tab A1 and tab A2 of the briefing materials: responses to the exposure draft (ED), *Federal Financial Reporting*, staff's analysis of the responses, and a February 10, 2017, version of the ED reflecting staff's proposed changes. Mr. Simms informed the Board that 16 constituents had responded to the ED and generally agreed with the concepts discussed. In addition to providing comments that will be helpful for future standards setting, respondents also provided comments or suggested edits for enhancing the document. Staff considered the feedback in proposing changes to the ED. Consequently, the Board discussed and agreed to the following changes to the ED:

- Paragraph 5—Staff will eliminate the term "fully" in the first sentence and the terms "amended" and "rescinded" in the second sentence. Earlier in the project, the Board had anticipated amending and rescinding concepts. However, after the deliberations, the Board decided to reemphasize concepts, such as Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, rather than amend or rescind them.

- Paragraph 11—To clarify the intent of figure 1, staff will revise the paragraph to state

    > Figure 1: Information for Assessing Accountability and for Decision Making illustrates the relationship between financial statements and RSI [Required Supplementary Information] and the larger body of information available to users for assessing the government's accountability and for decision making. The illustration provides examples of the types of information that may be presented and is not intended to represent current or future financial reporting requirements.

- Figure 1—The Board agreed on the following with respect to figure 1 of the ED.

    - Staff will remove the proposed title Summary Level Reporting from the illustration and add a footnote explaining the purpose of summary-level information. Summary-level information provides a different perspective and would confuse readers if presented within the illustration.

    - Staff will state the purpose of each box in the illustration. With respect to the financial statements, disclosures, performance information, management's discussion and analysis, and RSI blocks, staff will state their purpose rather than listing items within each block. Specific items can change as the Board develops standards.

    - The items in the financial and nonfinancial Information block should be generic and include information presented on governmentsponsored websites rather than specifically stating items such as "improper payments."

- Paragraph 13—The introduction to the paragraph should be revised as follows.

  Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, provides ~~a more extensive~~ additional discussion on the types of users of federal financial information, their financial information needs, and the objectives of reporting financial information. There are four overall reporting objectives which form the foundation for all other concepts…

- Paragraph 17—Staff will revise the second to last sentence of the paragraph as follows.

  Thus, the item of information may be ~~a candidate~~ considered for inclusion in ~~for~~ RSI.

- Paragraph 18—Staff will remove the partial listing of qualitative characteristics and reference SFFAC 1, paragraphs 156-164, for a complete list of the qualitative characteristics of information in financial reports.

- Paragraph 19—Staff will revise the paragraph as follows.

  19. Financial statements are prepared using ~~primarily~~ generally

    a. the accrual basis of accounting to present information regarding financial results of operations and financial position,

    b. cash-based budgetary accounting to present government-wide reporting entity budgetary information, and

    c. ~~primarily obligation-based~~ budgetary accounting to present component reporting entity budgetary information.

- Paragraph 19—Staff will include long-term projections for sustainability information in the list.

- Paragraph 20—Staff will revisit the paragraph in light of the changes to paragraph 19.

- Paragraph 21—Staff will consider the language in the CFR to describe accrual accounting.

- Paragraph 25—The Board agreed with the following revision.

  > 25. Financial statements and RSI may include n~~N~~arrative and graphic depictions ~~can be used~~ to explain the relationships among items of information.

- Other Reported Financial Information (ORFI) and its Relationship to Financial Statements and RSI, paragraphs 26-31—Staff will include examples of ORFI.

- Paragraph 35—Staff will combine this paragraph with paragraph 37, which lists specific items.

- Paragraph A26—Staff will revise the tone of the language, stating that respondents provided many suggestions that the Board would consider in future standard setting.

Financial Statements and RSI

Members discussed the purpose of the Financial Statements and RSI section and noted the section begins a discussion on the distinction between generally accepted accounting principles (GAAP) reporting and non-GAAP reporting. The section also includes the positive aspects of financial statements and the contrast between financial statements and RSI. Mr. Granof indicated the ED uses descriptive rather than prescriptive language in this and other sections. Concepts should guide the Board rather than describe practice. Mr. Dacey explained that one of the reasons the Board decided to use the descriptive language is because FASAB constituents view prescriptive language as requirements. The ED reemphasizes existing concepts and discusses important matters that would be beneficial to the Board. Mr. Smith added the Board is trying to broaden the reporting model rather than develop a completely new model. Thus, the Board has to state some existing facts or items that it has already accepted.

The Board agreed the purpose of the concepts should be clearly explained to provide context for reemphasizing certain concepts and to help readers understand the flow of the discussion. In addition, the discussion in the sections should be linked to figure 1.

Component Reporting Entity Financial Position

The Board discussed paragraph 45 of the ED, which states the following:

> 45. Financial position with respect to most component reporting entities may be distinct from financial position with respect to the government-wide reporting entity. Most component reporting entities are not independent economic entities and budget authority from Congress specifies the amount, purpose, and duration of their funding. However, the government-wide reporting entity can tax and

borrow funds while most component reporting entities do not possess such authority.

Ms. Ho noted the government-wide reporting entity is a consolidation of the component reporting entities. However, paragraph 45 appears to say the component reporting entity's financial position is not related to the government-wide reporting entity's financial position. The intent of the paragraph was to distinguish the utility of the component's financial position from the utility of the government-wide reporting entity's financial position. Users are concerned about the component reporting entity's services and would look to the government-wide reporting entity for information regarding financial position. Mr. Scott added that it should be clear that the financial position of a component is dependent on the financial position of the government-wide; Mr. McNamee stated component reporting entity balance sheets demonstrate stewardship and serve as input to the consolidated financial statements.

Ms. Payne explained the purposes of a component reporting entity's balance sheet. She noted the component reporting entity's balance sheet can provide information such as the amount of assets available to provide services, the level of capital, the level of student loans and loan guarantees, default rates on loans, and the cost of new weapons systems.

Ms. Payne also explained that the financial position of a component may only be understood with respect to its relationship to the government as a whole. For example, an agency like the Department of Energy may have a negative net position because it assumes all the liabilities for cleaning up nuclear waste. However, the agency may not have financial difficulties. The agency's financial burden can only be assessed by looking at the government as a whole and the government's commitment to liquidating the environmental hazards.

Board members agreed the paragraph should be revised. Recognizing a component reporting entity's balance sheet serves analytical purposes, users should look to the government-wide reporting entity for information about financial position.

Budget Concepts

Ms. Johnson indicated she would be providing comments on the Concepts for Budgetary Information Presented in Component Reporting Entity Financial Statements and RSI section, paragraphs 49-56.

Public Hearing

Board members concluded there was no need to conduct a public hearing. Respondents generally agreed with the concepts proposed in the ED.

> **Conclusion**: Staff will present a revised draft concepts statement at the April meeting.

- **Tax Expenditures**

Mr. Perry, FASAB detailee, introduced the tax expenditures session by referencing the information located at tab B. Mr. Perry summarized a few minor editorial changes made in response to pre-ballot edits and during final proofreading. Members were asked to approve the tax expenditures standards. Members submitted their ballots at the meeting, and the standards were approved with seven affirmative votes and two abstentions.

The meeting adjourned for lunch.

- **Leases**

Ms. Valentine, assistant director, presented to the Board (from tab C1 and tab C2) the 25 comment letters received on the *Leases* ED, several tables that summarized the comment letters, an initial staff analysis of the most significant issues identified by respondents, and thirteen questions for Board discussion.

Mr. Showalter first asked the Board if it wanted to hold a public hearing on the *Leases* ED. A public hearing would be an open invitation to anyone who wanted to speak with the Board about the *Leases* ED. Ms. Payne also posed two alternatives to a public hearing. One alternative would be to only invite a select few respondents to address the Board and provide further clarification on their responses. The second alternative to holding a public hearing would be to extend an invitation to all respondents of the ED to address the Board and provide further clarification on their responses.

Members expressed the following views in regards to seeking additional feedback from respondents:

- Respondents raised a lot of issues in the comment letters, and the Board may not have fully appreciated the depth of some of these concerns. The Board should invite some of the key respondents to express their concerns. Those agencies having the most significant concerns (the General Services Administration, DoD, and the Department of Homeland Security) should be asked to participate.

- The Board should invite the respondents it believes would be most affected by the proposed standards once they are finalized. The Board could invite other respondents that may have raised different issues. The purpose of having a public hearing is for the Board to get better clarity about issues raised in a comment letter, but if members fully understand the letter there is no need for further clarification. The reason FASAB would want to invite a respondent is to further explore the respondent's comments.

- Anyone who wants to make a point and express his/her views on the ED should have the opportunity to do so. If FASAB wants credibility among its constituents, FASAB has to ensure that these constituents believe they are being heard.

Ms. Motley stated if the Board's purpose is to get clarity from comments, then a public hearing is not necessary and inviting a subset would be fine. However, if the purpose is broader, meaning to understand the range of concerns in general, then she would suggest having a public hearing.

Mr. McNamee asked if staff would be developing a list of questions for members to ask the respondents during the session and if those questions would be provided to the presenters before the meeting. Mr. Showalter replied yes to both questions and stated the members have the option to use the prepared questions or not.

> After discussing the three options, the Board concluded to extend an invitation to all ED respondents to address the Board and provide further clarification on their responses to the *Leases* ED at the April meeting.

Several questions were posed to the Board by staff based on the initial analysis of issues identified by respondents.

Staff noted that some of the respondents thought that the definition of "lease" was too broad, and the scope of the standards should be narrowed. Staff noted the definition needs to be broad to apply to leasing activities of all federal entities. Implementation guidance will provide more details on applying the standards. Staff recommends implementation guidance be developed as soon as the standards are finalized. Staff would like to reconvene the leases task force and move towards the issuance of implementation guidance as soon as the amended standards become final.

Mr. Scott asked if implementation guidance will address the questions asked by the respondents or if it is necessary to expand the standards to include more definitions and examples.

Ms. Valentine stated the implementation guidance can take on many different formats, such as illustrations or questions and answers. The format is flexible as long as the guidance stays within the bounds of the final Leases standards. The implementation guidance will be developed through the leases task force.

> **Question 1:** Does the Board agree with staff's recommendation that implementation guidance will be necessary to assist entities to effectively implement the amendments to the Leases standards?
>
> The Board agreed with staff that implementation guidance would be necessary to assist entities to effectively implement the amendments to the Leases standards.

Staff noted a couple of respondents thought the definition of a lease should include the notion of control to better understand what transactions meet the definition of a lease. The definition of an asset in SFFAC 5, *Definitions of Elements and Basic Recognition*

Criteria for Accrual-Basis Financial Statements, includes control by the federal government; therefore, control is an implied characteristic of all assets of the federal government. However, staff also noted that GASB and the Financial Accounting Standards Board (FASB) have included the notion of control in their lease definitions. Staff recommended the definition of a lease proposed in the ED be modified to add the notion of control and include additional language connecting the definition to SFFAC 5's definition of an asset.

Members questioned why adding the notion of control to the lease definition was needed if control is embedded in the definition of an asset. Staff noted the addition would clarify the connection of control to a lease. The members discussed the differences in the wording between GASB and FASB. GASB proposes a lease is defined as "a contract that <u>conveys control of the right to use…</u>" FASB defines a lease as "a contract, or part of a contract, that <u>conveys the right to control the use</u>…" The Board preferred the FASB wording and asked staff to inquire about the differences between the two definitions. Staff will work on the wording to ensure clarity around what is being controlled and what the right is.

> **Question 2:** Does the Board agree with staff's recommendation to add the notion of control to the lease definition and include additional language connecting the definition to SFFAC 5's definition of an asset?
>
> The Board asked staff to revise the proposed definition based on the discussion and present the revisions at a later meeting.

Staff added that at least one respondent noted the use of "nonfinancial asset" in the lease definition should be changed to "nonmonetary assets" to be consistent with other FASAB guidance. Based on staff's review, both terms "nonfinancial" and "nonmonetary" are used throughout the FASAB Handbook; however, neither term is defined by FASAB. Staff found that "nonfinancial" most often referred to information and "nonmonetary" referred to assets. Staff also discovered that industry definitions of the terms are synonymous. The *Leases* ED's use of "nonfinancial" was derived from GASB's proposed lease definition.

The Board generally agreed with staff's proposed change from "nonfinancial asset" to "nonmonetary asset." The Board also asked staff to include a definition of the term ultimately used in the final standards.

> **Question 3:** Does the Board agree with staff's recommendation to change the term "nonfinancial asset" to "nonmonetary asset" in the final amended Leases standards?
>
> The Board wants to take into consideration the respondents' concerns about the scope of the lease definition before a final decision is made.

Staff noted that some respondents disagreed with assessing the probability of termination clauses (such as fiscal funding clauses) and renewal options to determine the lease term.

Ms. Ho asked if the fiscal funding clause legally relieved the federal government's obligations to the provisions of the lease contract/agreement. Mr. Reger responded that it does relieve the government's obligation; however, the entity will be subject to the cancellation penalties of the contract/agreement, which could be the total amount of remaining lease payments. He also made the point that, contractually, it would allow the federal entity to leave the contract. It does not necessarily relieve the entity of the monetary obligation associated with leaving the contract. Mr. Reger expounded that this is usually the case with real property, but he does not know if it holds true for airplanes, ships, or other items the federal government leases. Mr. Reger suggested asking DoD this question during the respondents' clarification discussion at the April meeting.

> **Question 4:** Does the Board agree with staff's recommendation to carry forward into the final standards the method used in determining the lease term, including what is considered the "noncancelable period" proposed in the ED?
>
> There were no objections to staff's recommendation to carry forward into the final standards the method used in determining the lease term, including what is considered the "noncancelable period" proposed in the ED. Mr. Reger expressed again that he would like to get clarification to his question about cancellation penalties.

Staff noted there were some respondents who thought the Leases proposal should be more consistent with FASB and GASB, using a probability threshold of reasonably certain (which is higher than FASAB's proposed threshold of probable—more likely than not).

The Board had discussed the issue of using probable versus several other thresholds utilized by standard setters quite extensively during the standards development process. Staff recommended the Board remain consistent with the probable threshold. A member suggested that before making a conclusion on the issue the Board may wish to hear more feedback from the respondents. The respondents had raised several cost-benefit issues, and it is important for them to convey those issues to the Board at the next meeting, before a final decision is made.

> **Question 5:** Does the Board agree with staff's recommendation to carry forward into the final standards the probability threshold used when assessing whether renewal and termination options will be exercised?
>
> The Board agreed to hear more feedback from the respondents before making a final decision on the probability threshold issue.

Several respondents disagreed with the proposed initial lessee recognition of a liability and an asset. One respondent noted the government does not always have the benefits of the asset and often has limited control over the use of the asset being leased. Other respondents thought the minimum lease payments schedule currently required in lease disclosures is sufficient information to the reader.

Similarly, members suggested deferring the decision on this issue, pending additional input from respondents.

> **Question 6:** Does the Board agree with staff's recommendation to carry forward into the final standards the initial lessee recognition proposed in the ED?
>
> There were no objections to the suggestion to defer a decision on the initial lessee recognition proposed in the ED until after the discussion with the respondents.

Staff noted some respondents disagreed with the recognition and measurement of the lease liability by the lessee proposed in the ED. One respondent stated valuing the lease liability at the net present value of the cash flows for the duration of the lease term potentially overstates the debt for an agreement that can be terminated when the shorter noncancelable period has expired. Respondents also noted the requirement is inconsistent with valuing the asset at the lesser of fair market value and net present value.

A member requested that the respondents who participate in the clarification session be asked to talk about the burden created by these proposed standards. Another member stated the burden may be due to the entity's self-inflicting processes or it may be a true burden of the standards.

> **Question 7:** Does the Board agree with staff's recommendation to carry forward into the final standards the recognition and measurement of the lease liability by the lessee proposed in the ED?
>
> There was no Board decision on staff's recommendation; the Board would like additional feedback from the respondents on the issue.

Staff noted some of the respondents disagreed with the interest rate used to calculate the lease liability proposed in the ED. One respondent stated the lessor's interest rate often is not identified in the lease and cannot be readily determined. Because the alternative is to use the lessee's interest rate, which will always be considerably lower, there would be a huge variation in the interest rates used for this calculation.

Based on these comments, several members noted it appeared some respondents did not understand the language in the ED: "The future lease payments should be discounted using the rate the lessor charges the lessee, which may be the interest rate implicit in the lease."

Question 8: Does the Board agree with staff's recommendation to carry forward into the final standards the interest rate used to calculate the lease liability proposed in the ED?

There was no Board decision on staff's recommendation; the Board would like additional feedback from the respondents on the issue.

Staff noted some respondents disagreed with the circumstances when the lessee must remeasure the lease liability proposed in the ED. One respondent was concerned that the remeasurement of the liability also requires the asset value to change, which would alter methodology of recording assets at historical cost.

One member stated the Board deliberated quite extensively on the circumstances when the lessee must remeasure the lease liability. The member expounded that unless a respondent enlightens the Board with additional facts the Board is unaware of, or gives evidence that this requirement is more burdensome than expected, the Board should keep the proposed requirements for liability remeasurement.

Question 9: Does the Board agree with staff's recommendation to carry forward into the final standards the circumstances when the lessee must remeasure the lease liability proposed in the ED?

There was no disagreement with the recommendation to carry forward into the final standards the circumstances when the lessee must remeasure the lease liability proposed in the ED, unless the Board is persuaded by respondents during the April clarification discussion that this requirement is more burdensome than the Board had originally expected.

Staff noted some respondents disagreed with the recognition and measurement of the lease asset by the lessee proposed in the ED. One respondent stated if the Board requires a liability be recorded for leases, then the asset should be recorded in the amount of the liability only; to require agencies to record other costs as an asset and then amortize the amounts creates a burden.

Question 10: Does the Board agree with staff's recommendation to carry forward into the final standards the recognition and measurement of the lease asset by the lessee proposed in the ED?

There was no Board decision on staff's recommendation; the Board would like additional feedback from the respondents on the issue.

Staff noted some respondents prefer a 12-month requirement for short-term leases and other respondents prefer a longer time requirement for short-term leases, like five years. During the development of the ED, the Board considered the short-term lease exception of 12 months; however, the Board decided to align the lease short-term exception with the Property, Plant, and Equipment (PP&E) standards, which define PP&E as a tangible asset with an estimated useful life of 24 months or more. Another respondent noted inconsistencies between paragraph 14 and paragraph 59 of the ED. The current wording of each paragraph may cause differing interpretations of what would qualify as a short-term lease.

Question 11: Does the Board agree with staff's recommendation to carry forward into the final standards the lease term of 24 months or less for a short-term lease proposed in the ED?

Question 12: Does the Board agree with staff's recommendation to change the definition of short-term lease from "a lease that, at the beginning of the lease, has a maximum possible term under the contract/agreement of 24 months or less, including any options to extend, regardless of its probability of being exercised" to "<u>a lease with a lease term (as defined in paragraph 14) of 24 months or less</u>"?

There were no objections to staff's recommendation to (1) carry forward into the final standards the lease term of 24 months or less for a short-term lease proposed in the ED and (2) change the definition of short-term lease from "a lease that, at the beginning of the lease, has a maximum possible term under the contract/agreement of 24 months or less, including any options to extend, regardless of its probability of being exercised" to "<u>a lease with a lease term (as defined in paragraph 14) of 24 months or less.</u>"

Staff noted the respondents were split on the proposed effective date of reporting periods beginning after September 30, 2018, or FY 2019. Staff recommended the effective date be changed to FY 20 (reporting periods beginning after 9/30/2019) to give entities adequate time to effectively implement the amended Leases standards.

Question 13: Does the Board agree with staff's recommendation to change the effective date of the amended Leases standards to FY 20?

There were no objections to staff's recommendation to change the effective date of the amended Leases standards to FY 20.

Next Steps: Staff will extend an invitation to all 25 respondents of the *Leases* ED to speak before the Board to provide members with further clarification on their responses to the ED. Members will also ask questions of the respondents. The clarifying discussion will take place on April 26, the first day of the next FASAB meeting. Staff will also prepare a package for the Board with materials to facilitate the discussion. Additionally, staff will continue with the analysis for Board consideration of the more significant issues raised, as well as the remaining issues raised, in the comment letters.

- **Land**

At the February 22, 2017, Board meeting, members reviewed survey results addressing specific user opinions and information requirements needed by the user community regarding federal land. The Board also identified broad options to improve reporting on land, so they can be considered in detail at the next meeting.

Mr. Savini, assistant director, began the presentation by acknowledging the lower-than-expected survey response rate, which led staff to ask Mr. Simms to participate in the discussion concerning user needs. Tab D incorporates work conducted by Mr. Simms resulting from (1) FASAB's 2016 Annual Report and Three-Year Plan survey responses and (2) an April 2010 FASAB user-needs study.

Members asked staff to interpret the results to survey questions 2, 3, and 4, where there appeared to be some inconsistencies or other-than-expected results. Beginning with the fourth question, staff noted that the Board should question whether users of land information would even turn to the financial statements for information pertaining to land. It is clear that historical cost information is not useful to the majority of users, who believe that the reporting of land is currently deficient. Prior analyses of user needs revealed financial statements are a starting point for users, wherein they often branch off into other venues to obtain information.

The Board then discussed performance reporting in connection to the fifth question. Staff noted that citizens in particular want audited information, whereas internal managers prefer disaggregated information. For the latter group, reliance upon system internal controls is sufficient.

At this juncture, the Board noted that citizens were not included within the survey results; however, some members believed that respondents may have actually replied from a citizen's perspective. Staff noted that, given the low response rate and some of the survey responses, the Board might be overestimating the importance of land information in financial statements to users. One member noted this was no surprise; the same conclusion was reached circa 25-30 years ago in a study that addressed the importance of capital asset information (contained in financial statements) to users.

The Board then addressed members' concern regarding the user survey being adopted as a basis for reaching an informed opinion. Although it seems clear that historical cost information is of limited value, the use of nonfinancial information (NFI) does not seem supported by the research. Staff noted in the comprehensive studies done over several years, it is clear that users desire performance information and NFI falls clearly in line with this. Users want to know what the government does, how much its programs or activities cost, and how well it accomplishes its mission. In staff's opinion, the threshold for meeting user expectations about land could include the use of NFI.

Returning to the fifth question, some members noted that the survey responses could imply that users do not want assurance or attestation of information. Staff replied by again drawing from FASAB's comprehensive studies to note that internal managers prefer timely information derived from systems with controls as opposed to audited information. However, citizens desire audited information.

One of the last points the Board discussed, prior to addressing the broad options on page 36 of the briefing materials, was the matter of economic gain and whether it should be measured. Members noted that the entire area of property is an important issue for the new administration. However, in most cases sale or disposal of land for economic gain/loss would probably be immaterial, and immediate recognition might suffice as appropriate guidance.

The following are some key discussion points that the Board discussed in assessing the merits of options A and B from the briefing materials:

- Choosing between the options is complicated as a result of low citizen input.
- Both options contain NFI requirements. To what extent should NFI be in GAAP financials?
- Is the Board amenable to different standards for different agencies?
- The reality is that FASAB already has inconsistencies, and this project was supposed to address this.
- There is an option C: financial display and NFI disclosure/presentation. FASAB needs consistency in application and more debate on the different choices. This is not about value but more about qualitative issues such as the level of detail to be included; therefore, the Board should consider meaningful categories.
- In what ways is FASAB possibly disadvantaging users?
- The Board cannot achieve true consistency because not all land is treated consistently among the agencies. Displaying information on the balance sheet need not be driven solely by what users want. FASAB should build upon the work of prior Boards in this regard and adopt option B.
- The recognition/measurement of land in Statement of Federal Financial Accounting Standards 6, *Accounting for Property, Plant, and Equipment*, is based on intent of usage at the time of acquisition/purchase and not current use.
- Dollar value attachment does not seem useful.
- Users need information other than historical cost information.
- Is adopting a fair value approach consistent with other standards? Will FASAB have to continually update this information and recognize gains/losses? Will such transactions even be material?

- People would like to know where the land is located; financial information related to land seems of limited use.

- GAO reports have identified limitations regarding the Department of the Interior's data integrity and reliability.

- Consistency and accountability seem to be the two principles in play, and these objectives can be achieved either from financial display or NFI perspectives.

At the conclusion of the session, the chairman summarized the following:

- Members seem to gravitate towards broad option A.

- **Next Steps**: Staff should identify the type of audit coverage, if any, the task force would recommend for each type of NFI that it believes should be in the financial report. The end result should assist members in better identifying appropriate placement of key NFI in the financial report; that is, whether it is to be a disclosure or RSI.

- **Three-Year Plan**

Mr. Simms presented the three-year plan online survey results to the Board, referencing tab E. He stated that the respondents generally agreed with the priorities that the Board had listed in the three-year plan. In terms of next steps, the respondents showed a high interest in projects that involved reviewing the existing standards and related note disclosures. Members discussed the methodology used for the survey and how the survey results can help prioritize the projects. In addition, members suggested a brief survey for next year's outreach efforts.

Ms. Wu, assistant director, presented the research results about a potential new project on the financial reporting note disclosure. She stated both FASB and the International Accounting Standards Board are actively working on the financial reporting disclosure issue and have published several EDs and standards on the topic from 2009 to now. Ms. Wu discussed the feedback received on those documents with the Board. Members highlighted the unique nature of the federal financial reporting environment. They agreed that it would take a lot of work, even with using what other accounting standards boards had done as a starting point, to complete this project. These difficulties arise because the federal government has a different reporting model and must consider the government-wide consolidation process. Overall, the members agreed that it is a good time to look at the disclosure principles and materiality-level concept. This is because FASAB's materiality level is associated with an earlier FASB materiality definition, which was subsequently changed. In addition, agencies recently implemented the new Government-wide Treasury Account Symbol Adjusted Trial Balance System for financial reporting data collection methodology, which changed the way financial data are collected.

To end the session, members discussed next steps for performance reporting and the reporting model. Mr. Simms suggested that the Board develop illustrations of the government-wide and component reporting entity financial statements and RSI. The illustrations would serve as a guide to determine what standards the Board should develop. The Board members agreed on the approach and asked Mr. Simms to prepare questions that could help frame the visuals.

The members agreed that the note disclosure project should be added to the agenda for action after the next project is completed.

Adjournment

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