FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
Board Meeting Minutes
August 29–30, 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, August 29, 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. Mr. Soltis was present with the exception of 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.

Administrative Matters

- **Approval of Minutes**

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

Agenda Topics

- **Closed Session**

The Board met in closed session from 9:00 – 10:30 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).

Administrative Matters

- **Updates and Clippings**

Mr. Dacey explained the International Public Sector Accounting Standards Board (IPSASB) had not met since FASAB’s last meeting. Mr. Granof provided an update regarding the Governmental Accounting Standards Board (GASB). He noted the following activity:

- Continued finalizing a preliminary views document on the financial reporting model
- Issued a Statement on equity instruments
- Continued research on a new project on public-private partnerships
- Initiated a project on subscription services
- Issued proposed standards for conduit debt
- Approved the technical agenda for the next quarter

Agenda Topics

- **Assigning Liabilities**

Ms. Melissa Batchelor, assistant director, explained the purpose of the session was to consider the updated draft Interpretation, *Guidance on Identified Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*. The materials were included in the briefing materials at tab A.

At the June meeting, members agreed with staff's recommendation to prepare an Interpretation addressing contingent liabilities and cleanup costs when multiple component reporting entities are involved. Staff noted that a draft of the Interpretation had been circulated before the August meeting, and member comments were incorporated into the draft provided with the August meeting materials.

Since reviewing the August Board meeting version, staff had heard from six members. Those members were in general agreement with the Interpretation. Some members offered wording suggestions for clarification, but the comments were minor and not technical. Most members agreed that they were prepared to move to a pre-ballot Interpretation.

Staff noted the more significant changes included a suggestion to change the title and rewrite paragraph 16. After discussing pros and cons of the title options, the Board agreed to the title, *Guidance on Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5*. The Board generally agreed with the revised paragraph 16.

Staff asked if there were any other issues that Board members wanted to discuss regarding the draft exposure draft (ED) Interpretation. The members provided the following direction:

- In the questions for respondents, one question should ask if there are other situations where this similar condition occurs—a third party may be in a better position or have more information regarding a liability.

- In the authoritative section of the Interpretation, staff should consider including additional detail regarding journal entries when liabilities are transferred between component reporting entities.

- In the basis for conclusions, staff should consider incorporating a discussion about whether reporting entities that have transferred a liability should include a disclosure about that transfer and the imputed financing sources.

- Throughout the draft ED, staff should incorporate the additional editorial changes discussed by the Board.

Question 1 – Does the Board agree with the staff recommendation to move to a pre-ballot draft after the August meeting and ballot draft for the October meeting?

Alternatively, if members disagree, what alternatives do you prefer? 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 did not have any open technical issues pertaining to the draft ED Interpretation and agreed with staff's recommendation to move to a pre-ballot draft after the August meeting.

> **Next steps:** Staff will provide a pre-ballot draft ED Interpretation after the August 2018 Board meeting. Once approved, a ballot ED Interpretation will be provided for Board member approval. The ED Interpretation is anticipated to be released in October 2018.

The Board meeting adjourned for lunch.

- **Disclosures – Task Force Report**

Ms. Grace Wu, assistant director, led the sub-group leaders of the note disclosure (NODI) working group, including Mr. Oscar Castro, Treasury; Ms. Donell Ries, USAID; Ms. Eileen Parlow, SEC; Mr. Bruce Henshel, Commerce; Ms. Nina Rostro, GAO; Mr. Steve Ramey, SBA; Ms. Patricia Layfield, EAC; and Ms. Debbi Strauss, E&Y, in presenting the results of their research activities for the past eight months. They presented their material from tab B.

The NODI working group formed sub-groups and met on a regular basis after December 2017 to research four topics:

- FASAB and other regulatory bodies' NODI publications and activities
- The objectives and requirements of NODIs
- Data comparisons of the NODI on two pilot notes across 24 Chief Financial Officer (CFO) and Certificate of Excellence in Accountability Reporting review awardee agencies' 2016 financial reports
- Research results and initial recommendations

Those initial research results culminated in four presentations to the Board: NODI communication, NODI questions for the Board, pilot note summary of significant accounting policies (SOSAP), and the pilot note fund balance with Treasury (FBWT).

Question 1 – Does the Board agree that the activities conducted by the working group are in line with the NODI project's objectives? If not, do you have any suggestions for improvement?

The Board agreed that the activities conducted by the working group are in line with the NODI project's objectives.

Question 2 – Please review the questions for the Board in each presentation slide and provide feedback.

NODI Communication

The working group presented the following seven principles of effective communication:

- Describe simply and effectively
- Tailor to the entity
- Optimize comparability
- Leverage formatting
- Organize properly
- Link to relevant information
- Avoid duplication

The Board provided feedback on the wording and order of the communication principles. They concurred that some high-level communication principles can be included in the NODI principles. Members also agreed that related, more detailed guidance might be presented in the form of a best practices guide, an implementation guide, or as part of Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements* (A-136).

NODI Questions for Board

The Financial Accounting Standards Board (FASB) subgroup reviewed the FASB's efforts related to the disclosure framework, focusing on decision questions that the Board could use when evaluating potential disclosures in the federal environment. FASB has 16 decision questions in its framework for line items. The subgroup proposed applying 13 of the questions to the federal financial reporting environment, noting that FASB's use of "cash flows" in the decision questions was replaced by "results."

The Board agreed that the decision question tool would be useful in decision making for disclosure requirements. There was discussion of the focus of the questions being "results" rather than "cash flows." Members questioned if the term "results" was the best replacement. Board members suggested other potential language, including "having a significant effect on the financial statements or net cost."

The Board discussed which decision questions on line items were applicable to the federal financial reporting environment. Board members raised issues related to the three omitted decision questions that indicated relevance to the federal financial reporting environment.

The Board discussed additional topics, including whether stewardship objectives should be considered in the decision questions. Members also discussed whether the decision questions are intended to be used only by the Board in standards setting or also by practitioners.

Pilot Note SOSAP

The SOSAP sub-group reviewed existing SOSAP requirements, researched existing practices of 23 agencies, and reviewed the requirements of other standards setters (FASB, GASB, the International Accounting Standards Board, and IPSASB). The sub-group concluded that there is a need for SOSAP-specific guidance. The sub-group presenters suggested developing a principle framework for the SOSAP note and clearly distinguishing the SOSAP from content in management's discussion and analysis (MD&A).

The Board generally agreed with the working group's recommendation. They discussed whether guidance should be in a concepts statement, standards, or other form. They had concerns with finding the right balance for the placement of the guidance. Members agreed that the working group could start to draft some principles related to SOSAP and consider the placement (concepts statement, standards, or other guidance) for what will be developed. Some members suggested the working group consider the effect on the preparer during the development of the principles.

Pilot Note FBWT

The fourth sub-group used the FBWT as a pilot note. The group reviewed the relevant guidance and 24 agency disclosures of the FBWT. Sub-group members considered the relevance, consistency, efficiency, and effectiveness of the disclosures.

The Board generally agreed with some of the working group's recommendations and suggested that the sub-group revisit the notes to see what is really necessary and helpful. For example, the sub-group will assess if giving the reason for the disclosure increases its relevancy to the reader.

> **Next steps:** After the year-end financial reporting busy season, the working group will continue its research on the NODI principles and pilot notes based on input from the Board. The principle-related results that the Board approved will be researched further. The working group will likely continue reviewing the pilot notes in the second phase of the NODI project. The individual notes will be reviewed and updated based on the NODI principles developed.

- **Land**

At the August Board meeting, Mr. Domenic Savini, assistant director, provided an overview of tab C. Tab C comprised the 18 comment letters on the *Accounting and Reporting of Government Land* ED, several tables that summarized the comment letters, and questions for the Board. The Board noted its desire to achieve a balanced perspective regarding land reporting and asked staff to continue its outreach in that regard.

There were no Board deliberations or decisions based on the respondent comments because members desired additional clarification from the respondents. Members directed staff to extend an invitation to all respondents to address the Board at the October meeting.

As such, members identified certain technical issues arising from their review of the respondent comments where they desired further information, clarification, and feedback. The technical issues include but are not limited to the following:

- Data availability and reliability
- Effect of expensing land on the statement of net cost
- Preparer’s perspective concerning audit burden related to estimating acres
- Auditor’s perspective concerning audit burden related to estimating acres
- Application of materiality to non-financial information
- Extent to which audit burden acts as a constraint to reporting of acres, if at all
- Consistency within FASAB’s conceptual framework
- Preparer concerns over removal of general property, plant, and equipment land from the balance sheet

Next steps: Staff will invite all 18 respondents of the ED to present to the Board, allowing them an opportunity to clarify their responses, including by addressing technical issues such as those identified above. Staff will also continue its outreach to federal land managers and the audit community, as well as other interested parties, to ensure the Board has a balanced perspective regarding land reporting.

The clarification discussions will occur at the October Board meeting and an agenda will be finalized after invitations are accepted and processed.

Adjournment

The Board meeting adjourned for the day at 5:00 p.m.

Thursday, August 30, 2018

Agenda Topics

- **Closed Session**

The Board met in closed session from 9:00 – 9:45 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).

- **MD&A Improvements**

Mr. Ross Simms and Ms. Robin Gilliam, assistant directors, conducted the discussion on MD&A improvements from tab D of the briefing materials.

Question 1 – Does the Board agree that separate MD&A guidance should be developed for the consolidated financial report of the U. S. Government (CFR) and component reporting entities? The Board determined that users need similar information from both the CFR and component reporting entities. Also, information from the component reporting entities is needed to prepare the CFR MD&A. Members discussed the need for component reporting entities to be clear about the reason for changes in financial statement amounts and provide some details on the financial performance of programs. Consequently, staff will develop a single set of guidance, which will consider the needs of both the CFR and component reporting entity users. It will also identify where there might be differences.

Question 2 – Does the Board agree that the discussion and analysis for component reporting entities should focus on the Operating Performance reporting objective? The Board did not believe that the discussion and analysis should be limited to a particular reporting objective. Members requested that staff prepare an analysis to answer the following questions:

- What do Statement of Federal Financial Accounting Standards (SFFAS) 15, *Management's Discussion and Analysis*, and Statement of Federal Financial Accounting Concepts (SFFAC) 3, *Management's Discussion and Analysis*, require to meet the reporting objectives?

- How are reporting entities applying those requirements?

- What are the gaps in the requirements or their application that warrant changing standards or providing guidance?

Question 3 – Does the Board agree that the guidance should permit management to consider different techniques for analyzing the financial statements, such as trend analysis, an analysis of the components of cost of operations, and causal analysis that primarily focuses on the rationale for changes? The Board generally believed that the guidance for the discussion and analysis should be principles-based, permitting flexibility; however, the guidance should explain the objective of the discussion and analysis. Members expressed concern that component reporting entities were not explaining the reason for significant changes in financial statement line items or totals.

Question 4 – Does the Board agree that the discussion and analysis for the CFR should focus on the Stewardship Reporting objective? The Board did not believe that the discussion and analysis should be limited to a particular reporting objective.

Question 5 – Does the Board agree with the suggestion to require trend information on stewardship investments? Members discussed allowing flexibility in stewardship investment reporting and considered the following alternatives:

- For some component reporting entities, stewardship investments may be central to the reporting entity's mission. Consequently, stewardship investments could be discussed as part of the Entity's Mission and Organizational Structure section of MD&A.

- If stewardship investments are ancillary to the component reporting entity's mission, the topic could be discussed in a separate section for stewardship information.

- The guidance could permit flexibility in the amount of detail discussed. If stewardship investments are not significant to the mission of the reporting entity, the entity would not discuss as much detail as an entity where investments are significant.

Members expressed concern regarding flexibility in stewardship investment reporting. Members noted that component reporting entity stewardship investment information is needed to prepare the CFR; therefore, guidance such as OMB A-136 could help ensure that component reporting entities provide the information needed for the CFR.

Question 6 – Do Board members have comments regarding the draft ED combining SFFAS 15 and SFFAC 3? Given the stage of the project, the Board did not discuss the draft. Staff had provided a strawman of an ED to illustrate potential MD&A guidance.

Question 7 – Should all guidance regarding MD&A be consolidated into a single Statement? Rather than consolidating MD&A guidance into a single Statement, the

Board agreed to reference the other MD&A standards in the new MD&A guidance. The Board considered that it would be easier for users if the entire set of MD&A guidance resided in a single Statement; however, the Board would need to amend the consolidated Statement each time it issued new guidance.

> **Next steps:** Staff will prepare an analysis showing potential areas for improving MD&A standards.

- **Measurement Uncertainty**

Mr. Showalter opened the measurement uncertainty (MU) discussion found in tab F and asked members to consider, over the course of the discussion, whether the risk assumed project as a stand-alone project should be terminated and the efforts assumed by other active projects. Ms. Gilliam then began her discussion of the briefing materials by reminding members that they had requested a MU framework at the October 2017 meeting. She thanked Mr. Savini for the research he had compiled in attachment 1. From this research and analysis, staff developed a MU framework comprising five principles for reporting MU in MD&A, two for reporting MU in the note containing the SOSAP, and seven for reporting MU in the NODIs.

Staff asked the following three questions in relation to the framework:

- **Question 1 – Does the Board want to include risk reporting principles MD&A-1–5 to help users understand MU and risk of future changes in estimates in MD&A?**

- **Question 2 – Does the Board want to include risk reporting principles in SOSAP-1–2 to help users understand how estimates and MU are being managed and impact financial statements in note 1 – SOSAP?**

- **Question 3 – Does the Board want to include reporting principles -1–7 in the notes to the financial statements to provide users with improved information for understanding estimates, MU and impact on account?**

Various members said the 14 principles seemed more like disclosure requirements and wanted to know more about the research behind the framework.

Mr. Savini summarized that the review of academic perspectives, agency practices, and accounting and auditing standards from attachment 1 did provide a basis from which principles could be drawn. Staff noted the following potential principles that could be derived from the research:

- Focusing the risk discussion in MD&A

- Considering whether risk should be limited to financial risks or also include non-financial risks

- Aligning financial risk reporting directly to agency enterprise risk management (ERM) frameworks (for example, risk registers where significant risks are identified)

- Relating financial risk reporting to program-specific effects

- Clarifying that MUs need not be considered for risk reporting if they are either an error (requiring a prior period adjustment) or normally recurring changes (generally requiring current and prospective application), which can be expected to occur in the agency's operating environment

Mr. Savini also noted that review of the Department of Education's (Education) and Boeing's MD&A and note 1-SOSAP provided another principle for using the MD&A and/or note 1-SOSAP as an introductory and directional narrative. For example, Education's MD&A and note 1 presented information about significant estimates and discussed Education's challenge with four major assumptions responsible for the uncertainty measurement of estimates. The information then directed the user to what specific NODI contained information about balances with significant estimates.

Members agreed that Education was a best practice model and requested staff to identify other good agency examples.

Members asked Mr. Soltis, who was deputy CFO at Education prior to his position at OMB, whether the current FASAB standards supported how Education reported MU in the MD&A. Mr. Soltis responded that they did not. Education reported MU beyond the standards in response to user, auditor, and inspector general (IG) needs.

Members had another concern about accounting for changes in estimates as potential prior period adjustments. Mr. Savini explained that these principles are already established in the standards. He said that changes in estimates are not always prior period adjustments if they are part of normal business operations and then can be accounted for on a current and prospective basis.

In response to the three questions, the Board requested that staff revisit the MU framework to change the disclosure requirements to risk reporting principles. This will help the Board determine where in the financial statements to discuss MU.

Status of the Risk Assumed Project

Mr. Showalter returned the focus to whether the risk assumed project had fulfilled its original intention. He gave a brief history of the project, commending staff for the completion of phase I—SFFAS 51, *Insurance Programs*—and the research done in phase II to understand the risks the federal government assumed and how to account for them. He asked members if there were any other risks the Board had not addressed. Members responded that there were not.

Staff recommended changing the project name from risk assumed to risk reporting to help agencies understand how to account for significant risks identified from their ERM processes. Mr. Savini emphasized that through ERM, agencies are responsible for building risk into their budget and setting up metrics to monitor the financial effect on programs. Mr. Savini also noted that risk reporting can be mapped to FASAB's Budgetary Integrity and Operating Performance reporting objectives.

Most members agreed that the risk assumed project should not be terminated. Instead they agreed with changing the name to risk reporting.

> **Next steps:** Members directed Ms. Gilliam to work with the project leads of the reporting model phase I: MD&A and stewardship investments improvements project and the note disclosures project. Through this collaboration, the risk reporting project could address the principles needed for reporting financial and non-financial risks that may have a significant financial effect on program missions and principles needed to account for MU.

The Board meeting adjourned for lunch.

- **Survey Results and Draft Annual Report**

The Board provided feedback on the draft annual report and three-year plan presented in the briefing material. Members agreed to the following revisions:

- The chair's letter will identify speeches given by members in new venues and acknowledge member service on other standards boards.
- In the technical activities section,
    - Project discussions will be updated for decisions made during the meeting.
    - The classified activities discussion will emphasize the desire for transparency and the expectation that modifications will be rare.
- The governance section at page 15 will more clearly indicate what actions will be taken to address two of the three suggestions.
- In the three-year plan,
    - The reason for removing potential projects will be updated to address the reason the improper payments project was removed.
    - The cryptocurrency and blockchain project description will be clarified.
    - New potential projects will be added regarding:

- the statement of budgetary resources
- data integrity links between the audited financial statements and open data sources such as USASpending.gov

Members were reminded to provide editorial comments to staff.

Next steps: The revised draft will be provided for review between meetings.

Materiality and Relevance

Ms. Wu presented to the Board the briefing materials located at tab G. The goal of the session was to review changes to the draft materiality ED that were made since the June meeting. Staff also presented for comparison the newly-issued FASB amendment, *Conceptual Framework for Financial Reporting, Chapter 3, Qualitative Characteristics of Useful Financial Information,* which was issued on August 28, 2018.

Question 1 – The change intends to address the level of materiality. Besides the proposed changes in 191c, A13 was updated for further understanding of this topic. Which option do you prefer? Do you have any other suggestions?

Members reviewed the newly-added language at 191c and A13 applicable to materiality levels for component and consolidated reporting. They decided to remove the proposed revisions from191c. Various members expressed concern that the newly-added language might confuse the reader by emphasizing a strictly quantitative analysis/comparison, which contradicts the concept that misstatements should be assessed both quantitatively and qualitatively.

Question 2 – The change intends to address the relevance of financial information disclosure. Besides the proposed changes in 191g, A12 was added for further understanding of this topic. Which option do you prefer? Do you have any other suggestions?

The Board agreed to delete the proposed revisions regarding relevance in 191g and A12. They discussed that materiality is entity specific and relevance is a general notion about what type of information is useful to users. Relevance is a broad concept, which could be incorporated into other broader topics like disclosures. This would be more appropriate than discussing it within the materiality concepts.

Mr. Soltis raised the separate materiality levels issue. He stated that in certain situations, an entity may have a quantitatively significant balance or activity that would lead to a high entity-wide materiality amount. If used to assess materiality for the entity's other activities, such materiality amounts could allow misstatements that would affect a reasonable financial report user's judgments regarding the rest of the entity's activities. In such cases, qualitative factors could lead to a separate materiality consideration. Members concurred and noted that staff should draft language to address this point before circulating the pre-ballot version of the ED.

Next steps: Staff will provide a pre-ballot draft ED after the August 2018 Board meeting. Once approved, a ballot ED will be provided for Board member approval. The ED is anticipated to be released in September or early October 2018.

- **Steering Committee**

The Steering Committee discussed the process for selecting the next executive director. The agreed upon process is as follows:

- Develop vacancy announcement
- Promote vacancy widely before announcement is released. Alert internal staff, professional associations, firms, CFO and IG communities, and personal outreach. Send PD and information about the process to key players. Announce in *FASAB News* and other publications.
- Engage search firm through GAO process.
- Vacancy announcement posted on USAJOBS, open 10/15 to 12/1. Notify key groups identified above.
- Review of candidates (December – January)
- The Appointments Panel will conduct interviews. If possible, the incoming Board chair will participate. A recommendation will be provided by the panel to the FASAB chairman, who will serve as the selecting official.
- Interviews (1/14 – 18/2019)
- Selection finalized (2/4)
- Start date (3/1)

Adjournment

The Board meeting adjourned at 4:15 p.m.