FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
Board Meeting Minutes
December 19–20, 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, December 19, 2018

Attendance

The following Federal Accounting Standards Advisory Board (FASAB or "the Board") members were present throughout the meeting: Mr. Showalter (chair), Messrs. Bell, Dacey, Granof, McNamee, Scott, Smith, and Soltis. Ms. Bronner was present until Thursday at 10:00 a.m. The executive director, Ms. Payne, and general counsel, Ms. Motley, were also present throughout the meeting. Mr. Jason Kirwan also attended the meeting. Mr. Kirwan will serve as acting general counsel during Ms. Motley's upcoming absence.

Administrative Matters

- **Approval of Minutes**

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

Agenda Topics

- **Closed Session**

The Board met in closed session from 11:00 a.m. – 12:30 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).

The Board meeting adjourned for lunch.

- **Land**

Mr. Domenic Savini, assistant director, presented to the Board a summary of the major issues raised during the October 2018 meeting. During the October session, respondents and interested parties gave their feedback on the *Accounting and Reporting of Government Land* exposure draft (ED). The major proposals in the land ED include reclassifying general property, plant, and equipment (G-PP&E) land as a non-capitalized asset and disclosing the acreage of both stewardship land (SL) and G-PP&E land. Staff provided revised draft standards reflecting the feedback as well as proposed next steps. Briefing materials are available at tab A.

In light of respondent comments and interested party views, members discussed the proposal to report G-PP&E as a non-capitalized asset. Points raised by members in the discussion included the following:

- Land is an important asset with significance to many people.

- Federal land is important enough to be included as basic financial statement information.

- Historical cost information is of limited use to users and brings into question cost versus benefit. The goal of the land ED was to remove the inconsistency in reporting between G-PP&E land (currently capitalized) and SL (which is expensed).

- Where historical cost information on land may be used (such as for cost-recovery purposes), such rate structures are not typically based on or confined to generally accepted accounting principles (GAAP). Nonetheless, cost information for land could be provided in notes when appropriate.

- Although there are concerns with removing G-PP&E from the face of the financial statements, the status quo can be improved.

- Although acreage information is not a perfect measure because it does not distinguish among the reported acres, it is more relevant than historical cost information.

- A universal approach may not be best because it is too costly.

- The proposal in the ED is still the best approach.

By a vote of six to three, members maintained support for removing the requirement to capitalize G-PP&E land. That is, land (including SL) would not be reported on the face of the financial statements.

Members then discussed whether there would be exceptions to the proposal. Some believed that business entities should continue capitalizing land. Other members believed historical cost of land is relevant to some entities in unique circumstances. The Board noted that cost information on land can be provided as a disclosure. Notwithstanding the Board’s decision not to add an exception to the proposal at this time, staff will consider language that encourages disclosures of historical cost information, when appropriate.

Members also expressed a willingness to provide guidance that existing G-PP&E land should be derecognized only if practicable. The Board noted that some agencies may have inseparable capitalized costs (such as indistinguishable land as part of another capital asset, like an office building or dam).

Lastly, members discussed the proposed timeline for implementation, generally agreeing with phasing in requirements first as required supplementary information (RSI) and transitioning in 2023 to basic note information. A summary of the Board discussions specific to the staff questions in tab A follows:

Question 1 – Does the Board agree with the proposed principal changes that staff has identified be made to the proposed exposure draft standards and illustrations? If not, what specific changes or edits should staff consider making?

Members generally agreed with the proposed principal changes on page six and seven and in attachment 2 of the briefing materials. The Board agreed to the following changes:

- Deleting the physical unit disclosure requirements
- Deleting the requirement to reference deferred maintenance and repairs (DM&R) presentations in RSI
- Limiting disclosure requirements to primary categories of SL and G-PP&E land
- Simplifying the "estimated acres" reporting requirement by only requiring that beginning and ending balances be provided
- Clarifying that "acres of land held for disposal or exchange" applies only to land conveyed to non-federal entities
- Clarifying the type of information to be disclosed at the government-wide level

Question 2 – Does the Board believe that rate-setting agencies should be allowed the option to continue capitalizing G-PP&E land on their balance sheets? If not, should staff research further to ascertain if the Board's proposal to expense G-PP&E land could adversely affect any existing GAAP-based arrangements or legislative budget requirements?

Members did not specifically agree that rate-setting agencies should be allowed the option to continue capitalizing G-PP&E land on their balance sheets. The Board noted that historical cost information on land could be provided in notes and, moreover, such cost recoveries are not typically based on or confined to GAAP. However, the Board asked staff to develop language to accommodate issues deemed significant by an entity that could require it to continue capitalizing G-PP&E land.

Question 3 – Does the Board agree with the approach to time-phase requirements from RSI to Basic Information as outlined by staff? If not, what changes would members suggest we make to the proposed timeline?

As noted, members generally agreed that the final Statement should (1) require a specific transition date from RSI to note disclosure, (2) extend the time required for the transition so that the Board has an opportunity to modify guidance should the issues with auditability of the information not be resolved by the transition date, and (3) allow for early implementation.

Question 4 – Do members have any advice concerning the basis for conclusions discussion points, such as if there are (1) any major points or themes that should be addressed in any topic and (2) whether the topics or discussion points listed above should be changed, added to, deleted, reordered, etc.?

Apart from clarifying Board discussions and decisions at this meeting, members reserved comment concerning anticipated changes to the basis for conclusions.

Question 5 – Does the Board agree with the proposed next steps? If not, what changes would members suggest we make to the proposed timeline?

Members asked staff to reconsider the next steps in light of this meeting's discussions and decisions.

Next steps

- Staff will develop language to accommodate issues deemed significant by an entity that could result in it continuing to capitalize G-PP&E land.
- Staff will develop language that existing G-PP&E land should be derecognized only if practicable; that is, the Statement will accommodate agencies that have inseparable capitalized land costs.
- Staff will rework the implementation timeline to ensure that the final Statement (1) requires a specific transition date from RSI to note disclosure, (2) extends the time required for the transition so that the Board has an opportunity to modify guidance should the issues with auditability of the information not be resolved by the transition date, and (3) allows for early implementation.

- **Disclosures**

Ms. Grace Wu, assistant director, presented draft language for note disclosure (NODI) principles from tab B of the briefing materials. Ms. Wu noted that the draft language was based upon the note disclosure principles outline that the Board approved at the October 2018 meeting. The draft covered the following NODI principles from the outline: introduction, section 1 titled *Disclosure Purpose*, and the majority of section 2 titled *Disclosure Content.* The drafted principles will be discussed with the working group in January 2019 for feedback from preparers and auditors.

Question 1 – Does the Board agree with the draft principles? If not, do members have any suggestions?

Members generally agreed with staff's draft but suggested the following:

- The basic information in the current financial statements does not include performance information, such as outputs and outcomes. As such, the current basic information may help users assess the entity's efficiency but not its effectiveness.

- Part of paragraph 6 reads, "Notes may be used to explain information or add information not recognized in the financial statement, but cannot be used as a substitute for the proper recognition and/or measurement of an element." One member questioned if this sentence would contradict with the land ED when the basic information is presented in the note only. Some members believed that the phrase "proper recognition" would address any circumstances surrounding land. Another member stated that the sentence may be more appropriate for a preparer rather than the Board. Staff may modify this sentence by including a reference to the criteria for recognition of an element with measurability and cost/benefit considerations.

- One member suggested defining the term "resources" in paragraph 8.c to clarify the phrase "items that can affect an entity's resources."

- The language in paragraph 9 currently indicates that items that are not material to an entity could be relevant at a combined or consolidated level. One Board member suggested that including discussions like what is stated in paragraph D23 in the Financial Accounting Standards Board (FASB) Conceptual Framework for Financial Reporting, Chapter 8, *Notes to Financial Statements* may help clarify that sentence.

- Board members also suggested considering expanding the discussion on disclosure objectives, user focus, and relevance.

Question 2 – Does the Board wish to discuss any other matters not identified by staff in the proposed sections?

One member suggested including detailed discussions similar to FASB concept No.8, *Notes to Financial Statements*.

Next steps: Staff will update the draft based on the input received and provide the updated draft for the working group's feedback. Staff will also continue to draft the note disclosure principles according to the outline.

- **Appointments Panel**

The panel met to discuss personnel matters.

- **Steering Committee**

The steering committee discussed and approved the timeline for recruitment activities.

Adjournment

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

Thursday, December 20, 2018

Administrative Matters

- **Updates and Clippings**

Mr. Showalter announced the appointment of George Scott to succeed him as chair, effective July 1, 2019. In addition, Mr. Showalter announced the appointments of Mr. Terry Patton and Ms. Sallyanne Harper to fill the vacancies resulting from Mr. Granof and himself completing their ten-year terms.

Mr. Showalter reminded members to complete the annual evaluation forms they will receive from the executive director after the meeting.

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

- Approved a final Statement on social benefits and an ED on collective and individual services and emergency relief
- Continued deliberations on:
    - performance obligations and revenue recognition
    - leases

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

- Continued:
    - developing lease implementation guidance
    - researching a new project on public-private partnerships
    - deliberating on performance obligations and revenue
    - developing guidance on subscription-based information technology arrangements

- Reviewed an implementation guide on fiduciary reporting

Mr. Soltis updated the Board regarding the Office of Management and Budget's (OMB) efforts to gather information intended to modernize the Chief Financial Officers (CFO) Act through ongoing outreach and collaboration to include input from the CFO Council, FASAB, and others. OMB is seeking greater integration with management efforts, improved data transparency and analytics, and enhanced data integrity.

Agenda Topics

- **MD&A Improvements**

Mr. Ross Simms, assistant director, conducted the discussion on improvements to management's discussion and analysis (MD&A) from tab D of the briefing materials. Mr. Simms noted that staff is proposing that the Board develop an Interpretation to Statement of Federal Financial Accounting Standards (SFFAS) 15, *Management's Discussion and Analysis*. The Interpretation would clarify the purpose of the requirements and the level of flexibility available in preparing MD&A. Also, the Interpretation would be level A in the GAAP hierarchy.

Question 1 – Does the Board agree with the recommendation to develop an Interpretation to SFFAS 15?

The Board generally agreed with the staff proposal. An Interpretation would build on the existing MD&A concepts and standards and help drive change in areas in need of improvement.

Question 2 – If the Board agrees with the recommendation to develop an Interpretation, are there particular issues staff should ensure to consider or address?

Members discussed a multipronged approach to the project. As part of developing the Interpretation, staff could reach out to reporting entities for their feedback on issues, coordinate with OMB as it prepares form and content guidance, and consider the need for education.

In addition, the discussion of reporting entity performance is an area that should be considered. For instance, reporting entities issue detailed performance reports after they have issued their financial statements. Should management include a link in the MD&A to the reporting entity's detailed performance report rather than discussing the cost of outputs?

> **Next steps:** Staff will organize a task force to begin developing the Interpretation.

Administrative Matters

- **Update on Government-wide Compilation and Audit Process**

Mr. Bell introduced the topic of innovation and welcomed speakers on recent CFO Council process improvement efforts.

Speakers included Doug Glenn (Department of Defense), Mike Linder (Treasury), and Jaime Saling (Treasury).

Mr. Glenn noted that the current recommendations resulted from collaboration among the CFO Council, Department of the Treasury (Treasury), and the Inspectors General. The primary objective is to reduce audit effort and costs without sacrificing quality.

The team considered several models and that effort identified an opportunity to improve the government-wide compilation and audit process by moving items of information required in the closing package into the agency financial report. This approach may lead to elimination of the closing package because the audited financial report would provide all the needed data. Two additional note disclosures would be required to accomplish this. Other adjustments may be needed when an individual agency has unique information to report. Also, the statement of social insurance is not addressed through this change.

These changes are anticipated for fiscal year 2019. In addition, there is a pilot effort to consider submission of only audited trial balances to support consolidation.

Mr. Soltis noted that this effort was forward looking and suggested engaging FASAB staff as a liaison to the committee.

Mr. McNamee suggested conferring with multi-national companies regarding best practices.

Mr. Showalter thanked the speakers for their efforts and the update.

Agenda Topics

- **Omnibus Amendments**

Mr. Simms and Ms. Monica Valentine, assistant director, conducted the discussion on the omnibus amendments from tab F of the briefing materials. Staff presented to the Board for approval an omnibus ED containing amendments to several existing Statements. Staff proposed to use the omnibus proposal to (1) rescind SFFAS 8, *Supplementary Stewardship Information,* (2) make conforming changes due to SFFAS 54, *Leases,* and (3) clarify wording in SFFAS 6, *Accounting for Property, Plant, and Equipment.* The Board suggested several minor edits to the draft.

Next steps: Staff will revise the draft proposal based on the edits suggested by the Board and will send a pre-ballot draft to the members before the February Board meeting.

- **Risk Reporting**

Ms. Robin Gilliam, assistant director, conducted the risk reporting discussion on MD&A forward-looking information from tab G of the briefing materials.

Ms. Gilliam noted that, at the August 2018 meeting, the Board decided to change the project name from risk assumed to risk reporting because the project would now focus on risk reporting in note disclosure and the forward-looking information in MD&A.

The briefing materials comprised a review of SFFAS 15, paragraph 3 and the resulting forward-looking information from agencies' 2017 MD&As. This served to help the Board determine if the forward-looking information presented is what the Board intended from SFFAS 15.

Ms. Gilliam focused the discussion on the word "effects" from paragraph 3 and the time horizon of financial effects. She emphasized that risk events are different than effects. Risk events may be financial or non-financial but either can cause a financial effect to the balances in the financial statements.

Question 1 – How do members interpret the word "effects" as stated in the current SFFAS 15, par. 3? For example, should effects be non-financial, financial, or both types?

Members agreed that they wanted the forward-looking discussion to focus on the financial effects of risk events. However, they noted that this is not the information that was presented in the 2017 MD&As. As a result, members did not believe that agencies understand how to discuss risks in relation to what was intended by SFFAS 15, paragraph 3. Members were also concerned with boilerplate discussions that might repeat the same risks year after year.

Question 2 – What does "forward-looking" mean to you?

- **Are challenges for the coming year and short-term actions to address such challenges sufficiently forward-looking? What time horizon would members expect agencies to consider in preparing MD&A?**

- **Are members interested in distinguishing between short and long term potential future effects? If so, should guidance on selecting an appropriate time horizon be considered? (For example, a social insurance program would likely have a longer time horizon than a regulatory program.)**

Members agreed that agencies currently focus forward-looking information on annual performance and strategic goals, and the planned activities scheduled over the next budget cycle address these. This information more closely aligns with SFFAS 15, paragraph 4 than with paragraph 3.

The Board agreed that forward-looking information should include a discussion on the short-term financial effects, as well as the possible long-term financial effects as defined by an agency's life cycle to complete program missions.

Some members found the Department of Education's credit discussion a good model for discussing the financial effects of risk events.

FASAB'S Role in Risk Reporting

A number of members discussed FASAB's scope in relation to enterprise risk management (ERM) and what role FASAB will play in risk assessment and risk appetite to determine what risks should be included in financial statements. Another concern is the different levels of maturity agencies are experiencing with ERM.

Ms. Gilliam reminded members that the Board spent many meetings discussing risk categories to determine what risks to report and concluded that agencies, through their ERM processes, are responsible for identifying and managing their own risks. FASAB's only role should be to clearly identify what agencies should include in the forward-looking MD&A information for risk events that could cause a material effect on financial balances.

Mr. Soltis explained that OMB had updated Circular A-11 (A-11), *Preparation, Submission, and Execution of the Budget*, in 2018 to require that agencies recognize risk in their budget requests. The 2018 update to A-11, including strategic reviews by OMB of all agencies, was in response to a lack of capacity by agencies to understand risks, especially risks related to a future outlook and mission success. The 2018 A-11 update also intended to help focus performance staff on their missions and the risks that could affect meeting their missions.

Mr. Soltis gave the following example of how the new A-11 requirements could help.

> An agency is writing a 2020 budget justification for plant, property, and equipment (PP&E). There is a significant number of PP&E in dilapidated condition that has the potential for safety and health hazards. Safety is the risk. To improve the safety of the buildings (i.e., mitigate this risk) maintenance costs are necessary to improve the PP&E. Maintenance costs should be included in the budget.

He noted that accountants might find it difficult to understand and prepare forward-looking risk information because risk may not directly tie to an accounting transaction.

Mr. Soltis further emphasized that FASAB's role should be to instruct agencies on how to discuss risks determined by an agency's risk profile that could potentially affect the financial statements. This includes new or increased balances to assets, liabilities, and/or expenditures that have not yet been obligated. In relation to the above example, forward-looking information should discuss the accounts, such as DM&R, that could be financially affected by mitigating or not mitigating the risk of PP&E safety.

FASAB to Develop an Interpretation for SFFAS 15, Paragraph 3

Ms. Gilliam explained that staff's vision for FASAB is to be the bridge between the agencies' ERM and their financial reporting. To provide that bridge, staff recommended an Interpretation of SFFAS 15, paragraph 3. An Interpretation is the same level in the GAAP hierarchy as a Statement. The Interpretation could also incorporate information from paragraph 31 of Statement of Federal Financial Accounting Concepts 3, *Management's Discussion and Analysis*. Paragraph 3 states, "MD&A should describe important existing, currently-known demands, risks, uncertainties, events, conditions and trends--both favorable and unfavorable--that affect the amounts reported in the financial statements and supplementary information."

Members agreed that staff should prepare an Interpretation to clarify how to discuss risk in MD&A and what is meant by financial effect.

For example, one member pointed out that one agency briefly discussed "weakening economic conditions that could undermine safety." Members want the Interpretation to help agencies understand and discuss what the financial effect might be from "weakening economic conditions" (a risk event). If there is a negative financial effect, what financial accounts would be impacted? How might that impact program performance?

A number of members also liked the information presented in the paper from the Institute of Chartered Accountants in England and Wales (appendix B) as a possible model for the Interpretation.

One member noted that *The Chief Financial Officers Act of 1990—20 Years Later Report to the Congress and the Comptroller General* included forward-looking information as one of the areas to improve, and an Interpretation would accommodate this concern. One member recommended additional items for the Interpretation, like sensitivity and best practices that could be correlated with A-11.

To develop the Interpretation, a number of members noted that individual agency interviews would be the best vehicle for understanding preparer needs. A task force is not necessary at this time.

Staff concluded by recommending a separate Interpretation for the forward-looking piece of MD&A from the one Mr. Simms will be drafting on the MD&A structure to avoid losing the risk discussion within the formatting discussion. Members agreed.

Next steps: Staff will conduct a number of agency interviews—instead of engaging a task force—to understand what preparers need in the Interpretation to understand the financial effect of risks, as determined by their agency's ERM process. Staff will assess how to discuss the short- and long-term financial effects of these risks.

The Board meeting adjourned for lunch.

- **Intragovernmental Allowances for Losses**

Ms. Melissa Batchelor, assistant director, introduced the education session on intragovernmental allowances for losses. The materials for the session were provided in tab E of the briefing materials. In June 2018, Treasury raised a concern regarding the recognition of losses against intragovernmental receivables among federal entities. 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.

The educational session provided the Board with a perspective from an agency with significant intragovernmental receivables. Mr. Robert Smalskas from the General Services Administration (GSA) provided an overview of GSA's receivables. He explained that GSA has classic trade receivables and also money owed to Treasury for the Judgment Fund. He views the Judgment Fund somewhat differently and believes it to be unique because Congress has not provided the funding.

Mr. Smalskas explained that prior to the September 15, 2017, memo that was issued by Treasury, GSA would book an allowance for bad debt on federal receivables based on the collectability. However, based upon the guidance in the memo, GSA no longer books a bad debt allowance on federal receivables. Mr. Smalskas explained that in complying with the Treasury memo, he believed that certain judgments were removed.

Mr. Smalskas noted that he understood Treasury's position as it relates to the Judgment Fund and solvency between federal agencies. However, he explained there are certain differences in the trade receivables related to billing practices that make the issues somewhat different than those with the Judgment Fund. He gave examples where there may be disputes, negotiations may occur, and settlement may be made for a certain amount. Disputes can also occur regarding the quality of work, whether a service was received, and the effective date of changes. Mr. Smalskas also noted that it was an audit finding because the auditors believed reversing the allowances was not in accordance with GAAP. However, it was not deemed to be material.

Mr. Smalskas also explained that disputes are both a proprietary and a budgetary issue because most of GSA activities flow into the revolving funds, which is supposed to be full cost recovery. Therefore, it becomes potentially an issue of appropriation augmentation.

Question 1 – Would the Board like to hear from any other agencies regarding this issue?

Treasury planned to send representatives for an educational session at the February 2019 meeting.

Question 2 – Is there any other research or additional information requested about this issue?

The Board requested that staff determine if there were any material items or concerns in the intragovernmental loan category that should be considered. The Board also suggested that staff consider if this issue could be addressed in closing packages. In other words, if this is resulting in a reconciliation issue in individual statements, then it can be reversed when it goes to the government-wide.

> **Next steps:** Staff will coordinate an educational session with Treasury representatives and develop questions for the Board to consider at the February meeting so a decision can be made on next steps.

The Board meeting adjourned at 1:15 p.m.