FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
Board Meeting Minutes
December 20, 2017
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 20, 2017

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, Reger, Scott, and Smith. Mr. McNamee was present with the exception of the morning of December 20th. 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 October meeting minutes prior to the meeting.

- **Updates and Clippings**

Mr. Showalter acknowledged Mr. Reger for his service on the Board and congratulated him on his pending retirement. Members noted the significant and lasting contributions Mr. Reger has made to federal financial reporting and management during his tenure on the Board.

Mr. Showalter reminded members that member evaluations and independence confirmation forms are due by January 17. Written evaluations are requested for members eligible for a second term—Ms. Bronner and Messrs. McNamee and Scott. Mr. Showalter will contact members regarding oral evaluations for other members.

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

- Approval of an exposure draft (ED) proposing standards for leases
- Approval of consultation on the overall strategy and work plan
- Deliberation regarding responses to the consultation paper on heritage items
- Development of public-sector measurement guidance that would consider conformity with current concepts

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

- Issuance of EDs proposing
    - interest cost during construction of an asset not be capitalized,
    - implementation guidance updates, and
    - other post-employment benefits implementation guidance.
- Deliberation on new standards for conduit debt for which liability recognition would be similar to recognition for financial guarantees
- Consideration of comments on the ED regarding debt disclosures
- Development of reporting model options
- Deliberation on an invitation to comment on two approaches to revenue and expense recognition – one approach is similar to the current

exchange/non-exchange models and another would adopt a performance obligation model

- Consideration of the technical agenda

Agenda Topics

- **Closed Session**

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

- **Inter-entity Costing**

Ms. Melissa Batchelor, assistant director, explained the purpose of the session was to discuss responses to the ED, *Amending Inter-entity Cost Provisions*, and staff's subsequent analysis. These materials were included in the briefing materials at tab A. Mr. Showalter explained that the goal of the session was to approve the edits and distribute a pre-ballot draft after the meeting. The Board could then approve a ballot Statement at the February 2018 meeting. He explained that members must resolve all technical matters during the meeting in order to move to a pre-ballot.

A majority of respondents generally agreed with the proposal to revise Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts*, to provide for recognition of inter-entity costs by business-type activities and to rescind SFFAS 30, *Inter-entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*, and Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*. Further, a majority of respondents generally agreed that component reporting entities should provide a concise statement to acknowledge significant services received for which no cost is recognized. Respondents also agreed that the proposed disclosure would not impose a greater cost or burden when compared to existing requirements.

Ms. Batchelor had received feedback from members prior to the meeting and distributed an updated proposed Statement. She provided a brief overview of the clarifying edits that were made in the document.

Question 1 – Comments, questions, and feedback on comment letters. One member was concerned about (1) the "cost" of determining whether unreimbursed inter-entity costs are "significant" and (2) whether the proposed disclosure provides a meaningful distinction between entities with and without “significant inter-entity costs.” Therefore, the member suggested the Board consider

- amending paragraph 5 to require disclosure for all non-business-type entities that only certain intra-entity costs are recognized for goods and services received from other federal entities at no cost or at a cost less than the full cost; and

- replace the example wording.

The member also suggested the Board consider

- changing paragraph 111 to address perceived wording inconsistencies; and

- adding a sentence, perhaps at the end of paragraph 6, to clarify that entities may elect to recognize imputed cost and corresponding imputed revenue for other types of inter-entity costs.

The Board agreed to the suggestions but did have wording changes. In addition, the Board discussed the placement of the final language, as certain changes will be in SFFAS 4, as amended, and others will be in the new Statement. Staff will determine the best placement when sending the next draft. One member also requested changing the standard language to earlier implementation is “permitted” instead of “encouraged.”

> **Next steps:** Staff will provide members a pre-ballot draft that includes the agreed upon changes after the meeting. The goal is to ballot at the February meeting.

- **Streamlining**

Mr. Ross Simms, assistant director, requested the Board’s input on two projects intended to improve the content of financial reports—required supplementary stewardship information (RSSI) and management’s discussion and analysis (MD&A). For background information on both projects, Mr. Simms referred Board members to tab B of the briefing materials.

RSSI

Question 1 – Next steps for the RSSI project. The Board discussed the next steps for the RSSI project and concluded that staff should identify and inquire of interest groups and individuals to determine the information they need regarding the government’s long-term investments. The current RSSI standards require reporting on the government’s long-term investments, and members noted that the information is important for achieving the stewardship objective of federal financial reporting. Feedback from the outreach effort could help the Board determine how best to improve long-term investment reporting.

During the discussions, the Board acknowledged that generally accepted accounting principles (GAAP) define and measure long-term investments differently from non-GAAP financial reporting. For instance, GAAP requires the reporting of "stewardship" investments measured on an accrual basis. Stewardship investments exclude federal physical property, human capital, and research and development (R&D) expenses for which no outcome or output data is available. Conversely, the Budget of the U.S. ("the Budget") defines the government's long-term investments more broadly and uses the cash basis of accounting. The Budget includes federal physical property and does not require outcome or output data for education, training, or R&D.

Members also discussed that the project started as a burden-reduction effort, and one member emphasized that additional standards could increase the burden on reporting entities.

Regarding whether GAAP-based reports could provide links to the Budget, Board members expressed concern that (1) the long-term investment information would be outside the Board's purview and (2) the information could change or be removed from the Budget. In addition, some members noted that users of the GAAP-based reports did not use the stewardship investment information. However, other members believed an educational effort may be needed to better inform users on the relevance of the information.

The Board meeting adjourned for lunch.

<u>MD&A</u>

Question 2 – Updating MD&A concepts. After lunch, the Board discussed whether to update Statement of Federal Financial Accounting Concepts (SFFAC) 3, *Management's Discussion and Analysis*, and decided that staff should identify a list of 10 possible areas for improving the guidance. The Board developed the concepts in the 1990s, and performance reporting and other areas have evolved since then. In addition, members expressed concern regarding the voluminous length of some reporting entity MD&As.

SFFAC 3 discusses several topics, such as entity mission and organizational structure; performance goals and results; financial statements; systems, controls, and legal compliance; and the possible future effects on the entity of existing, currently known demands, risks, uncertainties, events, conditions, and trends. The Board intended for the topics to be integrated rather than addressed separately. Current Board members were concerned that revisiting the entire concepts statement could require significant resources. Consequently, members noted the need to prioritize areas for improvement and believed that integrating financial and performance information should be among the areas considered.

> **Next steps**: Staff will identify potential users of information regarding the government's long-term investments and begin conducting inquiries to determine the information they need to inform their views. Also, staff will develop a list of the key areas for improving the MD&A conceptual guidance.

- **Land**

At the December 20, 2017, Board meeting, members considered staff recommendations on open issues raised. Mr. Domenic Savini, assistant director, presented the materials from tab C and noted that decisions would inform development of a pre-ballot exposure draft in February 2018. Specifically, the following technical issues were addressed by the Board:

Staff presented a revised single (uniform) set of note disclosure requirements that would apply to both general property, plant, and equipment (G-PP&E) (SFFAS 6, *Accounting for Property, Plant, and Equipment*) and stewardship land (SL) (SFFAS 29, *Heritage Assets and Stewardship Land*). Revisions included (1) clarifying that both physical units and estimated acreage information would be required and (2) allowing preparers to report the net amount of transfers between G-PP&E land and SL categories and among the three sub-categories, as opposed to discretely identifying all transfers.

Question 1 – Approval of the disclosure requirements. The Board agreed with the proposed draft single note disclosure requirements. Some members indicated that editorial comments would be provided directly to staff.

Question 2 – Defining physical units. Staff recommended including examples of physical unit information in the basis for conclusions or illustrations. Further, staff recommended that implementation guidance be provided as needed after the standards are issued.

Members agreed that the Board should consider detailed implementation guidance after issuing the standards. Members supported providing examples indicating under what circumstances each type of physical unit would be an appropriate choice. Further, similar to segment reporting in the private sector, management should base selection of the type of physical unit on its internal management practices.

Question 3 – Supporting documentation. Staff recommended (1) requiring "estimated" acreage rather than "acreage," so that it is clear that estimates are permitted, and (2) including a discussion of non-conventional audit support in the basis for conclusions.

Members approved the addition of "estimated" to the language. Regarding non-conventional audit documentation, members noted that the accounting standards should not address audit requirements. However, members generally supported addressing in the basis for conclusions what the Board considers to be reasonable support for those estimates. In addition, implementation guidance addressing reasonable estimation methods and documentation might be appropriate after FASAB issues the standards. The basis for conclusions should describe the types of implementation guidance envisioned by the Board and solicit comments.

Question 4 – Implementation period. Staff included a two-year implementation period based on the October 2017 meeting.

Mr. Dacey indicated his continued preference for a period of required supplementary information (RSI) prior to requiring disclosures. He suggested a one-year implementation period followed by two years as RSI with note disclosures thereafter. During the RSI period, the Board would be able to address any issues that arise.

Members discussed proposing the most stringent possible timeframe and seeking comments on the proposed two-year implementation period, making requirements of this proposed Statement effective for reporting periods beginning after September 30, 2021. The Board approved the draft wording and requested a specific question in the ED regarding the effective date.

Question 5 – Open technical matters. Staff asked members to raise any remaining technical matters. Mr. Bell requested that the illustrations be revised to include physical unit information and staff agreed.

Additionally, staff asked members to consider reducing the list of respondent questions, noting that the list of questions is long and may deter respondents. The Board approved the following changes:

- Questions 2, 4, 6, 8 and 9.a were eliminated.
- Questions 3, 5, 7, 10, 11, and 13 will be revised to be more specific.
- Questions 9 and 12 will be combined.
- Lengthy quotations from the proposed standards sections will be removed from the questions.

Members also offered editorial suggestions for the questions for respondents. Staff will review all the questions to ensure the wording conforms to changes made in the proposal.

Next steps: The Board will consider a revised pre-ballot ED at the February 2018 Board meeting, with the objective of proceeding to a ballot vote shortly after the meeting.

Adjournment

The Board meeting adjourned for the day at 5:15 p.m.