FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
Board Meeting Minutes
October 23-24, 2019
Room 7C13
441 G Street, NW
Washington, D.C. 20548

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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, October 23, 2019

Attendance

The following Federal Accounting Standards Advisory Board (FASAB or "the Board") members were present throughout the meeting: Mr. Scott (chair), Messrs. Bell and

Dacey, Ms. Harper, and Messrs. Patton and Soltis. Mr. McNamee was present except for the morning of October 23. Mr. Smith was present on October 23. Ms. Bronner was not present for the duration of the meeting. The executive director, Ms. Valentine, and general counsel, Ms. Motley, were also present throughout the meeting.

Administrative Matters

- **Approval of Minutes**

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

- **Updates and Clippings**

Mr. Scott asked members if they had comments or questions on any of the clippings. He noted that the Government Accountability Office's (GAO) *Management Report on Improvements Needed in Controls over the Processes Used to Prepare the U.S. Consolidated Financial Statements* discusses two items that may have implications on the Board's work. The first was on the identification and recognition of treaties by various federal entities. Mr. Dacey noted that more guidance may be needed from the Board on the accounting treatment of treaties. Mr. Bell noted that the Chief Financial Officers (CFO) Council has formed a working group subcommittee to look into the treaties issue.

The second item Mr. Scott noted from the GAO report was on government-wide disclosure requirements where a consolidated Financial Accounting Standards Board (FASB) reporting entity is material, and the FASAB disclosure requirements do not apply to that FASB reporting entity. There is a question about the application of the hierarchy to the consolidated financial report of the U.S. Government. Mr. Dacey noted there were both FASB and FASAB reporting entities reporting on the same financial statement line item, and there was a question about how to combine the reporting entities' information. Mr. Bell noted that the CFO Council working group is working on resolving the issue, so it may not have to be addressed by the Board.

Agenda Topics

- **Land**

Mr. Domenic Savini, assistant director, directed the Board to tab A containing the draft proposed Statement of Federal Financial Accounting Standards (SFFAS) 58, *Accounting and Reporting of Government Land*. Since only minor, non-technical edits were made to the revised draft Statement, staff suggested that members consider discussing Mr. Soltis' preliminary dissent. Staff originally emailed the dissent to members on October 21. The principal provisions of this proposed Statement involve replacing the requirement to report general property, plant, and equipment (G-PP&E) land on the balance sheet at historical cost with a requirement to disclose estimated acres of land in three discrete predominant land use sub-categories. Effective in fiscal year (FY) 2021, the estimated acre information initially would be presented as required supplementary information and transitioned to note disclosures in FY 2024.

Mr. Bell confirmed that he would be joining in the dissent.

Messrs. Soltis and Bell explained that a primary reason for their dissents is because it is not clearly evident what cost and effort would be needed to bring the nonfinancial information (estimated acres of land) into the financial statements as note disclosures. They also expressed concern with removing the cost of G-PP&E land currently reported in the financial statements. In their opinion, removing land from the balance sheet would not only require separating costs of combined assets, such as dams, but also would diminish accountability over G-PP&E land. Although Messrs. Soltis and Bell acknowledged that changes to the basis for conclusions have improved the communication of the Board's reasons for the proposed requirements, they do not believe the benefits of the requirements have been demonstrated to outweigh the costs. As an example, they pointed to information on acres of land that is available in other types of reporting, and there should be a consideration of how that information might be best included in the financial statements.

The Board discussed these concerns and the reasons for proceeding with the requirements in the draft Statement. These included assessing the cost of developing amounts and classifications of estimated acres compared with the cost of estimating the historical cost of land. Members expressed concerns that existing financial reporting is incomplete because it does not convey the federal government's significant ownership of the land. The Board also asserted that predominant use land classifications are not a new requirement in financial reporting (for example, SFFAS 29, *Heritage Assets and Stewardship Land*) or in real property reporting requirements (for example, General Services Administration's federal real property profile).

The Board briefly discussed the possibility of modifying or excluding the final Statement's requirement for the nonfinancial data to transition to note disclosures. At the meeting, Mr. Soltis agreed to provide a revised update of his dissent for consideration. The Board will need to resolve several other open questions at future meetings, including:

- Will excluding the transition to notes resolve Messrs. Soltis and Bell's concerns presented in the dissent?
- Will monitoring implementation of the nonfinancial requirements and reconsidering the provisions for transition to note disclosures prior to them becoming effective resolve Messrs. Soltis and Bell's concerns?
- Will changes to the reporting of land (de-recognizing land and expensing future acquisitions) proceed?
- Will additional language emphasizing use of estimates in the standards and subsequent implementation guidance on estimates resolve concerns?

Next steps: Given that Ms. Bronner and Mr. McNamee were not in attendance, the Board will continue the discussion of how to proceed with the proposed draft Statement at the December 2019 meeting.

- **Loss Allowance for Intragovernmental Receivables**

Ms. Melissa Batchelor, assistant director, introduced the session on intragovernmental allowances for losses. Ms. Batchelor explained the objective of the session was to consider the comment letters, staff analysis, and staff's proposed Technical Bulletin (TB) 2019-1, *Loss Allowance for Intragovernmental Receivables*. The materials were included in the briefing materials at tab C.

Question 1 – After reviewing the comment letters, and the accompanying Table C that includes the disposition of all comments, does the Board generally agree with the staff assessment of comments received?

The Board generally agreed with staff's disposition of comment letters.

One member requested that the KPMG comment letter be discussed. While he did not agree with their requested changes, he did agree with their concern about paragraph 131 of SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, being included in the basis for conclusions. He suggested it be removed from paragraph 15 of the proposed TB. He also suggested removing the first sentence of paragraph 16. Paragraph 15 of the proposed TB provides the pertinent information that an allowance for intragovernmental receivables may be appropriate but may not always be needed. Therefore, the excerpt from SFFAS 7 is not necessary. Members also noted that inclusion of the first sentence in paragraph 16 may introduce an issue because the Board is not providing criteria. The Board agreed that these changes should be incorporated into the proposed TB.

Question 2 – Does the Board prefer to make one of the changes that staff deferred? If a majority of the Board prefers the change, staff will incorporate and include one or two sentences to the basis for conclusions.

Staff explained that the Board had discussed the effective date at the June 2019 Board meeting and agreed to make the TB effective upon issuance. During the June discussion, one member suggested delaying the effective date, but other members viewed the TB as providing clarification of SFFAS 1, *Accounting for Selected Assets and Liabilities*, and not establishing new requirements. Members also recognized that, with the timeline, the proposed TB would not be issued until November 2019. As a result, it would not affect agencies this audit cycle (FY 19).

Members noted that two component reports will be delayed this year, so certain members preferred that the effective date be delayed. The Board noted that because the guidance is a clarification, it would not be appropriate to delay an effective date or provide that it could not be implemented.

Therefore, the Board agreed the most reasonable approach would be to postpone issuing the TB until all components finalize their annual reports and maintain the language “effective upon issuance.”

Question 3 – Staff plans to incorporate the above language to the basis for conclusions and issue TB, 2019-1, *Loss Allowance for Intragovernmental Receivables*. Do any Board members object?

The Board generally agreed with staff’s proposed language for the basis for conclusions.

Question 4 – Do members have any other comments on staff’s proposed TB 2019-1, *Loss Allowance for Intragovernmental Receivables*?

Members did not have any other comments on the proposed TB 2019-1, *Loss Allowance for Intragovernmental Receivables*. No FASAB member objected to issuing the proposed TB, *Loss Allowance for Intragovernmental Receivables*.

> **Next steps:** No FASAB member objected to issuing the proposed TB, *Loss Allowance for Intragovernmental Receivables*. Based on the session, the Board agreed that staff will provide the Board a courtesy review of the final TB in November 2019. However, the final TB will not be issued until February 2020.

- **Annual Report**

Ms. Valentine presented an updated draft FY 2019 FASAB annual report and three-year plan to the Board.. Mr. Soltis noted that the new release date for agency financial statements had been moved to November 19, 2019. As a result, the FASAB annual report will be released on November 19 as well. Ms. Valentine pointed out several editorial revisions that had been made to the draft since the August meeting to clarify language, correct grammatical errors, and ensure a better flow of the document. Ms. Valentine noted that a graphic will be included to highlight outreach activities of the Board and staff. Mr. Scott added that staff plans to provide a summary of outreach activities to the Board at each meeting.

One member suggested adding an outreach strategy to the annual report. The member suggested that the outreach activities of the Board should go beyond the federal financial management community, recommending outreach to universities. Another member suggested that a footnote be added to the budget table to explain the increase in funding from FY 2018 to FY 2019 and then back down in FY 2020.

Ms. Valentine informed members that they would have another opportunity to review the draft report again in early November before it is released. She noted that the Appointments Panel will also be reviewing the final draft annual report before publishing.

Next steps: Ms. Valentine noted that staff would update the draft annual report based on the comments received and send the draft to the full Board and Appointments Panel for final review before it is released.

- **Reporting Model**

Mr. Simms, assistant director, introduced the discussion on the reporting model from tab E of the briefing materials. The objective of the discussion was to determine the issues that should be addressed during the research phase of the project.

Question 1 – What issues/questions should be addressed during this research phase?

Members discussed the concerns regarding component reporting entity budgetary reporting. Primarily, component reporting entity budgetary information is complex and challenging for external users to understand; therefore, the project could consider how to improve the reporting for external users. Members suggested revisiting previous efforts to improve reporting, such as developing a schedule of spending.

Also, the project could consider the range of existing information available to users and determine the potential gaps that a financial report could address. Users currently access the federal government's open data website and can drill down to different levels of detail. Other countries, such as Australia, are also moving toward open data websites to facilitate transparency and provide financial information.

Question 2 – Would the Board prefer to conduct focus group discussions during the research or conduct user interviews and possibly conduct focus group discussions based on the user interview results?

The Board preferred that staff conduct interviews and focus group discussions. Staff will first conduct interviews to determine the budgetary information that would be meaningful to users and possible formats for presenting the information. Focus groups could then provide feedback on the model developed from the interviews.

The Board also noted that the overall project involves several broad topics: budgetary information, performance information, electronic reporting, and data quality and integration. Consequently, the Board decided to develop a vision statement that considers the common areas among the topics and guides the project.

Next steps: Staff will draft a vision statement for the overall project and a set of questions to pose to potential interviewees.

The Board meeting adjourned for lunch.

- **Leases Implementation**

Panelists presentations to the Board

Mr. Ricky A. Perry, Jr., senior analyst, began the discussion by directing members to tab D and introduced three leases implementation task force members. These members were present to provide the Board with updates on implementation efforts and challenges at their agencies:

- Ms. Rebecca Evertsz, Department of Defense (DoD)
- Mr. John Wall, Department of Energy (DOE)
- Mr. Edward Gramp, General Services Administration (GSA)

Mr. Perry noted that the Department of Homeland Security (DHS) also provided a status report in the briefing materials but was unable to participate on the panel due to a scheduling conflict. Mr. Perry noted that DHS responses should also be considered as a useful data point.

Ms. Evertsz reported that the number of leases to be accounted for is still unknown and numerous implementation actions have yet to be completed, such as updates to department-wide and component policies and procedures and systems updates. The nature of systems changes to capture the information about leases is also unknown and is further complicated due to systems that are not integrated. Ms. Evertsz indicated that early issuance of implementation guidance would be helpful to DoD and facilitate its progress in preparing for implementation and identifying appropriate IT solutions and requirements.

Mr. Wall reported that a large number of DOE leases are related to numerous contractor arrangements, which adds to the challenges of implementation. Mr. Wall explained that systems changes at DOE must be coordinated with 28 different management and operating contractors. DOE has identified the universe of leases, and they are currently developing materiality guidance.

Mr. Gramp from GSA reported that GSA's greatest challenge is with the large number of leases and that an automated solution is necessary. GSA is the primary real estate manager for the federal government. Most of the approximately 20,000 occupancy arrangements with various agencies will likely be considered short-term leases with no accounting changes needed. However, there is a large number of leases to and from nonfederal agencies that will require changes in accounting. GSA is negotiating with its primary software vendor regarding systems changes to automate processes and update systems interfaces. GSA believes that it will need two additional years for implementation.

Mr. Gramp observed that core accounting systems functionalities have been determined by each agency thus far during implementation planning. He noted that systems requirements communicated to commercial off-the-shelf software vendors may not be consistent from agency to agency. Mr. Gramp echoed Ms. Evertsz sentiments, further noting that it is vital for agencies to receive implementation guidance to inform their preparation for implementing SFFAS 54, *Leases: An Amendment of SFFAS 5,* *Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment*.

Q&A with panelists

Question 1 – Do Board members have any questions for the panelists regarding the nature and extent of implementation issues noted in Attachment 2?

Mr. Soltis encouraged staff and Mr. Gramp to connect with the Department of the Treasury's (Treasury) Office of Financial Innovation and Transformation (FIT), which engages with vendors regarding the identification, development, and standardization of the government's core accounting systems requirements and data elements.

Ms. Harper and Mr. Soltis both expressed interest in receiving updates regarding future discussions with Treasury FIT on core accounting requirements.

Mr. Bell asked panelists for their insights regarding the extent to which between three to five new or repurposed United States Standard General Ledger (USSGL) accounts would facilitate and/or affect implementation of SFFAS 54 at their agencies. Mr. Wall noted that DOE would require adequate lead time to test and implement USSGL updates in the underlying systems that feed into DOE's overall financial statements. He observed that agencies with different financial reporting processes may experience different challenges resulting from such updates. As such, it would be ideal to finalize and promulgate such changes sooner rather than later.

Staff analysis and Board discussions regarding implementation timelines

Question 2 – Do Board members have any questions regarding staff's analysis?

Mr. Perry discussed the various additional guidance that appears to be needed based on the feedback from the task force, which includes an omnibus amendment to SFFAS 54 for a handful of small changes to level-A guidance, such as (1) temporary land rights and easements that meet the definition of a lease and (2) paragraph 19.a of SFFAS 54. Staff also mentioned the software licenses TB and the two ongoing Technical Release (TR) projects—including the implementation guidance and issuance of the conforming amendments TR.

Staff recommended that the implementation date of SFFAS 54 be deferred by two years.

Question 3 – Do Board members wish to discuss any views about the effective date of implementation and/or the planned timeline for issuing implementation guidance?

Board members unanimously agreed to propose a two-year deferral.

> **Next steps:** Staff will draft and distribute a deferral document and possibly a pre-ballot and/or ballot draft in the time before the December 2019 meeting. There is

a possibility of reviewing a ballot draft of the deferral at the December 2019 meeting.

- **Materiality**

Ms. Grace Wu, assistant director, introduced the discussion on an updated draft *Materiality* Statement of Federal Financial Accounting Concepts (SFFAC) from tab B of the briefing materials. The objectives of the discussion were to review the “probable” definition and consider its relevance to “could reasonably be expected” in the proposed *Materiality* concepts statement and to review the document.

To assist members to understand the relationship in SFFAS 5, *Accounting for Liabilities of the Federal Government*, between (1) “can reasonably be expected,” (2) “probable,” and (3) “more likely than not,” staff provided to the Board a history of the SFFAS 5 “probable” definition, its use in SFFAS 49, and a statistical definition of “reasonably be expected” and “more likely than not.” It was noted that as it relates to the liability definition, “could reasonably be expected” could be viewed as a qualifier or a synonym to “probable.” Members concluded that they view the use of “could reasonably be expected” as a qualifier to “probable” as it is used in the liability definition.

Question 1 – Based on the research provided in Attachment 1, what are the Board’s views on the relationship between “reasonably be expected,” “probable,” and “more likely than not” as it relates to the proposed Materiality concepts Statement?

The Board members’ interpretations of the terms differed slightly, making the terms difficult to define. However, the Board agreed that “more likely than not” conveys the lowest degree of likelihood (more than a 50 percent chance of occurrence) among all the terms.

”**Question 2 – Is the Board comfortable with its conclusions on the use of “could reasonably be expected” in the Materiality concepts statement?**

The Board agreed that inconsistencies throughout the FASAB guidance on the use of “probable” may cause confusion about what its true meaning is. The Board also does not believe “more likely than not” is appropriate in assessing the overall application of materiality because it conveys a lower degree of likelihood compared to “can reasonably be expected.” Therefore, the Board concluded that both “probable” and “more likely than not” were not appropriate to be used in the materiality definition. The Board agreed that “could reasonably be expected” conveyed the appropriate level of certainty to use in determining whether a misstatement would affect the judgment of a reasonable user. The Board also revised language in the basis for conclusions relating to the Auditing Standards Board’s (ASB) materiality proposal.

Question 3 – Does the Board agree with the proposed basis for conclusions paragraphs A11-A14?

The Board agreed with the proposed basis for conclusions because it provides much greater clarification on the Board's selection of terms, making the document more meaningful.

One member raised the issue of whether the intended user of the *Materiality* concepts statement is the Board or preparers because some language in the draft stated its use for the preparer. The Board agreed that a concepts statement is the appropriate place for the materiality guidance. After reviewing the Preamble to Statements of Federal Financial Accounting Concepts, the Board confirmed that concepts statements enhance preparers' and auditors' understanding of the common foundation and reasoning employed in considering accounting alternatives. The Board agreed that this document is expected to assist preparers' and auditors' understanding of the Board's intention in making materiality judgments and improving disclosures. The Board reviewed the draft concepts statement and made minor edits to clarify the language where it may be interpreted as direct guidance for preparers.

Mr. McNamee discussed his updated dissent. He explained that, at prior meetings, his concern was in regards to the Board's process, but now his issue is around substance. He believes that the term "reasonably be expected" used in the materiality concept is inconsistent with the use of the term in SFFAS 5 and SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*. Because the ASB plans to ballot its amended materiality definition by the end of October 2019, the rest of the Board agreed that waiting for the ASB's issuance of its materiality definition is likely no longer applicable. The Board generally agreed that the basis for conclusions could be further clarified regarding the ambiguity of the terms in the FASAB guidance. The Board also discussed the possibility of resolving the ambiguity in an Interpretation or TB. Mr. McNamee agreed to reconsider his dissent after reviewing the updated language in the basis for conclusions.

> **Next steps:** Staff will update the basis for conclusions to further clarify the ambiguity regarding the use of the terms and will provide an updated draft at tomorrow's Board meeting for further discussion.

Adjournment

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

Thursday, October 24, 2019

Agenda Topics

- **MD&A**

Ms. Robin Gilliam, assistant director, presented tab G from the briefing materials. Ms. Gilliam explained that the management's discussion and analysis (MD&A) amendments project is in the development phase. Members are currently identifying MD&A objectives according to the SFFAC 1, *Objectives of Federal Financial Reporting*, reporting objectives framework: budgetary integrity, operating performance, stewardship, and systems and control. These objectives will assist the Board in later developing an exposure draft. The Board identified two objectives for budgetary integrity at the August 2019 meeting and began discussing operating performance objectives at this meeting.

Ms. Gilliam reminded members that each objective is formulated to start “MD&A will concisely explain” followed by what members want to achieve. Some members recommended a separate write-up of what “concisely explain” means instead of including it in each objective. Staff agreed but suggested postponing action on this recommendation until all objectives are identified. Members agreed.

The Board also wanted to define “significant,” which was included in most of staff’s proposed objectives. Ms. Gilliam also recommended postponing action on this request until objectives were completed. Members agreed.

To help identify the operating performance objectives, Ms. Gilliam presented the following proposals for the Board to consider.

Question 1 – Do members want to include the following MD&A operating performance objective?

<u>MD&A should concisely explain, for each responsibility segment, the results and corresponding costs from the statement of net cost.</u>

The Board found it challenging to discuss operating performance in the MD&A in relation to the current Government Performance and Results Act (GPRA) reporting. Members were concerned with the timing of GPRA reporting in relation to the financial statement reporting period. For example, strategic and performance goals are identified and measured in February with the budget submission, while financial statements are reported as of September 30. This creates a synchronization issue and burdensome reporting for agencies.

However, to address the synchronization issue, the Board recognizes that hyperlinks can be provided in the MD&A for details of GPRA reporting. Members believe this project can help determine how to bridge performance reporting to operating performance to understand an organization’s overall financial health.

Members agreed to remove the term “each responsibility segment” from the objectives for the following reasons:

- Responsibility segments are defined by each agency, causing inconsistent reporting across agencies. For example, some agencies may include strategic goals, bureaus, or projects as responsibility segments in the statement of net cost.

- Responsibility segments are prescriptive and would require explanations, despite the potentially insignificant percentage to the whole organization's net cost.

Members also agreed to remove "statement of net cost" from this objective because current year costs do not directly map to overall performance. Removing this phrase allows agencies flexibility to explain what was accomplished in relation to the annual costs reported.

As a result, members updated this operating performance objective to read:

<u>MD&A should concisely explain how significant costs contributed to agency performance.</u>

Question 2 – Do members want to include the following MD&A operating performance objective?

<u>MD&A should concisely explain significant changes in costs from the prior year and the impact to net cost of operations.</u>

Members agreed to change "net cost of operations" to "components of net cost" because there may be significant changes in the components. This may include gross cost, earned revenue, and/or actuarial assumptions that contributed to a change in cost of operations that appeared insignificant due to the net effect.

Members also agreed to add multi-year trends to encourage management to discuss and analyze activities that affected past performance and may have contributed to current significant changes.

As a result, members updated this operating performance objective to read:

<u>MD&A should concisely explain reasons for significant changes in components of net cost for the prior year and any significant related trends and costs over multiple years.</u>

Question 3 – Do members want to include the following MD&A operating performance objective?

<u>MD&A should concisely explain what risks were mitigated, including any significant impact to net cost of operations.</u>

Question 4 – Do members want to include the following MD&A operating performance objective?

<u>MD&A should concisely explain any forward-looking risks that could significantly impact the net cost of operations.</u>

Because risk is holistic, broad, and encompasses the entire enterprise, members agreed to discuss questions 3 and 4 after all MD&A reporting objectives are identified.

Question 5 – Do members want to include the following MD&A operating performance objective?

MD&A should concisely explain planned actions to address known concerns to improve net cost of operations.

This objective will be discussed at a future meeting.

Question 6 – Do members want to include the following MD&A operating performance objective?

MD&A should concisely explain any significant changes to assets and liabilities and the impact to net cost operations.

Members agreed that this objective is duplicative of the second objective (noted above) because significant changes to assets and liabilities would be reported in significant changes to components of net cost. Members noted that removing duplication helps to streamline the MD&A.

The Board also agreed that discussing significant changes to assets and liabilities, in relation to only the statement of net cost, was too limiting because it would not address the whole picture.

Therefore, members moved this objective to stewardship, where the balance sheet, as well as other statements, will be discussed to identify objectives for financial position and condition.

Question 7 – Do members want to include the following MD&A operating performance objective?

MD&A should concisely explain the relationship between budgetary resources and the net cost of operations.

This objective was originally discussed at the June 2019 meeting. The available time ran out for the MD&A project discussion, so this objective will be discussed at a future meeting.

> **Next steps:** The Board will continue identifying MD&A objectives for operating performance.

- **SFFAS 7 – Debt Cancellation**

Ms. Batchelor explained the objective of this session was to consider whether paragraph 313 of SFFAS 7, which pertains to debt cancellation, needs to be revised. The materials for the session were provided in tab H of the briefing materials.

Paragraph 313 of SFFAS 7 reads as follows:

> Cancellation of debt.—The debt that an entity owes Treasury (or other agency) may be canceled by Act of Congress. The amount of debt that is canceled (including the amount of capitalized interest that is canceled, if any) is a gain to the entity whose debt is canceled and a loss to Treasury (or other agency). The purpose of borrowing authority is generally to provide an entity with capital rather than to finance its operations. Therefore, the cancellation of debt is not earned by the entity's operations and is not directly related to the entity's costs of providing goods and services. As a result, the cancellation is a nonexchange gain to the entity that owed the debt and a nonexchange loss to the lender.

Ms. Batchelor explained that Treasury and the Office of Management and Budget (OMB) requested that FASAB review paragraph 313 of SFFAS 7 because both departments believe there may be a potential disconnect in requirements related to debt cancellation based on an issue raised during the FY 2018 audit cycle. Previously, DHS/Federal Emergency Management Agency (FEMA) borrowed $16 billion from Treasury, and the agencies were showing a payable/receivable relationship for that amount. Public Law 115-72 relieved the National Flood Insurance Fund (DHS/FEMA) of this liability by canceling the $16 billion debt without an appropriation.

Treasury, Bureau of the Fiscal Service developed posting logic based on the advice of counsel from Treasury and OMB. Counsel recommended a "no appropriation - negative surplus warrant" as a means for budgetary authority to be granted by the General Fund to FEMA to repay Treasury, and then the funds were returned to the General Fund. During the FY 2018 audit of DHS, the auditors identified this reporting treatment as a material weakness. To maintain the unmodified opinions on its agency financial report (AFR) and closing package audits, DHS made the correcting entry required by the auditors to undo the posting logic. Therefore, DHS recognized a non-exchange gain for $16 billion, which was reflected in both DHS's AFR and the closing package financial statements. However, these entries were just done topside for the DHS component reporting entity purposes to maintain their opinion.

Treasury, DHS/FEMA's trading partner (as noted above, DHS/FEMA borrowed from Treasury), processed the transactions per the Treasury posting logic. However, the auditors did not report issue with their transactions or reporting, causing $64 billion out of the $214 billion total in intragovernmental elimination differences at the government-wide level. The consolidated government-wide was based on this as well, as if both trading partners had followed the Treasury posting logic.

Question 1 – Does the Board believe paragraph 313 of SFFAS 7 is still appropriate and that cancellation of debt is a nonexchange gain to the entity that owed the debt and a nonexchange loss to the lender? Alternatively, does the Board believe it would be more appropriate as a Financing Source?

The Board briefly discussed the fact that SFFAS 7 was written from the standpoint of the reporting entity of whose debt is forgiven and it clearly acknowledges that they are intragovernmental debts. Considering the complexities of intragovernmental debt, the Board thought it may be helpful to review and understand the essence of the transactions.

After determining that there was no net change to the fund balance (the balance was the same before and after the liability was reduced in the DHS example), the Board agreed that paragraph 313 is fundamentally accurate. However, the issue may be the imprecision of the words “gain” and “loss.” The Board agreed the terms are not of particular importance. The Board also discussed that a presentation issue may exist or be related to how USSGL accounts roll up to the statement of changes in net position. The more important aspect is that this activity shows on the statement of changes in net position and it is not running through the statement of net cost.

Therefore, the Board believes it may be important to clarify that the categorization or captioning is not important to the Board as long as it is on the statement of changes in net position. Specifically, the Board believes it may need to clarify that debt cancellation is reported on the statement of changes of net position but need not be presented as a specific “gain/loss” line item.

Question 2 – Does the Board believe paragraph 313 of SFFAS 7 should be revised or updated? This question goes beyond the gain/loss question. Specifically, the Board may believe paragraph 313 needs to be updated in general. For example, the paragraph may need updating to provide for general disclosures that may be relevant to debt cancellation—such as the legal authority authorizing the cancellation and a summary of the impact[1] of the cancellation on the reporting entities. Further, there may be other aspects of the paragraph that need refreshing which may lead the Board to replacing paragraph 313 versus amending certain sentences.

As noted, the Board agreed that guidance would clarify that debt cancellation is reported on the statement of changes in net position but need not be presented as a specific “gain/loss” line item. The Board also agreed that enhanced disclosures should be provided as appropriate.

Question 3 – If the Board believes paragraph 313 needs updating, is the scope narrow enough that it could be included in the next Omnibus? Alternatively, would the Board prefer to issue a separate Statement to amend SFFAS 7? Much of this would be based on Board preference, scope of the change and guidance, and the timing and potential of topics for the next Omnibus.

Most Board members agreed that the issue should be resolved with the lowest level of generally accepted accounting principles (GAAP) guidance afforded. The Board

[1] For example, in the scenario presented in the staff analysis for DHS/FEMA and Treasury, it may be relevant to disclose the effect on current and future users/policyholders. This includes if charges for the goods and services provided are based on past costs and if the costs associated with the canceled debt are not going to be factored into future charges.

discussed the possibilities of addressing the issue through (1) an amendment via a future omnibus, (2) an Interpretation, (3) or a TB. Staff will develop a comprehensive list of options and timeframes.

> **Next steps:** The Board agreed that the issue regarding debt cancellation requires GAAP clarification. Specifically, the guidance would clarify that debt cancellation is reported on the statement of changes in net position but need not be presented as a specific "gain/loss" line item. The guidance would also provide for enhanced disclosures as appropriate. Most Board members agreed that the issue should be resolved with the lowest level of GAAP guidance afforded. Staff will develop a comprehensive list of options and timeframes for the Board's consideration.

- **Materiality**

Based on the suggestions and comments from yesterday's materiality session, Ms. Wu presented an updated basis for conclusions for the Board to review. The Board concurred that the following updated language resolves the ambiguity of the materiality terms:

> The Board concluded that the meaning of "can reasonably be expected" in paragraph 33 of SFFAS 5, *Accounting for Liabilities of the Federal Government,* may be ambiguous. SFFAS 5, paragraph 33 states, "'Probable' refers to that which can reasonably be expected or is believed to be more likely than not on the basis of available evidence or logic…" The Board concluded that "can reasonably be expected" or "is believed" represent alternatives, both qualifying "to be more likely than not" and was not intended to equate "reasonably be expected" with "more likely than not."

Mr. McNamee withdrew his dissent based on the updated basis for conclusions that adequately addresses his previous concerns.

> **Next steps:** The Board agreed to proceed to a pre-ballot draft of the *Materiality* concepts statement prior to the December Board meeting and a ballot draft at the December 2019 meeting.

- **Note Disclosures**

Ms. Wu introduced the discussion on note disclosures from tab I of the briefing materials. The objective of the discussion was to review the updated note disclosures principles outline.

Question 1 – Does the Board agree with the proposed revised outline and the core principles listed? If not, do you have any suggestions?

The Board discussed condensing the principles to a few core principles. The Board agreed that the core principles could be included in the summary section in the note disclosures concepts statement in the future.

Ms. Wu presented two sets of note disclosure principles for the Board to consider. The Board agreed that the principles should be broad, flexible, and appropriate for the Board's use. The Board noted that the reporting model should be considered when developing the principles, including the relationship between the financial statements and the note disclosures. One member noted that the Board should review the concepts statements as they relate to the relationship between the financial statements and notes.

The Board noted that the principles should not be tied to any one topic. The Board agreed that the word "should" generally is not used in a concepts statement because it is too prescriptive for a concept statement.

The Board modified the first principle to read:

Note disclosures (combined with the financial statements) provide information that is necessary for a reasonable financial report user to understand the impact of transactions, events, and conditions on the financial statements.

The Board agreed to remove operating performance from the original proposed principle because the notes should clearly link to an explanation of the basic statements instead of performance information. The Board also added the following sentence as a subset of the first principle identified above:

When setting new accounting standards or updating existing accounting standards, the Board considers the purpose and content of the note disclosures.

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

The Board agreed to continue reviewing the core principles.

> **Next steps:** Staff will research and provide recommendations for the remaining core principles.

The Board meeting adjourned for lunch.

- **Appointments Panel Meeting**

The Appointments Panel reviewed the latest draft of the FY 2019 annual report and three-year plan and suggested a few minor edits. The Panel also suggested adding questions to the annual Board performance survey on an outreach strategy, the FASAB website, and updates to governance documents.

A portion of the meeting was closed to the public. The reason for the closure was that matters covered by 5 U.S.C. 552b(c)(2) were discussed. The discussion related solely to internal personnel rules and practices of the sponsor agencies.

- **Steering Committee Meeting**

The Committee discussed the recent Executive Order on Evaluating and Improving the Utility of Federal Advisory Committees. The members agreed that the Order would not affect FASAB operations.

The Panel discussed how requests for Board meeting agenda changes would be handled once the agenda has been made public. The Panel discussed calendar year 2021 meeting day changes. Personnel matters were also discussed.

Adjournment

The Board meeting adjourned at 3:45 p.m.