FASAB Annual Update

April 15, 2019

INTRODUCTION

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8:30 – 8:40

INTRODUCTION

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MONICA VALENTINE
INCOMING EXECUTIVE DIRECTOR

Learning Objectives

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- Current FASAB priorities
- Tentative decisions of the Board on key projects
- Key provisions of completed guidance
- P3 implementation

AGENDA

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- 8:40 – 9:30: Update on Pre-Proposal Projects
- 9:30 – 10:20: Update on Proposed Standards & Guidance
- 10:20 – 10:35: Break
- 10:35 – 11:00: Recently Completed Standards & Guidance
- 11:00 – 12:15: P3 Implementation
- 12:15: Wrap Up

Disclaimer

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Views expressed are those of the speaker. The Board expresses its views in official publications.

UPDATE ON PREPROPOSAL PROJECTS

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8:40 – 9:30

Note Disclosure

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NOTE DISCLOSURES

GRACE WU
ASSISTANT DIRECTOR

NOTE DISCLOSURES

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- Objective
  - *Improve the relevance, clarity, consistency, and comparability of note disclosures among the federal entities.*
- Concern
  - *Immaterial disclosures detract from the information value of reports*
- Approach:
  - *Phase I –Develop concept principles for the Board.*
  - *Phase II –Modify the existing note disclosure requirements to improve usefulness and effectiveness.*

NOTE DISCLOSURES

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- A working group was formed in August 2017.
- A survey was conducted in September 2017.
  - *Survey result indicated that the current note disclosures are too detailed and too complex to understand.*
  - *The survey confirmed the need to improve disclosures.*

NOTE DISCLOSURES

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- August 2018 – presented working group results of effective communication, questions list for the Board, and pilot notes on Fund Balance with Treasury and Summary of Significant Accounting Policies to Board
- Working group paused activities due to year-end busy season and resumed work in February 2019
- First stage principle framework outline was approved by the Board in October 2018
- Partial draft concept is being reviewed by the Board and working group
- Research is on-going

NOTE DISCLOSURES

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- The partial draft proposed some fundamental topics related to note disclosure:
  - *Why notes exist*
  - *What goes to notes*
  - *Notes disclose relevant information*
  - *The Board will provide disclosure objective during the standard setting process*
  - *Notes are subject to the cost-benefit consideration*

Polling Question

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- What kind of information should be included in note disclosure:

A. Any information
B. Only material information
C. Relevant information
D. Next year's budget

Reporting Model

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REPORTING MODEL

ROSS SIMMS
ASSISTANT DIRECTOR

Reporting Model

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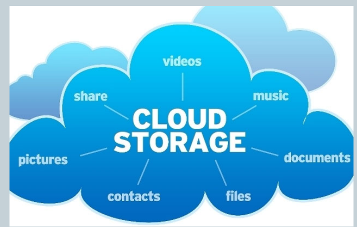
The Evolution of Data Storage since the Sixties



Floppy disk holds 8 .doc files

Cloud data storage - ∞

Reporting Model

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The Deluge of Data

2.7 zettabytes of
data exists today

About 90% created in the last few years

We generate about
2.5 quintillion bytes of new data every day

Source: https://www.frontierinternet.com/gateway/data-storage-timeline/

Reporting Model

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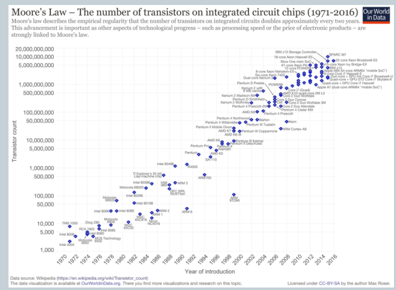
Increase in Computing Power

1. Faster computers
2. Special processing units designed for calculation
   - neural networks
3. Machine learning
   - AI



Reporting Model

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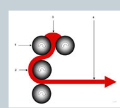
Points to Consider

1. AI could help enhance
   - processing
   - delivering
   - presenting



Reporting Model

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Points to Consider

2. Quality data (financial and non-financial) needed to train AI
   - machine learning used to facilitate decision-making
   - users expect reliable information

Reporting Model

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Points to Consider

3. Financial statements do not sit on an island.
   - users consider other data as well
   - users expect to understand relationships among presentations

Reporting Model

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- Overview
  - Phase I
    - Improving MD&A
    - Reporting stewardship investments
  - Phase II
    - Considering the reporting model of the future
    - Are user needs impacted by changes in technology such as [digitized data](#) and [data visualizations](#)?

Reporting Model

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- Status:
  - Developing proposal to amend SFFAS 15
    - Permit flexibility in organizing required content
  - Proposing to rescind SFFAS 8
    - Eliminate RSSI category
  - Research potential users
- For more information please review the Reporting Model project page at: https://fasab.gov/projects/active-projects/reporting-model-phase-i/ and https://fasab.gov/projects/active-projects/reporting-model-phase-ii/

Polling Question

23

- Stewardship investments include investments in:

A. Research and Development
B. Federal Physical Property
C. Child Nutrition Programs
D. All of the above

Risk Reporting

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RISK REPORTING

ROBIN GILLIAM
ASSISTANT DIRECTOR

Risk Reporting

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- Overview of Project:
  - **Risk Reporting is in phase II**
  - To provide concise, meaningful, and transparent information regarding material **financial impact** of significant risks - other than events covered in SFFAS 51 - to major federal programs & significant risk events
  - **Phase I was completed** January 18, 2017, with the issuance of SFFAS 51, *Insurance Programs, effective after September 30, 2018*

Risk Reporting

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- Risk Assumed **renamed** to Risk Reporting in August 2018 to determine how to integrate risk reporting information in Management's Discussion and Analysis (MD&A)& Notes
- **Determined** Agency Enterprise Risk Management (ERM) processes best way to identify risks that could have a material effect on Financial Statement balances, such as increase or decrease to assets, liabilities, expenses, revenues…

FASAB's ERM Role

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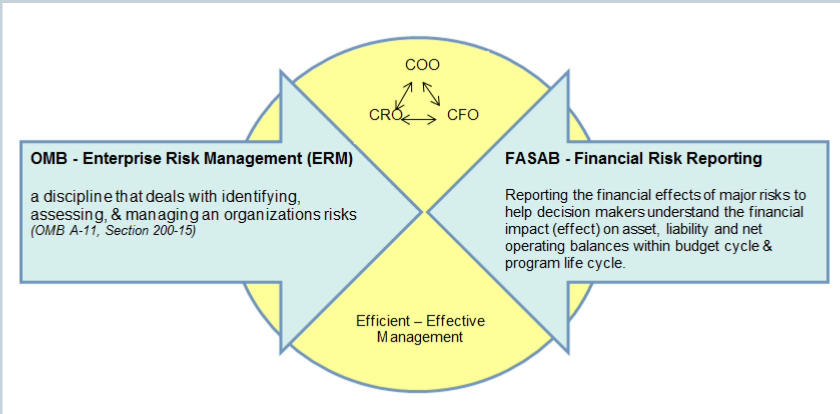

Risk Reporting

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- Status:
  - **Understand** what to discuss for risk reporting in MD&A and forward-looking information
    - Conducted interviews with preparers
    - Presenting interview findings & recommendations at the Board meeting on Wednesday, April 24, 2019
- For more information please review the Risk Reporting project page at: https://fasab.gov/projects/active-projects/risk-assumed-phase-ii/

Polling Question

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The first phase of the risk reporting project completed which Statement?

A. SFFAS 49: Public-Private Partnerships: Disclosure Requirements Insurance
B. SFFAS 50: Establishing Opening Balances for General PP&E
C. SFFAS 51: Insurance Programs
D. SFFAS 52: Tax Expenditures

Polling Question

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FASAB is responsible for an agency's enterprise risk management (ERM) process.

A. True
B. False

UPDATE ON PROPOSED STANDARDS

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9:30 – 10:20

OMNIBUS

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OMNIBUS PROJECT

ROSS SIMMS, ASSISTANT DIRECTOR

MONICA VALENTINE, INCOMING EXECUTIVE DIRECTOR

OMNIBUS

33

- Overview of Proposal:
  - Eliminate the required supplementary stewardship information (RSSI) category by rescinding SFFAS 8, *Supplementary Stewardship Reporting*
  - Update references to leases in SFFAS 5, SFFAS 6, and SFFAS 49
  - A minor change for clarity in SFFAS 5

OMNIBUS

34

- *Omnibus Amendments: Rescinding Statement of Federal Financial Accounting Standards (SFFAS) 8 and Amending SFFAS 5, 6, and 49*
- Status:
  - **Exposure draft** released on February 22, 2019
  - **Respondent comments** are due on April 23, 2019
  - Respondent comments **currently being accepted**
- For more information please review the FASAB Omnibus project page at: https://fasab.gov/projects/active-projects/omnibus-project/

Polling Question

35

Under SFFAS 54, leases will no longer be categorized as “capital” or “operating.”

A. True

B. False

LAND

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LAND

DOMENIC SAVINI
ASSISTANT DIRECTOR

Land

37

- Undertaken as a result of SFFAS 50 on Opening Balances
- Issues Addressed by the Task Force
  - Land reporting does not meet the BOSS requirements
  - Land reporting does not meet the qualitative characteristics
  - Land reporting is not comparable (or complete)
  - Weighing use of nonfinancial information
  - Reporting Acres for Land Rights
  - Where should information on land reside: Basic, RSI, or OI
- Board re-deliberations and maybe an SFFAS by FYE.

Land

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Our journey began with trying to “value” land……

- Historical cost
  - Efficient, cost-effective, but limited usefulness and relevance
- Fair Value
  - Highly relevant and useful but significantly cost prohibitive
- Value-in-Use
  - Efficient, cost-effective, but limited usefulness and relevance

…leading us to Non-financial information candidates

- Physical units, acres of land, and 3 land-use sub-categories; operating; commercial use, and conservation/preservation.

Land

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- Respondents and Subject Matter Experts provided input which led to the following changes:
  1. Deleting the Physical Unit Disclosure Requirements.
  2. Deleting the requirement to reference DM&R (RSI) presentations.
  3. Limiting disclosure requirements to primary categories of SL and G-PP&E land.
  4. Simplifying the "Estimated Acres" reporting requirement by only requiring that beginning and ending balances be provided.
  5. Clarifying that "Acres of land held for disposal or exchange" applies only to land to be conveyed to non-federal entities.
  6. Clarifying the type of information to be disclosed at the government-wide level.
  7. Adding a RSI to Basic Transition Period.
  8. Extending Implementation Timeline.

Polling Question

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- Nonfinancial information is currently required for:

A. General PP&E

B. Land classified as general PP&E

C. Stewardship Land

D. All Land

Polling Question

41

- FASAB proposes changing the accounting and reporting of government land. Which costs, if incurred would still be eligible for capitalization and amortization/depreciation?:

A. Temporary land rights
B. Donated land
C. Permanent land rights
D. None of the above

Materiality

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MATERIALITY

GRACE WU
ASSISTANT DIRECTOR

Materiality

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- Objective
  - *Clarify materiality concepts for the Federal financial reporting environment*
- Concepts would
  - *Specify the scope of materiality*
  - *List factors to consider when applying materiality*

Materiality

44

- A FASAB materiality definition was proposed.
  - *No substantial change from the old definition.*
  - *With objectives of a clearer and centralized definition.*
  - *With considerations of related federal environment.*
  - *No quantitative threshold discussion.*

Materiality

45

- Status
  - *Exposure draft (ED)issued in October 15, 2018*
  - *Comments due on the ED by March 11, 2019*

Polling Question

46

- A quantitative threshold calculation was proposed in the exposure draft?

A. True

B. False

Polling Question

47

- Materiality concept does not apply to the consolidated financial statements of the U.S. Government?

A. True

B. False

BREAK

48

10:20 – 10:35

RECENTLY COMPLETED STANDARDS & GUIDANCE

49

10:35 – 11:00

Evaluation of Existing Standards

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MELISSA BATCHELOR
ASSISTANT DIRECTOR

SIG 6.1

51

STAFF IMPLEMENTATION GUIDANCE 6.1, *CLARIFICATION OF PARAGRAPHS 40-41 OF SFFAS 6, ACCOUNTING FOR PROPERTY, PLANT, AND EQUIPMENT, AS AMENDED*

SIG 6.1

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- Clarified whether both of the alternative methods for establishing opening balances and the alternative for estimated net remaining cost of SFFAS 6, as amended could be applied.
- This alternative allows for PP&E to be recorded at its estimated net remaining cost (often called net book value), which is the original cost of the asset less any accumulated depreciation/amortization to date.
- Management should provide adequate documentation that is consistent with the method used and supports the overall reasonableness of the valuation.
- Management is also responsible for maintaining adequate documentation of data sources and the application of methodologies.

Polling Question

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- SFFAS 6, as amended, provides that both the alternative method for establishing opening balances and the alternative for estimated net remaining cost could be applied for reporting entities that meet the specified conditions and elect to apply SFFAS 50?

A. Yes.

B. No.

Evaluation of Existing Standards

54

RESCISSION OF TR 8

MELISSA BATCHELOR
ASSISTANT DIRECTOR

TR 19 - RESCISSION OF TR 8

55

- SFFAS 55, *Amending Inter-entity Cost Provisions*
- Technical Release (TR) 8, *Clarification of Standards Relating to Inter-Entity Costs*, is no longer consistent with SFFAS 4, as amended, because the requirement to recognize inter-entity costs was revised significantly.
- Guidance was useful during initial implementation of SFFAS 30, it is no longer necessary.
- Important aspects maintained as reference in the BfC for TR 8.

CLASSIFIED ACTIVITIES

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MONICA VALENTINE
INCOMING EXECUTIVE DIRECTOR

CLASSIFIED ACTIVITIES

57

- SFFAS 56, Classified Activities
  - Balances the need for publicly available GPFFR and the need to prevent the disclosure of classified national security information or activities
  - SFFAS 56 permits
    - modifications that do not change the net results of operations or net position;
    - a component reporting entity to be excluded from one reporting entity and consolidated into another reporting entity, and the effect of the modification may change the net results of operations and/or net position; and
    - Interpretations of this SFFAS 56, that allow other modifications to information required by other standards, and the effect of the modifications may change the net results of operations and/or net position.
- Interpretation 8 – First classified interpretation of SFFAS 56

LEASES

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LEASES - SFFAS 54

MONICA VALENTINE
INCOMING EXECUTIVE DIRECTOR

LEASES

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- SFFAS 54 *Leases* was released as final on April 17, 2018.
  - Effective Date: FY 2021
  - Amends SFFAS 5, *Accounting for Liabilities of the Federal Government*, and SFFAS 6, *Accounting for Property, Plant, and Equipment*
- *Omnibus* Exposure Draft --
  - updates references to leases in SFFAS 5, SFFAS 6, and SFFAS 49

LEASES

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- Revises the federal lease accounting and financial reporting standards
- Provides a comprehensive set of lease accounting standards
- Includes appropriate disclosures
- Federal lessees recognize a lease liability and a leased asset
- Federal lessors recognize a lease receivable and deferred revenue
- Scope exclusions
  - short-term leases,
  - contracts or agreements that transfer ownership, and
  - intragovernmental leases

LEASES

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- A **lease** is defined as a contract or agreement whereby one entity (lessor) conveys the right to control the use of PP&E (the underlying asset) to another entity (lessee) for a period of time as specified in the contract or agreement in exchange for consideration.

- SFFAS 54 does not apply to
  - leases of assets under construction or
  - leases (licenses) of internal use software (SFFAS 10, *Accounting for Internal Use Software*, as amended).
- Technical Release exposure draft – conforming Amendments to Technical Releases for SFFAS 54

LEASES

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- Technical Release exposure draft – conforming Amendments to Technical Releases for SFFAS 54
  - conforming changes to terminology related to leases,
  - clarifies how reporting entities should capitalize the cost of IUS, including software licenses, and
  - clarifies lease accounting concepts no longer apply to IUS

LEASES

EXCLUSIONS/CRITERIA

- Short-term – lease term of 24 months or less.
- Transfers Ownership –
  - Transfers ownership of the underlying asset to the lessee by the end of the contract or agreement and
  - Does not contain options to terminate,
  - Recognize as a purchase by the federal lessee or as a financed sale by the federal lessor.
- Intragovernmental lease – occurring within a consolidation entity or between two or more consolidation entities (SFFAS 47)

LEASES

OTHER TOPICS COVERED

- Lease term
- Lease incentives and concessions
- Multiple components
- Combinations
- Lease terminations and modifications
- Subleases
- Sale-leasebacks
- Lease-leasebacks
- Disclosures

LEASES

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PROSPECTIVE IMPLEMENTATION

- Recognize unexpired leases – using the facts and circumstances that exist at the beginning of the reporting period.
- Implementation effect – recognized prospectively in accordance with paragraph 13 of SFFAS 21, *Reporting Correction of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources*.
- Effective date – reporting periods beginning after September 30, 2020. Early adoption is not permitted.

LEASES

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AAPC Exposure Draft Technical Release

Conforming Amendments to Technical Releases for SFFAS 54, Leases: An Amendment of SFFAS 5 and SFFAS 6

- Amends existing TRs to acknowledge the guidance in SFFAS 54
- Amends TR 10 and 16 references to lease terminology and lease criteria
- Clarifies how reporting entities should capitalize the cost of internal use software, including software licenses
- Lease accounting model no longer applies to internal use software

IMPLEMENTATION GUIDANCE IS ALSO COMING THROUGH THE AAPC!

Polling Question

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- Which of the following is not true:

A. Federal entities must apply lease implementation guidance developed by the Financial Accounting Standards Board.
B. Federal entities should look for lease implementation guidance from the AAPC.

Polling Question

68

- Which of the following types of assets are excluded from the lease standards:

A. Office space
B. Internal use software
C. Intragovernmental office space
D. Copy machines

IMPLEMENTATION

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11:15 – 12:15

P3 Panel Discussion

P3 IMPLEMENTATION

SFFAS 49: *PUBLIC-PRIVATE PARTNERSHIPS; DISCLOSURE REQUIREMENTS*

DOMENIC SAVINI
ASSISTANT DIRECTOR

Polling Question

71

The NCPPP defines a P3 in part as an agreement where "the skills and assets of each sector (public and private) are shared in delivering a service or facility for the use of…":

A. **The general public**
B. **The primary government**
C. **Both the general public and primary government**
D. **Investors and other key stakeholders'**
E. **Uncertain**

Polling Question

72

Governments are increasingly using innovative approaches to partnering with non-governmental entities and, as a result, accrue many benefits. However, P3 arrangements may:

A. **Result in recognizing contingent assets**
B. **Obscure costs and results**
C. **Overstate contingent liabilities**
D. **Obscure costs, risks, and results**
E. **Result in uncertainty**

P3 Panel Discussion

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- SFFAS 49 Par 5.

"The Board has previously addressed various types of long-term arrangements or transactions in which the government participates (for example, leases or guarantees). As such, accounting standards exist that provide for recognition and measurement of assets/liabilities and revenues/expenses as well as disclosures of certain risks in these long-standing types of arrangements or transactions. This Statement supplements existing guidance to help ensure adequate disclosure of those arrangements/transactions that either form the basis of or are part of a P3. Therefore, existing accounting standards that govern the various types of long-term arrangements/transactions continue to apply."

- Now, let's go to our prestigious panel!!!

P3 Panelists

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- Kim Farington; Department of Commerce, FirstNet; Chief Financial Officer
- Bruce Henshel; Department of Commerce; Accountant
- Roger Von Elm, CLA Principal
- John Wall; Department of Energy; Financial Policy

P3 Panel Discussion
SFFAS 47 Reporting Entity

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- Some P3s may meet any 1 of the 3 SFFAS 47 Inclusion Principles: (1) Budgeted for by elected federal officials, (2) Owned by the federal government, (3) Controlled with risk of loss or expectation of gains, or (4) Misleading to exclude.
- Further review is needed if the P3 is deemed to be a Disclosure (not a consolidated) entity. Meaning this, P3s will NOT typically meet the Consolidation characteristics:
  - Financed by taxes or non-exchange revenues
  - Governed by elected officials
  - Providing goods/services on a non-market basis
  - *Imposing risks/rewards on the federal government* (NOTE: P3s share risks/rewards and are designed to absorb (not impose) risks/rewards on their federal sponsors.

Harmonizing P3 Disclosure Requirements

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- SFFAS 47 and SFFAS 49 have similar Disclosure objectives and requirements however,
- SFFAS 49's notable disclosure differences include:
  - Federal and non-federal funding of the P3 over its expected life;
  - Expected life determinations and identification of 3rd party payers;
  - In-kind transactions and remote risks;
  - Identification of associated financial statement amounts;
  - Private partner borrowings/investments based on government's promise to pay; and
  - other contractual disclosures.

Please see SFFAS 49, paragraph 24 for the complete list of disclosure requirements.

Polling Question

77

SFFAS 49's P3 definition is different than most other P3 definitions. The key features that make the SFFAS 49 definition unique include:

A. **Specific exclusions including arrangements/ transactions that are 5 years or less.**
B. **Including arrangements/transactions that also benefit the government.**
C. **It excludes arrangements/transactions using the risk/reward model.**
D. **Both A and B**
E. **Uncertain**

Polling Question

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The Board noted that there are risks that citizens face when a government enters into a P3. One of the risks identified is:

A. **Site related**
B. **Financing**
C. **Political**
D. **Government absorption of private debt**
E. **Uncertain**

WRAP UP

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12:15

MONICA VALENTINE
INCOMING EXECUTIVE DIRECTOR

Contact Information

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