FASAB Newsletter
Federal Accounting Standards Advisory Board

February-March 2019
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Disclaimer

The staff of the Federal Accounting Standards Advisory Board publishes the FASAB newsletter following Board meetings to provide highlights of recent Board actions and issues. When an article refers to a Board decision, it should be understood that this is tentative until FASAB issues a Statement of Federal Financial Accounting Concepts (SFFAC) or Statement of Federal Financial Accounting Standards (SFFAS).

Please direct newsletter editorial questions to Leigha Kiger at 202-512-7358 or kigerl@fasab.gov.

Please direct AAPC technical questions to Grace Wu at 202-512-7377 or wug@fasab.gov.

Please direct FASAB and AAPC administrative questions to Romona Parker at 202-512-7350 or parkerr1@fasab.gov.

Staff News

Monica R. Valentine Named Incoming FASAB Executive Director

Monica R. Valentine has been selected to serve as the Federal Accounting Standards Advisory Board (FASAB or "the Board") Executive Director. She will succeed Wendy Payne, who will retire from federal service on April 30th.

Ms. Valentine joined the Board in 1991 and has led the development of many significant accounting standards, including the recently completed lease standards. She graduated with honors from Howard University receiving a bachelor's degree in business administration with a concentration in accounting. She is a Certified Public Accountant in the District of Columbia and a Certified Government Financial Manager.

Regarding Ms. Valentine's selection, Chairman Showalter said, "I was encouraged with the number of applications received for the Executive Director position. After a very deliberate and thorough process, I am pleased Ms. Valentine was selected to lead FASAB forward to address federal financial reporting and accounting issues. Her detailed knowledge of FASAB's processes and history as well as her strength of character will serve FASAB well."

Ms. Valentine succeeds Ms. Payne, who joined the Board in 1991 as a senior accountant and became the Executive Director in 1997. During this time, Ms. Payne led the maturing of the Board's process, procedures, and influence, including the recognition of FASAB as an independent standards-setting body for federal entities by the American Institute of Certified Public Accountants. Over her 22 years as Executive Director, Ms. Payne has served with four different Board chairs.

Acknowledging Ms. Payne's contribution as the Executive Director, Mr. Showalter said, "FASAB and the entire federal financial reporting community could not have been better served during Ms. Payne's tenure as Executive Director. Ms. Payne's dedication and passion for financial reporting and accounting is evident, and financial reporting by federal entities is better off as a result of her leadership."

Current Board Projects

(For more information, click on the title of the project to be directed to the related active project page.)

Accounting and Reporting of Government Land

At the February meeting, members discussed the following technical issues:

- Continued capitalization of general property, plant, and equipment (G-PP&E) land and permanent land rights
- Inseparable capitalized land costs
- The implementation timeline

Continued capitalization of G-PP&E land and permanent land rights

Staff proposed various criteria that would need to be met for an entity to either disclose the cost of G-PP&E land and permanent land rights or report that amount on the face of the financial statements. In light of staff's analysis, members questioned whether any exceptions should be granted to the proposed de-recognition requirement for G-PP&E land and permanent land rights. Some members noted that there was no need for exceptions because any entity could include disclosures of the cost of G-PP&E land and permanent land rights at its discretion without explicit guidance. Other members noted that it would be confusing if some entities reported G-PP&E land and permanent land rights on the face of the financial statements while others did not. The forthcoming Statement would not necessarily have to apply to the entries in an entity's general ledger, only to its financial statement reporting. That is, if the cost of G-PP&E land and permanent land rights needs to be capitalized for management purposes, it still can be. In conclusion, the Board generally agreed that there would be no exceptions to the de-recognition requirement for G-PP&E land and permanent land rights.

Inseparable capitalized land costs

Staff proposed an exception to the de-recognition requirements for G-PP&E land and permanent land rights that would allow a composite asset approach when the cost of land was not separable from the related building or infrastructure. Staff's proposal included an exception for both existing and future acquisitions. As with the first issue, the Board did not believe it was necessary to explicitly provide an exception in this circumstance. The Board believes that if the cost of G-PP&E land and permanent land rights is material, additional effort should be made to identify its cost. Staff suggested that in those circumstances where land and permanent land rights could be treated as incidental to the associated capital asset, the Accounting and Auditing Policy Committee (AAPC or "the Committee") could potentially provide guidance similar to its existing guidance in paragraph 46 of Technical Release (TR) 9, *Implementation Guide for Statement of Federal Financial Accounting Standards 29: Heritage Assets and Stewardship Land.* This would address land that does not have an identifiable cost or where cost is nominal or insignificant.

The Board generally agreed with having the AAPC provide additional guidance and asked staff to work with agencies and clarify the Board's position that if the cost of G-PP&E land and permanent land rights is material, additional effort should be made to identify its cost.

Implementation timeline

Staff proposed two alternatives: (1) a requirements phase-in approach with acreage information beginning as required supplementary information (RSI) and converting to basic note disclosure information and (2) a graduated phase-in approach predicated on the amount of consolidated acreage entity holdings.

The Board believed that the second option would pose significant challenges for preparation of the consolidated financial report of the U.S. Government. The Board also believed that the proposed timeline in the requirements approach did not provide sufficient time for the Board to act should there be greater challenges than expected with auditing the acreage information. The Board generally agreed to a simplified, requirements phase-in approach effective in fiscal year (FY) 2021, followed by a two-year RSI reporting period with acreage information converting to basic and de-recognition of G-PP&E in FY 2024. In addition, transition guidance will not permit early implementation.

Next steps:

- Staff will work with agencies and clarify the Board's position that if the cost of G-PP&E land and permanent land rights is material, additional effort should be made to identify its cost.

- Staff will incorporate a revised basis for conclusions pursuant to Board deliberations.

Point of Contact: Domenic Savini, 202-512-6841, savinid@fasab.gov

Classified Activities

On March 15, 2019, FASAB issued *Interpretation of Federal Financial Accounting Standards 8: An Interpretation of Statement of Federal Financial Accounting Standards* **(***SFFAS) 56, Classified Activities.*

The objective of SFFAS 56 is to balance the need for financial reports to be publicly available with the need to prevent the disclosure of classified national security information or activities in publicly issued General Purpose Federal Financial Reports (GPFFRs). SFFAS 56 allows financial presentation and disclosure to accommodate user needs in a manner that does not impede national security.

SFFAS 56 permits modifications that do not affect net results of operations or net position. In addition, SFFAS 56 allows 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.

Further, Interpretations of SFFAS 56, which may themselves contain classified information, will address the requirements of this and other standards and permit other modifications when needed to prevent the disclosure of classified information. Modifications permitted by SFFAS 56 and future Interpretations may affect the net results of operations and/or net position of those entities applying the Interpretations. Interpretation 8 is the first classified interpretation of SFFAS 56 that allows 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 provides a decision chart illustrating the Board's intended implementation of the Interpretation. The Interpretation does not relieve reporting entities from their requirements and responsibilities to comply with other accounting standards in the appropriate classified environment as it relates to non-public records and reports. This illustration is non authoritative and depicts the process described in the Interpretation. The Interpretation 8 decision chart is available at https://fasab.gov/projects/active-projects/classified-activities/.

Interpretation 8 will be maintained by FASAB. Due to the classified nature of Interpretation 8, contact FASAB to arrange access to Interpretation 8 as needed.

FASAB will provide access to the Interpretation following appropriate security procedures. To request access to Interpretation 8 please contact Monica Valentine at valentinem@fasab.gov. Please provide your name, organization, and contact information.

Point of Contact: Monica Valentine, 202-512-7362, valentinem@fasab.gov

Materiality

Comment letters responding to the proposed Statement of Federal Financial Accounting Concepts titled *Materiality* were due on March 11, 2019. Those comment letters will be summarized and presented to the Board at the April Board meeting.

Point of Contact: Grace Wu, 202-512-7377, wug@fasab.gov

Note Disclosures

At the February Board meeting, the Board approved updated partial draft language for note disclosure principles. This updated version addressed the comments from the last Board meeting and added additional language to help the Board apply the principles. A few minor modifications will be made in this updated version based on the February Board meeting discussion. In addition, the note disclosure working group resumed its activity in February and will continue developing principles.

Point of Contact: Grace Wu, 202-512-7377, wug@fasab.gov

Omnibus

On February 22, 2019, FASAB released the proposed SFFAS titled *Omnibus Amendments*: *Rescinding Statement of Federal Financial Accounting Standards (SFFAS) 8 and Amending SFFAS 5, 6, and 49*. The proposed guidance would:

- eliminate the required supplementary stewardship information category by rescinding SFFAS 8, *Supplementary Stewardship Reporting*, and

- update references to leases in SFFAS 5, *Accounting for Liabilities of the Federal Government*, SFFAS 6, *Accounting for Property, Plant, and Equipment*, and SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*, and make a minor change for clarity.

The Board requests comments on the proposal by April 23, 2019, and encourages respondents to provide responses to all of the questions raised and the reasons for their positions. The exposure draft (ED) and the specific questions raised are available at the FASAB website in PDF and Word format, respectively (https://www.fasab.gov/documents-for-comment/).

Points of Contact: Monica Valentine, 202-512-7362, valentinem@fasab.gov and Ross Simms, 202-512-2512, simmsr@fasab.gov

Reporting Model Phase I: MD&A and Stewardship Investments Improvements

The Board agreed to amend SFFAS 15, *Management's Discussion and Analysis*. The Board noted that reporting entity mission-related programs, functions, and activities are complex; therefore, preparers need a flexible framework to discuss the topics SFFAS 15 requires. However, preparers have historically organized their MD&As into sections exactly mirroring the four bullets listed in paragraph 2 of SFFAS 15. To better provide flexibility that preparers need in organizing their MD&As and effectively communicating information to users, the Board agreed that SFFAS 15 should be amended to facilitate the application of judgment in structuring and organizing MD&A narrative.

Point of Contact: Ross Simms, 202-512-2512, simmsr@fasab.gov

Reporting Model Phase II

The reporting model phase II project was not discussed.

Point of Contact: Ross Simms, 202-512-2512, simmsr@fasab.gov

Risk Reporting

The Board did not discuss the risk reporting project at the February Board meeting. However, staff conducted interviews to help develop the Interpretation for paragraph 3 of SFFAS 15 that addresses forward-looking information. Staff will present findings from the interviews and recommendations for the Interpretation at the April Board meeting.

Point of Contact: Robin Gilliam, 202-512-7356, gilliamr@fasab.gov

Accounting and Auditing Policy Committee

At the February 7, 2019, meeting, the AAPC reviewed and approved a draft TR, *Conforming Amendments to Technical Releases for SFFAS 54, Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment.* On February 14, 2019, the AAPC released the ED for public comment.

SFFAS 54, *Leases,* amended SFFAS 5, *Accounting for Liabilities of the Federal Government*, and SFFAS 6, *Accounting for Property, Plant, and Equipment*. This TR would provide amendments to existing TRs to acknowledge the guidance in SFFAS 54. TR 10 and 16 include references to lease terminology or lease criteria that have been amended by SFFAS 54. This proposal would make conforming changes to terminology related to leases. It would also clarify how reporting entities should capitalize the cost of internal use software (IUS), including software licenses, and that the lease accounting concepts would no longer apply to IUS.

The AAPC requests comments on the ED by April 1, 2019, and encourages respondents to provide responses to all of the questions raised and the reasons for their positions. The ED and the specific questions raised are available at the FASAB website in PDF and Word format, respectively (https://www.fasab.gov/documents-for-comment/).

For questions regarding the proposed TR, please contact Monica Valentine, 202-512-7362, valentinem@fasab.gov.

For other AAPC-related questions, please contact Grace Wu, 202-512-7377, wug@fasab.gov

FASAB Meeting Schedule

April 24-25
June 26-27
August 28-29
October 23-24
December 17-18

Unless otherwise noted, FASAB meetings begin at 9 a.m. and conclude before 5 p.m. Meetings are held at the Government Accountability Office (GAO) at 441 G Street, NW in room 7C13. Agendas and briefing materials are available at https://www.fasab.gov/briefing-materials/ approximately one week before the meetings.

AAPC Meeting Schedule

May 9
August 15
November 21

Unless otherwise noted, AAPC meetings begin at 1 p.m. and conclude at 3 p.m. Meetings are held at GAO at 441 G Street, NW in room 7C13. Agendas are available at https://www.fasab.gov/aapc-activities/ approximately one week before the meetings.

Security Notice

If you wish to attend a FASAB or an AAPC meeting, please pre-register on our website at https://www.fasab.gov/pre-registration/ **no later than 8 a.m. the Tuesday before the meeting to be observed**. GAO, which provides space for our meetings, has increased its security procedures, and your name must be provided in advance to the GAO security force before you can enter the building. **When you arrive, please advise the security officer that you are attending either a FASAB or an AAPC meeting. Doing so will assist the officer in locating the correct security list.** Thank you.