



U.S. POSTAL REGULATORY COMMISSION
Washington, DC 20268-0001

Office of the Secretary

October 7, 2022

VIA U.S. MAIL AND EMAIL

Richard T. Cooper
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United States Postal Service
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Washington, DC 20260-1135

Dear Mr. Cooper:

The Commission is in receipt of the recent letter¹ in which you described how the Postal Service proposes to reflect the effects of the Postal Service Reform Act's (PSRA) reversal of past due retiree health benefits (RHB) payments in its filings with the Commission. This letter constitutes the Commission's response.

The Commission must ensure the proposed treatment is consistent with the Commission's expectations for the Annual Compliance Report (ACR) and the Cost and Revenue Analysis (CRA) Report. Although the Postal Service provided transparency by informing the Commission of its proposed treatment prior to submitting its filings, the Commission must ensure accurate, robust, and consistent data are used as inputs to reports to it.

¹ Letter to Secretary Erica A. Barker Regarding PSRA Effects on the FY 2022 ACR and CRA, August 12, 2022, available at <https://www.prc.gov/docs/122/122469/Ltr%20re%20PSRA%20Effects%20ACR%20CRA.pdf>.

Ordinarily, the Postal Service would be required to submit a petition to initiate a proceeding to consider proposed changes to analytical principles. However, given the nature of this circumstance – a statutory change resulting in a unique, non-recurring effect precipitating the proposed treatment, the Commission will approve the proposed treatment via this response. The Commission expects changes in analytical principles that are not due to similar extremely rare occurrences will follow the proper procedures.

In this response, the Commission discusses both the proposed treatment for purposes of the ACR/Form 10-K and the CRA Report. As explained further below, upon initial review, the Commission finds the proposed treatment described in the letter to be reasonable in both instances, with the clarification that an explanatory note should be included in the CRA Report and other affected reports.

The Postal Service's proposed accounting treatment of the reversal of the RHB missed payments on the FY 2022 Form 10-K appears consistent with generally accepted accounting principles (GAAP). The unpaid RHB amounts were classified as current liabilities on the Postal Service's Balance Sheet. The PSRA eliminated the Postal Service's requirement to make the defaulted RHB payments, in effect extinguishing the liability. The extinguishment of a liability results in derecognition of the liability from the Balance Sheet. See FASB ASC 405-20 and further guidance in IFRS 9.3.3.1. Based on the guidance in FASB ASC 405-20-40-1, a liability is derecognized when either (1) the loan is, in part or wholly, forgiven and the debtor is legally released; or (2) the debtor pays off the loan to the creditor. To derecognize a liability, an entity would reduce the liability by the amount forgiven and record a gain on extinguishment.²

² <https://us.aicpa.org/content/dam/aicpa/interestareas/frc/downloadabledocuments/tqa-sections/tqa-section-3200-18.pdf>.

Further support for this accounting treatment is found in the Federal Accounting Standards Advisory Board's (FASAB) new interpretation³ clarifying that debt cancellation is a nonexchange activity. This interpretation provides that

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.

SFFAS 7, paragraph 313.

Paragraph 133 of SFFAS 7 states that "Gains and losses are recognized rather than revenues and expenses in order to differentiate unusual or nonrecurring transactions for evaluating an entity's performance or setting its prices." *Id.* at 10.

The Commission also accepts the Postal Service's treatment of the elimination in the CRA with one modification, the addition of an explanatory note. Including this unique and non-recurring elimination of past due prior years' RHB payments in the costs reported in the CRA would create nonsensical results and potentially interfere with the regulatory purposes of the CRA. It would also distort trend analysis and comparisons to past or future years' CRA results.

However, the Commission does not agree that the adjustment should be omitted from the CRA entirely. To maintain the consistency between the CRA and the FY 2022 Form 10-K, the one-time adjustment should be presented as a footnote to the Total cost row on the CRA and all other affected reports (such as the Expanded CRA and the Cost

³ Interpretation 11, *Debt Cancellation: An Interpretation of SFFAS 7, Paragraph 313*, November 29, 2021, available at https://files.fasab.gov/pdf/files/handbook_interp_11.pdf.

Segments and Components Report). The notes should present the adjustment as a quantitative reconciliation from the amount in the Total cost row on the CRA to the sum of the Total Operating Expenses and Interest Expense rows of the Postal Service's Statements of Operations on the FY 2022 Form 10-K. This reconciliation note should be in sufficient detail to allow a reader to understand the nature of the reconciling items.

The Commission acknowledges that the Postal Service provided notice of the Postal Service's proposed treatment for this unique and non-recurring event to the Commission in advance of it appearing in the Postal Service's ACR submissions for regulatory review. The Commission expects that future unique and non-recurring accounting occurrences that are the result of statutory change and not otherwise covered by Commission rules or precedent for changes in analytical principles would likewise be raised for consideration prior to appearing in filings before the Commission. Changes in analytical principles that are not due to, unique, and non-recurring occurrences (*i.e.*, statutory change) are required to follow the established process for initiating a procedure to consider changes in analytical principles consistent with Commission's regulations.

Thank you,

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Erica A. Barker

Secretary and Chief Administrative Officer