

# FASAB News

Federal Accounting Standards Advisory Board, 441 G St., 3B18, NW.Washington, DC 20548  
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## ***The AICPA Council Designates FASAB as a "Rule 203" Body***

On October 19<sup>th</sup>, the American Institute of Certified Public Accountants' (AICPA) Council designated the Federal Accounting Standards Advisory Board (FASAB) as the accounting standards-setting body for Federal government entities under Rule 203 of the AICPA's Code of Professional Conduct. Rule 203 provides, in part, that an AICPA member shall not (1) express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with generally accepted accounting principles (GAAP) or (2) state that he or she is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with GAAP, if such statements or data contain any departure from an accounting principle promulgated by bodies designated by Council to establish such principles, that has a material effect on the statements or data taken as a whole.

AICPA Council designated the Financial Accounting Standards Board (FASB) as the standards-setter for the private sector in 1973 and the Governmental Accounting Standards Board (GASB) as the standards-setter for states and local governments in 1986. These are authoritative standard-setting bodies under Rule 203. Until the AICPA action, the Federal Government did not have a Rule 203 designated accounting standards-setter. With this designation, Federal Government reporting entities will be able to obtain audit opinions that indicate that the financial statements are presented in conformity with GAAP rather than an "other comprehensive basis of accounting" (OCBOA).

This designation came after extensive work by two AICPA Task Forces. The first Task Force was charged with establishing criteria for

Rule 203 recognition. At the May 1999 meeting, Council approved the criteria to be used in designating accounting standards-setting bodies under Rule 203. They are: Independence; Due Process and Standards; Domain and Authority; Human and Financial Resources; and Comprehensiveness and Consistency.

The AICPA Board Chair appointed a task force to assess the FASAB against the Council -approved criteria, and to provide recommendations to assist the Board and Council regarding Rule 203 designation for FASAB. The Board task force had very broad representation from the AICPA Board, the private sector, and government. It was chaired by Professor Gary Previts of Case Western Reserve University. The members included current and former AICPA Board of Directors members Judy O'Dell of Beucler, Kelly & Irwin, Ltd.; Marilyn Pendergast of Urbach, Kahn and Werlin, PC; and Bill Truehart of Reading is Fundamental. The remaining members were Dan Murrin of Ernst and Young (AICPA Federal Accounting & Auditing Subcommittee); Sam McCall of the State of Florida's Audit General's Office (Association of Government Accountants); Tom Fritz of the Private Sector Council; and Dr. Linda Blessing of the Arizona State Board of Regents (former FASAB member and AICPA Council member).

The Board task force evaluated the mission and process of the FASAB based on the Council-approved criteria, recommended changes in FASAB procedures, and assisted in incorporating those changes in FASAB's Memorandum of Understanding and Rules of Procedure. With the changes completed, the task force deemed the FASAB to have satisfied such criteria. Accordingly, the AICPA Board recommended that Council adopt a resolution to designate FASAB under Rule 203. On October 19<sup>th</sup>, the AICPA Council approved the resolution. The AICPA Chairman Robert Elliott and the Task Force Chair Gary Previts will be meeting

with FASAB leadership later this year to confer Rule 203 status on FASAB.

FASAB will provide more details regarding changes in its operations in the next issue of the newsletter. A Federal Register notice was published on October 8<sup>th</sup> and provides information on the revisions to the Memorandum of Understanding under which FASAB operates.



### **Amendments to Accounting for Direct Loans and Loan Guarantees**

At its October 4-5 meeting, the Board discussed responses to the exposure draft of March 1999, *Amendments to Accounting Standards for Direct Loans and Loan Guarantees in SFFAS 2*. Members noted that a majority of the respondents (9 out of 12) supported all the amendments, while three respondents disagreed with some of the amendments.

After discussing the comments, the Board approved the following two amendments that require:

- a) reporting subsidy reestimates in two components: the interest rate reestimates, and the technical/default reestimates; and
- b) providing narrative disclosure and discussion of program characteristics and program subsidy data.

The Board also approved in principle the amendment that would require reconciling the beginning and the ending balances of the subsidy cost allowance for direct loans and the liability for loan guarantees. However, the Board, will reconsider whether, in addition to an entity-wide reconciliation, there should be a reconciliation on a program basis for major programs.

After considering requests by the Chief Financial Officers Council and the Deputy Assistant Secretary for Finance of the Veteran's Administration, the Board agreed to postpone the effective date of the amendments to periods beginning after September 30, 2000.

For further information, contact Richard Mayo at 202-512-7356, or email [mayor.fasab@gao.gov](mailto:mayor.fasab@gao.gov).



### **Board Continues Debate on Accounting for Major Weapons Systems**

At its October 3-4, 1999 meeting, the Board continued discussing the many complex issues surrounding accounting and reporting on major weapons systems of the Department of Defense. Results of that meeting are:

- ◆ The ballot draft of Statement of Recommended Accounting Standards 18 (SRAS 18), submitted to Board members prior to the meeting, did not receive the necessary five votes for approval. That ballot draft augmented SFFAS 8 to require reporting on a) the quantity of National Defense property, plant, and equipment (PP&E) by category, including additions and deletions, and b) the annual investment in acquiring or improving national defense PP&E.
- ◆ The Board continued discussing whether DOD weapons systems should be reported a) by quantities, stock values, or annual flow and trend data, b) on the balance sheet (and whether/how such reporting should handle capitalization and depreciation) or on a separate reporting format, and/or c) for certain aggregations, categories, or on some basis determined by size, cost, etc.
- ◆ The Board is considering contracting for a cost/benefit study of the possible

approaches on these issues. This topic will be discussed again at the Board's October 28-29 meeting.

For now, SFFAS 6 (as amended) and SFFAS 8 remain in effect. The Department of Defense will continue to follow these standards re: valuing and reporting on major weapons systems as the Board continues to consider the many complex issues related to one of the Federal Government's most extensive and costly PP&E categories.

For further information, contact Rick Wascak at 202-512-7363, email [wascakr.fasab@gao.gov](mailto:wascakr.fasab@gao.gov), or Andrea Palmer at 202-512-7360, email [palmera.fasab@gao.gov](mailto:palmera.fasab@gao.gov).

### **Major Acquisition Programs Project Discussed**

The Board is developing a project to define reporting requirements for major acquisitions for all Federal agencies. This project is a direct "spinoff" of its deliberations on reporting requirements for major weapons systems of the Department of Defense.

At its October 4-5 meeting, staff presented an "Issues Paper," a draft proposed research report, and an overview of initial issues and possible information requirements, including:

- ◆ defining a "major acquisition program"
- ◆ determining the measurement basis for reporting on such programs
- ◆ deciding on type of information to be reported
- ◆ determining when reporting should begin.

The issues will be further developed and examples of Office of Management and Budget (OMB) Circular A-11, Part 3, reporting schedules that display internal reporting on capital acquisitions, will be provided for the Board to continue its discussions on this project at its December 13-14, 1999 meeting.

For further information, contact Rick Wascak, 202-512-7363, email [wascakr.fasab@gao.gov](mailto:wascakr.fasab@gao.gov)



### **FASAB's Next Meeting**

FASAB's next meeting will be October 28-29, 1999, in room 7C13, of the General Accounting Office Building, 441 G Street, NW, Washington, DC, 20548. Items to be discussed will be direct loans and loan guarantees, national defense PP&E, and stewardship reporting. The agenda will be posted to the FASAB web page one-week prior to the meeting. FASAB's web page is at: [www.financenet.gov/fasab.htm](http://www.financenet.gov/fasab.htm).

For further information, contact Dick Tingley, 202-512-7361, or email [tingleyr.fasab@gao.gov](mailto:tingleyr.fasab@gao.gov).

### **AAPC's Next Meeting**

The next meeting of the AAPC will be Thursday, November 18, 1999, at 1:30, in room 4N13 of the General Accounting Office Building, 441 G Street, NW, Washington, DC, 20548.

For further information, contact Dick Tingley, 202-512-7361, email [tingleyr.fasab@gao.gov](mailto:tingleyr.fasab@gao.gov).

**Note:** *FASAB News* is a publication of the staff of the Federal Accounting Standards Advisory Board. This publication is intended to provide readers with an understanding of issues that the Board is considering by providing the highlights of proceedings of Board meetings. When an article refers to a Board decision, it should be understood that all Board decisions are tentative until a concept or standard is formally recommended by the Board to its principals, the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Comptroller General. Moreover, recommended standards are not effective Statements of Federal Financial Accounting Standards until they have been officially approved by the Board's principals, and issued by the Office of Management and Budget. GAO issues the Codification of those standards.

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