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FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

FASAB NEWS

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ACCOUNTING FOR TREASURY JUDGMENT FUND TRANSACTIONS

At the October Board meeting staff presented to the Board a proposed interpretation to clarify how federal entities should report the costs and liabilities arising from legal claims to be paid by the Treasury Judgment Fund. The fund was established by Congress in the 1950's to pay in whole or in part the court judgments and settlement agreements negotiated by the Justice Department on behalf of agencies, as well as certain types of administrative awards. It is a permanent, indefinite appropriation.

In summary, the interpretation states that, in accordance with Statement of Federal Financial Accounting Standards Number 5, *Accounting for Liabilities of the Federal Government* (SFFAS) a contingent liability should be recognized when a past event or exchange transaction has occurred; a future outflow or other sacrifice of resources is probable; and the future outflow or sacrifice of resources is measurable. A federal entity's management, as advised by the Justice Department, must determine

whether it is probable that a legal claim will end in a loss for the federal entity and the loss is estimable. If so, the entity would recognize an expense and liability for the full cost of the expected loss [claim], regardless of who is actually paying the [settlement or judgment] amount. The full cost concept is in accordance with the principles of SFFAS Number 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*. The expense and liability would be adjusted periodically, as necessary, based on any changes in the estimated loss.

Once the claim is either settled or a court judgment is assessed against the federal entity and the fund is to pay the loss amount, the liability should be removed from the financial statements of the entity that incurred the liability and an "other financing source" amount (which represents the amount to be paid by the Judgment Fund) would be recognized.

The Board approved the above summarized interpretation for issuance.

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ENVIRONMENTAL LIABILITIES

At the October Board meeting, the Board briefly discussed two proposed issue papers developed by the members of the Government-wide Audited Financial Statement Task Force, Subgroup on Environmental Cleanup Cost. The two papers interpret "probable" and "reasonably estimable" as they relate to environmental cleanup costs based on SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, and SFFAS No. 6, *Accounting for Property, Plant, and Equipment*. The Board decided that the papers should not be presented as interpretations, but more along the lines of "technical guidance."

Based on the discussions surrounding the proposed issue papers the three FASAB principals representatives decided to identify procedures for disseminating technical guidance developed by the various CFO council task force groups and how the FASAB would be involved in the process. The three representatives are expected to present the proposal to the Board as soon as agreement can be reached between all relevant parties.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Board member Woody Jackson, chairman of the MD&A task group and also project leader, led the Board in a discussion of the working draft Exposure Draft (ED). He proposed that

the draft be converted from a standard to a concept document. A concept statement would be preferable to a standard because the MD&A section was developing on many fronts (e.g., the work being done pursuant to the Government Performance and Results Act, and the pilot Accountability Reports), and flexibility was needed. He believes it is appropriate at this time to provide guidance rather than final rules.

The Board discussed the relationship between the MD&A and federal reporting in general. Some members said the MD&A was guidance for the Overview section in the Chief Financial Officers Act annual financial statements prepared pursuant to OMB's Form and Content guidance, and therefore it should focus on the financial statements. Mr. Jackson said he saw MD&A as potentially a "liftable" summary of the financial statements and related material.

The Board discussed the critical nature of MD&A. One Member said it will help explain the uniqueness of federal reporting, e.g., unique information requirements, stewardship assets and responsibilities, etc., and be a focal point for communicating with users. The Chairman added that Congress may focus on it.

Another member said that setting standards for MD&A would be difficult because the



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target for that type of reporting moves from year to year. In a given year management may be concerned about one particular issue and the next year it could be another issue.

Regarding auditing, several members said that the concern over the impact of MD&A on the auditor was overstated. One member said the auditor would be able to handle whatever is done. Mr. Jackson mentioned the possibility of a "quality review committee" similar to the Government Finance Officers Association's certificate of conformance program. Such a review committee would encourage high quality reporting in a constructive and positive way. Also, Mr. Jackson said OMB could give auditors guidance and set limits in its CFO Act audit bulletin (currently No. 93-06).

Chairman Staats said it was desirable to require at least as much disclosure for the federal government as the Securities and Exchange Commission requires for private sector MD&A. FASAB staff observed that a concepts statement alone would not assure this, but that goal could be achieved if the concepts were implemented in OMB's Form and Content guidance as were the Board's concepts on Entity and Display. A member said that the basis of conclusions should explain that, although the MD&A is drafted as a concept statement, the Board

expects that OMB will require the information as a minimum level of discussion and analysis.

The exposure draft will be updated to reflect the Board's input from the October meeting. The ED will be a concept statement calling for a minimum level of information; it will call upon management to assert that it is responsible for reliable financial reporting and to describe the status of financial management systems and internal accounting controls; and it will acknowledge that each agency's MD&A can be, to a certain degree, tailored to its needs. Respondents will be asked if a standard would be better than a concept statement, with the differences between the two approaches explained. The Board hopes to approve a final ED before the close of 1996.

AGENDA FOR NOVEMBER MEETING

The Board will meet on Wednesday, November 20 at 9:00 A.M. in room 7C13. Agenda items include discussion and review of MD&A and Interpretation follow-up. Further information may be obtained by telephoning 202-512-7350.

FASAB

Federal Accounting Standards Advisory Board

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