Federal Accounting Standards Advisory Board

RESCISSION OF TECHNICAL RELEASE 8

Federal Financial Accounting Technical Release

Exposure Draft

Written comments are requested by October 5, 2018

August 21, 2018

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from FASAB or its website:

- "Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board"
- "Mission Statement: Federal Accounting Standards Advisory Board," exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB's website at www.fasab.gov.

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The Accounting and Auditing Policy Committee

The Accounting and Auditing Policy Committee (AAPC) was organized in May 1997 by the Department of the Treasury, the Office of Management and Budget (OMB), the Government Accountability Office (GAO), the Chief Financial Officers Council (CFOC), and the Council of the Inspectors General on Integrity and Efficiency (CIGIE—formally the President's Council on Integrity and Efficiency) as a body to research accounting and auditing issues requiring guidance.

The AAPC serves as a permanent committee established by the Federal Accounting Standards Advisory Board (FASAB). FASAB's mission is to develop accounting standards after considering the financial and budgetary information needs of congressional oversight groups, executive agencies, and the needs of other users of federal financial information. The mission of the AAPC is to assist the federal government in improving financial reporting through the timely identification, discussion, and recommendation of solutions to accounting and auditing issues as they relate to the specific application of existing authoritative literature.

The AAPC is intended to address issues that arise in implementation that are not specifically or fully discussed in federal accounting and auditing standards. The AAPC's guidance is cleared by FASAB before being published.

Additional background information on the AAPC is available from FASAB on its website:

- "Charter of the Accounting and Auditing Policy Committee"
- Accounting and Auditing Policy Committee Operating Procedures

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TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

Your comments on the exposure draft of a proposed Federal Financial Accounting Technical Release, *Rescission of Technical Release 8*, are requested. Specific questions for your consideration appear on page three, but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Committee if you explain the reasons for your position and any alternative you propose. Responses are requested by October 5, 2018.

All comments received are considered public information. Those comments may be posted to the Accounting and Auditing Policy Committee's website and will be included in the project's public record.

Mail delivery is delayed by screening procedures. Therefore, please provide your comments in electronic form by e-mail to fasab@fasab.gov. If you are unable to e-mail your responses, we encourage you to fax the comments to (202) 512-7366. Alternatively, you may mail your comments to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 1155
Washington, DC 20548

We will confirm receipt of your comments. If you do not receive confirmation, please contact our office at (202) 512-7350 to determine if your comments were received.

We may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft. Notice of the date and location of any public hearing on this document will be published in the Federal Register and in FASAB's newsletter.

Sincerely,

Wendy M. Payne

AAPC Chairperson

EXECUTIVE SUMMARY

Statement of Federal Financial Accounting Standards (SFFAS) 55, *Amending Inter-entity Cost Provisions*, amended SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, and rescinded SFFAS 30*, Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*, and Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*. As a result, 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.

SFFAS 4, as amended, provides for the continued recognition of significant inter-entity costs by business-type activities. Although recognition of inter-entity costs by activities that are not business-type activities is no longer required with the exception of inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements unless otherwise directed by OMB, non-business-type activities may elect to recognize imputed cost and corresponding imputed financing for other types of inter-entity costs.

This TR would rescind TR 8 because it is no longer consistent with SFFAS 4, as amended.

The provisions of this TR need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

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QUESTIONS FOR RESPONDENTS

The Accounting and Auditing Policy Committee (AAPC or "the Committee") encourages you to become familiar with all proposals in the Technical Release (TR) before responding to the question in this section. In addition to the question below, the Committee welcomes your comments on other aspects of the proposed TR. Because the proposals may be modified before a final TR is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views are especially appreciated.

The Committee believes that this proposal would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. The Committee has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

The questions in this section are available in a Microsoft Word file for your use at http://www.fasab.gov/documents-for-comment/. Your responses should be sent by e-mail to fasab@fasab.gov. If you are unable to respond by e-mail, please fax your responses to (202) 512-7366. Alternatively, you may mail your responses to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 1155
Washington, D.C. 20548

All responses are requested by October 5, 2018.

Q1. In light of the recently issued Statement of Federal Financial Accounting Standards (SFFAS) 55, *Amending Inter-entity Cost Provisions*, this TR rescinds TR 8, *Clarification of Standards Relating to Inter-Entity Costs*, because it is no longer consistent with SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, as amended.

Do you agree or disagree with the rescission of TR 8? Please provide the rationale for your answer.

PROPOSED TECHNICAL GUIDANCE

SCOPE

1. Readers of this Technical Release (TR) should first refer to the hierarchy of accounting standards in Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles*, *Including the Application of Standards Issued by the Financial Accounting Standards Board*. This TR supplements the relevant accounting standards but is not a substitute for and does not take precedence over the standards.

RESCISSION OF TECHNICAL RELEASE 8, *CLARIFICATION OF STANDARDS RELATING TO INTER-ENTITY COSTS*

2. This paragraph rescinds TR 8, *Clarification of Standards Relating to Inter-Entity Costs,* in its entirety because it is no longer consistent with SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, as amended.

EFFECTIVE DATE

3. This TR is effective upon issuance.

The provisions of this Technical Release need not be applied to immaterial items.

APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by Committee members in reaching the conclusions in this Technical Release. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The guidance enunciated in this Technical Release–not the material in this appendix–should govern the accounting for specific transactions, events, or conditions.

This Technical Release may be affected by later Statements or other pronouncements. The Handbook is updated annually and includes a status section directing the reader to any pronouncement that changed this Technical Release. Within the text of the Technical Release, the guidance sections are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Statements or other pronouncements for the rationale for each amendment.

PROJECT HISTORY

A1. SFFAS 4, *Managerial Cost Accounting Standards and Concepts* (including Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4)*, required reporting entities to recognize the full costs of services received from other federal reporting entities even if there was no requirement to reimburse the providing reporting entity for the full cost of such services.

A2. SFFAS 55*, Amending Inter-entity Cost Provisions,* was issued on May 31, 2018. This Statement amended SFFAS 4 and rescinded SFFAS 30*, Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts,* and Interpretation 6.

A3. With the rescission of SFFAS 30, paragraphs 110 and 111 of SFFAS 4, as amended, were restored to their original language prior to the issuance of SFFAS 30. SFFAS 55 revised SFFAS 4 to provide for the continued recognition of significant inter-entity costs by business-type activities. Inter-entity costs continue to be imputed for those reporting entities conducting business-type activities[1] because the information is directly tied to rates.

A4. Per SFFAS 4 as amended, recognition of inter-entity costs by activities that are not business-type activities is not required with the exception of inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements unless otherwise directed by OMB. Notwithstanding the absence of a requirement, non-business-type activities may elect to recognize imputed cost and corresponding imputed financing for other types of inter-entity costs.

[1] Business-type activity is defined as a significantly self-sustaining activity that finances its continuing cycle of operations through collection of exchange revenue as defined in SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.

RESCISSION OF TR 8, *CLARIFICATION OF STANDARDS RELATING TO INTER-ENTITY COSTS*

A5. This TR rescinds TR 8, *Clarification of Standards Relating to Inter-Entity Costs,* because it is no longer consistent with SFFAS 4, as amended.

A6. Rescinding TR 8 will rescind guidance that is not in accordance with generally accepted accounting principles (GAAP) due to SFFAS 55 amendments. For example, TR 8 does not reflect that recognition of inter-entity costs by activities that are not business-type activities is not required with the exception of inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements unless otherwise directed by OMB. However, non-business-type activities may elect to recognize imputed cost and corresponding imputed financing for other types of inter-entity costs.

A7. This proposal would also eliminate potentially confusing references to the rescinded SFFAS 30. The Accounting and Auditing Policy Committee (AAPC or "the Committee") believes it appropriate to rescind TR 8 because allowing it to remain would be inconsistent with current GAAP and would lead to potential misapplication of the technical guidance. For example, paragraph 7 (the first paragraph under the "Technical Guidance" section) of TR 8 states: "This guidance is presented in response to three implementation issues identified by FASAB based on comments SFFAS 30 received from respondents." With SFFAS 30 being rescinded, allowing TR 8 to remain in effect could bring questions as to its applicability.

A8. Considering the changes that have occurred in the accounting for inter-entity costs, the Committee's goal was to update TR 8 to ensure clear guidance going forward. The Committee carefully considered if any guidance should be maintained and if any additional guidance was necessary. Paragraph 111 of SFFAS 4, as amended, states:

> Recognition of all significant inter-entity costs is important when those costs constitute inputs to government goods or services provided for a fee or user charge. Generally, the fees and user charges should recover the full costs of those goods and services. [Footnote 33 omitted] Thus, the cost of inter-entity goods or services needs to be recognized by the receiving entity in order to determine fees or user charges for goods and services sold by the federal government. Recognition of inter-entity costs supporting business-type activities [Footnote 33A omitted] and recognition of inter-entity costs for non-business type activities that elect to do so should be made in accordance with implementation guidance provided by FASAB through one or more Technical Releases [Footnote 33B]. Activities that are not business-type activities are not required to recognize inter-entity costs other than inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements unless otherwise directed by OMB. Notwithstanding the absence of a requirement, non-business-type activities may elect to recognize imputed cost and corresponding imputed financing for other types of inter-entity costs.

[Footnote 33B] Technical Release (TR) 8, *Clarification of Standards Relating to Inter-Entity Costs* provides implementation guidance. Additional TRs may be provided by FASAB if needed.

A9. The Committee believes that much of the guidance that was previously included in TR 8 is no longer necessary or relevant based on the amended standards. The purpose of TR 8 was to provide guidance in response to concerns raised during due process of SFFAS 30. TR 8 addresses three aspects of full costing specified in SFFAS 4: (1) guidance on costs that should be considered broad and general for all entities, (2) guidance on the directness of the relationship to the entity's operations as used in determining if a transaction should be considered material to the receiving entity, and (3) guidance on identifiability as used in determining if a transaction should be considered material to the receiving entity.

A10. The Committee determined that the list of broad and general support goods and services that was provided in table 1 of TR 8 is not necessary to maintain. While the list was helpful to the community when TR 8 was issued in 2008, the Committee believes the conclusions presented in the list are now well established and do not need to be included in any form of updated guidance. Table 1 provided the following examples, which appear to be widely known and understood in the community today as broad and general support goods and services:

a. Department of the Treasury services, such as disbursing electronic funds transfer and check payments, Government-wide accounting and reporting policy and guidance, collection services, and trust fund maintenance

b. Department of Justice services, such as debt collection activities and non-reimbursed services for criminal and civil litigation

c. General Services Administration services, such as real and personal property disposal and central management functions

d. Department of Labor services, such as administration of unemployment compensation and non-reimbursable administration and support services for the Federal Employees Compensation Account

e. Office of Personnel Management services, such as administration of the Federal Employees Benefit Program (including pensions and post-retirement benefits)

f. Executive Office of the President, including all support functions performed

g. Government Accountability Office, such as accounting and auditing policy and guidance

A11. When considering the need for guidance on the directness of a relationship to an entity's operations, TR 8 included specific excerpts from respondents to SFFAS 30, which has now been rescinded. In addition, the guidance included excerpts from SFFAS 4 as well as paraphrases from the "Concepts" and "Basis for Conclusions" sections that reiterated key points. While important, the Committee determined the following TR 8 topics discussed key points that reside in SFFAS 4, as amended, and do not need to be included in any form of updated guidance:

a. The directness of the relationship to entity operations is generally determined by matching goods or services received to the output of the entity.

b. Managerial cost accounting should be performed to measure and report the costs of each responsibility segment level's output.

c. The needs of the users of cost information must be taken into account.

A12. The Committee found that the majority of the explanations on identifiability included direct excerpts and paraphrases from the "Concepts" and "Basis for Conclusions" sections from SFFAS 4. The guidance in TR 8 related to the requirement for the provider to supply the receiving entity with information on the full cost of non-reimbursed or under-reimbursed inter-entity goods and services. The Committee believes this requirement and the requirements when information is not provided are well understood by the community. Therefore, this does not need to be included in any form of updated guidance.

A13. In summary, the Committee believes that, while the guidance was useful during initial implementation of SFFAS 30, it is not necessary today. Much of the guidance provided in TR 8 is understood by the community today. Further, portions of TR 8 reiterated key points from SFFAS 4 and quoted it directly. Other portions of TR 8 contained paraphrases from the "Concepts" and "Basis for Conclusions" sections of SFFAS 4 that are still included within SFFAS 4. For example, including excerpts from SFFAS 4 (issued in 1995) is not practical or useful considering SFFAS 4 is available for reference. The Committee believes all necessary guidance resides in SFFAS 4, as amended.

APPENDIX B: ABBREVIATIONS

AAPC	Accounting and Auditing Policy Committee
FASAB	Federal Accounting Standards Advisory Board
GAAP	Generally Accepted Accounting Principles
OMB	Office of Management and Budget
SFFAS	Statement of Federal Financial Accounting Standards
TR	Technical Release

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